QTR4

2018

Unaudited interim condensed financial information for

Sand Hill Petroleum B.V.

Amsterdam, 28 February 2019

Sand Hill Petroleum B.V.
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The Netherlands
Chamber of Commerce: 56038038

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Management Commentary

HSE
There were no reportable incidents during Q4 2018.

Production
In 2018 total average daily production was 32.1 MMscfe/d, consisting of 26.7 MMscfd net gas, 795 bpd condensate and 97 bpd oil. At the end of the year 20 gas wells and 2 oil wells were producing. In Q4 total average daily production was 32.8 MMscfe/d, consisting of 25.9 MMscfd net gas, 1077 bpd condensate and 74 bpd oil. Production was lower than planned due to re-scheduled investment activities – one development well was postponed to 2019 and the CO_2 membrane project start-up was deferred – and operational problems with our gas off-taker in the North East region.

Sales
Hydrocarbons sales revenue was EUR 81.9 mn during 2018.

EBITDA
Group achieved EUR 41.5 mn EBITDA during 2018.

Investments
Capital expenditure was EUR 69.1 mn in 2018. The Group invested in the following activities: EUR 5.1 mn in geoscience and seismic activities, EUR 28.2 mn in exploration, appraisal, and development drilling, EUR 12.6 mn in well completions and gathering systems and EUR 23.2 mn in facilities.

A total of ten wells were drilled during 2018. One committed well was drilled during Q4 in the Nádudvar block with no hydrocarbon discovered. On the Ócsa block (Paleogene area) drilling of a committed well has started. The testing of the Ujleta well, drilled in Q3, was finished: gas was found, however due to high CO_2 content, the well will not be put on production. On the Koros block, one gas well began production in December, while another was deepened to evaluate a hydrocarbon show encountered while drilling. The well is undergoing additional testing. In total six out of the ten 2018 wells have successfully discovered gas.

Construction and mechanical completion of the Konyar Gas Plant and related facilities was completed by the end of Q4. Commissioning has been in progress at year-end. Start-up of the plant took place on 26 January 2019. Upgrade of the Endrod Gas Plant continued in Q4.

The Company has been awarded 3 new hydrocarbon concessions in Hungary during Q4, and contracts for these concessions were signed during Q1 2019.

Romania

On the EX-1 block, 3D field acquisition activities commenced and permitting process for the 3D survey continued during Q4. In the EX-5 block the first commitment well was drilled, the well was plugged and abandoned. The permitting process for the EX-5 3D seismic survey was ongoing in Q4.

SUMMARY OF 2018 RESULTS

	31-Dec-18
Production (MMcfe/d)	32,1
(EUR '000)	
Operating profit/(loss)	7 738
Current Assets	53 624
Current Liabilities	20 342
Net Interest Bearing debt	32 851
EBITDA	41 512
Current ratio	2,64
Leverage ratio	0,79
Liquidity	30 442

Notes:

EBITDA (consolidated operating profit before Interest, Taxes, Depreciation, Amortization, impairment and non-cash expenses, and excluding any items of a one-off, non-recurring, extraordinary and exceptional nature) is calculated for the period of 12 months ending on December 31, 2018.

Net Interest Bearing Debt means the sum of all interest bearing financial indebtedness on a consolidated basis (excluding any Shareholder Loan and any liability under any preference shares in the Issuer (equity instrument), the HMA Guarantee Facility and any Permitted Hedging), less the amount standing to the credit of Pledged Accounts.

Current Assets means the aggregate book value of the consolidated assets of the Group which are treated as current assets less the aggregate book value of any restricted cash (where restricted cash means cash which is held in accounts that are both pledged and blocked)

Current Liabilities means the aggregate book value of the consolidated liabilities of the Group which are treated as current liabilities excluding the current portion of long term debt, and liabilities to non-controlling interests.

Current ratio means the ratio of Current Assets to Current Liabilities.

Leverage ratio means, in respect of any Relevant Period, the ratio of Net Interest Bearing Debt on the last day of that Relevant Period to EBITDA in respect of that Relevant Period.

Relevant Period means each period of twelve (12) months ending on a Quarter Date (each 31 March, 30 June, 30 September and 31 December).

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Liquidity reflects cash that can be used without restriction.

Pledged Accounts means all accounts held by SHP BV and its subsidiaries, including but not limited to: the Escrow Account (in connection with the settlement of the Bonds); the Debt Service Retention Account; and any account that is held by SHP BV with banks in the Netherlands, but excluding the following accounts:

(i) the cash collateral account held by OGDC related to the HMA Guarantee Facility in an amount up to EUR 1,500,000;

(ii) any Hedging Collateral Account;

(iii) any cash collateral account securing counter-indemnity obligations in respect of a guarantee, bond, standby or documentary letter of credit issued by a bank or financial institution in respect of any underlying liability of a Group Company in the ordinary course of business of the Group up to a maximum of EUR 1,000,000;

(iv) any Abandonment Collateral; and

(v) any cash collateral security granted pursuant to paragraph (l) of the definition of "Permitted Encumbrances".

Please refer to the definition of the above terms in the Bond Terms for SHP BV (ISIN NO 0010820616).

UNAUDITED

INTERIM

CONDENSED

CONSOLIDATED

QTR 4 2018

FINANCIAL

INFORMATION

WITH NOTES

Consolidated unaudited statement of profit or loss and other comprehensive income
(in EUR 000’s)

	notes	*2018.01.01-2018.12.31 unaudited*	*2017.01.01-2017.12.31 unaudited*	*2018.10.01-2018.12.31 unaudited*	*2017.10.01-2017.12.31 unaudited*
Revenue	2	81 866	32 419	22 927	13 872
Cost of sales	3	0	0	0	0
Gross Profit		**81 866**	**32 419**	**22 927**	**13 872**
Other income		133	76	121	24
Production costs	4	-31 883	-13 277	-10 023	-6 428
Exploration expenses	5	-11 779	-9 393	-11 387	-9 222
Production related depreciation	6	-21 358	-7 510	-10 547	-2 990
General and administrative expenses	7	-8 225	-8 137	-2 373	-1 356
Other operating expenses		0	-6	0	-6
Other depreciation	8	-1 016	-547	-643	95
Operating profit		**7 738**	**-6 375**	**-11 926**	**-6 012**
Finance income	9	45	9 254	13	1 116
Finance expense	9	-31 313	-20 635	-6 554	-5 006
Profit before income tax		**-23 530**	**-17 756**	**-18 467**	**-9 901**
Income tax expense	10	-1 765	379	750	1 379
Profit for the period		**-25 295**	**-17 377**	**-17 717**	**-8 522**
Other comprehensive income		0	0	0	0
Total comprehensive income		**-25 295**	**-17 377**	**-17 717**	**-8 522**

Consolidated unaudited Statement of Financial Position
(In EUR 000's)

	notes	2018.12.31 unaudited	2017.12.31 unaudited
Non Current Assets			
Exploration rights	11	8 682	9 237
Exploration and Evaluation Assets	12	45 143	31 596
Assets in Development	13	19 639	14 585
Producing Assets	14	81 573	62 752
Other property, plant and equipment	15	1 402	633
Goodwill	16	7 529	7 529
Other intangible assets		0	0
Deferred tax assets		1 903	1 467
Other financial assets	17	10 628	4 760
Total non-current assets		**176 499**	**132 559**
Current assets			
Inventories		6 534	3 923
Trade and other receivables		16 648	8 492
Cash and short-term deposits	18	30 442	9 310
Total current assets		**53 624**	**21 725**
Total assets	-	**230 123**	**154 284**

	notes	2018.12.31 unaudited	2017.12.31 unaudited
Equity and liabilities			
Issued capital	19	222	269
Retained earnings		-51 970	-100 170
Other reserve	20	182 632	25 323
Translation difference		3 789	11 625
Total equity		**134 673**	**-62 953**
Non-current liabilities			
Interest-bearing loans and borrowings	21	69 876	195 560
Deferred tax liabilities		352	70
Provisions	22	4 880	3 502
Total non-current liabilities	23	**75 108**	**199 132**
Current liabilities			
Accounts payable and accrued liabilities	24	17 224	14 662
Taxes and mining royalties payable		3 023	3 411
Provisions	22	95	32
Total current liabilities		**20 342**	**18 105**
Total liabilities		**95 450**	**217 237**
Total equity and liabilities	-	**230 123**	**154 284**

Consolidated Statement of Cash Flows

	2018.01.01-2018.12.31 unaudited	***2017.01.01-2017.12.31 unaudited***	***2018.10.01-2018.12.31 unaudited***	***2017.10.01-2017.12.31 unaudited***
Profit before income tax from operations	**-23 531**	-17 756	-18 468	-9 901
Adjustments to reconcile profit before tax to net cash flows:				
Depreciation, depletion and amortisation	22 374	8 057	11 190	2 895
Impairment of exploration and evaluation assets	11 400	8 294	11 400	8 294
Addition to decomissioning provision	1 469	1 192	1 469	1 192
Unwinding of discount on decomissioning	101	52	40	17
Utilisation of decommissioning provision	-32	-155	-32	-155
Interest expenses and incomes	27 233	20 669	8 888	5 403
Other non-cash items	10	0	10	0
Working capital adjustments:				
Change in trade and other receivables	-8 141	-5 173	-2 690	-2 619
Change in inventories	-2 610	-1 537	-2 130	-955
Change in trade and other payables relating to operating activities	908	12 937	3 918	22 811
Income tax paid	-2 663	-642	-1 451	-362
			0	
Net cash flows from operating activities	**26 518**	**25 938**	**12 144**	**26 620**
Cash flows from investing activities				
Expenditures on E&E and oil&gas assets	-68 154	-50 467	-23 808	-19 033
Expenditure on other PPE	-847	-262	84	354
Expenditure on other intangible assets	-236	-2 569	-225	-267
Loans granted	-1 446	-464	-976	-199
Net cash used in investing activities	**-70 683**	**-53 762**	**-24 925**	**-19 145**
Cash flows from financing activities				
Proceeds from issuance of shares	36	2 122	71	5
Proceed from issuance of pref.shares			0	0
Proceeds from loans and borrowings	70 000	34 762	1 708	-541
Interest paid	-3 202		-3 202	0
Restricted cash decrease (increase)	-4 184	-175	10 282	1 659
Net cash (used in) from financing activities	**62 650**	**36 709**	**8 860**	**1 123**
Increase/(Decrease) in cash	18 485	8 885	-3 921	8 598
Translation difference	2 647	-10 371	-2 089	-9 753
Cash and cash equivallents, begining of period	9 310	10 796	36 452	10 465
Cash and cash equivallents, end of period	30 442	9 310	30 442	9 310

NOTES TO FINANCIAL INFORMATION

Basis of reporting

In line with the terms of the Senior Secured Callable Bonds 2018-2022 ISIN NO 0010820616 this unaudited interim condensed consolidated financial information for the twelve months ended on 31 December, 2018 is reported in accordance with IFRS.
The 2017 Annual Financial Statements and the 2018 Q1 unaudited interim condensed consolidated financial information have been prepared in accordance with Dutch GAAP.
The unaudited interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements.
The unaudited interim condensed financial information has been prepared on the going concern basis.
The preparation of the Group's consolidated financial information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial information. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.
This unaudited interim condensed consolidated financial information has not been subject to review or audit by independent auditors

Note 1 Significant accounting policies

The unaudited interim condensed consolidated financial information is presented in EUR which is the Company's functional currency.
A change of the functional currency took place in 2018 from USD to EUR due to changes in the business environment for the Company (e.g. revenues and expenses denominated in EUR, bond issuance denominated in EUR).

Exploration
The exploration costs in the Financial Information prepared in accordance with IFRS are accounted for using the Successful Efforts method of US GAAP (FAS-19), as it is allowed by IFRS 6 – Exploration for and Evaluation of Mineral Resources to follow consistently any previously applied accounting policy not contradictory to IFRS.

The Group does not apply IFRS 6 to expenditures incurred:

- before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area.
- after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Pre-licence costs
Pre-licence costs are expensed in the period in which they are incurred.

Licence and property acquisition costs
Exploration licence and acquisition costs are capitalised in intangible assets.

Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit, i.e. the term of the concession contract.

Exploration and evaluation costs

Costs of E&E are initially capitalised as E&E assets.

Tangible assets used in E&E activities (such as the Group's vehicles, drilling rigs, seismic equipment and other property, plant and equipment used by the Company's Exploration Function) are classified as property, plant and equipment.

E&E costs are not amortised prior to the conclusion of appraisal activities.

Capitalization of borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset), form part of the cost of that asset.

Other borrowing costs are recognized as an expense using the effective interest method. The group capitalizes borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets.

Capitalization ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete.

The Group does not capitalize borrowing costs related to E&E assets as it is unlikely that future economic benefits from that project can be considered probable.

Note 2 Revenue recognition

Revenue from the sale of products in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of any sales related taxes, excise duties, returns, customer discounts and other sales-related discounts. Revenue from the sale of products is recognised in profit and loss when the amount of revenue can be measured reliably, the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probably and there is no continuing management involvement with the products. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism. Revenue from production of oil, natural gas properties in which the Group has an interest with other partners are recognized on the basis of the Group's working interest (entitlement method). If it is probable that discounts will be granted and the amount can be measured reliably, the discount is recognised as a reduction of revenue when the sales are recognised.

Note 3 Cost of Sales

The cost of balancing gas purchased from 3rd parties in order to comply with delivery commitments previously shown here was reclassified as production cost during the audit review.

Note 4 Production costs

Production costs are all expenses incurred in relation to the production of hydrocarbons including materials and services used, salaries and wages of production employees, damage compensations related to wells in production, work-overs and mining royalties.

Note 5 Exploration expenses

Geological and geophysical exploration costs related to areas where the company does not hold the concession rights are charged against income as incurred.
Exploration expenses include further the impairment of E&E assets in case hydrocarbons are not found, and the exploration expenditure is written off as a dry hole, when the right to explore in a specific area has expired and is not expected to be renewed or when the company does not plan further expenditures or explorations in the specific area.

Note 6 Production related depreciation

Amortisation and depreciation of wells and pipelines is calculated on a unit-of-production basis, using the ratio of oil and gas production in the period to the estimated quantities of proved reserves on an entitlement basis at the end of the period plus production in the period, on a well-by-well basis. Proved reserve estimates are based on a number of underlying assumptions including oil and gas prices, future costs, oil and gas in place and reservoir performance, which are inherently uncertain.
Management uses established industry techniques to generate its estimates and regularly references its estimates against those of joint venture partners or external consultants.
However, the amount of reserves that will ultimately be recovered from any field cannot be known with certainty until the end of the field's life.
Depreciation of other oil and gas properties e.g. gas plants have a straight-line depreciation.

Note 7 General and Administrative expenses

Comprises costs that are considered part of general company overhead such as wages not allocated to capital expenditures or production costs, accounting, legal and other corporate expenses.

Note 8 Other depreciation and amortization

Depreciation of office equipment, and other intangible assets (mainly software).

Note 9 Finance income and expense

Finance income comprises the following: interest income on investments (including available-for-sale financial assets), gains from the sale of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues, using the effective interest method.

Finance expenses comprise the following: interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognized on financial assets. Exchange gains and losses are recognized on a netted basis.

Preference shares
The cumulative preference shares bore an interest expense until 18 December, 2018 as a result of reclassification from equity to liabilities (further details in Note 21).

Note 10 Tax

Corporate Income tax, local business tax and innovation contribution booked in Hungary for the period.

Note 11 Exploration rights

Concession fees, acquisition costs of the EX-1 and EX-5 Concession stakes in Romania.

Note 12 Exploration and Evaluation assets

Exploration costs are accounted for using the Successful Efforts method of US GAAP (FAS-19), as it is allowed by IFRS 6 – Exploration for and Evaluation of Mineral Resources. The balance consists of capital expenditures the outcome of which are yet uncertain.

Note 13 Assets in Development

Expenditure is transferred from 'Exploration and evaluation assets' to 'Assets in development' once the work completed to date supports the future development of the asset and such development receives appropriate approvals. After transfer of the exploration and evaluation assets, all subsequent expenditure on the construction, installation or completion of infrastructure facilities such as pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within 'Assets in development'. E&E assets will no longer be classified as such when 'technical feasibility and commercial viability of extracting a mineral resource are demonstrable'.

When a development project moves into the production stage, all assets included in 'Assets in development' are then transferred to 'Producing assets'.
Assets in development contain the uncompleted infrastructure costs as well.

Note 14 Producing assets

Wells and infrastructure completed, plus other equipment not reported under inventory.

Note 15 Other PPE

Mainly office equipment.

Note 16 Goodwill

Acquisition costs of the Koros license in Hungary.

Note 17 Other financial assets

Cash set aside as collateral for obligations (e.g. as security for guarantees issued by Banks on behalf of OGDC Kft) held on separate accounts and not available for at least 12 months after the reporting period plus cash deposited on any blocked account (Escrow accounts including the DSRA account to service interest payments). Also includes amounts disbursed by Sand Hill Petroleum Romania srl. (SHPR) to Panfora Oil and Gas srl. under the Carry Financing Agreement signed with its JV partner in 2016.

	31-Dec-18
	(EUR 000s)
Other financial assets (escrowed account)	5 008
Debt Service Reserve Account (escrowed account - Norway)	1 575
Collaterals in Hungary (escrowed accounts)- concession rounds, Körös licence, mining plots	2 078
Carry Financing / Panfora Oil & Gas srl.	1 967
Total	**10 628**

Note 18 Cash and short term deposits

Available non-restricted cash excluding cash items shown under Other Financial Assets.

Note 19 Issued capital

Ordinary and cumulative preference shares issued. Cumulative preference shares (except the equity component) were treated as financial liabilities before 18 December, 2018.

Note 20 Other reserve

Premium paid over the nominal value of the ordinary and cumulative preference shares issued. Cumulative preference shares (except the equity component) were treated as financial liabilities before 18 December, 2018

Note 21 Interest bearing loans and borrowings

The Company issued on April 13, 2018 a EUR 70 million senior secured callable bond maturing in 2022. The Company pays interest only during the term of the Bond. Bond is repayable in full at maturity.

Preference shares

In line with the original intentions of the shareholders, under Dutch GAAP, the Company has continuously treated and reported the cumulative preference shares as an equity instrument. By adopting IFRS the Company has reviewed the Shareholding Agreement and the Articles of Association and came to a conclusion that under IFRS the cumulative preference shares should be treated as financial liabilities. The Company's corporate documentation has been amended on 18 December to be in line with the original intentions of the shareholders and the cumulative preference shares were reclassified to equity and the de-recognition gain was booked to retained earnings.

Note 22 Provisions

The Group recognizes a decommissioning liability where it has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the field location. When the liability is initially recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related oil and gas assets to the extent that it was incurred by the development/construction of the field.

Liabilities due within 12 months are shown as current liability whereas liabilities beyond 12 months are shown under non-current liabilities.

Note 23 Accounts payable and accrued liabilities

The Company's 100% Hungarian subsidiary, O&GD Central Kft. ("OGDC"), has entered into an offtake prepayment agreement ("Prepayment Agreement") in November, 2017 with Hungarian Gas Trade Ltd. ("HGT"), whereby the Buyer paid in advance for future volumes. OGDC is committed to deliver a fixed volume of gas from its existing processing plant to HGT between November 2017 and 30 June 2019.

The short term (liabilities within one year) portion of the payable are booked under current liabilities whereas the long term (liabilities exceeding one year) portion is booked as non-current liabilities.

As of the end of period the total outstanding amount under the prepayment agreement was net EUR 2.8 mn.

Normal trade creditors are also shown under this item.

Note 24 Carry Loan to Panfora Oil & Gas srl.

The Company's Romanian subsidiary (SHPR) entered into a Joint Operating Agreement with its partner Panfora Oil & Gas srl. ("Panfora") in January 2017 and serves as an Operator in the Romanian EX-1 and EX-5 concessions. SHPR also entered into a Carry Financing Agreement with Panfora in 2017, whereas SHPR finances Panfora's share of expenditures within the Minimum Work Program obligations up to a total of EUR 6.35 mn, preferentially repayable from any production from the licences.

Note 25 Contingent liabilities

The Prepayment Agreement is secured by a parent company guarantee from the Company in favour of HGT, such security to terminate upon expiry of the agreement on 30 June 2019. In case OGDC could not supply gas, OGDC will either have to repay the outstanding value of the prepaid amounts not yet compensated by gas deliveries (max EUR 8 mn) or HGT may enforce upon the Company's guarantee.

As of the end of QTR 4 the outstanding amount guaranteed by the Company was gross EUR 3.52 mn.

In early 2017, the Company's 100% Romanian subsidiary, Sand Hill Petroleum Romania srl. ("SHPR"), acquired majority participating interests (70% and 80% respectively) in two existing onshore hydrocarbons exploration concessions (EX-1 and EX-5) in Romania thus entering into a non-incorporated JV with a Romanian company, Panfora, a wholly owned subsidiary of MOL Oil & Gas Plc. („MOL"). As a result of the acquisition, SHPR is committed to carry out a compulsory work program together with Panfora. SHPR and Panfora are jointly and severally liable towards the Romanian government for the work program obligations. SHPR has provided a parent company guarantee from the Company in favour of Panfora for its share of such obligations and have received a reciprocal parent company guarantee from MOL.

As of the end of QTR 4 2018 the Company's total exposure under the outstanding Romania related guarantees was estimated at EUR 38.7 mn.