QTR4

2019

Unaudited interim condensed consolidated financial information for

Sand Hill Petroleum B.V.

Amsterdam, 28 February 2020

Sand Hill Petroleum B.V.
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Management Commentary

Pricing

Commodity prices increased in Q4 2019 compared to Q3 2019, however were still far below Q4 2018 levels:

- Dutch TTF day ahead averaged $4.5/mcf for the quarter, up from $3.7/mcf in Q3 2019 but down from $9.1/mcf in Q4 2018
- Austrian VTP day ahead averaged $4.4/mcf for the quarter, up from $3.8/mcf in Q3 2019 but down from $8.7/mcf in Q4 2018
- Brent dated averaged $63/bbl for the quarter, up from $62/bbl in Q3 2019 but down from $69/bbl in Q4 2018

Operational

Production

During Q4 2019, total daily production averaged 19.1 MMscfe/d, consisting of 16.3 MMscf/d gas, 371 bpd condensate and 88 bpd oil. Production decreased compared to the previous quarter as a result of the temporary suspension of production at two wells in the Endrőd area needing additional compressors, one of which is now in place. Additional decreases were due to continued decline in wells in the Konyár area and the decision to defer capital investments due to the current low gas price environment.

On an annual basis, production in 2019 was lower than in 2018 mainly due to six Konyár gas wells that experienced a high decline rate. Their initial production was significantly higher than anticipated, however four of these wells experienced accelerated declines due to faster depletion of the reservoirs. Production also fell as the Endrőd Gas Processing Plant underwent statutory maintenance and upgrades in Q3 2019.

Sales

Sales revenue was EUR 10.0 mn in Q4 2019, 12% lower compared to the previous quarter. Gas sales accounted for 82% of total sales. The effect of lower production was partly offset by the higher Q4 reference gas and oil prices helped by hedging arrangements put in place to support the revenue stream. Approximately 60% of Q4 2019 gas production was hedged.

On an annual basis, sales revenues were 31% lower in 2019 than in 2018 due to lower market prices and lower production, but supported by hedging arrangements in place.

Costs and expenses

Production costs in Q4, excluding mining royalties and write-off costs, were 10% higher than average Q1-Q3 expenses mainly due to intensive workover activity performed to maintain well production and high propane expenses.

Mining royalties decreased compared to the Q1-Q3 average by 26% due to production decrease. Employee benefit expenses were in line with the Q1-Q3 average expenses, but higher than in Q3 due to severance payments as a result of staff reduction.

Other operating expenses increased by 31% compared to Q1-Q3 average mainly due to high professional advice related expenses and audit fees.

Overall, on an annual basis, production costs in 2019 excluding mining royalties and write-off costs were higher than in 2018 due to production coming from a higher number of mature wells requiring more chemicals, compression, maintenance and workover costs, increased gas processing fees paid to 3rd parties in Q1 2019, the operating expenses of the Konyár gas plant (commissioned in January 2019) and the increase in supervision fees paid to authorities following a change in legislation in Hungary.

Employee benefit expenses increased in 2019 compared to 2018 as the Group expanded its activities in Hungary as well as in Romania in 2019. Management is continuing to revise staff numbers to align them with expected future operational and investment activity levels.

Other operating expenses decreased in 2019 compared to 2018 mainly due to continued cost management programs and reclassification of rental fees with the adoption of the IFRS 16 standard.

EUR 10.9 mn impairment expenses were booked in Q4 relating to impairment recognised on oil and gas properties and inventory. Write-offs included EUR 2.6 mn as a write-off of producing assets and EUR 7.1 mn as a write-off under exploration expenses mostly due to two unsuccessful exploration wells.

Investments

Capital expenditure amounted to EUR 8.3 mn in Q4 2019, EUR 42.8 m for the whole year. The Group invested EUR 0.4 mn in geoscience and seismic activities in Q4, EUR 8.6 mn for the whole year; EUR 0.4 mn in exploration, appraisal, and development drilling (including recultivation) in Q4, EUR 6.7 mn for the whole year; EUR 0.7 mn in well completions and gathering systems in Q4, EUR 5.2 mn for the whole year and EUR 6.8 mn in facilities construction in Q4, EUR 20 mn for the whole year. Total acquisition costs in 2019 was EUR 2.4 mn (3 licenses in Hungary).

In Q2-Q4, the Group deferred the drilling of new wells due to the low gas price environment. Instead, workover projects and the installation of compressors have been undertaken to mitigate the decline of production levels. The Company continues to work on new prospects and to procure drilling permits to be ready to restart drilling once the environment improves.

Hungary

Hungarian seismic data interpretation and reprocessing activity continued during the Quarter.

The Konyar Gas Plant began operations in January 2019. Further upgrades, including compression and additional storage capacity were completed in Q4 2019. Development of the Szandaszőlős gas project continued in Q4, however completion was delayed to early February 2020 due to permitting issues. Limited production from the project started in November, with full production from the beginning of February 2020. The commissioning of a blending circuit in the Endrod gas plant enabled starting the production of the three new Szanda wells and will make possible production from other wells with lower gas quality.

The Körös exploration license had expired by the end of Q3 2019. The geological closing report was accepted by the authorities in January 2020, applications for mining plots are in progress.

Romania

Prospecting and geologic evaluation continued for the first half of the Romanian EX-1 3D seismic program. The permitting process for 3D seismic acquisition continued for the second half on a reduced territory of 255 sq. km.

The permitting process for the EX-5 3D seismic survey was ongoing during the Quarter.

The Company’s Romanian subsidiary continued to plan and permit drilling locations on the Romanian license areas.

HSE

There were no reportable high-potential HSE incidents during Q4 2019.

Operational overview

Q4 2019	Sales mmscfe/d	Number of producing wells
Koros	7	10
Ujleta	3	3
Berettyo	10	8

		Oct-19	Nov-19	Dec-19
Sales	*MMcfe/d*	20	18	19
Wells drilled	*#*	-	-	-

1 well planned to be drilled in 2020.

SUMMARY OF 2019 QTR 4 RESULTS

	31-Dec-19
Production (MMcfe/d) in Q4	19.1
	(EUR '000)
Operating profit/(loss) in Q4	(27 719)
Current Assets	29 989
Current Liabilities	17 072
Net Interest Bearing debt	58 295
EBITDA (calculated for the last 12 months)	17 476
Current ratio	1.76
Leverage ratio	3.34
Liquidity	13 612

On 20 December 2019 the Company entered into an amendment and restatement agreement to the bond terms for its "9.00 per cent. Senior Secured 70,000,000 Callable Bond Issue 2018/2022" with ISIN NO001 0820616 (the "Bond Issue"). Pursuant to the amended and restated bond terms for the Bond Issue (the "Bond Terms") the financial covenants have been adjusted, and the financial covenants are currently suspended in full until (and including) 31 December 2020 in respect of the Minimum Liquidity covenant and for each Relevant Period expiring on or before 31 December 2020 in respect of both the Leverage Ratio and the Current Ratio.

Notes:

EBITDA means, for any Relevant Period (on a consolidated basis for the Group) operating profit before deducting any amount attributable to interest, taxes, depreciation, amortisation, impairment and non-cash expenses, and excluding any items of a one-off, non-recurring, extraordinary or exceptional nature for that Relevant Period, after:

(a) deducting the amount of any operating profit (or adding back the amount of any loss) of any member of the Group which is attributable to minority interests; and

(b) including the Group's share of the operating profits or losses (before deducting any amount attributable to interest, taxes, depreciation, amortisation, impairment and non-cash expenses, and excluding any items of a one-off, non-recurring, extraordinary or exceptional nature for that Relevant Period) of any entity (which is not a Group Company) in which any member of the Group has an ownership interest.

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.

Liquidity reflects cash that can be used without restriction.

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

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.

"Pledged Accounts" means all accounts held by the Obligors, including but not limited to: (a) the Escrow Account (in connection with the settlement of the Bonds); (b) the Debt Service Retention Account; (c) any account that is held by the Issuer 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 amended and restated Bond Terms for SHP BV (ISIN NO 0010820616).

UNAUDITED

INTERIM

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CONSOLIDATED

QTR 4 2019

FINANCIAL

INFORMATION

WITH NOTES

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

	notes	*2019.01.01-2019.12.31 unaudited*	*2018.01.01-2018.12.31 audited*	*2019Q4*	*2018Q4*
Revenue	2	54 487	79 272	9 969	22 498
Other income		156	16	25	3
Own work capitalized	5	1 199	995	167	163
Production costs	3	-28 306	-26 744	-8 636	-8 150
-out of which write-off of Producing assets		*-2 602*	*-238*	*-2 602*	*-238*
Exploration expenses	4	-7 676	-12 803	-7 357	-12 411
Impairment	6b	-10 867	0	-10 867	0
Employee benefit expenses	5	-6 060	-4 815	-1 525	-1 370
Depreciation	6a	-20 857	-22 373	-7 685	-11 189
Other operating expenses	7	-5 980	-7 046	-1 810	-2 765
Operating profit		**-23 904**	**6 502**	**-27 719**	**-13 221**
Finance income	8	171	424	53	-85
Finance expense	8	-7 511	-31 523	-2 515	-6 286
Profit before income tax		**-31 244**	**-24 597**	**-30 181**	**-19 592**
Income tax expense	9	-1 545	-1 163	-210	1 411
Profit for the period		**-32 789**	**-25 760**	**-30 391**	**-18 181**
Other comprehensive income		1 252	712	1 244	1 141
Total comprehensive income		**-31 537**	**-25 048**	**-29 147**	**-17 040**

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

Non Current Assets	*notes*	***2019.12.31 unaudited***	***2018.12.31 audited***
Exploration rights	10	10 062	8 312
Exploration and Evaluation Assets	11	37 794	43 211
Assets in Development	12	15 292	21 498
Producing Assets	13	96 020	81 492
Other property, plant and equipment	14	2 591	1 406
Goodwill	15	7 529	7 529
Other intangible assets		155	370
Deferred tax assets		2 446	2 466
Other financial assets	16, 24	7 811	10 628
Total non-current assets		**179 700**	**176 912**
Current assets			
Inventories	17	6 059	6 534
Trade and other receivables		7 930	16 534
Income tax receivable		1 013	396
Derivative financial assets	26	1 375	0
Cash and short-term deposits	18	13 612	30 442
Total current assets		**29 989**	**53 906**
Total assets		**209 689**	**230 818**

Equity and liabilities	*notes*	***2019.12.31 unaudited***	***2018.12.31 audited***
Share capital	19	338	222
Share premium	20	194 153	182 633
Retained earnings		-91 396	-58 607
Cash-flow hedge reserve	26	1 252	0
Translation difference		10 687	10 687
Total equity		**115 034**	**134 935**
Non-current liabilities			
Interest-bearing loans and borrowings	21	71 150	69 876
Deferred tax liabilities		335	211
Provisions	22	6 098	5 057
Total non-current liabilities		**77 583**	**75 144**
Current liabilities			
Trade and other payables	23	10 795	17 252
Income tax payable		312	44
Taxes and mining royalties payable		2 050	3 348
Interest-bearing loans and borrowings		3 509	0
Provisions	22	406	95
Total current liabilities		**17 072**	**20 739**
Total liabilities		**94 655**	**95 883**
Total equity and liabilities		**209 689**	**230 818**

Consolidated Statement of Cash Flows
(In EUR 000's)

	notes	*2019.01.01-2019.12.31 unaudited*	*2018.01.01-2018.12.31 audited*	*2019Q4*	*2018Q4*
Profit before income tax from operations		**-31 244**	**-24 597**	**-30 181**	**-19 592**
Adjustments to reconcile profit before tax to net cash flows:					
Depreciation, depletion and amortisation		20 857	22 374	7 685	11 190
Impairment of oil and gas properties		12 351	238	12 351	238
Impairment of exploration and evaluation assets		7 054	12 341	7 054	12 341
Impairment of other assets		1 117	0	1 117	0
Unwinding of discount on decommissioning		91	101	-17	40
Utilisation of decommissioning provision		-31	0	-31	0
Interest expenses and incomes		6 742	26 998	2 164	5 350
FX effects		10	3 418	10	3 418
Other non-cash items	25	-608	58	-554	58
Working capital adjustments:					
Change in trade and other receivables		8 580	-9 084	326	-3 633
Change in inventories		-642	-2 611	225	-2 131
Change in trade and other payables		-7 286	2 898	3 118	5 908
Income tax paid		-1 895	-2 664	-404	-1 452
Net cash flows from operating activities		**15 096**	**29 470**	**2 863**	**11 735**
Cash flows from investing activities					
Expenditures on E&E and oil&gas assets		-40 179	-66 622	-8 192	-22 276
Expenditure on other PPE		-264	-1 036	-117	-105
Expenditure on exploration rights		-2 355	0	0	0
Expenditure on other intangible assets		-21	-228	-5	-217
Proceed on disposal of assets		0	0	0	0
Restricted cash decrease (increase)		5 478	-4 184	1 560	10 282
Interest received		0	6	0	6
Loans granted		-2 563	-1 446	-418	-976
Net cash used in investing activities		**-39 904**	**-73 510**	**-7 172**	**-13 286**
Cash flows from financing activities					
Proceeds from issuance of shares		11 637	36	11 563	71
Proceeds from loans and borrowings		3 000	68 197	0	0
Payments of loan and borrowings		-424	0	-66	0
Interest paid		-6 382	-3 050	-3 216	-3 050
Net cash (used in) from financing activities		**7 831**	**65 183**	**8 281**	**-2 979**
Increase/(Decrease) in cash		-16 977	21 143	3 972	-4 530
Translation difference		147	-10	52	-1 480
Cash and cash equivalents, beginning of period		30 442	9 309	9 590	36 452
Cash and cash equivalents, end of period		13 612	30 442	13 612	30 442

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, 2019 is reported in accordance with IAS 34.

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

The change of the functional currency took place in 2018 from USD to EUR due to changes in the business environment of the Company.

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 completed.

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.

Hedge accounting

The Group hedges sales price using forward commodity sale contracts. The forward contracts do not result in physical delivery of gas, but are designated as cash flow hedges to offset the effect of price changes in natural gas.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the commodity forward contracts match the terms of the expected highly probable forecast transactions (i.e., notional amount and expected payment date).

The effective portion of the gain or loss on the hedging instrument is recognised in the cash flow hedge reserve (through Other Comprehensive Income), while any ineffective portion is recognised immediately in the statement of profit or loss.

The amount accumulated in Cash-flow hedge reserve is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

When a contract is accounted for as a hedge of a highly probable future transaction, the cash flows of the contract are classified in the same manner as the cash flows of the future transaction being hedged (in this case Sales revenue).

Note 2 Revenue recognition

Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

All revenue is recognized at a point in time when control transfers. The only performance obligation is the sale of commodity. The Group applied the practical expedient not to disclose the remaining performance obligations when these are originally expected to have a duration of one year or less.

In determining the transaction price, the Group considers the effects of variable consideration, the existence of significant financing components and consideration payable to the customer.

Consideration payable to customer:

Gas processing is performed by a customer of the Group for both the gas sold to that customer and sold to third parties.
In the first case processor takes control of the condensate and gas at the gathering station. In this case the processing fees are reflected as a reduction of the transaction price (rather than an expense) since the processor is not providing distinct services to the Group in exchange for those fees.
In the second case processor does not take control of the gas at the gathering station. In this case the processor is a service provider. The Group record product revenue for the sale of the processed commodities to the third-party customers. Fees paid to the processor would be classified as expense.

Note 3 Production costs

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

Write-off of producing assets, as production costs, were booked in Q4 in the amount of EUR 2.6 mn for wells which are not expected to produce in the future

Note 4 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.

In Q4 two exploration wells have been written off. In total EUR 7.05 mn write-off is included under exploration expenses.

Note 5 Employee benefit expenses and own work capitalised

Employee benefit expenses are salaries and payroll related contributions (social security and taxes on wages and other related expenses).
Own work capitalised is salaries and payroll related contributions that are associated to capital projects, and are therefore capitalized and not expensed.

Note 6a 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.

Office equipment has a straight-line depreciation based on useful life.

With the adoption of IFRS16 Leasing Standard from 1 January 2019, the depreciation of Rights of Use Assets are included in Depreciation whereas before the adoption of the new standard, the costs of leased assets were included in Other operating expenses.

Depreciation more than doubled in Q4 compared to Q3 due to recalculation of depreciation charges based on the now available Reserve reports and adjustment of a depreciation charge related to 2018.

On a yearly basis depreciation in 2019 was somewhat lower than in 2018. Some factors increased depreciation such as starting depreciation on the Konyar gas plant, faster depleting wells and office and car leases that are now included under Depreciation with the adoption of the IFRS 16 standard. Lower production however decreased depreciation.

Note 6b Impairment

The Impairment expense relates to Impairment recognised on oil and gas properties and inventory.
The wells are considered the cash-generating units for the purposes of impairment testing, which is tested annually or more frequently if there are indications that the assets might be impaired. The recoverable amounts are determined from value-in-use calculations. The value-in-use forecast takes into consideration cash flows which are expected to arise during the life of the wells. The impairment of oil and gas properties in 2019 are related to 7 wells in Hungary in the amount of EUR 9.8 mn.

Inventories should be measured at the lower of cost and net realizable value that is equal to the estimated selling price less costs to complete and sell. The Group recognized EUR 1.1 mn impairment on inventory items valued at net realizable value.

Note 7 Other operating expenses

Other operating expenses comprise materials and supplies that cannot be held in inventory (energy, small items of equipment, office and cleaning materials), administrative and professional expenses (legal, audit, accounting and payroll), IT, travel and conference expenses, bank and postal charges and other items of expenditures. Rental fees (office and warehouse, cars) are included under Depreciation beginning in 2019 with the adoption of IFRS 16 standard (please refer to Note 6). Only costs related to the leases (e.g. heating, fuel) remained in this category.

Note 8 Finance income and expense

Finance income comprises the following: interest income on investments, dividend income, gains from the 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: FX losses, 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.

The amounts under this item in the comparative period were mainly interest on the preference shares and non-realised foreign exchange losses because of exchange rate movements between EUR/RON and USD/EUR related to the then (2018) outstanding USD denominated shareholder loans from Sand

Hill Petroleum BV to the Hungarian and Romanian subsidiaries. EUR and RON are the functional currencies for the Hungarian and Romanian companies respectively.

Preference shares

The cumulative preference shares bore an interest expense until 18 December, 2018 as a result of reclassification from equity to liabilities. This interest expense is presented under financial expenses.
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 have to be treated as financial liabilities. The Company’s corporate documentation has been amended in December 2018 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 9 Tax

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

Note 10 Exploration rights

Concession fees and acquisition costs of the EX-1 and EX-5 Concession stakes in Romania.
Exploration rights increased since the end of 2018 due to the acquisition of the 3 new concession rights in Hungary during H1/19.

Note 11 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 12 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 13 Producing assets

Wells and infrastructure completed (gas processing plants), plus other equipment not reported under inventory.
Producing assets increased in 2019 because of commissioning the Konyar gas plant and gathering stations in January 2019 and capitalising some of the new wells.

Note 14 Other PPE

Mainly office equipment.

IFRS 16 Leases was implemented on 01/01/2019 using the modified retrospective approach. The entire effect of the transition has been taken against the opening balance of 01/01/2019 and comparative figures for 2018 have therefore not been restated.
The total value of the right-of-use assets in the opening balance position as of 01/01/2019 was 1.6 m EUR.

Note 15 Goodwill

Goodwill arisen on the acquisition of OGD Central Kft that holds the Koros license (exploration and production licenses) in Hungary. The exploration license expired on 30 September, 2019. Company applied for new and expanded production licenses covering the areas of production within the expired exploration territory. The expiration of the exploration license did not affect the existing production licenses.

Note 16 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. ("Panfora") under the Carry Financing Agreement signed with Panfora in 2016.

This amount decreased compared to the end of 2018 because the full amount was released from the Escrow Account following the execution of the registration of title and pledge on the Konyar gas plant land plot and the release of a cash collateral by the Hungarian authorities following the full payment for the 3 new concession rights in Hungary.

	31-Dec-19	**31-Dec-18**
	(EUR 000s)	(EUR 000s)
Other financial assets (escrowed account)	0	5 008
Debt Service Reserve Account (escrowed account)	1 575	1 575
Collaterals in Hungary (escrowed accounts)- concession rounds, Körös licence, mining plots	1 607	2 078
Carry Financing / Panfora Oil & Gas srl.	4 628	1 967
Total	7 811	10 628

Note 17 Inventory

Raw materials (valves, pipes, etc) stored in warehouse for future use initially measured at cost, subsequent to initial recognition, inventories should be measured at the lower of cost and net realizable value that is equal to the estimated selling price less costs to complete and sell.

The cost of inventories are determined based on the weighted average cost method, and includes expenditure incurred in acquiring the inventories, their production or transformation costs, and other costs incurred in bringing them to their existing location and condition.

The decrease compared to 2018 year end is mainly due to impairment – please refer to Note 6b.

Note 18 Cash and short term deposits

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

Note 19 Share 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 Share premium

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

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

Current liabilities
The Company's Hungarian subsidiary, O&GDC Kft. took out a short-term EUR 3 million loan from UniCreditbank Hungary Zrt. in Q3 2019. Repayment of the short-term loan was deferred from mid-January 2020 to mid-March 2020.

The Company recognizes a right-of-use asset and lease liability in line with IFRS 16 for leases previously classified as an operating lease applying IAS 17. The lease liability is measured at the present value of the remaining lease payments, discounted using the incremental (or implicit where applies) borrowing rates at the date of initial application. The short-term portion is reported under current liabilities.

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 Trade and other payables

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

Normal trade creditors are also shown under this item.

Note 24 Loans granted

The Company's Romanian subsidiary (SHPR) entered into a Joint Operating Agreement with its partner Panfora Oil & Gas srl. ("Panfora") in January 2016 and acts as an Operator in the Romanian EX-1 and EX-5 concessions. SHPR also entered into a Carry Financing Agreement with Panfora in 2016, 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 Other non-cash items in Cash flow

The other non-cash items in Cash flow in 2019 contains the effect of change in the issued bond's final redemption price with 1% and amortisation of bond amendment related transaction costs through the remaining term of the bond term.

Note 26 Cash-flow hedge

Effective as of 1st October, 2019 the Company's Hungarian subsidiary, OGDC, has entered into a 33,750 MWh per month natural gas Austrian VTP DA commodity swap with a Hungarian Bank. The hedge expires on 30 September 2020.

Contingent liabilities

Further to the requirements set by the Hungarian Mining Law, O&GDC Kft. as owner of OGD Nadudvar Kft., OGD Ujleta Kft., OGD Berettyoujfalu Kft., OGD Mogyorod Kft., OGD Nagykata Kft., OGD Ocsa Kft., OGD Tiszafüred kft, OGD Körösladány Kft., OGD Békéscsaba Kft., has put up a HUF 1 billion bank guarantee (EUR 3,025,444) as per balance sheet date) to secure certain obligations under the exploration licenses granted by the Hungarian Mining Authority.

The Company's 100% Romanian subsidiary, Sand Hill Petroleum Romania srl. ("SHPR"), is committed to carry out a work program together with its partner 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, the parent of Panfora.

A parent company guarantee securing the repayment of the EUR 3 mn loan taken out by O&GDC Kft. was issued during Q3 2019. The guarantee expires upon repayment of the loan in full by O&GDC Kft.