QTR4

2021

Unaudited interim condensed consolidated financial information for

Sand Hill Petroleum B.V.

Amsterdam, 28 February 2022

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

Important information and disclaimer

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Management Commentary

Pricing

Prices increased significantly in Q4 2021 compared to Q3 2021 and were well above Q4 2020 price levels:

- Dutch TTF day ahead averaged $34.6/mcf for the quarter, up from $18.4/mcf in Q3 2021 and up from $5.7/mcf in Q4 2020
- Austrian VTP day ahead averaged $32.9/mcf for the quarter, up from $17.3/mcf in Q3 2021 and up from $5/mcf in Q4 2020
- Brent prices averaged $ 79.7/bbl for the quarter, up from $73.5/bbl in Q3 2021 and up from $ 44.2/bbl in Q4 2020.

Operational

Production
During Q4 2021 total daily production averaged 14.4 MMscfe/d consisting of 12.6 MMscf/d gas, 259 bpd condensate and 117 bpd oil. Production decreased by 3% compared to the previous quarter and by 23% compared to Q4 2020 because some of the wells have reached their declining phase. However, the decline was mitigated by workovers and the installation of a new compressor in Q4. Further compressor installations are planned for Q1 and Q2 2022.

Sales
Sales revenue was EUR 27.0 mn in Q4 2021, 136% higher compared to the previous quarter. Gas sales accounted for 92% of total sales. Sales revenue increased more than reference prices since fixed priced gas sales contracts were more favourable in Q4 than in Q3.

Sales revenue in Q4 2021 was higher than in Q4 2020 despite lower production, mainly due to higher prices and more favourable fixed price contracts.Sales from inventory also contributed to the increase.

Costs and expenses
Production costs in Q4 2021, excluding mining royalties and write-offs, were 13% higher than in Q3 2021 due to more spending on chemicals, maintenance, reserve audit, balancing gas and cost of goods sold.
There were EUR 5 mn write-off costs booked under production costs in Q4 2021 mainly related to one gas well which stopped producing due to technical reasons.

Mining royalties increased by 91% compared to Q3 2021 despite slightly lower production due to the considerable increase of Dutch TTF and Brent prices, the reference prices in the royalty calculation formula for gas and oil production.

Compared to Q4 2020, production costs, excluding mining royalties and write-off costs, increased by 23% mainly due to more spending on production chemicals, maintenance, reserve audit, balancing gas and cost of goods sold.

Royalty payments were six times higher compared to Q4 2020 despite lower production due to the new royalty calculation formula, which is based on Dutch TTF gas price instead of Brent for gas production and which is applicable in Hungary from 28 March 2021.

Employee benefit expenses increased by 10% compared to the previous quarter due to a bonus payment at the end of the year to employees working on the field.

Employee benefit expenses were 4% lower compared to Q4 2020 as management continued to reduce staff numbers to align them with current operational and investment activity levels.

Other operating expenses in Q4 were exceptionally high mainly due to legal fees of EUR 1.5 mn paid in relation to the change of control process and a EUR 0.2 mn loss realized on an asset sale. Excluding the above items, other operating expenses increased by 24% compared to Q3 2021, due to high audit fees, business and tax advisory services and unrecoverable VAT on bond related expenses.

Other operating expenses in Q4, excluding one-off items mentioned above, were 12% lower than Q4 2020 expenses mainly due to less professional, consultancy and software rental fees.

There was a EUR 0.36 mn write-off under Exploration expenses in Q4 2021 mainly related to the write-off of preparation costs of unrealized projects. Total write-off was EUR 1.2 mn in 2021.

Investments

Capital expenditure was EUR 1.1 mn in Q4 2021. The Group invested EUR 0.1 mn on geoscience and seismic activities, EUR 0.1 mn on exploration, appraisal, and development drilling, EUR 0.1 mn on well completions, workovers and gathering systems and EUR 0.8 mn on facilities.

Hungary

In Q4 2021 the Group did not drill any wells, however it continued to develop new prospects and to procure drilling permits. Drilling expenses booked in the quarter are mostly related to permitting of wells planned to be drilled in the near future.

In order to mitigate the natural production decline of some of the wells workover activities have been carried out together with the ongoing purchase of new compressors during the quarter, one compressor being installed in Q4. Further compressor installations are planned in Q1 and Q2 2022.

Hungarian seismic data interpretation continued during the quarter.

Romania

The permitting process for the second half of the EX-1 block 3D seismic program and for the EX-5 3D seismic survey was suspended in Q1 2020 due to Covid-19 restrictions and currently continues to be on hold. The deadline to complete the mandatory work programme for Phase I is April 2025.

HSE

There were no reportable high-potential HSE incidents during Q4 2021.

Operational overview

Q4 2021	Sales mmscfe/d	Number of producing wells*
Koros		20
Ujleta		3
Berettyo		8
Penészlek		1

*Note: includes 8 wells with technical reserve and intermittent production

		Oct-21	Nov-21	Dec-21
Sales	*MMcfe/d*	14	14	14
Wells drilled	*#*	-	-	-

SUMMARY OF 2021 QTR 4 RESULTS

	31-Dec-21
	(EUR '000)
Operating profit/(loss)	7 826
Current Assets	34 881
Current Liabilities	99 050
Net Interest-Bearing debt	71 834
EBITDA (calculated for the last 12 months)	21 556
Current ratio	0.35
Leverage ratio	3.33
Liquidity	15 893

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.

In a notice dated 30 June 2021 (the "Update Notice") issued to the attention of the Bondholders, the Company stated that it was engaged in discussions with an ad hoc committee of Bondholders (the "Ad Hoc Committee") which at the date of the Update Notice represented approximately 77% of the outstanding Bonds regarding the ongoing sales process in respect of the potential sale of the Company's shares, subsidiaries or assets (the "Transaction"), potential amendments to the Bond Terms and/or a potential financial restructuring of the Company and the Group.

Pursuant to the Summons of 6 October 2021, the interest that was due on the Interest Payment Date on 13 October 2021 was postponed to 30 November 2021.

Pursuant to the Summons of 29 November 2021, the interest that was due on the Interest Payment Date on 13 October 2021 was postponed to 31 January 2022 and the Leverage Ratio, which would otherwise be tested on 31 December 2021, was deferred so that the Leverage Ratio will be tested now on 31 March 2022.

Pursuant to the Summons of 20 December 2021, the Bondholders approved interim board members to be appointed by the Shareholders, approved and consented to an agreement with the Shareholders regarding certain transitional arrangements (the "Governance Agreement"), waived the occurrence of any Change of Control Event caused by the entry into of the Governance Agreement, the appointment of the Interim Board Members, or any of the elements contemplated by the Governance Agreement, approved of and granted to the Bond Trustee a power of attorney, such power of attorney to remain valid until the earlier of completion of the Transaction or the termination of the Governance Agreement.

The Ad Hoc Committee and its advisers are continuing a process for the sale of all the shares in the Company, which if successful is expected to result in a solution for the Bond Issue by the end of Q2 2022. The Company does not expect that it will be able to repay the Bond Issue in full at maturity in April 2022 and will therefore require the bondholders' approval to extend maturity and other concessions.

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 4 2021

FINANCIAL

INFORMATION

WITH NOTES

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

	notes	*2021.01.01-2021.12.31 unaudited*	*2020.01.01-2020.12.31 audited*	*2021Q4*	*2020Q4*
Revenue	2	53 395	33 185	27 032	6 797
Other income		197	369	109	199
Own work capitalised	5	441	379	59	74
Production costs	3	-27 525	-15 012	-14 684	-4 316
-out of which write-off of Producing assets		*-5 026*	-906	*-5 026*	*-906*
Exploration expenses	4	-1 457	-2 134	-475	-368
Impairment	6b	3 603	-26 001	3 881	-26 001
Employee benefit expenses	5	-3 365	-3 964	-880	-918
Depreciation	6a	-11 066	-15 239	-2 119	-4 137
Other operating expenses	7	-6 397	-4 269	-2 973	-1 445
Operating profit		**7 826**	**-32 686**	**9 950**	**-30 115**
Finance income	8	257	293	50	-89
Finance expense	8	-9 049	-9 827	-2 302	-2 083
Profit before income tax		**-966**	**-42 220**	**7 698**	**-32 287**
Income tax expense	9	-2 024	-1 182	-1 428	-355
Profit for the period		**-2 990**	**-43 402**	**6 270**	**-32 642**
Other comprehensive income		272	-1 174	6	82
Total comprehensive income		**-2 718**	**-44 576**	**6 276**	**-32 560**

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

Non Current Assets	***notes***	***2021.12.31 unaudited***	***2020.12.31 audited***
Exploration rights	10	7 151	7 639
Exploration and Evaluation Assets	11	23 707	24 444
Assets in Development	12	6 952	6 883
Producing Assets	13	89 764	91 437
Other property, plant and equipment	14	1 447	1 870
Goodwill	15	7 529	7 529
Other intangible assets		1 321	40
Deferred tax assets		583	1 450
Other financial assets	16, 24	1 352	1 346
Total non-current assets		**139 806**	**142 638**
Current assets			
Inventories	17	4 278	5 448
Trade and other receivables		13 550	4 921
Income tax receivable		1 160	606
Derivative financial assets		0	0
Cash and short-term deposits	18	15 893	5 804
Total current assets		**34 881**	**16 779**
Total assets	-	**174 687**	**159 417**

Equity and liabilities	***notes***	***2021.12.31 unaudited***	***2020.12.31 audited***
Share capital	19	234	234
Share premium	20	194 163	194 163
Retained earnings		-138 725	-135 735
Cash-flow hedge reserve		0	0
Translation difference		11 037	10 765
Total equity		**66 709**	**69 427**
Non-current liabilities			
Interest-bearing loans and borrowings	21	47	79 361
Deferred tax liabilities		0	0
Provisions	22	8 881	5 807
Total non-current liabilities		**8 928**	**85 168**
Current liabilities			
Trade and other payables	23	2 623	2 545
Income tax payable		1 042	138
Taxes and mining royalties payable		7 056	1 327
Interest-bearing loans and borrowings	21	88 029	322
Provisions	22	300	490
Total current liabilities		**99 050**	**4 822**
Total liabilities		**107 978**	**89 990**
Total equity and liabilities	-	**174 687**	**159 417**

Consolidated Statement of Cash Flows

(In EUR '000)	notes	*2021.01.01-2021.12.31 unaudited*	*2020.01.01-2020.12.31 audited*	*2021Q4*	*2020Q4*
Profit before income tax from operations		**-966**	**-42 220**	**7 698**	**-32 287**
Adjustments to reconcile profit before tax to net cash flows:					
Depreciation, depletion and amortisation		11 066	15 239	2 119	4 137
Impairment of Exploration rights		0	1 822	0	1 822
Write off of oil and gas properties		5 026	906	5 026	906
Impairment of oil and gas properties		858	13 066	858	13 066
Write off of exploration and evaluation assets		1 241	1 687	364	290
Impairment of exploration and evaluation assets		0	7 959	-5	7 959
Impairment of other assets		347	5 018	73	5 018
Reversal of previously impaired assets		-4 808	-1 864	-4 808	-1 864
Unwinding of discount on decommissioning		82	127	20	32
Utilisation of decommissioning provision		-38	0	-38	0
Interest expenses and incomes		8 330	9 200	2 114	1 854
FX effects		25	-3	15	3
Other non-cash items		2	-47	3	-26
Working capital adjustments:					
Change in trade and other receivables		-8 632	3 046	-6 612	1 255
Change in inventories		1 169	611	243	225
Change in trade and other payables		5 884	-9 018	3 970	296
Income tax paid		-808	-626	27	-79
Net cash flows from operating activities	-	**18 777**	**4 902**	**11 068**	**2 607**
Cash flows from investing activities					
Expenditures on E&E and oil & gas assets		-8 413	-9 777	-1 003	-1 143
Expenditure on other PPE		-80	-30	-72	-22
Expenditure on exploration rights		0	0	0	0
Expenditure on other intangible assets		-1	0	0	0
Restricted cash decrease (increase)		-10	1 859	14	284
Loans granted	24	-90	-224	-9	2
Net cash used in investing activities		**-8 593**	**-8 172**	**-1 070**	**-879**
Cash flows from financing activities					
Proceeds from issuance of shares		0	-94	0	1
Proceeds from loans and borrowings		0	-1 127	0	0
Payments of loan and borrowings		-295	-3 444	-30	-3 095
Interest paid		-6	-48	-4	-23
Net cash (used in) from financing activities		**-301**	**-4 713**	**-34**	**-3 117**
Increase/(Decrease) in cash		9 883	-7 982	9 964	-1 389
Translation difference		206	174	8	-5
Cash and cash equivalents, beginning of period		5 804	13 612	5 921	7 198
Cash and cash equivalents, end of period		15 893	5 804	15 893	5 804

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 quarter ended on 31 December 2021 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 of the Company has looked at a variety of factors to assist in evaluating the Group's sustainability and its ability to manage obligations due within 12 months from the date of this report (the "Period").

Based on the analysis, the Company has determined that there are material uncertainties about the Company and the Group's ability to continue as a going concern. These uncertainties arise, inter alia, from the volatility of hydrocarbon prices, potential impacts of the ongoing Covid-19 pandemic and the effect this may have on hydrocarbon prices as well as any measures various Governments may take in the current situation, the potential decline in the Group's production, the potential change-of-control (a potential change in the ownership of the Company's shares) as a result of the Company's ongoing strategic review process, the mandatory work-program related investment commitments in the countries where the Group operates, and the requirement of maintaining covenants and ultimately servicing and repaying the 9.00 per cent. Senior Secured 70,000,000 Callable Bond Issue 2018/2022.

The Company has examined these factors in detail and has developed a plan (the "Plan") to mitigate the uncertainty about the going concern nature of the Group.

The Plan consists of continuing to manage costs, production and capital investments so that, based on current reasonable estimates for future hydrocarbon prices, the Company and the Group has sufficient cash flow over the Period to meet its obligations, assuming that the Company reaches an accommodation with the holders of the 9.00 per cent. Senior Secured 70,000,000 Callable Bond Issue 2018/2022 ("Bonds") so that the Company is not burdened by covenants, interest payments during the Period or repayment at current April 2022 maturity (most likely through a change of control as a result of the ongoing strategic review process or a comprehensive debt restructuring).

Given the Company's ongoing strategic review process and ongoing dialogue with its various stakeholders, the Company is of the opinion that it is reasonable to believe that (a) the Plan can be effectively implemented and (b) that the Plan can mitigate the conditions that raise uncertainty about the Group's ability to continue as a going concern over the Period.

However, the Company recognizes the inherent uncertainty in the Company's future outlook given the various sources of uncertainty detailed above, as well as the inherent risks in the Company's business and the fact that a long-term accommodation with the holders of the 9.00 per cent. Senior Secured 70,000,000 Callable Bond Issue 2018/2022 has not yet been agreed. As such, the Company recognizes that a number of drivers, many of which are outside of the Company's control, can lead to downside outcomes, which collectively 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 may hedge 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 was performed until end of August 2020 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 was not feasible at the gas plants owned by the Company.

In the first case processor took control of the condensate and gas at the gathering station. In this case the processing fees were reflected as a reduction of the transaction price (rather than an expense) since the processor was not providing distinct services to the Group in exchange for those fees.

In the second case processor did not take control of the gas at the gathering station. In this case the processor was a service provider. The Group recorded product revenue for the sale of the processed commodities to the third-party customers. Fees paid to the processor were classified as expense. Since 31 August 2020 gas produced is processed by gas plants owned by the Company.

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, workovers, mining royalties and write off of producing assets.

There were EUR 5 mn write-off costs booked under production costs in Q4 2021 mainly related to one gas well which stopped producing due to technical reasons.

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.

There was a EUR 0.36 mn write-off under Exploration expenses in Q4 2021 mainly related to the write-off of preparation costs of unrealized projects. Total write-off was EUR 1.2 mn in 2021.

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 Q4 2020 depreciation charges in Q4 2021 were 49% lower due to lower production and lower asset values as a result of high impairment charges at the end of 2020.

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.

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, and the effect of movement in deferred tax assets.

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 (production licenses) in Hungary. The exploration license expired on 30 September 2019. At the end of December 2020 the Company received 19 new and 3 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. 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. SHPR booked full impairment on this receivable in its 2020 and 2021QTR4 accounts because recoverability of the loan is contractually tied to future production.
The amount outstanding without impairment under the Carry Financing Agreement as of December 31 2021 was EUR 5.2 million.

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.

	31-Dec-21 (EUR 000s)	31-Dec-20 (EUR 000s)
Other financial assets (escrowed account, depository accounts)	107	22
Collaterals in Hungary (escrowed accounts)	1 245	1 324
Carry Financing / Panfora Oil & Gas srl.	0	0
Total	1 352	1 346

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. The maturity date is 13 April 2022, as of the reporting date no agreement was made with Bondholders about the deferment of repayment, therefore, the outstanding balance of the Bonds is presented as current liability in the balance sheet.

Current liabilities

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.
As the maturity date of the EUR 70 million senior secured callable bond is within one year from the period end, the outstanding balance is presented as current liability.

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 September 2016 (effective in January 2017) and acts as an Operator in the Romanian EX-1 Voivozi and EX-5 Adea 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 free cash generated by production from the licences. Company booked full impairment on this receivable in its 2020 and 2021 accounts.

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 2,708,632 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. Further to the latest COVID related actions taken by the Hungarian Government the deadline to carry out the compulsory work programs is February 2024 for Tiszafured and Korosladany and February 2025 for Bekescsaba.

The estimated cost, as of 31 December 2021, of the total compulsory work program under the various concession agreements signed with the Hungarian government could be up to EUR 25.5 million over the duration of the concessions.

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 Oil & Gas SRL ("Panfora"). SHPR and Panfora are jointly and severally liable towards the Romanian government for the work program obligations which could be up to EUR 40.5 million in total at the end of Q4 2021 (total commitment of both parties to which joint and several liability applies). The pro-rated share of SHPR for the work program obligations could be up to EUR 30.3 million in total at the end of Q4 2021.
SHPR has been provided with a parent company guarantee from the Company in favour of Panfora for its share of such obligations and has received a reciprocal parent company guarantee from Panfora's owner.
The current deadline to complete the works by SHPR for Phase I is 8 April 2025 for block EX-1 VOIVOZI and 12 April 2025 for block EX-5 ADEA.