

Sand Hill Petroleum B.V.
Annual report for the year 2015
Amsterdam, the Netherlands

Sand Hill Petroleum B.V.
Strawinskylaan 3051
1077 ZX Amsterdam
The Netherlands
Chamber of Commerce: 56038038

Sand Hill Petroleum B.V., Amsterdam Annual report for the year 2015

Table of contents

1	Report of the supervisory board	3
2	Directors' report	4
3	Financial statements (consolidated)	8
3.1	Consolidated balance sheet as at December 31, 2015 (before the proposed appropriation of the result)	9
3.2	Consolidated profit and loss account for the year 2015	10
3.3	General notes to the consolidated financial statements	11
3.4	Notes to the consolidated balance sheet and the profit and loss account	17
4	Financial statements (stand-alone)	20
4.1	Company balance sheet as at December 31, 2015 (before the proposed appropriation of the result)	21
4.2	Stand-alone profit and loss account for the year 2015	22
4.3	Notes to the Company's balance sheet and profit and loss account	23
5	Other information	29
5.1	Appropriation of result	29
5.2	Post-balance sheet events	29
5.3	Audit of the financial statements	30

Sand Hill Petroleum B.V., Amsterdam Annual report for the year 2015

1 Report of the supervisory board

We hereby present to the shareholders the annual report in name of Sand Hill Petroleum B.V. for the year 2015 as prepared by the management board.

In conformity with article 20.3 of the articles of association in name of Sand Hill Petroleum B.V. the annual report for the year 2015 has been audited by Ernst & Young Accountants LLP. Their report has been included in the section 'Other information'.

We propose:

- In conformity with article 20.4 of the articles of association in name of Sand Hill Petroleum B.V. for the general meeting of shareholders to adopt the annual report for the year 2015;
- In conformity with article 22.1 of the articles of association in name of Sand Hill Petroleum B.V. to add the result for the year 2015 to the accumulated deficit.

Amsterdam, May 31, 2016

The supervisory board of directors,

D.M. LeClair

S.W.C. Evers

P. Bratt

M.P. Fossum

Sir R.L. Olver

J.E. Golden
Appointed as per November 1, 2015

Sand Hill Petroleum B.V., Amsterdam Annual report for the year 2015

2 Directors' report

Management herewith presents to the shareholders the annual report in name of Sand Hill Petroleum B.V. (hereinafter: the "Company") for the financial year ended December 31, 2015. The consolidated financial statements include the financial data of the Company and its wholly owned subsidiaries (jointly referred to as the "Group").

General

The Company is a private company with limited liability incorporated on September 13, 2012, under the laws of the Netherlands and acts as an intermediate holding and finance company for the purpose of exploration, development and production of oil and gas in Central and Eastern Europe.

Overview of activities

On January 16, 2015, the Company executed an additional drawdown for USD 200,000 under the existing profit participation loan agreement with O&G Development Kft.

On January 21, 2015, the Company's management board resolved to issue 751,385 cumulative preference shares in the capital of the Company, numbered CP 6,606,163 up to and including CP 7,357,547, each with a nominal value of USD 0.01, at a subscription price of USD 10 per share.

On January 21, 2015, the Company resolved to increase the share capital of O&G Development Kft. by USD 36.92 (HUF 10,000) and to make an additional share premium contribution of USD 7,000,000.

On March 5, 2015, the Company's management board resolved to issue 1,499,997 cumulative preference shares in the capital of the Company, numbered CP 7,357,548 up to and including CP 8,857,544, each with a nominal value of USD 0.01, at a subscription price of USD 10 per share.

On April 9, 2015, the Company approved an additional drawdown of USD 7,000,000 under the existing profit participation loan agreement with O&G Development Kft.

On April 24, 2015, the Company resolved to increase the share capital of Sand Hill Petroleum Romania srl by USD 200,000.

On July 8, 2015, the Company approved an additional drawdown of USD 2,000,000 under the existing profit participation loan agreement with O&G Development Kft.

On July 28, 2015, the Company approved an additional drawdown of USD 1,000,000 under the existing profit participation loan agreement with O&G Development Kft.

On August 18, 2015, the Company's management board resolved to issue 1,999,997 cumulative preference shares in the capital of the Company, numbered CP 8,857,545 up to and including CP 10,857,541, each with a nominal value of USD 0.01, at a subscription price of USD 10 per share.

Sand Hill Petroleum B.V., Amsterdam ***Annual report for the year 2015***

Overview of activities (continued)

On August 24, 2015, the Company approved an additional drawdown of USD 2,000,000 under the existing profit participation loan agreement with O&G Development Kft, of which USD 1,000,000 was paid on August 24, 2015, and USD 1,000,000 was paid on September 8, 2015.

On September 16, 2015, the Company approved an additional drawdown of USD 15,000,000 under the existing profit participation loan agreement with O&G Development Kft.

On October 6, 2015, the Company resolved to increase the share capital of Sand Hill Petroleum Romania srl by USD 350,000.

On October 29, 2015, the Company approved an additional drawdown of USD 2,000,000 under the existing profit participation loan agreement with O&G Development Kft.

On November 2, 2015, the Company's management board resolved to issue 12,000 ordinary class B shares in the capital of the Company, numbered B 339,001 up to and including B 351,000, each with a nominal value of USD 0.01, at subscription price of USD 1 per share. The shares were fully paid up in cash. At the same date, the management board resolved to issue 2,861 cumulative preference shares in the capital of the Company, numbered CP 10,857,542 up to and including CP 10,860,402, each with a nominal value of USD 0.01, at a subscription price of USD 10 per share.

On December 10, 2015, the Company resolved to increase the share capital of O&G Development Kft by USD 34.77 (HUF 10,000) and to make an additional share premium contribution of USD 2,000,000.

On December 28, 2015, the Company (lender) entered into a new Facility Agreement with O&G Development Kft. (borrower). The Company grants an unsecured USD term loan facility of a total principal amount not exceeding USD 322,730,000 on the terms, and subject to the conditions, of this facility agreement. O&G Development Kft shall draw down USD 72,364,400 under this Loan Facility Agreement, and such first drawdown shall be deemed as a repayment of any outstanding amounts to the Company under the previous profit participation loan agreement.

Results

The net asset value of the Company as at December 31, 2015 amounts to USD 70,885,135 (December 31, 2014: USD 47,519,071). The result for the year 2015 amounts to a loss of USD 16,272,192 (previous year: a loss of USD 20,820,974).

Liquidity and capital resources

Liquidity and capital resources are considered sufficient in view of the nature of the Company's business.

Sand Hill Petroleum B.V., Amsterdam ***Annual report for the year 2015***

Financial risk management

The Company is exposed to the following key risks:

Credit risk:

Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due. The Company's primary exposure to credit risk as at the reporting date is the carrying value of the receivables and prepayments and the cash and cash equivalents.

Liquidity risk:

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its obligations when they are due or will have to do so at excessive cost. The Company regularly reviews the level of liquidity to ensure that it always has sufficient cash and debt facilities to meet its liabilities when due.

Market risk:

Market risk is defined as the potential loss in value or earnings of the organization arising from changes in external market factors such as interest rates (interest rate risk), foreign exchange rates (foreign exchange risk), commodities and equities. The applicability of these risks is outlined below:

(a) Interest rate risk

Interest rate risk arises where the Company's financial assets and liabilities have interest rates set under different bases or reset at different times. The Company is not subject to interest rate risk.

(b) Foreign Exchange risk

The Company's major transactions are in US Dollars, which is also the reporting and functional currency. Through its subsidiary, the Company's principal operations are in Hungary, and therefore the Company has an exposure to foreign exchange risks towards the Hungarian Forint (HUF).

Research and development

The Group is involved in research and development in connection with the exploration, development and production of oil and gas.

Staff numbers and employment costs

The Group has 30 employees and hence incurred wages, salaries and related social security charges during the reporting period (previous year: 20 employees).

Future outlook

No material change in activities is contemplated for the coming year. It is expected that the result will be in line with that of the reporting period. Furthermore management has no current plans which would have a significant influence on expectations concerning future activities, investments, financing, staffing and profitability.

Sand Hill Petroleum B.V., Amsterdam Annual report for the year 2015

Post-balance sheet events

On January 7, 2016, the Company's management board resolved to issue 999,999 cumulative preference shares in the capital of the Company, numbered CP 10,860,403 up to and including CP 11,860,401, each with a nominal value of USD 0.01, at a subscription price of USD 10 per share.

On January 20, 2016, the Company resolved to increase the share capital of O&G Development Kft. by USD 35.32 (HUF 10,000) and to make an additional share premium contribution of USD 5,000,000.

On January 20, 2016, the Company resolved to increase the share capital of Sand Hill Petroleum Romania srl by USD 250,000.

On February 18, 2016, the Company resolved to increase the share capital of O&G Development Kft. by USD 35.89 (HUF 10,000) and to make an additional share premium contribution of USD 4,000,000.

On April 20, 2016, the Company approved an additional drawdown of up to USD 1,500,000 under the Loan Agreement with O&G Development Kft.

On April 28, 2016, the Company's management board resolved to issue 499,997 cumulative preference shares in the capital of the Company, numbered CP 11,860,402 up to and including CP 12,360,398, each with a nominal value of USD 0.01, at a subscription price of USD 10 per share.

Amsterdam, May 31, 2016

Managing Directors

T. Lederer

G.F.X.M. Nieuwenhuizen

Intertrust (Netherlands) B.V.

***Sand Hill Petroleum B.V., Amsterdam
Annual report for the year 2015***

3 Financial statements (consolidated)

Sand Hill Petroleum B.V., Amsterdam

Annual report for the year 2015

3.1 Consolidated balance sheet as at December 31, 2015 (before the proposed appropriation of the result)

	<i>Notes</i>	December 31, 2015		December 31, 2014	
		USD	USD	USD	USD
ASSETS					
Financial fixed assets	3.4.1				
Intangible fixed assets		32,975,713		24,714,524	
Tangible fixed assets		<u>26,255,245</u>		<u>13,403,552</u>	
			59,230,958		38,118,076
Current assets	3.4.2				
Prepaid expenses and other receivables		3,084,324		1,880,678	
Cash and cash equivalents		<u>15,652,492</u>		<u>10,929,599</u>	
			18,736,816		12,810,277
			<u>77,967,774</u>		<u>50,928,353</u>
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	3.4.3				
Share capital		137,839		95,177	
Share premium		111,390,215		68,878,477	
Translation reserve		2,460,012		5,376,156	
Accumulated deficit		(26,830,739)		(6,009,765)	
Unappropriated result		<u>(16,272,192)</u>		<u>(20,820,974)</u>	
			70,885,135		47,519,071
Current liabilities	3.4.4				
Accrued expenses and other liabilities		<u>6,065,250</u>		<u>3,037,669</u>	
			6,065,250		3,037,669
Non-current liabilities	3.4.5				
Provisions		<u>1,017,389</u>		<u>371,613</u>	
			1,017,389		371,613
			<u>77,967,774</u>		<u>50,928,353</u>

Sand Hill Petroleum B.V., Amsterdam

Annual report for the year 2015

3.2 Consolidated profit and loss account for the year 2015

	<u>Note</u>	<u>2015</u>	<u>2014</u>
		USD	USD
Operating income			
Sales revenue		1,436,552	-
Operating expenses	3.4.6		
General and administrative expenses		(9,171,524)	(6,339,984)
Operating result		<u>(7,734,972)</u>	<u>(6,339,984)</u>
Financial income and expenses			
Interest income		230,840	78,683
Other income		93,659	83,559
Currency exchange rate differences		(4,926,100)	(5,837,719)
Impairment fixed assets		1,894,697	(3,424,708)
Write off Seismic data		(26,256)	(1,355,912)
Write off wells		<u>(5,804,060)</u>	<u>(4,024,893)</u>
		(8,537,220)	(14,480,990)
Result before taxation		<u>(16,272,192)</u>	<u>(20,820,974)</u>
Corporate income tax		-	-
Net result		<u>(16,272,192)</u>	<u>(20,820,974)</u>

Sand Hill Petroleum B.V., Amsterdam Annual report for the year 2015

3.3 General notes to the consolidated financial statements

3.3.1 General information

Sand Hill Petroleum B.V. (the "Company") has been incorporated as a private company with limited liability under the laws of the Netherlands on September 13, 2012. The registered office of the Company is in Amsterdam, the Netherlands.

The Company acts as an intermediate holding and finance company for the purpose of oil and gas exploration and production in Central and Eastern Europe.

3.3.2 Group structure

The Company is a subsidiary of WP XI Holdings B.V., which is incorporated and domiciled in the Netherlands, and which directly holds 96.5% (2014: 95.4%) of the Company's shares. The remaining shares are held by private individuals.

3.3.3 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

Basis of preparation

The accompanying accounts have been prepared in accordance with accounting principles generally accepted in the Netherlands and in conformity with provisions governing financial statements as contained in Part 9, Book 2 of the Dutch Civil Code.

The Company qualifies as a small sized company. Therefore, based on article 396 Book 2 of the Dutch Civil Code, exemptions apply to the figures, presentation and disclosures in the Company's financial statements.

The consolidated financial statements are presented in US Dollars and include the financial statements of the Company and its subsidiaries, being those entities over which the Company, either directly or indirectly, has control through exposure or rights to their variable returns and the ability to affect those returns through its power over the entities. The consolidated financial statements comprise the financial data of the following subsidiaries:

- O&G Development Kft, Hungary (100%)
- OGD Central Kft, Hungary (100%)
- OGD Nadudvar Concession Kft. (100%)
- OGD Ujleta Concession Kft. (100%)
- Sand Hill Petroleum Romania srl., Romania (100%)

Sand Hill Petroleum B.V., Amsterdam Annual report for the year 2015

3.3.3 Accounting policies (continued)

Foreign subsidiaries qualify as independent foreign units. For the translation of the financial statements of these foreign entities, the balance sheet items are translated at the exchange rate at balance sheet date. The profit and loss account items at the average exchange rate over the year. The translation differences that arise are directly deducted from or added to the shareholders' equity.

Subsidiaries are consolidated from the date on which control is obtained until the date that such control ceases, based on the purchase accounting method. All inter-company balances and transactions, including unrealized profits arising from such transactions, are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In order to prepare the consolidated financial statements, management has to make estimates and judgments. The matter described below are considered to be the most important in understanding the judgments that are involved in preparing these statements and the uncertainties that could impact the amounts reported in the results of operations, financial condition and cash flow.

Estimation of proved oil and gas reserves

Unit-of-production depreciation, depletion and amortization charges are principally measured based on the Reserve Auditor's estimates of proved developed oil and gas reserves. Also, exploration drilling costs are capitalized pending the results of further exploration and appraisal activity, which may take several years to complete and before any related proved reserves can be booked.

Proved reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of proved reserves are inherently imprecise, require the application of judgment and are subject to regular revision, either upward or downward, based on new information as such from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans.

Changes to estimates of proved developed reserves affect prospectively the amounts of depreciation, depletion and amortization about the carrying amounts of exploration and production assets.

Information about the carrying amounts of exploration and production assets and the amounts charged to income, including depreciation, depletion and amortization, is presented in note 2.4.1 of the consolidated financial statements.

Comparison previous year

The accounting principles remain unchanged compared to the previous year.

Sand Hill Petroleum B.V., Amsterdam

Annual report for the year 2015

3.3.3 Accounting policies (continued)

Income recognition

Dividends from group entities are recorded as income when received and are stated gross of applicable withholding taxes. Other income and expenses, including taxation, are recognized and reported on accrual basis.

Foreign currencies

Other assets and liabilities in foreign currencies are translated into US dollars at their exchange rates prevailing on the balance sheet date. Transactions in foreign currencies are translated into US dollars at the exchange rate in effect at the time of the transactions. The resulting currency exchange rate differences are taken to the profit and loss account.

The Company's major transactions are in US dollars, which is also the reporting and functional currency.

The exchange rates used in the annual accounts are:	<u>December 31, 2015</u>	<u>December 31, 2014</u>
1 USD = EUR (Euro)	0.918527	0.823655
1 USD = HUF (Hungarian Forint)	290.236	259.896
1 USD = RON (Romanian New Lei)	4.15541	3.69228
1 USD = GBP (British Pound)	0.674153	0.641545

Financial instruments

Financial instruments are valued at amortized cost unless explained otherwise in the notes. Due to the short-term nature of the financial instruments included in these financial statements, the estimated fair value for these financial instruments approximates the book value.

Intangible fixed assets

Licenses

Licenses that have a finite useful life are carried at cost less accumulated amortization and impairment losses. Amortization is calculated using the straight-line method to allocate the cost of the assets over their estimated useful lives.

Seismic data

The Company capitalizes certain geological and seismic expenses which are directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the management of the Company. These type of costs are expected to generate probable future economic benefit. The asset will be carried at cost less accumulated amortization and any impairment losses (cost model). Any impairment or diminution in value will be taken into the profit and loss account.

Sand Hill Petroleum B.V., Amsterdam Annual report for the year 2015

3.3.3 Accounting policies (continued)

The capitalized value of seismic expenses includes the costs and expenses of geological and geophysical measurements that the Company carried out on the areas under examination. Items that the Company used during the current year in a manner whereby they may no longer be accounted for as capitalized items shall be accounted for as extraordinary depreciation.

Accounting of the capitalized value as part of intangible assets shall be performed based on the analysis prepared and approved by the Company's geologic and seismic experts. Any impairment or diminution in value will be taken into a revaluation reserve.

Tangible fixed assets

Tangible fixed assets shall only include assets that serve the Company for a period of more than one year. Tangible fixed assets shall be entered into the balance sheet at purchase price, decreased by depreciation and impairment loss, or increased by value adjustment.

Items included in the purchase price shall be accounted for at the time of purchase, but no later than the time when the asset is installed, at the value invoiced or charged. If the invoice was not received by the date of the installation of asset, or the price payable was not determined by the relevant authority, the value of the asset shall be determined based on available contracts or legislation and corrected accordingly once the specific value is available.

Residual value shall be the value of the asset – determined at taking the asset into use for its intended purpose based on available information and depending on its useful life – that the asset is expected to be sold at the end of its useful life cycle.

It is possible to appreciate (adjust the value) of a tangible asset based on market evaluations. Such appreciations and valuation reserves are to be recorded separately. Valuation reserves shall not be used to replenish other elements of the equity capital. Valuation shall be carried out each year and the required new adjustments shall be entered in the books. It must be ensured that value adjustment is indeed carried out based on market value, and as such, value adjustment may only be entered in the books based on an auditor's opinion, expert statement or publicly accessible resources (such as trade publications).

Sand Hill Petroleum B.V., Amsterdam Annual report for the year 2015

3.3.4 Accounting policies (continued)

Raw materials, office equipment and inventories

Raw materials, office equipment and inventories are stated at cost or net realizable value, whichever is lower. Cost comprises direct purchase costs (including transportation), cost of production and manufacturing and taxes.

Investment projects

Investment projects related to wells shall be capitalized if the wells are successful. Unsuccessful wells shall be treated as follows:

- If the information obtained during drilling can be used during the drilling of another well, the costs incurred should be capitalized in the gross cost of that new well.
- In other cases the Company shall account for these investment costs as extraordinary depreciation.

Depreciation

The Company mainly employs linear depreciation of tangible assets based on gross value in calculating the ordinary depreciation of tangible assets, with the exception of wells and pipelines, in the case of which depreciation is assessed according to current net value based on performance.

The Company shall not account for depreciation of assets the value of which is not decreased by usage.

Depreciation may be changed by the Company if significant changes occur in the circumstances considered at the assessment of the asset's depreciation. This may lead to a significant change in gross value, useful life or residual value.

Linear depreciation rates based on gross value are the following:

Seismic surveys, exploration rights & Interests - 25%

Other valuable rights and interests (eg.softwares) - 33%

Refurbishment of rented office - 6%

Office equipment - 14.5%

Furnishings of rented apartments - 14.5%

Office machinery - 14.5%

IT equipment - 33%

Vehicles - 14.5%

Gas pipelines - 6%

Further ordinary depreciation may not be accounted for if the asset's net value has reached its residual value.

Sand Hill Petroleum B.V., Amsterdam Annual report for the year 2015

3.3.5 Corporate income tax

Provisions for taxation have been made in accordance with the standard Dutch corporate income tax law.

3.3.6 Provisions

Provisions are recognized at the balance sheet date at management's best estimate of the expenditure required to settle the present obligation. The carrying amounts of provisions are regularly reviewed and adjusted for new facts or changes in law or technology.

Sand Hill Petroleum B.V., Amsterdam

Annual report for the year 2015

3.4 Notes to the consolidated balance sheet and the profit and loss account

3.4.1 Financial fixed assets

Intangible fixed assets

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	USD	USD
Licenses	13,567,987	10,171,635
Seismic data	19,407,726	14,542,889
	<u>32,975,713</u>	<u>24,714,524</u>

O&GD Central Kft. has several valuable rights, the exploration license for the Körös exploration area and six mining plots. The Group acquired these rights on June 14, 2013 when it acquired RAG Hungary Central Kft. (renamed into O&GD Central Kft.) for a purchase price of USD 16,229,399. Based on the purchase price accounting method, an amount of USD 13,567,987, which is the amount paid in excess of the book value of RAG Hungary Central Ltd at acquisition date, is allocated to the licenses acquired.

Under Hungarian Law this exploration permit expired on October 1, 2015 but was extended for a further two years. In addition, O&GD Central Kft. also owns 6 mining plots (production licenses), these permits have been received in 2010 and are valid for 5 years but extended for a further 5 years for the Tiszakecske I mining plot and for 3 years for the Szolnok V and Szolnok VI mining plots. If production starts on a mining plot (eg. Ormenyes I and Mezotur V), the permit will be in force until the production is terminated.

Management estimates that until 2042 all gas resources in the Körös exploration area would be extracted. The amount paid in goodwill for the license for the Körös exploration area is therefore amortized over 29 years. Amortization shall be recorded in the first financial year during which production is started (2015) and shall be continued until the estimated end of its useful life (2043).

Seismic data

The Company capitalizes certain seismic expenses, which include costs and expenses of geological and geophysical measurements that the Company carried out on the areas under examination.

Tangible fixed assets

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	USD	USD
Asset under construction	16,870,634	10,536,227
Investment projects	5,965,896	-
Office equipment and other inventories	3,418,715	2,867,325
	<u>26,255,245</u>	<u>13,403,552</u>

Sand Hill Petroleum B.V., Amsterdam

Annual report for the year 2015

3.4.2 Current assets

Prepaid expenses and other receivables

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	USD	USD
Receivables	2,804,968	1,363,655
Prepaid expenses	234,643	471,971
Office deposit	44,713	45,052
	<u>3,084,324</u>	<u>1,880,678</u>

Cash and cash equivalents

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	USD	USD
Bank accounts	11,868,602	7,081,906
Deposit	3,783,890	3,847,693
	<u>15,652,492</u>	<u>10,929,599</u>

The deposit is held as collateral for a bank guarantee issued to secure certain abandonment obligations under the exploration licenses granted by the Hungarian Mining Authority.

3.4.3 Shareholders' equity

Reference on Shareholders' equity is made in the notes to the Company balance sheet as of December 31, 2015.

3.4.4 Current liabilities

Accrued expenses and other liabilities

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	USD	USD
Accrued expenses	1,008,400	1,111,458
Accounts payable	4,792,746	1,762,505
Business tax	-	46,519
Wages and wage tax	199,554	117,187
Prepayments (capital call)	64,550	-
	<u>6,065,250</u>	<u>3,037,669</u>

3.4.5 Non-current liabilities

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	USD	USD
Provisions for field abandonment costs	1,017,389	371,613
	<u>1,017,389</u>	<u>371,613</u>

Sand Hill Petroleum B.V., Amsterdam

Annual report for the year 2015

3.4.6 Operating expenses

General and administrative expenses

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	USD	USD
Salaries and payroll related contributions	1,579,802	1,004,678
Legal advice and consultancy fees	4,157,071	2,244,095
Other advisory fees	448,744	1,207,866
Management fees	467,453	333,169
Travel and hotel	328,698	324,057
Depreciation	926,374	85,609
Insurance	65,362	39,620
Office rent	116,349	154,628
Bank charges	78,444	30,145
Business development expenses	188,950	111,597
Other expenses	814,477	804,520
	<u>9,171,524</u>	<u>6,339,984</u>

Commitments and contingencies

Further to the requirements set by the Hungraian Mining Law, O&G Development Kft., as direct owner of OGD Central Kft., and indirect owner of OGD Nadudvar Kft. and OGD Ujleta Kft. has put up a HUF 1 billion bank guarantee (USD 3,488,818 as per balance sheet date) to secure certain obligations under the exploration licenses granted by the Hungarian Mining Authority.

Staff number and employment costs

The Group has 30 employees and hence incurred wages, salaries and related social security charges during the reporting period (previous year: 20 employees).

Directors

The Company has 3 managing directors, of whom two receive remuneration. The Company has 6 supervisory directors, of whom four receive remuneration. The annual fee paid to the managing and supervisory directors during the reporting period fall within the scope of the Dutch wage tax and wage tax withholdings have been declared and paid in so far applicable. The amount of wage tax paid is included in the management fees in note 3.4.6.

***Sand Hill Petroleum B.V., Amsterdam
Annual report for the year 2015***

4 Financial statements (stand-alone)

Sand Hill Petroleum B.V., Amsterdam

Annual report for the year 2015

4.1 Stand alone balance sheet as at December 31, 2015 (before the proposed appropriation of the result)

	<i>Notes</i>	December 31, 2015		December 31, 2014	
		USD	USD	USD	USD
ASSETS					
Financial fixed assets	4.3.2				
Financial fixed assets		<u>72,401,229</u>		<u>46,544,650</u>	
			72,401,229		46,544,650
Current assets	4.3.3				
Receivables from related parties		1,541,698		985,158	
Other receivables		24,561		36,986	
Cash and cash equivalents		<u>1,594,965</u>		<u>589,736</u>	
			3,161,224		1,611,880
			<u>75,562,453</u>		<u>48,156,530</u>
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	4.3.4				
Share capital		137,839		95,177	
Share premium		111,390,215		68,878,477	
Translation reserve		2,275,842		5,278,886	
Accumulated deficit		(26,524,100)		(6,009,765)	
Unappropriated result		<u>(12,188,945)</u>		<u>(20,514,335)</u>	
			75,090,851		47,728,440
Current liabilities	4.3.5				
Accrued expenses and other liabilities		<u>471,602</u>		<u>428,090</u>	
			471,602		428,090
			<u>75,562,453</u>		<u>48,156,530</u>

Sand Hill Petroleum B.V., Amsterdam

Annual report for the year 2015

4.2 Stand-alone profit and loss account for the year 2015

	<u>Note</u>	<u>2015</u>		<u>2014</u>	
		USD	USD	USD	USD
Operating expenses and income	4.3.6				
General and administrative expenses		(2,350,808)		(2,052,208)	
Management fee income		<u>50,510</u>		<u>46,960</u>	
			<u>(2,300,298)</u>		<u>(2,005,248)</u>
			(2,300,298)		(2,005,248)
Financial income and expenses					
Interest income		38,347			
Currency exchange rate differences		<u>284</u>		<u>3,719</u>	
			38,631		3,719
Profit / (loss) of subsidiaries		<u>(9,927,278)</u>		<u>(18,512,806)</u>	
			(9,927,278)		(18,512,806)
Result before taxation			<u>(12,188,945)</u>		<u>(20,514,335)</u>
Corporate income tax					
Net result			<u>(12,188,945)</u>		<u>(20,514,335)</u>

Sand Hill Petroleum B.V., Amsterdam

Annual report for the year 2015

4.3 Notes to the Company's balance sheet and profit and loss account

4.3.1 General

The Company financial statements are part of the 2015 consolidated financial statements of Sand Hill Petroleum B.V.

Insofar as items from the Company balance sheet and profit and loss account are not clarified below, reference is made to the notes to the consolidated balance sheet and profit and loss account.

Summary of significant accounting principles

The principles for the valuation of assets and liabilities and the determination of the result are the same as those applied for the consolidated balance sheet and profit and loss account.

4.3.2 Financial fixed assets

Investments in group entities are valued according to the equity method on the basis of net asset value. The net asset value is calculated on the basis of the accounting principles of the Company.

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	USD	USD
Interest in group entities	-	3,380,250
Loan Facility Agreement	72,401,229	43,164,400
	<u>72,401,229</u>	<u>46,544,650</u>

Interest in group entities

The Company has direct interests in the following group entities:

<u>Name</u>	<u>Domicile</u>	<u>Owned (prior year)</u>
O&G Development KFT	Budapest, Hungary	100% (100%)
Sand Hill Petroleum Romania srl.	Bucharest, Romania	100% (100%)

The interest in group entities is valued at nil, due to the negative equity of O&G Development KFT and Sand Hill Petroleum Romania srl.

Sand Hill Petroleum B.V., Amsterdam

Annual report for the year 2015

4.3.2 Financial fixed assets (continued)

Loan Facility agreement

On December 28, 2015, the Company (lender) entered into a new Facility Agreement with O&G Development Kft. The Company granted an unsecured USD term loan facility of a total principal amount not exceeding USD 322,730,000 on the terms, and subject to the conditions, of this facility agreement. O&G Development Kft. shall draw down USD 72,364,400 under this Facility Agreement, and such first drawdown shall be deemed as a repayment of any outstanding amounts to the Company under the profit participation loan agreement.

Movements:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	USD	USD
Balance as per January 1	43,164,400	24,414,400
Draw downs	<u>29,236,829</u>	<u>18,750,000</u>
	<u>72,401,229</u>	<u>43,164,400</u>

4.3.3 Current assets

Receivables from related parties:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	USD	USD
O&G Development Kft, Hungary	474,258	449,582
O&GD Central Kft, Hungary	13,406	54,583
Sand Hill Petroleum Romania srl., Romania	<u>1,054,034</u>	<u>480,993</u>
	<u>1,541,698</u>	<u>985,158</u>

Other receivables:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	USD	USD
Rent deposit	218	243
VAT reclaimable	24,234	10,614
Prepayments and other receivables	<u>109</u>	<u>26,129</u>
	<u>24,561</u>	<u>36,986</u>

Cash and cash equivalents:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	USD	USD
Bank accounts	<u>1,594,965</u>	<u>589,736</u>
	<u>1,594,965</u>	<u>589,736</u>

Sand Hill Petroleum B.V., Amsterdam **Annual report for the year 2015**

4.3.4 Shareholders' equity

The shares are denominated into class A shares, class B shares and cumulative preference shares. The par value of each class A share, class B share and cumulative preference shares respectively amounts to one United States dollar cent (USD 0.01). As per balance sheet date, issued and paid-up are 2,572,500 class A shares, 351,000 class B shares and 10,860,402 cumulative preference shares.

During this financial year, the Company made the following capital calls whereupon the participating parties subscribed for a number of cumulative preference shares at a subscription price of ten United States dollars (USD 10) each and a number of B shares at a subscription price of one United States dollar (USD 1) each.

Issue date	Number of shares	Price (USD)	Amount (USD)	Allocated to share capital (USD)	Allocated to share premium (USD)
January 21, 2015	751,385	10	7,513,850	7,513	7,506,337
April 2, 2015	1,499,997	10	14,999,970	15,000	14,984,970
September 16, 2015	1,999,997	10	19,999,970	20,000	19,979,970
October 20, 2015	2,861	10	28,610	29	28,581
November 2, 2015	12,000	1	12,000	120	11,880
	<u>4,266,240</u>		<u>42,542,400</u>	<u>42,662</u>	<u>42,511,738</u>

The translation reserve relates to the currency translation of the participation in O&G Development Kft., Hungary.

In the General Meeting held on July 16, 2015 it was resolved to add the balance of the unappropriated result for the year 2014 to the accumulated deficit.

	Share capital	Share premium	Translation reserve	Accumulated deficit	Unappropriated result
Balance at 1-1-2014	72,545	46,782,489	365,615	(2,451,631)	(3,558,134)
Paid in / (repaid)	22,632	22,095,988	(365,615)	(3,558,134)	3,558,134
Exchange rate difference	-	-	5,278,886	-	-
Result for the period	-	-	-	-	(20,514,335)
Balance at 1-1-2015	<u>95,177</u>	<u>68,878,477</u>	<u>5,278,886</u>	<u>(6,009,765)</u>	<u>(20,514,335)</u>
Paid In / (repaid)	42,662	42,511,738	(5,278,886)	(20,514,335)	20,514,335
Exchange rate difference	-	-	2,275,842	-	-
Result for the period	-	-	-	-	(12,188,945)
	<u>137,839</u>	<u>111,390,215</u>	<u>2,275,842</u>	<u>(26,524,100)</u>	<u>(12,188,945)</u>

The share capital is divided in:

	December 31, 2015	December 31, 2014
	USD	USD
Cumulative preference shares	108,604	66,062
Class A Shares	25,725	25,725
Class B Shares	3,510	3,390
	<u>137,839</u>	<u>95,177</u>

Sand Hill Petroleum B.V., Amsterdam

Annual report for the year 2015

4.3.4 Shareholders' equity (continued)

The share premium is divided in:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	USD	USD
Share premium reserve on cumulative preference shares	108,495,416	65,995,558
Share premium reserve A	2,546,775	2,546,775
Share premium reserve B	<u>348,024</u>	<u>336,144</u>
	<u>111,390,215</u>	<u>68,878,477</u>

Translation reserve

Exchange differences arising from the translation of the net investment in foreign entities that are valued at net asset value and of borrowings and other currency instruments designed as hedges of such investments, are recorded directly as currency translation differences within shareholders' equity.

The stand-alone equity differs from the consolidated equity by USD 4,205,716. This is in accordance with RJ 217.508 and fully relates to a difference that arises due to the negative equity of O&G Development KFT and Sand Hill Petroleum Romania srl.

4.3.5 Current liabilities

The current liabilities can be detailed as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	USD	USD
Accounts payable	65,747	65,170
Accrued expenses and other liabilities	<u>405,855</u>	<u>362,920</u>
	<u>471,602</u>	<u>428,090</u>

4.3.6 Operating expenses / income

General and administrative expenses

The general and administrative expenses can be detailed as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	USD	USD
Legal advice and consultancy fees	1,858,220	1,490,166
Other advisory fees	233,023	284,837
Management fees	140,067	67,847
Travel and hotel	72,858	145,439
Insurance	25,167	30,033
Office rent	3,758	3,171
Bank charges	6,138	5,005
Business development expenses	8,314	24,463
Other expenses	<u>3,263</u>	<u>1,247</u>
	<u>2,350,808</u>	<u>2,052,208</u>

Sand Hill Petroleum B.V., Amsterdam

Annual report for the year 2015

4.3.6 Operating expenses / Income (continued)

Management fee income

Management fee income relates to management services agreements entered into by the Company and its affiliated companies. The management fee income can be detailed as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	USD	USD
O&G Development Kft, Hungary	22,584	21,612
O&GD Central Kft, Hungary	638	3,795
Sand Hill Petroleum Romania srl., Romania	<u>27,288</u>	<u>21,553</u>
	<u>50,510</u>	<u>46,960</u>

Commitments and contingencies

On December 28, 2015, the Company entered into a new Loan Facility Agreement with O&G Development Kft. The Company granted an unsecured USD term loan facility of a total principal amount not exceeding USD 322,730,000 on the terms, and subject to the conditions, of this facility agreement. O&G Development Kft. shall draw down USD 72,364,400 under this Facility Agreement, and such first drawdown shall be deemed as a repayment of any outstanding amounts to the Company under the previous profit participation loan agreement.

4.3.7 Employees

The group has 30 employees and hence incurred wages, salaries and related social security charges during the reporting period (previous year: 20 employees).

Directors

The Company has 3 managing directors, of whom two receive remuneration. The Company has 6 supervisory directors, of whom four receive remuneration. The annual fee paid to the managing and supervisory directors during the reporting period partly fall within the scope of the Dutch wage tax and wage tax withholdings have been declared and paid in so far applicable. The amount of wage tax paid is included in note 4.3.6.

Sand Hill Petroleum B.V., Amsterdam Annual report for the year 2015

Amsterdam, May 31, 2016

Managing directors,

The Supervisory board of directors,

T. Lederer

D.M. LeClair

G.F.X.M. Nieuwenhuizen

S.W.C. Evers

Intertrust (Netherlands) B.V.

P. Bratt

M.P. Fossum

Sir R.L. Olver

J.E. Golden
Appointed as per November 1, 2015

Sand Hill Petroleum B.V., Amsterdam Annual report for the year 2015

5 Other information

5.1 Appropriation of result

5.1.1 Statutory provisions

In accordance with article 22.1 of the articles of association in name of the Company, the result for the year is at the disposal of the General Meeting. Book 2 of the Dutch Civil Code prescribes that the General Meeting may resolve on any profit distribution to the extent that the shareholder's equity exceeds the amount of the reserves to be maintained by law and the articles of association of the Company. The Company may only follow a resolution of the General Meeting to distribute after the management board has given its approval to do this. The management board withholds approval, at the moment of distribution, only if it knows or reasonably should be able to foresee that the Company cannot continue to pay its due debts after the distribution.

5.1.2 Appropriation of result of previous year

In the General Meeting held on July 16, 2015, it was decided to add the balance of the unappropriated result for the year 2014 to the accumulated deficit.

5.1.3 Appropriation of result

The general meeting of shareholders has the right to decide on the allocation of profits or loss which has been determined by the adoption of the annual report.

5.2 Post-balance sheet events

On January 7, 2016, the Company's management board resolved to issue 999,999 cumulative preference shares in the capital of the Company, numbered CP 10,860,403 up to and including CP 11,860,401, each with a nominal value of USD 0.01, at a subscription price of USD 10 per share.

On January 20, 2016, the Company resolved to increase the share capital of O&G Development Kft. by USD 35.32 (HUF 10,000) and to make an additional share premium contribution of USD 5,000,000.

On January 20, 2016, the Company resolved to increase the share capital of Sand Hill Petroleum Romania srl by USD 250,000.

On February 18, 2016, the Company resolved to increase the share capital of O&G Development Kft. by USD 35.89 (HUF 10,000) and to make an additional share premium contribution of USD 4,000,000.

On April 20, 2016, the Company approved an additional drawdown of up to USD 1,500,000 under the Loan Agreement with O&G Development Kft.

Sand Hill Petroleum B.V., Amsterdam Annual report for the year 2015

5.2 Post-balance sheet events (continued)

On April 28, 2016, the Company's management board resolved to issue 499,997 cumulative preference shares in the capital of the Company, numbered CP 11,860,402 up to and including CP 12,360,398, each with a nominal value of USD 0.01, at a subscription price of USD 10 per share.

No other events have occurred since balance sheet date, which would change the financial position of the Company and which would require adjustment of or disclosure in the annual report currently presented.

5.3 Audit of the financial statements

The independent auditor's report is recorded on the next page.