

# QTR3

2020

## **Unaudited interim condensed consolidated financial information for**

### **Sand Hill Petroleum B.V.**



Amsterdam, 16 November 2020

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

## Important information and disclaimer

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## **Management Commentary**

### ***Pricing***

Commodity prices increased in Q3 2020 compared to Q2 2020, but were below Q3 2019 levels:

- Dutch TTF day ahead averaged \$2.9/mcf for the quarter, up from \$1.9/mcf in Q2 2020 and down from \$3.6/mcf in Q3 2019
- Austrian VTP day ahead averaged \$3.2/mcf for the quarter, up from \$2.2/mcf in Q2 2020 and down from \$3.7/mcf in Q3 2019
- Brent prices averaged \$43/bbl for the quarter, up from \$30/bbl in Q2 2020 and down from \$62/bbl in Q3 2019

### ***Operational***

#### *Production*

During Q3 2020 total daily production averaged 21.2 MMscfe/d consisting of 19.0 MMscf/d gas, 283 bpd condensate and 75 bpd oil. Production decreased compared to the previous quarter and Q3 2019 as a result of lower performance of the gas wells located in the North East of Hungary.

At the same time the production from two wells was deferred in the North East because of the unfavourable price environment, production started again from these wells in September.

#### *Sales*

Sales revenue was EUR 8.7 mn in Q3 2020, 10% higher compared to the previous quarter. Gas sales accounted for 88% of total sales. The effect of lower production was offset by the higher Q3 reference gas and oil prices. Hedging arrangements put in place also supported the revenue stream.

Compared to Q3 2019 sales revenue was 23% lower because of lower market prices and lower production but supported by hedging arrangements in place.

The gas sales contracts have been extended on similar terms for a further 12 months – through September 2021.

#### *Costs and expenses*

Production costs in Q3 2020, excluding mining royalties, were 12% higher than in Q2 2020 mainly due to high one-off maintenance expenses and the booking (cost of goods sold) of items sold from inventory as a result of inventory rationalization. However, technology improvements and measures supporting cost efficiency continued to be in focus during the period.

There were no write-off costs booked under production costs in Q3 2020.

Despite lower production mining royalties increased compared to Q2 2020 by 25% due to the increase of Brent prices, the reference price used in the royalty calculation formula applicable in Hungary.

Employee benefit expenses decreased by 19% compared to the previous quarter due to reduction in benefits and the number of staff employed.

Other operating expenses in Q3 were on the same level as in Q2 2020.

Compared to Q3 2019, production costs, excluding mining royalties and write-off costs, decreased by 37% mainly due to less spending on chemicals, maintenance, workovers and rental fees.

Employee benefit expenses were 60% lower compared to Q3 2019 as management continued to reduce staff numbers to align them with current operational and investment activity levels.

Other operating expenses decreased by 9% compared to Q3 2019 mostly due to continued cost rationalization programs.

In the first nine months one Romanian exploration commitment well was written off.

#### *Investments*

Capital expenditure was EUR 0.9 mn in Q3 2020, 74% less than in the previous quarter. The Group invested EUR 0.2 mn in geoscience and seismic activities, EUR 0.1 mn in exploration, appraisal, and development drilling, EUR 0.4 mn in well completions, workovers and gathering systems and EUR 0.2 mn in facilities.

#### *Hungary*

In Q3 2020 the drilling of new wells was deferred due to the low gas price environment. Workover projects have been undertaken instead to mitigate the natural decline in production. The Company continues to develop new prospects and to procure drilling permits in order to be ready to restart drilling once the price environment improves.

A 400 km<sup>2</sup> mandatory 3D seismic acquisition program was completed on the Mogyoród block (Hungary) in Q1, processing and interpretation expenses were booked in Q3. All mandatory commitments have now been fulfilled on this block.

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

A small facility project has been completed in Q3, which enables the flow of produced gas via rented pipeline to the Konyar Gas Plant from wells located in the North-East, the production of which were so far processed by a third party.

#### *Romania*

Prospecting and geologic evaluation continued covering the first half of the Romanian EX-1 3D seismic program. The permitting process for the second half of the EX-1 block 3D seismic program and for the EX-5 3D seismic survey continued to be suspended due to Covid-19 restrictions.

#### *HSE*

There were no reportable high-potential HSE incidents during Q3 2020.

*Operational overview*

<b>Q3 2020</b>	<b>Sales mmscfe/d</b>	<b>Number of producing wells</b>
Koros	14	18
Ujleta	3	3
Berettyo	4	8

		<b>July-20</b>	<b>Aug-20</b>	<b>Sept-20</b>
Sales	<i>MMcfe/d</i>	22	20	22
Wells drilled	<i>#</i>	-	-	-

The Company does not plan to drill more wells in 2020.

## SUMMARY OF 2020 QTR 3 RESULTS

Production (MMcfe/d) in Q3	30-Sept-20
	(EUR '000)
Operating profit/(loss) in QTR1-3	(2 571)
Current Assets	19 792
Current Liabilities	7 674
Net Interest-Bearing debt	72 751
EBITDA (calculated for the last 12 months)	10 443
Current ratio	2.58
Leverage ratio	6.97
Liquidity	7 198

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 were temporarily 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.

On 30 April 2020 the Company entered into a second 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 second amended and restated bond terms for the Bond Issue (the "Bond Terms") the Company secured a further extension of the waiver and suspension of the financial covenants and certain amendments to the Bond terms. Bondholders agreed to, inter alia, waive compliance with required financial covenants until end of September 2021, allow the Company access to funds accumulated on the Debt Service Reserve Account, terminate the obligation to maintain and fund the Debt Service Retention Account, in respect of the period from October 2019 to April 2021 receive the accruing interest as payment-in-kind interest ("PIK Interest") through the issuance of additional Bonds and apply an additional three percent back-end fee to the repayment.

### 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) 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  
CONDENSED  
CONSOLIDATED  
QTR 3 2020  
FINANCIAL  
INFORMATION  
WITH NOTES



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

		<i>2020.01.01- 2020.09.30</i>	<i>2019.01.01- 2019.09.30</i>	<i>2020Q3</i>	<i>2019Q3</i>
	<i>notes</i>	<i>unaudited</i>	<i>unaudited</i>		
Revenue	2	26 388	44 518	8 722	11 359
Other income		170	131	15	77
Own work capitalised	5	305	1 032	73	1 032
Production costs	3	-10 696	-19 670	-3 178	-5 852
<i>-out of which write-off of Producing assets</i>		<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Exploration expenses	4	-1 766	-319	-104	-129
Impairment	6b	0	0	0	0
Employee benefit expenses	5	-3 046	-4 535	-848	-2 122
Depreciation	6a	-11 102	-13 172	-3 856	-3 595
Other operating expenses	7	-2 824	-4 170	-1 020	-1 116
<b>Operating profit</b>		<b>-2 571</b>	<b>3 815</b>	<b>-196</b>	<b>-346</b>
Finance income	8	382	118	66	38
Finance expense	8	-7 744	-4 996	-2 128	-1 679
<b>Profit before income tax</b>		<b>-9 933</b>	<b>-1 063</b>	<b>-2 258</b>	<b>-1 987</b>
Income tax expense	9	-827	-1 335	-304	-451
<b>Profit for the period</b>		<b>-10 760</b>	<b>-2 398</b>	<b>-2 562</b>	<b>-2 438</b>
Other comprehensive income	25	-1 256	8	-1 278	50
<b>Total comprehensive income</b>		<b>-12 016</b>	<b>-2 390</b>	<b>-3 840</b>	<b>-2 388</b>

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

		<b>2020.09.30</b>	<b>2019.12.31</b>
<b>Non Current Assets</b>	<b>notes</b>	<b>unaudited</b>	<b>audited</b>
Exploration rights	10	9 592	10 062
Exploration and Evaluation Assets	11	40 965	37 889
Assets in Development	12	5 944	15 292
Producing Assets	13	98 708	95 395
Other property, plant and equipment	14	2 074	2 591
Goodwill	15	7 529	7 529
Other intangible assets		61	155
Deferred tax assets		2 098	1 985
Other financial assets	16, 24	6 552	7 811
<b>Total non-current assets</b>		<b>173 523</b>	<b>178 708</b>
<b>Current assets</b>			
Inventories	17	5 673	6 059
Trade and other receivables		6 174	7 936
Income tax receivable		747	854
Derivative financial assets	25	0	1 375
Cash and short-term deposits	18	7 198	13 612
<b>Total current assets</b>		<b>19 792</b>	<b>29 836</b>
<b>Total assets</b>	-	<b>193 315</b>	<b>208 544</b>

		<b>2020.09.30</b>	<b>2019.12.31</b>
<b>Equity and liabilities</b>	<b>notes</b>	<b>unaudited</b>	<b>audited</b>
Share capital	19	234	234
Share premium	20	194 163	194 257
Retained earnings		-103 093	-92 333
Cash-flow hedge reserve	25	0	1 252
Translation difference		10 681	10 687
<b>Total equity</b>		<b>101 985</b>	<b>114 097</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	21	77 365	70 339
Deferred tax liabilities		174	174
Provisions	22	6 117	6 022
<b>Total non-current liabilities</b>		<b>83 656</b>	<b>76 535</b>
<b>Current liabilities</b>			
Trade and other payables	23	1 727	11 730
Income tax payable		326	162
Taxes and mining royalties payable		1 842	2 050
Interest-bearing loans and borrowings	21	3 359	3 509
Provisions	22	420	461
<b>Total current liabilities</b>		<b>7 674</b>	<b>17 912</b>
<b>Total liabilities</b>		<b>91 330</b>	<b>94 447</b>
<b>Total equity and liabilities</b>	-	<b>193 315</b>	<b>208 544</b>

## Consolidated Statement of Cash Flows

(In EUR '000)	<i>notes</i>	<i>2020.01.01- 2020.09.30 unaudited</i>	<i>2019.01.01- 2019.09.30 unaudited</i>	<i>2020Q3</i>	<i>2019Q3</i>
<b>Profit before income tax from operations</b>		<b>-9 933</b>	<b>-1 063</b>	<b>-2 258</b>	<b>-1 987</b>
<b>Adjustments to reconcile profit before tax to net cash flows:</b>					
Depreciation, depletion and amortisation		11 102	13 172	3 856	3 595
Write off of oil and gas properties		0	0	0	0
Impairment of oil and gas properties		0	0	0	0
Impairment of exploration and evaluation assets		1 397	0	58	0
Unwinding of discount on decommissioning		95	108	32	36
Interest expenses and incomes		7 346	4 578	1 936	1 599
FX effects		-6	0	4	0
Other non-cash items		-21	-54	-30	-14
<b>Working capital adjustments:</b>					
Change in trade and other receivables		1 791	8 254	-292	-216
Change in inventories		386	-867	182	1 719
Change in trade and other payables		-9 314	-10 404	-1 008	39
Income tax paid		-547	-1 491	-16	-843
<b><u>Net cash flows from operating activities</u></b>	-	<b>2 296</b>	<b>12 235</b>	<b>2 464</b>	<b>3 930</b>
Cash flows from investing activities					
Expenditures on E&E and oil&gas assets		-8 634	-31 987	-910	-8 153
Expenditure on other PPE		-8	-147	-6	-19
Expenditure on exploration rights		0	-2 355	0	0
Expenditure on other intangible assets		0	-16	0	-10
Restricted cash decrease (increase)		1 575	3 918	0	-822
Loans granted	24	-226	-2 145	-29	-337
<b><u>Net cash used in investing activities</u></b>		<b>-7 293</b>	<b>-32 732</b>	<b>-945</b>	<b>-9 341</b>
Cash flows from financing activities					
Proceeds from issuance of shares		-95	74	0	0
Proceeds from loans and borrowings		-1 127	3 000	-5	3 000
<i>Payments of loan and borrowings</i>		-349	-358	-93	-98
Interest paid		-25	-3 166	-7	-3
<b><u>Net cash (used in) from financing activities</u></b>		<b>-1 596</b>	<b>-450</b>	<b>-105</b>	<b>2 899</b>
Increase/(Decrease) in cash		-6 593	-20 947	1 414	-2 512
Translation difference		179	95	57	-76
Cash and cash equivalents, beginning of period		13 612	30 442	5 726	12 178
Cash and cash equivalents, end of period		7 198	9 590	7 198	9 590

# 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 first nine months ended on 30 September, 2020 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. In making this judgement Management has looked at a variety of factors to assist in evaluating the Group's sustainability and the ability to manage obligations due within 12 months from the date of the unaudited interim condensed consolidated financial information for the first nine months ended on 30 September, 2020. Management determined that the unprecedented volatility and recent deterioration of the sales price in hydrocarbons raises material uncertainty about the Group's ability to continue as a going concern. Management recognizes the inherent uncertainty in the Company's future outlook given the prevailing volatile macro-economic conditions, including impacts of the ongoing Covid-19 pandemic and the effect this may have on hydrocarbon prices, and that the possibility of further downside outcomes remains which create a material uncertainty regarding the Group's ability to continue as a going concern.

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 for the amount of gas, the processing of which is not feasible at the gas plants owned.

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.

There were no write-off costs booked under production costs in Q3 2020.

### **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 Q1-Q3 one Romanian exploration well was written off. EUR 1.4 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 is included in Depreciation whereas before the adoption of the new standard, the costs of leased assets were included in Other operating expenses.

Compared to Q3 2019 depreciation charges in Q3 2020 were 7% higher despite lower production, mainly due to change in reserves.

### **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.

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.

There was no impairment booked in Q3 2020.

### **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, impairment losses recognized on financial assets and modification loss on borrowings.

### **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 and of concession rights in Hungary.

**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.

**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.

**Note 15 Goodwill**

Goodwill related to 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. The 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.

Further to the second 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 funds on the Debt Service Retention Account were released to the Company in May, 2020 after which the Debt Service Reserve Account has been closed.

	<b>30-Sept-20</b>	<b>30-Jun-20</b>
	(EUR 000s)	(EUR 000s)
Collaterals in Hungary (escrowed accounts)- concession rounds, Körös license, mining plots	1 607	1 607
Carry Financing / Panfora Oil & Gas srl.	4 945	4 887
<b>Total</b>	<b>6 552</b>	<b>6 494</b>

#### **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 is 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.

#### **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.

#### **Note 20 Share premium**

Premium paid over the nominal value of the ordinary and cumulative preference shares issued.

#### **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. Pursuant to the second amended and restated bond terms for the Bond Issue (the "Bond Terms") the Bondholders, in respect of the period from October 2019 to April 2021 shall receive the accruing interest

as payment-in-kind interest (“PIK Interest”) through the issuance of additional Bonds. The Bond is repayable in full at maturity.

#### *Current liabilities*

The Company’s Hungarian subsidiary, O&GDC Kft. (“OGDC”) took out a short-term EUR 3 million loan from Unicredit Bank Hungary Zrt. in Q3 2019. Repayment of the short-term loan was deferred from mid-January 2020 to year-end 2020.

The Company recognizes a right-of-use asset and lease liability in line with IFRS 16. 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, which is repayable from any production from the licences.

#### **Note 25 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 expired on 30 September 2020.

## Contingent liabilities

Further to the requirements set by the Hungarian Mining Law, OGDC, 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 2,735,754 as per balance sheet date) to secure certain obligations under the exploration licenses granted by the Hungarian Mining Authority.

In Q4 2018, OGDC participated in the 6th Hydrocarbons Concession round in Hungary and was awarded three blocks (Bekescsaba, Korosladany and Tiszafured). The Concession contracts for the three blocks were signed on 23 January 2019. These Concession Subsidiaries are committed to carry out a compulsory work program under the various concession agreements signed with the Hungarian government by September 2022 for Tiszafured and Korosladany and by September 2023 for Bekescsaba.

The estimated cost as of 30 September 2020 of the total compulsory work program under the various concession agreements signed with the Hungarian government could be up to EUR 26.04 million over the duration of the concessions which is a significant reduction compared to the end of 2019 mainly due to fulfilling the Mogyorod Block (Hungary) related seismic commitment.

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 Joint Operating Partner are jointly and severally liable towards the Romanian government for the work program obligations which was EUR 39.7 million in total at the end of Q3 2020 (total commitment of both parties to which joint and several liability applies). The pro-rated share of SHPR for the work program obligations was EUR 29.7 million in total at the end Q3 2020.

SHPR has been provided with a parent company guarantee from the Company in favour of Joint Operating Partner for its share of such obligations and have received a reciprocal parent company guarantee from Joint Operating Partner's owner.

The first phase of both concession work programs expired in October 2018. SHPR and Joint Operating Partner filed for and obtained a multi-year extension of the first phase, thus the first phase of both concession blocks was extended until October 2021. An additional one-year extension of the first phase of both concession agreements is available by law subject to fulfilling certain conditions.

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