Sand Hill Petroleum B.V.

Annual report for the year ended 31 December 2018

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DIRECTOR’S REPORT

for the year ended December 31, 2018

The directors present their annual report for the year ended December 31, 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

Sand Hill Petroleum B.V. (“SHPBV” or “Company”) was incorporated in Amsterdam as a private company with limited liability on September 13, 2012, under the laws of the Netherlands. SHPBV acts as an intermediate holding and finance company for the purposes of exploration, development and production of oil and gas primarily in the Pannonian Basin in Central and Eastern Europe. SHPBV owns 7 subsidiaries directly and indirectly in Hungary and one subsidiary in Romania, (collectively referred to as “Sand Hill Group” or “Group”).

The principal exploration licenses owned by the Company through its subsidiaries are:

Holder of License	Name of License	Size of license area (km^2)	Start of license period	Expiration
O&GD Nádudvar Koncessziós Kft. (HU)	Nádudvar	805	2015.08.08	2019.08.08
O&GD Újléta Koncessziós Kft. (HU)	Újléta	883	2015.10.29	2019.10.29
OGD Berettyóújfalu Koncessziós Kft. (HU)	Berettyóújfalu	825	2016.08.21	2020.08.21
OGD Mogyoród Koncessziós Kft. (HU)	Mogyoród	521	2016.10.04	2020.10.04
OGD Nagykáta Koncessziós Kft. (HU)	Nagykáta	551	2016.10.04	2020.10.04
OGD Ócsa Koncessziós Kft. (HU)	Ócsa	592	2016.10.04	2020.10.04
O&GD Central Kft. (HU)	Kőrös	2 900	2010.11.03	2019.09.30
Sand Hil Petroleum Romania srl.	EX-1 Voivozi	1 014	2015.10.09	2021.10.09
Sand Hil Petroleum Romania srl.	EX-5 Adea	1 090	2015.10.13	2021.10.13

In 2018 production of hydrocarbons took place in O&GD Central kft., OGD Berettyóujfalu and OGD Újléta Kft. The principal production licenses owned by the Company through its subsidiaries are:

Holder of License	Mining Plot	Size of license area (km^2)	Start of license period
O&GD Central Kft. (HU)	Szolnok V.	10,8	2010.08.12
O&GD Central Kft. (HU)	Szolnok VI.	44,6	2010.07.26
O&GD Central Kft. (HU)	Kisújszállás I.	13,9	2010.06.10
O&GD Central Kft. (HU)	Mezőtúr V.	36,5	2010.01.23
O&GD Central Kft. (HU)	Örményes I.	28,5	2010.06.09
O&GD Central Kft. (HU)	Penészlek II.	43,3	2011.04.15
O&GD Central Kft. (HU)	Dévaványa II.	11,8	2008.10.13
O&GD Central Kft. (HU)	Dévaványa III.	4,8	2010.04.13
O&GD Central Kft. (HU)	Ecsegfalva II.	2,9	2014.04.17
O&GD Central Kft. (HU)	Endrőd II.	8,7	2009.08.22
O&GD Central Kft. (HU)	Túrkeve III.	8,2	2012.10.20
O&GD Central Kft. (HU)	Túrkeve IV.	9,6	2013.02.12

Producing licenses do not have an expiration period. The production of hydrocarbons is supported by pipelines, gathering stations and two gas processing plants in Hungary.

The directors consider the operational performance of the Group to be in line with expectations and expect that the Group will continue to operate in line with its business plan. Revenues for the year ending December 31, 2018 were EUR 79.3 million (2017: EUR 30.5 million) and were generated by the operations in Hungary. The Company's Hungarian subsidiaries have put 7 wells into production during 2018 leading to increased sales volumes.

The number of employees of the Group at December 31, 2018 was 105 (2017: 73). These employees are primarily employed within the operations in Hungary.

In the year 2018, the Group reported an operating profit of EUR 6.5 million (2017: operating loss of EUR 5.3 million). The operating profit is attributed to the operations carried out in Hungary.

The finance expense increased due to exchange losses and increased interest expenses as a result of the bonds issued during 2018. The Group incurred a tax expense of EUR 1.2 million during 2018 (2017: gain of EUR 0.4 million), which is mainly the result of the increased activities and profitability in Hungary.

The Group reported a loss for the year of EUR 25.8 million during 2018 (2017: EUR 16.2 million).

Investments and financing

The Group's total assets increased to EUR 230.8 million as at December 31, 2018 (2017: EUR 155.1 million). The increase is caused by both continued investments in exploration activities and increased working capital due to higher levels of activities. The Group drilled 10 wells out of which 6 have successfully discovered gas. Commissioning of the Konyar Gas plant in the North East of Hungary was in progress by the year end.

Net cash flows from operating activities improved from EUR 14.7 million in 2017 to EUR 31.2 million in 2018 due the increased operating profit. This was a result of the increased production (revenue increased by 160%) while expenses not dependant to production volume did not increase. The Sand Hill Group (primarily the Hungarian operations) increased its capital expenditure activities by spending EUR 73.5 mn on investment activities in 2018, 38,7% more than in 2017. The investments and working capital were during 2018 financed through cash flows from operating activities and the issuance of bonds for EUR 70 million. The bonds carry a nominal and fixed interest of 9% and are due on April 13, 2022.

The terms of the bonds require the Company to use consolidated adjusted EBITDA for complying with certain financial covenants. Total adjusted EBITDA for the Group was EUR 41.5 million (2017: EUR 10.9 million). A reconciliation of the adjusted EBITDA to the Consolidated statement of profit or loss for the year is presented below.

	2018	**2017**
	€ 000	**€ 000**
Operating profit/loss (EBIT)	**6 502**	**-5 307**
Production related depreciation	21 357	7 177
Other depreciation and amortization	1 016	880
Impairment exploration and evaluation assets (note 4.5)	12 341	8 181
Impairment oil and gas properties (note 4.5)	238	-
EBITDA	**41,454**	**10,931**
Expected credit losses (note 3.6)	16	4
Adjusted EBITDA	**41,470**	**10,935**

2P gas and liquids (condensate & oil) reserves stood at 89.8 bcfe at the end of 2018.

Risk management

As an organization operating in a volatile industry and exposed to a high variety of risks, the Company is dedicated to a disciplined approach of risk management, to building an environment in which the economic decisions are risk-based, in order to effectively respond to new threats and opportunities, to reduce potential future losses and to optimize returns.

Risk management awareness and taking only calculated risks is part of the Company's strategy and a priority for the Group's executive management. To ensure this objective, the Company regularly reviews potential risks the Company may face.

The most important components of the risk management framework include:

- Code of conduct, Anti-Bribery and Anti-Harassment policies and whistle-blower procedures
- Responsibilities and authorization guidelines for operating and capital expenses, procedures for the evaluation and approval of acquisitions and capital investments

- Transfer pricing guidelines
- Treasury and Information Technology guidelines and procedures
- Insurance procedures
- Budget and reporting procedures whereby monthly results are analyzed, compared to budget and the forecast is revised for the entire year.

At least once a quarter the results of the financial position, the outlook and the risks for each license/subsidiaries are discussed by the Group’s Supervisory Board and Management Board together with local management.

This framework ensures the identification, assessment and control of the significant risks within all Group companies and at all levels of the organization so that the financial strength of the Group is safe guarded and major losses are avoided.

Risk management measures consist of risk transfer (like hedging strategies or insurance policies), risk reduction, risk retention or if possible risk avoidance.

From a governance perspective, the Company operates under the following terms:

The first line of defense is represented by operational managers who are responsible for maintaining effective internal controls and for executing risk and control procedures on a day-to day basis.

The second line of defense is represented by the senior Management which establishes the internal control and risk management framework, coordinates, monitors and consolidates the information, supports and challenges the first line-ofdefense in the process of risk identification, evaluation and mitigation.

The Group's approach to risk management includes the following steps: review and identification of key risks, risk assessment, establishing risk tolerance, development of risk mitigating measures, monitoring and communication of risk management.

Regular reporting covers major risk exposures and the effectiveness of risk management measures. The risk profile is periodically reviewed and approved by the Group's Board.

The treatment of risks focuses on reaching the optimal risk balance between costs and benefits.

Risk tolerance

In the pursuit of its objectives, the Company is willing to accept, in some circumstances, risks that may result in some financial loss or exposure. It will not pursue additional income generating or cost saving initiatives unless returns are probable. The Company does not accept avoidable safety risk exposure that could result in injury or loss of life to the employees, contractors or the public or damage to the environment. Safety drives all major decisions in the organization.

The Company will only tolerate low-to-moderate gross exposure to delivery of operational performance targets including asset conditions, disaster recovery and succession planning, breakdown in information systems or information integrity. The Company seeks to act as a good and respected corporate citizen within the jurisdictions it operates. It will not accept any negative impact on reputation with any of its key stakeholders and will only tolerate minimum exposure.

Risk portfolio

The Directors consider that the principal risks and uncertainties currently faced by the Group should be organized and analyzed from various perspectives. These fall into the following main categories:

a) Risks related to the oil and gas industry

A decline in natural gas prices, unavailability or high cost of factors of production, market conditions or operational impediments may adversely affect the Group.

Hungary and Romania are exposed to the market movements of the European onshore hydrocarbons market. Gas prices in Hungary are typically referred to Dutch and Austrian benchmark market prices and are quoted in EUR, whilst gas prices in Romania are denominated in RON and, at the moment, partly regulated. Oil and other liquid prices are benchmarked to Brent prices. Availability of exploration equipment is exposed to EU wide market movements. The Group uses hedging instruments to partially protect itself against price risk and ensures the availability of exploration and production equipment through entering into long-term contracts and fixed prices.

This risk is considered as having a high potential impact on Group activities and results.

b) Risks related to the Group's business

1. Risks related to maintenance of licenses and regulatory compliance

The Group is committed to fully complying with the laws and regulations of the countries in which it operates. In specific areas the teams of technicians at local levels are responsible for setting detailed internal regulations and ensuring that all employees are aware of and comply with the laws specific and relevant to their roles. The legal and regulatory specialists are regularly involved in monitoring and reviewing the Group practices to provide reasonable assurance that the Group is in line with all relevant laws and legal obligations, to actively monitor proposed changes in legislation, and to ensure these are taken into account into future business plans.

The Group needs to ensure compliance with laws and regulations in areas such as hydrocarbons licenses, product quality, competition, employee health and safety, the environment, corporate governance, employment and taxes.

A significant importance is given to the compliance with health and safety standards. The Group is committed to continuously improve the safety performance.

Legal and regulatory compliance risks are considered to have medium size potential impact on overall Group activities and results.

2. Risks related to drilling and production

The Group business is significantly dependent on the timely supply, efficient production and effective distribution of hydrocarbons to customers. The Group only engages third parties with reputable track record and sound financial background through mid and long-term contracts. Counterparties' financial and business backgrounds are also regularly checked after entering into a contractual relationship.

This risk is considered as having a medium potential impact on Group activities and results.

3. Customer and JV partner relations

The strength of the customer relationships affects the Group's ability to obtain better pricing and competitive commercial advantage. Customer relations are an important part of any business and risks arising thereof could have a medium potential impact to the overall Group results. The Group is mainly exposed to three large trading companies in Hungary, MOL Plc, Hungarian Gas Trade Ltd. and MET Ltd. All of these companies are considered reputable entities and in good financial standing.

It is a Group policy to develop trading relationships only with reputable and financially sound parties. The management of the operating companies' monitors changing market trends and build relationships with new customers.

The Company has one JV partner in Romania, a subsidiary owned 100% by MOL Plc. which is considered as a reliable and financially sound partner.

This risk is considered as having a medium potential impact on Group activities and results.

4. Information technology and systems related risks

The Group operations are exposed to Information Technology (IT) systems and electronic management of information therefore requires a great emphasis on the need for secure and reliable IT systems and infrastructure and careful management of information.

Key hardware components that run and manage operating data are backed up with separate contingency systems to provide regular back-up copies should they ever be required. Group companies maintain a group wide system for the control and reporting of access to critical IT systems. This is supported by an annual program of testing of access controls.

There are policies covering the protection of both business and personal information, as well as the use of IT systems and applications by employees and consultants. Employees are regularly trained to understand these requirements. IT related controls are regularly reviewed and updated. IT staff is sent on regular trainings.

This risk is considered as having a medium potential impact on Group activities and results.

5. Commodity Price Risks

The main objective of the Group's overall risk management is to minimize the potential adverse effects on the financial performance of the Group companies The Company is exposed to commodity price risk mainly on the sale side of natural gas and liquids. When necessary, the Company considers commodity hedging to eliminate risk rather than taking up general market price volatility. The Group does not carry out any trading activities of derivatives.

This risk is considered as having a medium potential impact on Group activities and results.

6. Interest Rate Risk

The Company issued on April 13, 2018 a EUR 70 million bond maturing in 2022 at a fixed interest rate therefore the Company is not exposed to interest rate volatility.

7. Foreign Currency Risk

The business operation is economically driven mainly by EUR. The Company has limited currency risk given that its operating cashflow and financing cash flow is both denominated mainly in EUR. It is Company policy to fund expenditures with revenues received in the same currency where possible.

The Group's exposure to the foreign currency risk at year end is set out in note 5.3.4.1

8. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balances at the level of subsidiaries.

The capital structure of the Group consists of equity, shareholders loans and guarantees issued to subsidiaries and third party debt.

Capital risk is considered to have a medium size potential impact on Group activities and results.

9. Asset retirement obligation

Some of the Group's assets will eventually, at site closure, require decommissioning after operations are discontinued due to compliance with applicable regulations and contractual obligations. Costs related to such activities may exceed the Group's provisions and adversely impact its operating results. With regard to the permanent shutdown of an activity, asset retirement obligations are addressed in the provision for asset retirement obligations. Future expenditures related to asset retirement obligations are accounted for in accordance with the accounting principles described in note 4.6.

This risk is considered as having a medium potential impact opn Group activities and results.

10. Retention of key talent

The success of the Group to date has been achieved by the people working in it, and the future success of the business will depend largely on the Group's ability to attract and retain talented employees. Although the market for highly skilled workers is highly competitive, the Group has enjoyed relatively low turnover of personnel by providing good terms and conditions of employment while dealing with staff in a fair and consistent manner. Staff compensation schemes are reviewed on a yearly basis with the assistance of an industry expert to align compensation with the market.

This risk is considered to have a low size potential impact on Group activities and results.

11. Liquidity and solvency risk

Liquidity risk is managed by preparing and reviewing consolidated and operating company level cash flow forecasts and projections on a regular basis to ensure that the Group and the Company has sufficient liquid resources to meet all obligations as they fall due.

SHPBV issued a senior secured callable EUR 70 million bond on April 13, 2018 with a maturity of 4 years. The Bonds are listed on the Nordic Alternative Bond Market. The Group operated well within the debt covenants as outlined in the Bond terms. The debt covenant requirements are:

Covenants and requirement	**2018**
Current ratio with a minimum of 1.1%	2.6%
Leverage ratio with a maximum of 3:1	0.8:1
Liquidity with a minimum of EUR 7 million	30 mn

The definitions and calculations of the debt covenant requirements are further described in note 5.3.2.

This risk is considered to have a medium potential impact on Group activites and results.

c) Risks related to the Geopolitical and regulatory circumstances

Regulation may cause governmental authorities to delay or deny permits, new legislation resulting in increased costs, exposure to industry specific tax regimes and potential bribery.

The Company's operations take place in Hungary and Romania. Both countries are members of the EU and NATO, both are market economies. The Company operates a control framework that also include, inter alia, Anti-Bribery, Anti-Harassment, Code of Conduct and GDPR policies and procedures and whistleblowing lines operated by a reputable third party both in Hungary and Romania. All staff participated, on a compulsory basis, in yearly anti-bribery educational sessions and tests compliant with the FCPA and the UK Anti-Bribery Act. Reports on the status of these controls are filed and reviewed by the Supervisory Board on a quarterly basis.

The Group had a substantial exposure to Hungary but it is focusing on diversifying it through the development of its activities in the Romanian market.

This risk is considered to have a low potential impact on overall Group activities and results.

Future outlook

In 2019 the Company will focus its attention in Hungary to monetize value within the identified Szandaszollos field by drilling development wells and building the corresponding infrastructure and, in Romania, complete the seismic exercise in the Romanian EX-1 concession area so as to be in a position to start drilling wells. The Group expects the number of employees to be adjusted to the planned activities.

The Company plans to finance its 2019 capital expenditure program out of internal cash generation.

Going Concern

Management prepared these consolidated financial statements on a going concern basis. In making this judgment management considered the Group's budget and cash flow forecasts for a period of at least twelve months from the date of approval of financial statements which demonstrate that the Group will be in position to meet its liabilities as they fall due.

Accounting Records

The measures that the directors have taken to secure compliance with the requirements included ln Part 9 of Book 2 of the Netherlands civil code with regard to the keeping of accounting records are the employment of appropriately qualified accounting personnel and the maintenance of computerized accounting systems. Accounting records are held in various locations at the Group ultimate parent's and subsidiaries' premises.

Information on male/female split of board members

According to governance legislation in the Netherlands ("Wet Bestuur & Toezicht") the Company is required to have a balanced division of seats between women and men on the Board of Managing Directors and the Supervisory Board. The target criteria was not met in 2018. This is a result of the historical involvement of the current members of the Board of Managing Directors and the Supervisory Board. The composition of the Board of the Managing Directors and the Supervisory Board are considered on a regular basis and if needed adjusted based on the knowledge and experience of the directors.

Events after the Reporting Date

The Konyar Gas plant started operations on 26 January 2019. The Company's Hungarian subsidiary, O&GD Central Kft. signed three new hydrocarbons concessions agreements with the Hungarian Ministry of Technology on 24 January 2019. The three concession areas (Békéscsaba, Körösladány and Tiszafüred) are located in the Pannonian Basin in Hungary adjacent to O&GD Central's operating area.

Auditors

The auditors, Ernst & Young Accountants LLP, have been engaged to audit these financial statements.

Amsterdam, April 30, 2019

Managing Directors,

Guido Nieuwenhuizen

Tamas Lederer

Intertrust (Netherlands) B.V

Supervisory Board Directors,

Sir Richard L. Olver

Peder Bratt

Jack E. Golden

Simon W.C. Eyers

Martin P. Fossum

David M. Le Clair

Sand Hill Petroleum B.V.

Consolidated financial statements for the year ended 31 December 2018

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018

	Notes	2018	2017
		€ 000	**€ 000**
Revenue	3.2	79 272	30 521
Other income		16	130
Production costs	3.3	-26 744	-10 154
Exploration expenses	3.4	-12 803	-9 282
Employee benefit expense	3.5	-3 820	-2 607
Depreciation	4.2, 4.3, 4.4	-22 373	-8 057
Other operating expenses	3.6	-7 046	-5 858
Operating profit /(loss)		**6 502**	**-5 307**
Finance income	5.3	424	9 591
Finance expense	5.3	-31 523	-20 832
Profit /(loss) before income tax		**-24 597**	**-16 548**
Income tax expense	3.7	-1 163	390
Profit/(loss) for the year attributable to equity holders of the parent		**-25 760**	**-16 158**
Other comprehensive income that may be reclassified to profit or loss in subsequent periods (net of tax)			
Exchange differences on translation of foreign operations (no tax applies)		712	9 975
Total comprehensive income / (loss) attributable to equity holders of the parent		**-25 048**	**-6 183**

Consolidated statement of financial position as at 31 December 2018

	Notes	31 December 2018	31 December 2017	As at 1 January 2017
		€ 000	**€ 000**	**€ 000**
Assets				
Non-Current Assets				
Exploration rights	4.4	8 312	8 780	6 973
Exploration and Evaluation Assets	4.1	43 211	33 492	33 730
Assets in Development	4.2	21 498	14 585	1 431
Producing Assets	4.2	81 492	62 752	39 738
Other property, plant and equipment	4.3	1 406	632	1 681
Goodwill	4.4	7 529	7 529	7 529
Other intangible assets	4.4	370	457	480
Deferred tax assets	3.7	2 466	1 479	0
Financial assets	4.6	10 628	4 618	4 121
Total non-current assets		**176 912**	**134 324**	**95 683**
Current assets				
Inventories	6.3	6 534	3 981	2 396
Trade and other receivables	6.2	16 534	7 439	3 350
Income taxes receivable	6.2	396	45	72
Cash and short-term deposits	6.1	30 442	9 309	10 823
Total current assets		**53 906**	**20 774**	**16 641**
Total assets		**230 818**	**155 098**	**112 324**

	Notes	31 December 2018	31 December 2017	As at 1 January 2017
		€ 000	**€ 000**	**€ 000**
Equity and liabilities				
Share capital	5.1	222	63	69
Share premium	5.1	182 633	25 529	26 773
Accumulated deficit		-58 607	-97 682	-84 897
Foreign currency translation reserve		10 687	9 975	0
Equity attributable to equity holders of the parent		**134 935**	**-62 115**	**-58 055**
Non-current liabilities				
Interest-bearing loans and borrowings	5.3.2	69 876	195 560	162 972
Deferred tax liabilities	3.4	211	70	0
Provisions	4.7	5 057	3 502	2 294
Total non-current liabilities		**75 144**	**199 132**	**165 266**
Current liabilities				
Trade and other payables	6.4	17 252	14 427	4 391
Income taxes payable	6.4	44	370	30
Taxes and mining royalties payable	6.4	3 348	3 252	537
Provisions	4.7	95	32	155
Total current liabilities		**20 739**	**18 081**	**5 113**
Total liabilities		**95 883**	**217 213**	**170 379**
Total equity and liabilities		**230 818**	**155 098**	**112 324**

Consolidated statement of changes in equity for the year ended 31 December 2018

	Share capital	Share premium	Retained earnings	Foreign currency translation reserve	Equity attributable to equity holders of the parent
	€ 000	**€ 000**	**€ 000**	**€ 000**	**€ 000**
Opening value as at 1 January 2017	**69**	**26 773**	**-84 897**	**0**	**-58 055**
Profit for the year			-16 158		-16 158
Other comprehensive income				9 975	9 975
Total comprehensive income	**0**	**0**	**-16 158**	**9 975**	**-6 183**
Issue of share capital	3	2 120	0		2 123
FX effects on equity	-9	-3 364	3 373	0	0
Closing value as at 31 December 2017	**63**	**25 529**	**-97 682**	**9 975**	**-62 115**
Opening value as at 1 January 2018	**63**	**25 529**	**-97 682**	**9 975**	**-62 115**
Profit for the year			-25 760	0	-25 760
Other comprehensive income				712	712
Total comprehensive income			**-25 760**	**712**	**-25 048**
Issue of share capital		9			9
Reclassification of preference shares as a result of changes in terms and conditions	151	151 132	70 806		222 089
FX effects on equity	8	5 963	-5 971	0	0
Closing value as at 31 December 2018	**222**	**182 633**	**-58 607**	**10 687**	**134 935**

Consolidated statement of cash flows for the year ended 31 December 2018

	Notes	2018	2017
		€ 000	**€ 000**
Cash flows from operating activities			
Profit before income tax from operations		-24 597	-16 548
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation, depletion and amortisation		22 374	8 057
Impairment of oil and gas properties	4.5	238	0
Impairment of exploration and evaluation assets	4.5	12 341	8 181
Unwinding of discount on decommissioning	4.6	101	52
Interest expense and income		26 998	20 728
FX effects		3 418	-11 868
Other non-cash items		58	0
Working capital adjustments:			
Change in trade and other receivables		-9 084	-4 752
Change in inventories		-2 611	-1 990
Change in trade and other payables relating to operating activities		2 898	13 490
Income tax paid		-2 664	-642
Net cash flows from operating activities		**29 470**	**14 708**
Cash flows from investing activities			
Expenditures on E&E and oil and gas assets	4.1, 4.2	-66 622	-49 071
Expenditure on other PPE	4.3	-1 036	-261
Expenditure on other intangible assets	4.4	-228	-2 542
Proceed on disposal of assets		0	6
Loans granted		-1 446	-486
Restricted cash decrease (increase)		-4 184	-686
Interest received		6	52
Net cash used in investing activities		**-73 510**	**-52 988**
Cash flows from financing activities			
Proceeds from issuance of shares		36	2 120
Proceeds from loans and borrowings	5.3.2	68 197	34 763
Interest paid		-3 050	-
Net cash (used in) from financing activities		**65 183**	**36 883**
Increase/(Decrease) in cash		**21 143**	**-1 398**
Net foreign exchange difference		-10	-117
Cash and cash equivalents, beginning of period		**9 309**	**10 823**
Cash and cash equivalents, end of period		**30 442**	**9 309**

Index to notes to the consolidated financial statements

Section 1. Corporate and group information

1.1 Corporate information

The consolidated financial statements of Sand Hill Petroleum B.V. and its subsidiaries (collectively, the Group) for the year ended 31 December 2018 were authorized for issue in accordance with a resolution of the directors on April 30, 2019.

Sand Hill Petroleum B.V. (the "Company") has been incorporated as a private company with limited liability under the laws of the Netherlands on September 13, 2012. The registered office of the Company is in Amsterdam, the Netherlands. The Company is registered at the trade register of the Dutch Chamber of Commerce under number 56038038.

The principal activities of the Group are exploration and production of gas and crude oil. Information on the Group's structure is provided in Note 7.1. Information on other related party relationships of the Group is provided in Note 7.2.

Section 2. Basis of preparation and other significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS-EU) and Part 9 of Book of the Netherlands Civil Code.

For all periods up to and including the year ended 31 December 2017, the Group prepared its financial statements in accordance with local generally accepted accounting principles (Dutch GAAP). These financial statements for the year ended 31 December 2018 are the first the Group has prepared in accordance with IFRS-EU. Refer to Note 2.5 for information on how the Group adopted IFRS-EU.

The consolidated financial statements have been prepared on a historical cost basis.

The consolidated financial statements are presented in euros and all values are rounded to the nearest thousand (€000), except when otherwise indicated.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at 31 December 2018. The Group controls an investee if, and only if, the Group has all of the following:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting, or similar, rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The relevant activities are those which significantly affect the subsidiary's returns. The ability to approve the operating and capital budget of a subsidiary and the ability to appoint key management personnel are decisions that demonstrate that the Group has the existing rights to direct the relevant activities of a subsidiary.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.2.1 Foreign currencies

The consolidated financial statements are presented in EUR.

The functional currency of the Group entities:

Name	Principal activities	Country of incorporation	Functional currency	
			2018	2017
Sand Hill Petroleum BV.	Holding company	Netherlands	EUR	USD
Sand Hill Petroleum Romania S.r.l	Exploration and development	Romania	RON	RON
O&GD Central Kft.	Exploration and development, Production	Hungary	EUR	HUF
OGD Nádudvar Koncessziós Kft.	Exploration and development	Hungary	EUR	HUF
OGD Újléta Koncessziós Kft.	Exploration and development, Production	Hungary	EUR	HUF
OGD Berettyóújfalu Koncessziós Kft.	Exploration and development, Production	Hungary	EUR	HUF
OGD Nagykáta Koncessziós Kft.	Exploration and development	Hungary	EUR	HUF
OGD Ócsa Koncessziós Kft.	Exploration and development	Hungary	EUR	HUF
OGD Mogyoród Koncessziós Kft.	Exploration and development	Hungary	EUR	HUF

The functional currency of the Sand Hill Petroleum BV. is changed from USD to EUR.

Triggering Event for change

a. On April 13, 2018 SHPBV issued a EUR 70 mn Bond („Bond") for the purposes of financing mainly Hungarian capital expenditures. The Bond proceeds have been/are being onlent under a SHPBV-OGDC EUR denominated 68.6 mn interest bearing loan. The Bond is expected to be serviced out of EUR denominated cash generation from the Company's Hungarian subsidiaries.
b. The Hungarian hydrocarbon markets evolved and integrated more and more into the West European (and Eurozone) markets through the diversification of hydrocarbons transportation infrastructures. In parallel the West European markers (Dutch TTF, Austrian VTP) became more and more often used in commercial transactions changing the denomination for gas prices from USD/GJ into EUR/MWh. Therefore the currency that influences the sales prices in most cases is EUR for the Hungarian Operations.

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated to the spot rate of exchange ruling at the reporting date. All differences are taken to the statement of profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction.
For consolidation purposes, the results and financial position of each Group entity that have a functional currency different from reporting currency of the Group (EUR) are translated into the reporting currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
(ii) income and expenses for each income statement are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction;
(iii) equity items are translated on historical rate
(iv) all resulting exchange differences are recognized in other comprehensive income as CTA (cumulative translation adjustments).

2.3 Summary of significant accounting policies not covered in other sections (below)

2.3.1 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in other operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. All contingent consideration (except that which is classified as equity) is measured at fair value with the changes in fair value in profit or loss. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.3.2 Interest in joint arrangements

The Group undertakes a number of business activities through joint arrangements. A joint arrangement is an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control over an arrangement which exists only when the decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.

Joint operation

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement.

In relation to its interests in joint operations, the Group recognises its:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

2.3.3 Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.3.4 Financial instruments- recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments are initially measured at fair value plus or minus directly attributable transaction costs.

Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient for contracts that have a maturity of one year or less, are measured at the transaction price determined under IFRS 15.

Financial asset:

The Group measures financial assets at amortised cost as both of the following are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest rate method.

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset.

Financial liabilities

After initial recognition, interest-bearing loans and borrowings and trade and other payables are subsequently measured at amortised cost using the effective interest rate method.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effectice interest rate amortisation is included as finance costs in the statement of profit or loss.

A financial liability is derecognised when the associated obligation is discharged or cancelled or expires.

2.3.5. Impairment Financial Assets

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortized cost. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and

- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The general approach reflects the pattern of deterioration or improvement in the credit quality of financial instruments (e.g. for other financial assets). The amount of ECL recognized as a loss allowance or provision depends on the extent of credit deterioration since initial recognition. Under the general approach, there are two measurement bases:

- 12-month ECL (Stage 1), which applies to all items (from initial recognition) as long as there is no significant deterioration in credit quality
- Lifetime ECL (Stages 2 and 3), which applies when a significant increase in credit risk has occurred on an individual or collective basis

The simplified approach does not require the tracking of changes in credit risk, but instead requires the recognition of lifetime ECL at all times. (E.g. for trade receivables or contract assets)

When lifetime ECLs are recognized, impairment losses are recognized through an allowance account to write down the asset's carrying amount to the present value of expected cash flows discounted at the original effective interest rate of the asset.

The Group determines lifetime ECLs using an impairment matrix for the calculation of lifetime ECL under the simplified approach.

The impairment matrix is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

	Expected default rate
Not past due	0.1%
1-30 days past due	0.3%
31-60 days past due	1.0%
61-90 days past due	2.0%
More than 90 days past due	3.0%

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account through profit or loss for the year. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

2.4 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the consolidated financial statements. 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.

In particular, the Group has identified the following areas where significant judgements, estimates and assumptions are required. Further information on each of these areas, and how they impact the various accounting policies, is set out throughout the financial statements, as described below. These include:

<u>Judgements:</u>

- Joint arrangements (Note 2.3.2 and 7.1)
- Oil and gas exploration and evaluation assets (Note 4.1)
- Taxes (Note 3.4)
- Foreign currencies (Note 2.2.1)

<u>Estimates and assumptions:</u>

- Hydrocarbon reserve and resource estimates (Note 2.4.1)
- Oil and gas exploration and evaluation assets (Note 4.1)
- Units of production (UOP) depreciation of oil and gas assets (Note 4.2)
- Recoverability of assets (Note 4.5)
- Decommissioning liabilities (Note 4.6)
- Recovery of deferred tax assets (Note 3.4)

2.4.1 Hydrocarbon reserve and resource estimates

Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Group's oil and gas properties. The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices.

The Group estimates and reports hydrocarbon reserves in line with the principles contained in the Society of Petroleum Engineers (SPE) Petroleum Resources Management Reporting System (PRMS) framework. As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, which include:

- **Impairment:** The carrying value of exploration and evaluation assets; oil and gas properties; property, plant and equipment; and goodwill may be affected due to changes in estimated future cash flows

- **Depreciation and amortisation** charges in the statement of profit or loss may change where such charges are determined using the UOP method, or where the useful life of the related assets change

- **Provisions for decommissioning** may require revision — where changes to reserves estimates affect expectations about when such activities will occur and the associated cost of these activities

- The recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets

2.5 First-time adoption of IFRS

These financial statements, for the year ended 31 December 2018, are the first the Group has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2017, the Group prepared its financial statements in accordance with local generally accepted accounting principle (Dutch GAAP).

Accordingly, the Group has prepared financial statements that comply with IFRS applicable as at 31 December 2018, together with the comparative period data for the year ended 31 December 2017, as described in the summary of significant accounting policies. In preparing the financial statements, the Group's opening statement of financial position was prepared as at 1 January 2017, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its Local GAAP financial statements, including the statement of financial position as at 1 January 2017 and the financial statements for the year ended 31 December 2017.

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Group has applied the following exemption:

- Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 January 2017. This exemption applied to translation differences arising on translation of the Romanian subsidiary (functional currency is RON) into presentation currency (EUR) of the consolidated financial statements and the translation differences arising on the the translation from the parent's functional currency (USD) to presentation currency (EUR).

All numbers in the tables are in thousand euros.

	Notes	*Local GAAP*	*Remeasurement*			*IFRS*
		31-Dec-17	***GAAP differences*** *affecting retained earnings*	***GAAP differences*** *reclassification*	***Errors in*** *previous years*	**31-Dec-17**
Fixed assets						
Intangible fixed assets	A,I, F	39 937	2 896	8 378	1 021	52 232
Tangible fixed assets	B,I, F	83 489		-8 118	625	75 996
Financial assets		6 548			-451	6 097
Current assets						0
Inventories		3 981				3 981
Receivables	K	7 490	-6			7 484
Cash and cash equivalents		9 309				9 309
Total		150 753				155 098
						0
Shareholders equity	A,B,C,DE,F,G,K	129 325	2 995	-195 560	1 125	-62 115
Long term liabilities	A			195 560	70	195 630
Provision	F	3 379	-105	260		3 534
Current liabilities		18 050				18 050
Total		150 753				155 098

	Notes	*Local GAAP*	*Remeasurement*			*IFRS*
		1- Jan 17	***GAAP differences*** *affecting retained earnings*	***GAAP differences*** *reclassification*	***Errors in*** *previous years*	**1- Jan 17**
Fixed assets						
Intangible fixed assets	A,I, F	39 575	89	9 159	762	48 712
Tangible fixed assets	B,I, F	50 730		-9 270	517	42 850
Financial assets		4 121				4 121
Current assets						
Inventories		2 396				2 396
Receivables	K	3 424	-2			3 422
Cash and cash equivalents		10 823				10 823
Total		111 069				112 324
Shareholders equity	A,B,C,D,E,F,G, M	103 394	244	-162 972	1 279	-58 055
Long term liabilities	A			162 972		162 972
Provision	F	2 717	-157	-111		2 449
Current liabilities		4 958				4 958
Total		111 069				112 324

	Notes	31 December 2017	01 January 2017
Equity based on local GAAP		129 325	103 394
FTA differences			
Preference shares	A	-195 560	-162 972
Geological and seismic expenditures	B	1 830	-525
Goodwill depreciation	C	1 066	614
Expected credit loss	K	-6	-2
Decommissioning provision related differences	F	105	157
Errors from previous years			
Depreciation differences in prod. assets	D	-382	138
Depreciation differences in other assets	D	39	27
Capitalized wages	E	1 989	1 114
DTA difference on errors	G	-521	-
Equity based on IFRS		-62 115	-58 055

Group reconciliation of total comprehensive income for the year ended 31 December 2017

	Notes	*Local GAAP*	*Remeasurement*			*IFRS*
		2017	***GAAP differences*** *affecting equity*	***GAAP differences*** *reclassification*	***Errors in*** *previous years*	**2017**
Net revenue	H	31 901		-1 380		30 521
Production costs	D,J,H	-31 045	2 809	1 380	219	-26 637
Gross operating result		857				3 885
General and administrative expenses	D,E	-10 204	-4		887	-9 321
Operating result		**-9 347**				**-5 436**
Other income		130				130
Interest income and similar income		9 590				9 590
Interest expense and similar expense	A, F	0	-20 832			-20 832
Results before taxation		**373**				**-16 548**
Tax expense	G, J	1 662			-1 272	390
Net result		**2 035**				**-16 158**

	Notes	**2017**
Profit for the year based on local GAAP		**2 035**
FTA differences		
Preference shares	**A**	-20 780
Geological and seismic expenditures	B	2 356
Goodwill depreciation	**C**	453
Expected credit losses	**M**	-4
Revenue/Production cost reclass.	H	0
Errors from previous years		
Difference in depreciation on producing assets	**D**	-520
Difference in depreciation on other assets	**D**	12
Capitalized wages	**E**	875
Decomm.liab. unwinding	**F**	**-52**
Deferred tax asset not rec. in 2016	**G**	**-533**
Profit for the year based on IFRS		**-16 158**

	Notes	Local GAAP 31-Dec-17 EUR	Remeasurement GAAP differences affecting retained earnings	GAAP differences reclassification	Errors in previous years	IFRS 31-Dec-17
Net income (loss) for the period	All	2 035	-17 975		-218	-16 158
Items not affecting cash						
Amortization and depreciation, impairment	B	18 514	-2 809		533	16 238
Deferred income taxes	G	-1 930			522	- 1 408
Changes in provision	F	1 052		-1 000		52
Changes in ARO	F	-874		874		0
Current tax liability	J	269			749	1 018
Unrealised FX		-11 728			-140	-11 868
Net interest expense	A	-52	20 780			20 728
Changes in non-cash working capital items						
Prepaid expenses and other receivables	K	-4 756	4			-4 752
Inventories		-1 990				-1 990
Accrued revenues		6 314				6 314
Accrued expenses		8 007			-831	7 176
		0				
Cash flow from operating activities		**14 861**	**0**	**-126**	**615**	**15 350**
Interest received		47			5	52
Income taxes paid		-68			-574	-642
Total operating activities		**14 840**	**0**	**-126**	**46**	**14 760**
Investing activities						
Intangible Fixed Assets	I, E	-6 182		-29 870	-259	-36 311
Tangible Fixed Assets	I, E	-45768		29 996	215	-15 557
Changes in restriced cash		-686				-686
Loan issued		-486				-486
Total investing activities		**-53 122**	**0**	**126**	**-44**	**-53 040**
Financing activities						
Issuance of share capital	A	36 885	-34 765			2 120
Proceeds from loans and borrowings	A		34 763			34 763
Total financing activities		**36 885**	**-2**	**0**	**0**	**36 883**
Increase (decrease) in cash		-1 397	-2	0	2	-1 397
FX effects		-117				-117
Cash, beginning of the period		10 823				10 823
Cash, end of the period		9 309				9 309

Notes to the reconciliation of equity as at 1 January 2017 and 31 December 2017 and total comprehensive income for the year ended 31 December 2017

First-time adoption differences

A. Under Dutch GAAP preference shares that bear contingent dividends depending on the profit for the year may be classified as equity as an accounting policy choice. Under IFRS the classification of it issued preference shares is based on the economic substance of the instrument and classified as liability as the payment of dividends is not at the discretion of the entity.

B. Under Dutch GAAP these expenses were written off where the company assessed that it would not use certain areas for further activities.
The company capitalizes seismic and geological expenses as per IFRS 6.Under IFRS these expenses are not written off or capitalised as separate assets but allocated to the wells and depreciated with the production unit method.

C. Under Dutch GAAP Goodwill was depreciated over 20 years. Under IFRS Goodwill is tested for impairment.

F. Decommissioning liability was presented on nominal value under Dutch GAAP not discounted and unwinded.

I. The Group capitalizes the cost of exploration and evaluation initially as E&E assets, that is part of the intangible assets. Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing are capitalised as intangible E&E assets. Under Dutch GAAP drilling expenses were capitalized under tangible assets from the start of the projects.

H. Processing fees related to the gas sold were reclassified as revenue from producing costs based on the following reasons, see further details at note 3.2.
Processor takes control of the condensate and gas at the gathering station. In this case the processing fees is 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.

K. Expected credit losses were not accounted for under Dutch GAAP.

Errors that has a retrospective effect

D. There are assets (e.g: gas pipelines) where the depreciation rates were based on Corporate Tax Law and not based on the actual useful life. Besides the capitalized wages has also an effect on depreciation.

E. Wages of employees working on CAPEX projects were allocated to the projects. During the IFRS transition the costing was reviewed. The Group decided to change the accounting policy and capitalised the wages in IFRS.

G. The prior year adjustments identified had an impact on the deferred taxes.

J. Under Dutch GAAP the tax expense included current and deferred tax. Local taxes were included in production/g&a costs considered as sales taxes. Under IFRS local taxes are reclassified to income taxes

Section 3. Results for the year

This section provides additional information that is most relevant in explaining the Group's performance during the year.

3.1 Segment information

The Group's assets and operations are located in Hungary and Romania. For management purposes, the Group has two reportable segments based on geographical regions, as follows:

- Hungary
- Romania

No operating segments have been aggregated to form the above reportable operating segments.

The Management Board of the Company (which is considered to be the Group wide decision maker) monitors the operating results of its reportable segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit and is measured consistently with operating profit or loss in the consolidated financial statements. However, the Group's financing (including finance costs and finance income) are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The accounting policies used by the Group in reporting segments internally are the same as those contained in Section 2 and the respective quantitative and qualitative notes of the financial statements.

Adjustments and eliminations

Finance income and costs are not allocated to individual segments as the underlying instruments are managed on a group basis.

Deferred taxes and certain financial assets and liabilities are not allocated to those segments as they are also managed on a group basis.

Capital expenditure consists of additions of property, plant and equipment and intangible assets including assets from the acquisition of subsidiaries.

Year ended 31 December 2017	Hungary	Romania	Adjustments and eliminations	Consolidated
	€ 000	€ 000	€ 000	€ 000
Revenue				
External customers	30 521			30 521
Results				
Production costs	-10 154			-10154
Exploration expense	-7 524	-1 758		-9282
Employee benefit expenses	-2 362	-245		-2607
Depreciation and amortisation	-7 958	-99		-8057
Operating profit	763	-3 277		-5 307
Profit before tax	6 217	-3 237		-16 548
Income tax expense	390	0		390
Net profit for the year	6 607	-3 237		-16 158
Segment assets	149 484	4 783	831	155 098
Segment liabilities	102 073	2 506	112 634	217 213
Other disclosures				
Capital expenditure	49 671	3 399		52 354

Year ended 31 December 2018	Hungary	Romania	Adjustments and eliminations	Consolidated
	€ 000	€ 000	€ 000	€ 000
Revenue				
External customers	79 272			79 272
Results				
Production costs	-26 744			-26 744
Exploration expense	-11 171	-1 632		-12 803
Employee benefit expenses	-3 341	-479		-3 820
Depreciation	-22 240	-133		-22 373
Operating profit	11 282	-3 182		6 502
Profit before tax	2 150	-3 439		-24 597
Income tax expense	-1 163	0		-1 163
Net profit for the year	987	-3 439		-25 760
Segment assets	208 579	8 191	14 048	230 818
Segment liabilities	160 946	8 625	-73 688	95 883

Other disclosures			
Capital expenditure	66 043	3 590	69 332

Profit for each operating segment does not include finance income (€9.696 Million: 2017, €0.4 Million: 2018), finance costs (€21.07million: 2017, € 31.523 Million: 2018), other incomes (€0.76 Million: 2017, €0.15 Million: 2018) and other operating expenses (€ 6.877 Million: 2017, € 7.046 Million: 2018).

Segment assets do not include assets of the holding company (€126.697 million: 2017, €203.540 Million: 2018), of which the investment in the segments is 42.435 (2017) and 45.868 million (2018). 83.22 million (2017) and 144.137 million (2018) of inter-segment receivables and 0.21 (2017) and 0.5 million (2018) of assets are eliminated on consolidation.

Segment liabilities do not include liabilities of the holding company as interest bearing loans and borrowings (€195.56 million: 2017, €69.876 Million: 2018) and current liabilities (€0.43 million: 2017, €0.57 Million: 2018). 83.29 million (2017) and 144.137 million (2018) of inter-segment liabilities are eliminated on consolidation.

Capital expenditure consists of capitalised exploration expenditure, development expenditure, additions to property, plant and equipment, financial assets and to other intangible assets including assets from the acquisition of subsidiaries

3.2 Revenue from contracts with customers

Disaggregated revenue information

Type of goods	2018 € 000	2017 € 000
Gas	63 792	25 468
Condensate	12 785	4 018
Oil	1 939	741
Other	756	294
Total revenue from contracts with customers	**79 272**	**30 521**

The net revenue consists of sales of raw and processed gas, condensate and oil by the Company’s Hungarian segment.

In 2018 seven new wells started to produce that led to the significant increase of the net revenue.

3.2 A Accounting policy – Revenue from contracts with customers

The Group's commodity contracts are outside the scope of IFRS 9 because of the own-use exemption. The Group settles the contracts through the physical delivery of a commodity and commodity is always extracted by the Group as part of its own operations.

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 is 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.

Significant financing component:

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

The Group concluded that it is the principal in its revenue contracts because it typically controls the goods or services before transferring them to the customer.

Impact on financial position

Contract asset

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional. The Group does not have any contract assets as performance and a right to consideration occurs within a short period of time and all rights to consideration are unconditional.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due), refer to Note 6.2 .

Contract liability

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract. Refer to Note 6.4.

3.3 Production cost

Productions costs are all expenses incurred in relation to the production of hydrocarbons including materials and services used, damage compensations related to wells in production and mining royalties, besides the impairment of the producing assets.

	2018	**2017**
	€ 000	**€ 000**
Production material	3 208	1 249
Capacity fees	1 699	938
Gas processing fees	835	0
Mining royalty	16 984	5 161
Impairment of producing assets	238	0
Other production services	3 780	2 806
Total production costs	**26 744**	**10 154**

Mining royalty is paid as a tax after production, the royalty base (revenue for royalty purpose) is calculated based on a special government set formula, depending on USD exchange rate and Brent prices.

Please refer to Note 4.5 for the details on impairment of producing assets.

3.4 Exploration expense

Geological and geophysical exploration costs related to areas where the company does not hold the concession rights 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, 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.

	2018	2017
	€ 000	**€ 000**
Write off of E&E assets	12 341	8 181
Geological expenses on no concession areas	380	979
Other	82	122
Total exploration expenses	**12 803**	**9 282**

Please refer to Note 4.5 for the details on impairment testing of E&E assets.

3.5 Employee benefit expense

3.5.1 Salaries and payroll related contributions

The salaries and payroll related contribution can be detailed as follows:

	2018	2017
	€ 000	**€ 000**
Salaries and wages	2 974	1 950
Other related expenses	170	62
Social security and taxes on wages	675	595
Total of employee benefit expense	**3 820**	**2 607**

3.5.2 Staff number

The Group has 129 employees and hence incurred wages, salaries and related social security charges during the reporting period (previous year: 83 employees). Average of the employees for the year was 105, of which 96 are based in Hungary and 9 are based in Romania (previous year: 73, 68 in Hungary, 5 in Romania).

	2018	2017
Administration	23	17
Management	3	4
Operations	20	12
Exploration	59	40
Total average	**105**	**73**

3.6 Other operating expenses

Other operating expenses comprise materials and supplies that cannot be held in inventory (energy, small items of equipments, office and cleaning materials), administrative and professional expenses (legal, audit, accounting and payroll), rental fees (office and warehouse, cars), it, travel and conference expenses, bank and postal charges and other items of expenditures.

	2018	2017
	€ 000	€ 000
Warehouse rental fee	108	83
Office rental fee	380	238
Trainings and travel expenses	652	608
Legal, accounting and professional services	3 231	3 719
Audit	259	98
IT, software rental and maintenance	601	441
Magisterial fees, bank, insurance and membership fees	287	222
Staff and representation expenses	178	159
Board related fees	246	261
Other expenses	1 090	25
Expected credit losses on trade receivables relating to revenue from contracts with customers	16	4
Total of other operational expenses	**7 046**	**5 858**

Audit fee breakdown

The costs of the Group for the external auditor and the audit organization and the entire network to which the audit organization belongs charged to the financial year are set out below.

	2017 € 000		
	Ernst & Young Accountants LLP	**Other EY**	**Total**
Audit fee	31	67	98
Tax advisory services	-	171	171
Total	**31**	**238**	**269**

	2018 € 000		
	Ernst & Young Accountants LLP	**Other EY**	**Total**
Audit fee	166	93	259
Tax advisory services	-	71	71
Other services	-	41	41
Total	**166**	**205**	**371**

3.7 Income tax

3.7.1 Income tax expense

The major components of income tax expense for the years ended 31 December 2018 and 2017 are:

	2018	2017
	€ 000	€ 000
Consolidated statement of profit or loss		
Current income tax:		
Current income tax charge	-2 009	-1 019
Deferred income tax:		
Relating to origination and reversal of temporary differences	846	1 409
Income tax expense	**-1 163**	**390**

3.7.2 Reconciliation

Sand Hill Petroleum B.V. and Sand Hill Petroleum S.r.l have accounting loss in 2018 and 2017. No income tax expenses incurred related to these entities.

	2018	2017
	€ 000	€ 000
Accounting loss before income tax	-24 597	-16 548
Applicable tax at weighted average rate	6 160	4 827
Other income tax (local business tax, innovation contribution)	-1 607	-741
Expenses not deductible for tax purposes	-6 092	-5 195
Utilisation of previoulsy unrecognised tax losses	916	1 410
Tax allowances	141	444
Unrecognized DTA	-681	-355
Income tax expense	**-1 163**	**390**
Effective tax rate	**5%**	**-2%**

Expenses non deductible for tax purposes contain the preference share interest.

Tax allowances mainly contains a development reserve, where 50% of pre-tax profit may be assigned. The maximum value of the reserve is HUF 500 million annually. In general, the period within which the development tax reserve can be released, consistently with the cost of investment, is four years. This amount is basically available as a lump-sum tax depreciation for the relevant asset prior to the asset being acquired.

3.7.3 Deferred income tax

	Consolidated statement of financial position		Consolidated statement of profit or loss and other comprehensive income	
	31 December 2018	31 December 2017	2018	2017
	€ 000	€ 000	€ 000	€ 000
Deferred income tax liabilities				
Depreciation	21		- 21	
Development reserve	140	252	112	- 252
Decommissioning asset	347	257	- 90	- 257
Deferred income tax assets				
Depreciation		202	- 202	202
Provisions (including decommissioning liability)	437	306	131	306
Losses available for offset against future taxable income	2 326	1 410	916	1 410
Deferred tax assets (net)	**2 255**	**1 409**		
Deferred tax income/(expense)			**846**	**1 409**

Deferred tax assets	2 466	1 479
Deferred tax liabilities	211	70
Deferred tax assets (net)	**2 255**	**1 409**

Deferred tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available in the future against which the unused tax losses/credits can be utilised.

In addition to recognised deferred income tax assets, the Group has unrecognised tax losses of € 19 million (2017: €16 million) that are available to carry forward against future – latest in nine years - taxable income of the subsidiaries in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group, they have arisen in subsidiaries that have been loss-making for some time or the loss is exceeds amount that is probable to be utilized within the allowed time range.

3.7 A Accounting policy – Income tax

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and it establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable

- Receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Section 4. Invested capital

This section provides additional information about how the Group invests and manages its capital. This section contains:

- Reconciliations of movements of significant capital balances (Notes 4.1 to 4.4)
- Information regarding impairment testing of long-term non-financial assets (Note 4.5)
- Information regarding provisions (Note 4.6)
- An analysis of capital expenditure to which the Group is committed (Note 4.7)

4.1 Oil and gas exploration and evaluation assets

		€ 000
Cost as at 1 January 2017	**Notes**	**33 730**
Additions		33 769
Decom.liability changes		-302
Impairment of E&E assets	4.5	-8 181
Transfer to oil and gas properties		-25 524
Cost as at 31 December 2017		**33 492**
Additions		31 348
Decom.liability changes		413
Impairment of E&E assets	4.5	-12 341
Transfer to oil and gas properties		-9 701
Cost as at 31 December 2018		**43 211**
Net book value as at 31 December 2017		**33 492**
Net book value as at 31 December 2018		**43 211**

Please refer to Note 4.5 for the details on impairment testing of E&E assets.

4.1 A Accounting policy – Oil and gas exploration and evaluation expenditure

Oil and gas exploration and evaluation expenditure is accounted for using the successful efforts method of accounting.

Pre-license costs

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

License and property acquisition costs

Exploration license and acquisition costs are capitalized in intangible assets.

License costs paid in connection with a right to explore in an existing exploration area are capitalized and amortised over the term of the permit, ie. the term of the concession contract.

License and property acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and that sufficient progress is being made on establishing development plans and timing.

If no future activity is planned or the license has been relinquished or has expired, the carrying value of the license and property acquisition costs are written off through the statement of profit or loss. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

Exploration and evaluation costs

Costs of E&E are initially capitalised as E&E assets. Payments to acquire the legal right to explore, costs of technical services and studies, seismic acquisition, exploratory drilling and testing are capitalised as intangible 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. However, to the extent that such a tangible asset is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Such intangible costs include directly attributable overhead, including the depreciation of property, plant and equipment utilised in E&E activities, together with the cost of other materials consumed during the exploration and evaluation phases. E&E costs are not amortised prior to the conclusion of appraisal activities.

All such capitalised costs are subject to technical, commercial and management review, as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off through the statement of profit or loss.

When proved reserves of oil and gas are identified and development is sanctioned by management, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to oil and gas properties.

4.2 Oil and gas properties

Oil and gas properties contain the assets in development and the producing assets.

		€ 000
	Asset in development	**Producing assets**
Cost as at 1 January 2017	**1 431**	**44 705**
Additions	15 302	0
Transferred from exploration and evaluation assets	25 524	0
Transferred from other PPE	1 186	0
Change in decommissioning provision	236	1 103
Transfer between development asset and producing asset	-29 088	29 088
Disposals	-6	0
Cost as at 31 December 2017	**14 585**	**74 896**
Additions	35 274	0
Borrowing cost	1 206	0
Transferred from exploration and evaluation assets	9 701	0
Change in decommissioning provision	8	1036
Transfer between development asset and producing asset	-38 988	38 988
Transfer of borrowing cost between development asset and producing asset	-288	288
Disposals	0	0
Cost as at 31 December 2018	**21 498**	**115 208**
Depletion and impairment as at 1 January 2017	**0**	**4 967**
Charge for the year	0	7 177
Provision for impairment	0	0
Disposals	0	0
Depletion and impairment as at 31 December 2017	**0**	**12 144**
Charge for the year	0	21 334
Provision for impairment	0	238
Disposals	0	0
Depletion and impairment as at 31 December 2018	**0**	**33 716**
Net book value as at 31 December 2017	**14 585**	**62 752**
Net book value as at 31 December 2018	**21 498**	**81 492**

Borrowing costs relating to drilling of development wells that have been capitalised as part of producing asset during the period amount to EUR 1 026 (2017: EUR 0), at a weighted average interest rate of 10,15%.

The net book value at 31 December 2018 includes EUR 21,498 (2017: EUR 14,585), in respect of development assets under construction which are not being depreciated.

Please refer to Note 4.5 for the details on impairment testing of oil and gas properties.

4.2A Accounting policy – Producing Asset – assets in development

Expenditure is transferred from 'Exploration and evaluation assets' to 'Assets in development' which is a subcategory of 'Oil and gas properties' 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 platforms, pipelines and the drilling of development wells is capitalised within 'Assets in development'. E&E assets should no longer be classified as such when 'technical feasibility and commercial viability of extracting a mineral resource are demonstrable'.

Before reclassification, E&E assets should be assessed for impairment individually or as part of a cash-generating unit and any impairment loss should be recognized.

4.2B Accounting policy - Oil and gas properties – producing assets and other property, plant and equipment

Initial recognition

Producing assets and Other property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost (if the asset was previously classified as assets in development), any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and, for qualifying assets (where relevant), borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Depreciation/amortization

Oil and gas properties are depreciated/amortised on a unit-of-production basis over the total proved developed and undeveloped reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case, the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proved developed and undeveloped reserves of the relevant area. The unit-of-production rate calculation for the depreciation/amortisation of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure.

Other property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives.

Useful lives

The useful lives of the assets are estimated as follows:

Producing assets	20 to 25 years
Other property plant and equipment	3 to 20 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation/amortisation are reviewed at each reporting period and adjusted prospectively, if appropriate.

Major maintenance, refits, inspection and repairs

Expenditure on major maintenance refits, inspections or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset, or part of an asset that was separately depreciated and is now written off, is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalised. Where part of the asset replaced was not separately considered as a component and therefore not depreciated separately, the replacement value is used to estimate the carrying amount of the replaced asset(s) and is immediately written off. Inspection costs associated with major maintenance programs are capitalised and amortised over the period to the next inspection. All other day-to-day repairs and maintenance costs are expensed as incurred.

4.3 Other property, plant and equipment

€ 000

	Land	Other plant and equipment	Total
Cost			
At 1 January 2017	**40**	**1 908**	**1 948**
Additions	17	244	261
Transferred to oil&gas properties	0	-1 186	-1 186
Disposals	0	0	0
At 31 December 2017	**57**	**966**	**1 023**
Additions	91	945	1 036
Disposals	0	-3	-3
At 31 December 2018	**148**	**1 908**	**2 056**
Depreciation			
At 1 January 2017	**0**	**267**	**267**
Depreciation charge for the year	0	124	124
Disposals	0	0	0
At 31 December 2017	**0**	**391**	**391**
Depreciation charge for the year	0	261	261
Disposals	0	-2	-2
At 31 December 2018	**0**	**650**	**650**
Net book value:			
At 31 December 2017	**57**	**575**	**632**
At 31 December 2018	**148**	**1 258**	**1 406**

4.4 Other intangible assets and goodwill

€ 000

	Goodwill	Concessions	Software	Total
Cost:				
At 1 January 2017	**7 529**	**7 412**	**838**	**15 779**
Additions	0	2 265	277	2 542
Disposal	0	0	0	0
At 31 December 2017	**7 529**	**9 677**	**1 115**	**18 321**
Additions	0	0	228	228
Disposal	0	0	0	0
FX effect	0	-2	0	-2
At 31 December 2018	**7 529**	**9 675**	**1 343**	**18 547**
Amortisation and impairment:				
At 1 January 2017	**0**	**439**	**358**	**797**
Amortisation charge for the year	0	458	300	758
Disposal	0	0	0	0
At 31 December 2017	**0**	**897**	**658**	**1 555**
Amortisation charge for the year	0	466	315	781
Disposal	0	0	0	0
At 31 December 2018	**0**	**1 363**	**973**	**2 336**
Net book value:				
At 31 December 2017	**7 529**	**8 780**	**457**	**16 766**
At 31 December 2018	**7 529**	**8 312**	**370**	**16 211**

Useful lives

- Software — 3 years
- Rights and concessions — based on concession contract (typically 20-30 years)

Goodwill

The goodwill arose on the acquisition of O&GD Central Kft which holds the Körös licence.

O&GD Central Kft. has one exploration license (Koros Exploration License) which expired on October 1, 2017 but extended for another two years. In addition, the company also owns 13 mining plots (production licenses) and one gas processing and stabilization plant. If production starts on a mining plot (Ormenyes I, Kisujszallas I, Mezotur V, Turkeve III, Turkeve IV, Deva II, Deva III, Endrod II and Ecsegfalva II), the permit will be in force until the production is terminated.

Production has not started on the Tiszakecske I, Szolnok VI, Szolnok V mining plots. These permits have been received in 2010 and are valid for 5 years and were extended in 2015 for a further 5, 4 and 3 years respectively. Peneszlek II mining plot is in development phase, one well was drilled and is waiting for tie-in

Holder of License	Mining Plot	Size of license area (km^2)	Start of license period
O&GD Central Kft. (HU)	Szolnok V.	10,8	2010.08.12
O&GD Central Kft. (HU)	Szolnok VI.	44,6	2010.07.26
O&GD Central Kft. (HU)	Kisújszállás I.	13,9	2010.06.10
O&GD Central Kft. (HU)	Mezőtúr V.	36,5	2010.01.23
O&GD Central Kft. (HU)	Örményes I.	28,5	2010.06.09
O&GD Central Kft. (HU)	Penészlek II.	43,3	2011.04.15
O&GD Central Kft. (HU)	Dévaványa II.	11,8	2008.10.13
O&GD Central Kft. (HU)	Dévaványa III.	4,8	2010.04.13
O&GD Central Kft. (HU)	Ecsegfalva II.	2,9	2014.04.17
O&GD Central Kft. (HU)	Endrőd II.	8,7	2009.08.22
O&GD Central Kft. (HU)	Túrkeve III.	8,2	2012.10.20
O&GD Central Kft. (HU)	Túrkeve IV.	9,6	2013.02.12

Rights and concessions

The Hungary segment has several valuable rights, the exploration license for the Körös exploration area and thirteen mining plots.

O&GD Central Kft. holds 6 concession rights (held indirectly through Companies) for exploration and production on the Nadudvar, Ujleta, Berettyoujfalu, Mogyorod, Nagykata and Ocsa blocks.

Concession right	Start of concession period
Berettyóújfalu	2016.03.02
Mogyoród	2016.04.04
Nagykáta	2016.04.04
Ócsa	2016.04.04
Nádudvar	2015.03.11
Újléta	2015.03.11

Sand Hill Petroleum Romania S.r.l. has a 70% share in the EX-1 Voivozi Concession block and a 80% share in the EX-5 Adea Concession block since 2017 which are both joint operations.

4.4A Accounting policy - Other intangible assets and goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets with definite lives are carried at cost less any accumulated amortisation (calculated on a straight-line basis over their useful lives) and accumulated impairment losses, if any. Indefinite lived intangibles and goodwill are not amortised, instead they are tested for impairment annually as a minimum, or when there are indicators of impairment.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

4.5 Impairment losses and goodwill impairment test

	2018	**2017**
Impairment losses	**€ 000**	**€ 000**
Exploration and evaluation assets	12 341	8 181
Oil and gas properties	238	0
Total impairments	**12 579**	**8 181**

Impairment losses of exploration and evaluation assets are related to unsuccessful drillings for which the assets are written down to nil.

The impairment of oil and gas properties are related to two wells in Hungary.

The wells are considered the cash-generating unit 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 with the same key assumptions as noted above for the impairment calculations. The discount rate used is 10 per cent (2017: 10 per cent). The value-in-use forecast takes into consideration cash flows which are expected to arise during the life of the wells.

Goodwill of EUR 7.5 million has been specifically assigned to the Körös field, but there is no impairment arising in 2017 or 2018. The carrying amount exceeds the value-in-use with sufficient headroom. The discount rate used is 10 per cent (2017: 10 per cent). The value-in-use forecast takes into consideration cash flows which are expected to arise during the life of the wells.

The key assumptions to the calculation of value-in-use of the wells are discount rate, oil prices, forecasted recoverable reserves and estimated future costs. No reasonable possible change in any of these key assumptions would cause the asset’s carrying amount to exceed its recoverable amount.

4.5A Accounting policy - Impairment losses (non-financial assets)

Exploration and evaluation assets

E&E assets should be assessed for impairment when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount. Under IFRS 6 one or more of the following facts and circumstances could indicate that an impairment test is required:

a) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
d) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the E&E asset is unlikely to be recovered in full from successful development or by sale.

If finding a dry hole marks the end of budgeted or planned exploration activity, indicator (b) above would require impairment testing under IAS 36. Similarly, if the dry hole led to a decision that activities in the area would be discontinued, indicator (c) would require that an impairment test be performed, and indicator (d) requires an entity to do an impairment test if it is unlikely that it will recover the E&E costs from successful development or sale.

Other non-financial assets

The carrying amounts of The Group's non-financial assets, other than inventories, deferred tax assets and financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The Group examines on an annual basis whether there are any indications of impairment, and reviews whether there is an impairment for goodwill. Accordingly, the recoverable amount of the cash-generating unit to which the goodwill is related must be estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In case the fair value less cost of disposal of an asset or a cash-generating unit is higher than its carrying amount, there is no need to determine the value in use for the purpose of the impairment test.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Costs of disposal are incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense.

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

4.6 Financial assets

	December 31st, 2018	December 31st, 2017	January 1st, 2017
	€ 000	€ 000	€ 000
Restricted cash for long term	8 661	4 277	4 121
Loans granted	1 967	341	0
Total	**10 628**	**4 618**	**4 121**

The restricted cash is held as collateral for a bank guarantee issued to secure certain abandonment related obligations under the several exploration and production licenses granted by the Hungarian Mining Authority.

In 2018 there is a restricted cash related to the bond issue.

4.7 Provisions

			€ 000
	Decommissioning	**Other**	**Total**
At 1 January 2017	**2 348**	**101**	**2 449**
Arising during the year	1 192	0	1 192
Write-back of unused provisions	0	0	0
Utilisation	-155	0	-155
Unwinding of discount	52	0	52
FX revaluation	0	-4	-4
At 31 December 2017	**3 437**	**97**	**3 534**
Arising during the year	1 489	58	1 547
Write-back of unused provisions	0	0	0
Utilisation	-32	0	-32
Unwinding of discount	101	0	101
FX revaluation	0	2	2
At 31 December 2018	**4 995**	**157**	**5 152**

Comprising:

Current 2017	32	0	32
Non-current 2017	3 405	98	3 502
Current 2018	97	0	95
Non-current 2018	4 900	157	5 057

Decommissioning provision

The Group makes provision for the future cost of decommissioning oil and gas wells on a discounted basis on the installation of those wells and infrastructure.

The decommissioning provision represents the present value of decommissioning costs relating to oil and gas properties, which are expected to be incurred up to 2067, when the producing oil and gas properties are expected to cease operations. These provisions have been created based on the Group's internal estimates.

Assumptions based on the current economic environment have been made, which management believes form a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend upon future oil and gas prices, which are inherently uncertain.

The discount rate used in the calculation of the provision as at 31 December 2018 equaled 0.6-4% based on the timing of the abandonment (2017: 2 %). The inflation rate is 3% (2017: 2 %).

Other Provisions

Other provisions comprise provisions for tax claims. (VAT in Romania)

4.7A Accounting policy – Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as part of finance costs in the statement of profit or loss.

Decommissioning provision

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the field location. When the liability is initially recognised, the present value of the estimated costs is capitalised 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.

Provision for decommissioning is recognised in full based on the following:

- In case of wells when drilling is finished (E&E asset)
- In case of gas plants, gathering stations and other significant Oil and gas PPE when facilities are installed.

The amount recognised is the present value of the estimated future expenditure. This is calculated based on actual price offers where the future value of this amount is calculated with the assumed inflation rate until the expected date of the decommissioning. This expense is discounted then with the discount rate reflecting the risk and time value of money which is based on a government bond rate with a similar currency and remaining term as the provision.

Changes in the estimated timing or cost of decommissioning are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to oil and gas properties. Any reduction in the decommissioning liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the statement of profit or loss.

If the change in estimate results in an increase in the decommissioning liability and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment. If, for mature fields, the estimate for the revised value of oil and gas assets net of decommissioning provisions exceeds the recoverable value, that portion of the increase is charged directly to expense.

4.8 Capital commitments and other contingencies

Operating lease commitments — Group as lessee

The Company leases office facilities under operating leases, of which TEUR 1,750 is included in the other operating expenses for the year 2018 (2017: TEUR 1,130)

Outstanding commitments for future minimum lease payments under non-cancellable operating leases:

	2018	**2017**
	€ 000	€ 000
Within one year	540	235
After one year but not more than five years	1 247	1 846
More than five years	0	75

Commitments and contingencies

Further to the requirements set by the Hungarian Mining Law, OGDC as indirect owner of OGD Nadudvar Kft., OGD Ujleta Kft., OGD Berettyoujfalu Kft., OGD Mogyorod Kft., OGD Nagykata Kft., OGD Ocsa Kft., has put up a HUF 1 billion bank guarantee (EUR 3,110,323 as per balance sheet date) to secure certain obligations under the exploration licenses granted by the Hungarian Mining Authority.

The Company's 100% Hungarian subsidiary, OGDC, has concluded on November 28, 2017 a pre-paid natural gas sales contract ("Pre-payment Contract") with Hungarian Gas Trade Ltd. („HGT") for standard product. Pursuant to the Prepayment Contract, HGT were to make three payments until April 1, 2018 inclusive as consideration for 503,747 MWh of gas to be delivered in almost equal monthly quantities to HGT until June 2019 where the aggregate amount of the payments made by HGT could not exceed at any time the gross (incl. VAT) amount of EUR 10,160,000. The commitment is secured by a parent company guarantee from the Company in favour of HGT, such security to terminate upon expiry of the agreement in 30 June 2019. There is a risk that the Company may not be able to deliver gas according to the terms of the prepay agreement. If such event were to occur, OGDC will either have to repay the outstanding value of the prepaid amounts not yet compensated by Natural Gas deliveries or the gas buyer may enforce upon the Company's guarantee. This risk is considered to have a medium size potential impact.

In January 2017, the Company's 100% Romanian subsidiary, SHPR, acquired majority participating interests (70% and 80% respectively) in two existing onshore hydrocarbons exploration concessions in Romania thus entering into a non-incorporated joint arrangement with a Romanian company („Joint operation Partner"). As a result of the acquisition, SHPR is committed to carry out a compulsory work program together with the JA partner. SHPR and JA partner are jointly and severally liable towards the Romanian government for the work program obligations which was 38.7 million EUR at the end of 2018.

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

The first phase of both concession work programs expire in October 2018. SHPR and JA partner filed for a multi-year extension of the first phase in May 2018. The Company estimates that at the time of expiry of the initial period of the first phase, the remaining work in one concession may be performed at a cost net to SHPR of approximately EUR 15 million and at a net cost of EUR 13 million in the other concession area. There is a risk that the contemplated extension of the first phases for the concessions will not be granted, or only one will be granted, in which case there is a risk that the Romanian government will impose financial obligations, penalties and/or relinquishment of the concession. While the Company is not aware of any precedent where an extension was refused in comparable cases and any payment obligations or penalties would likely be subject to negotiations, the Company estimates that it could, in the event that it fails to secure such extensions, be required to settle a payment obligation of up to EUR 29 million and EUR 21 million, if such events were to occur.

The Company provided a Letter of Support to its Romanian subsidiary both in 2017 and 2018.

4.8A Accounting policy - Capital commitments and other contingencies

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset (or assets), even if that right is not explicitly specified in an arrangement.

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight line basis over the lease term.

Section 5. Capital and debt structure

This section provides additional information about the Group's business and management policies that the directors consider is most relevant in understanding the business and management of the Group's capital and debt structure including:

- Objectives and policies of how the Group manages its financial risks, liquidity positions and capital structure (Notes 5.1, 5.2, 5.3)

5.1 Share capital and premium

The shares are denominated into class A1 shares, class B1 shares, cumulative preference 1 shares, class A2 shares, class B2 shares, and cumulative preference 2 shares. The par value of each class A1 share, class B1 share, cumulative preference 1 shares, class A2 shares, class B2 shares and cumulative preference 2 shares respectively amounts to one United States dollar cent (USD 0.01).

As per balance sheet date, the issued and paid-up shares consist of 2,572,500 class A1 shares, 401,000 class B1 shares, 14,691,453 cumulative preference 1 shares, 1,730,920 class A2 shares, 133,762 class B2 shares and 5,919,997 cumulative preference 2 shares.

There are no differences between the class A1, A2, B1 and B2 ordinary shares. Each of these shares entitles its holder to cast one vote per share.

Holders of cumulative preference shares are entitled to receive dividends prior to holders of ordinary shares.

Cumulative preference shares build up a dividend reserve belonging to the share as from the date of the issuance of the specific share. In case and in so far the profit of the company as reflected in the adopted financial statements have not been reserved by the management board, the holders of the cumulative preference shares are entitled to the right to firstly receive dividend up until the dividend reserve belonging to the cumulative preference shares is fully paid up. Holders of cumulative preference shares no. 2 have priority over holders of cumulative preference shares no. 1.

After these dividend reserves have been fully paid up, the ordinary shareholders are entitled to receive dividend.

Issue date	Category	Number of shares	Price per share	Amount
February 16, 2017	B1	25 000	1 USD	25 000
February 16, 2017	CP1	8 055	10 USD	80 550
February 24, 2017	CP2	1 149 998	10 USD	11 499 980
May 2, 2017	B1	15 000	1 USD	15 000
May 2, 2017	CP1	4 833	10 USD	48 330
May 31, 2017	CP2	1 799 999	10 USD	17 999 990
August 10, 2017	CP2	1 200 000	10 USD	12 000 000

Allocated share capital: 42,029 USD

Allocated share premium: 41,626,821 USD

Issue date	Category	Number of shares	Price per share	Amount
April 16, 2018	B1	20 000	1 USD	20 000
April 16, 2018	B2	15 000	0,15 USD	2 250
April 16, 2018	CP1	6 444	10 USD	64 440
17.dec.18	B1	-30 000	1 USD	-30 000
17.dec.18	B2	-9 870	0,15 USD	-1 481
17.dec.18	CP1	-9 666	10 USD	-96 660
20.dec.18	B1	20 000	1 USD	20 000
20.dec.18	CP1	6 444	10 USD	64 440

Allocated share capital: 184 USD

Allocated share premium: 42,806 USD

The issuance of shares on April 16, 2018 relates to an issuance of ordinary and preference shares to new minority shareholders and issuance to an existing shareholder.

The cancellation of shares on December 17, 2018 relates to the shares formerly held by Tiger Exploration Consulting Inc. The Company bought back the outstanding ordinary and preference shares from Tiger Exploration Consulting, these were subsequently cancelled.

The issuance of shares on December 20, 2018, relates to an issuance of ordinary and preference shares to an existing shareholder.

Each class A1 share and each class B1 share shall entitle its holder to cast one vote at General Meetings in name of the Company in accordance with the provisions of article 25 paragraph 2 of the Company's articles of association. Each class A2 share and each class B2 share shall entitle its holder to cast one vote at General Meetings in name of the Company.

Cumulative preference shares do not entitle its holder to cast a vote at General Meetings in name of the Company.

The share capital is divided in:

	December 31st, 2018	December 31st, 2017	January 1st, 2017
	€ 000	€ 000	€ 000
Cumulative preference 1 shares	128	20	22
Cumulative preference 2 shares	52	3	2
Class A1 shares	22	21	24
Class B1 shares	4	3	3
Class A2 shares	15	15	17
Class B2 shares	1	1	1
Total	**222**	**63**	**69**

The share premium is dividend in:

	December 31st, 2018	December 31st, 2017	January 1st, 2017
	€ 000	€ 000	€ 000
Cumulative preference 1 shares	128 181	19 540	22 221
Cumulative preference 2 shares	51 652	3 325	1 559
Class A1 shares	2 224	2 124	2 416
Class B1 shares	347	323	330
Class A2 shares	212	202	230
Class B2 shares	17	15	17
Total	**182 633**	**25 529**	**26 773**

5.2 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balances at the level of subsidiaries.

The capital structure of the Group consists of equity, shareholders loans and guarantees issued to subsidiaries and third party debt. In order to achieve this overall objective, the Group's capital management, among other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements.

Refer to note 5.3.2 on covenants related to external capital requirements.

5.3 Financial instruments

5.3.1 Finance income and expense

	2018	2017
	€ 000	**€ 000**
Interest income	45	52
FX gain	379	9 539
Total of finance income	**424**	**9 591**

	2018	2017
	€ 000	**€ 000**
Interest expense bonds (Nordic Trustee AS) EUR 70M	3 571	-
Preference share interest	23 472	20 780
Unwiding-Provision	101	52
FX loss	4 379	0
Total of finance expenses	**31 523**	**20 832**

5.3.2 Interest-bearing loans and borrowings

	December 31st, 2018	December 31st, 2017	January 1st, 2017
	€ 000	**€ 000**	**€ 000**
EUR 70 million 9% bonds due April 13, 2022	69 876	-	-
Preference shares	-	195 560	162 972
Total of interest-bearing loans and borrowings	**69 876**	**195 560**	**162 972**

On April 13, 2018 the Company entered into a Bond Terms Agreement with Nordic Trustee AS. The Bond issuance comprised of an issuance of senior secured EUR 70,000,000 callable bonds at an interest rate of 9% per annum and a maturity date of April 13, 2022. The Bonds have been listed on the Nordic Alternative Bond Market (Operated by the Oslo Stock Exchange) on September 25, 2018. The effective interest rate is 10.15%.

The terms of the placement require the Company to meet and report quarterly the following financial covenants:

- a current ratio (current assets/current liabilities) of minimum 1:1;
- a minimum liquidity of EUR 7 million at all times;
- Leverage ratio (Net interest bearing debt/EBITDA) to be equal to or lower than
  3.00:1x for a Relevant Period expiring on or after 31 December 2018 but before 31 December 2019
  2.50:1x for a Relevant Period expiring on or after 31 December 2019 but before 31 December 2020
  2.00:1x for a Relevant Period expiring on or after 31 December 2020 and until 13 April 2022;
  where Relevant Period means a period of 12 months ending on a Quarter Date
- Negative pledge

In the event the Company does not comply with the financial covenants listed above, it will constitute an Event of Default (Breach of other obligations). The breach may be remedied within 20 business days after the earlier of the Company's actual knowledge thereof.

If an Event of Default has occurred and is continuing, the Bond Trustee may, in its discretion, or upon instruction received from the Bondholders

(a) declare that the Outstanding Bonds, together with accrued interest and all other amounts accrued or outstanding be immediately due and payable, at which time they shall become immediately due and payable; and/or

(b) exercise any or all of its rights, remedies, powers or discretions under the Bond documentation or take such further measures as are necessary to recover the amounts outstanding under the Bond documentation (i.e. seek remedy from the various securities provided by the Company Group).

The Company has not breached any of the covenants as of 31 December 2018 and as of 31 March 2019.

Covenants and requirements	2018 actuals
Current ratio with a minimum of 1.1%	2.6%
Leverage ratio with a maximum of 3:1	0.8:1
Liquidity with a minimum of EUR 7 million	30

Reference is made to note 5.3.3 with respect to the preference shares.

5.3.2 A Accounting policy - Interest-bearing loans and borrowings

Borrowing costs 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), are capitalised as part of the cost of the respective assets. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term from funds borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalized and deducted from the total capitalised borrowing costs. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period.

All other borrowing costs are recognised in the statement of profit or loss in the period in which they are incurred.

Even though exploration and evaluation assets can be qualifying assets, generally, they do not meet the ’probable economic benefits’ test. Any related borrowing costs incurred during this phase are generally recognised in the statement of profit or loss in the period in which they are incurred.

5.3.3 Preference shares

In line with the original intentions of the shareholders, and in accordance with Dutch GAAP the Company has continuously treated and reported the cumulative preference shares as an equity instrument. By adopting IFRS-EU as an accounting standard the Company has reviewed, with the help of its Dutch and UK legal and tax advisors, in detail the SHA and the Articles of Association of the Company taking into account the IFRS-EU standards, in particular which refers to the treatment of preference shares and similar instruments.

The Company came to a conclusion that, under IFRS-EU and based on the Corporate Documentations, the cumulative preference shares should be treated, from an accounting point of view, as a financial liabilities.

From a Dutch tax point of view the Company believes that the cumulative preference shares should not be treated as a financial liability.

The Company also came to a conclusion that, in line with the original intentions of the shareholders, the preference shares should be treated as equity and the Corporate Documentation should be changed accordingly.

Thus the SHA was amended on December 18, 2018 and the Company's Articles of Association on December 20, 2018.

Under the amended corporate documentations any distribution to the holders of the preference shares are at the discretion of the Company and will be subject to the prior approval of the Management Board which means the preference shares can be classified as an equity instrument.

5.3.3 A Accounting policy - Preference shares

Before modification of the corporate documentations:

The preference shares classified as a financial liability.

As the fair value of the preference share is less than the total issue proceeds of the preference share there is a liability and equity component as well.

The equity component is not recorded at its fair value. Instead, in accordance with the general definition of equity as a residual, the equity component of the preference share is simply the difference between the fair value of the compound instrument (total issue proceeds) and the liability component as determined above. The equity component will not be remeasured subsequently.

The liability component is accounted for in accordance with the requirements of IFRS 9 (amortised cost method), for the measurement of financial liabilities.

After modification of the corporate documentations:

The preference shares classified as an equity.

The debt for equity swap is outside the scope of IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments when the creditor is a shareholder acting in its capacity as such. At the date of modification the liability component classified as equity. No profit or loss recognized as the equity instrument issued at the carrying amount of the financial liability extinguished.

5.3.4 Fair values

Carrying value versus fair value

	Carrying amount			Fair value		
	December 31st, 2018	December 31st, 2017	January 1st, 2017	December 31st, 2018	December 31st, 2017	January 1st, 2017
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Financial liabilities						
Bond	**69 876**			**69 876**		
Preference shares		**195 560**	**162 972**		**195 560**	**162 972**

The bond has a quoted price at Oslo Bors (level 1 in the fair value hierarchy).

Management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Preference shares fair value calculation (level 3 in the fair value hierarchy) is determined based on the future cash-flows discounted using the US Generic Government Bond 30 year yield plus a company risk spread that is calculated based on the issued bond's interest and the German Government Bond 4 year yield.

5.3.4 A Accounting policy – Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

5.3.5 Financial risk management objectives and policies

5.3.5.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: commodity price risk, interest rate risk and foreign currency risk. Financial instruments affected by market risk include loans and borrowings, deposits, trade receivables, trade payables, accrued liabilities.

The sensitivity analyses in the following sections relate to the position as at 31 December 2018 and 2017.

The sensitivity analyses are intended to illustrate the sensitivity to changes in market variables on the Group's financial instruments and show the impact on profit or loss and shareholders 'equity, where applicable.

Commodity price risk

The Group is exposed to the risk of fluctuations in prevailing market commodity prices on the mix of oil and gas products it produces. In order to remove commodity price volatility in respect of part of its revenues the Company's Hungarian subsidiary, OGDC, has entered into a new fixed natural gas pricing agreement during the year with one of its key partners. At the year end of 2018 the Group has no derivative financial instrument.

The Group enters only into physical commodity contracts in the normal course of business. These contracts are not derivatives and are treated as executory contracts, which are recognised and measured at cost when the transactions occur.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company issued on April 13 a EUR 70 million bond maturing in 2022 at a fixed interest rate. The Group has no financial liability with floating rate.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has transactional currency exposures that arise from sales or purchases in currencies other than the respective functional currencies.

Third party funding has been provided in EUR and the Company has been also providing significant USD and EUR denominated loan financings to the operating subsidiaries in Hungary and Romania. The exchange rate fluctuations between the EUR, the USD and these local currencies during the year resulted in substantial foreign exchange accounting results in the consolidated P&L of the Company but does not affect cash flows.

It is Company policy to fund expenditures with revenues received in the same currency where possible.

Approximately <1% of the Group's sales are denominated in currencies other than the functional currencies, whereas 30-50% of costs are denominated in currencies other than the functional currencies of the entities in the Group.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the carrying value of monetary assets and liabilities at reporting date. The impact on equity is the same as the impact on profit before tax.

Increase/decrease in foreign exchange rate of EUR	**Effect on profit before tax for the year ended 31.dec.18** **Increase/(Decrease)**	**Effect on profit before tax for the year ended 31.dec.17** **Increase/(Decrease)**
	EUR million	EUR million
EUR/USD +10%	0,73	8,88
EUR/USD -10%	-0,74	-9,49
EUR/HUF +10%	-1,92	-1,17
EUR/HUF -10%	2,12	0,72

5.3.5.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is managed by preparing cash flow forecasts and projections to ensure that the Group and the company has sufficient liquid resources to meet obligation as they fall due. The Group's appetite to liquidity and solvency risk is considered low.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Year ended 31 December 2018	On demand	< 1 year	1 - 2 years	2 - 5 years	> 5 years	Total
Interest-bearing loans and borrowings		6 300	6 300		79 450	92 050
Accounts payable and accrued liabilities	17 252					17 252

Year ended 31 December 2017	On demand	< 1 year	1 - 2 years	2 - 5 years	> 5 years	Total
Interest-bearing loans and borrowings					195 560	195 560
Accounts payable and accrued liabilities	14 496					14 496

Year ended 01 January 2017	On demand	< 1 year	1 - 2 years	2 - 5 years	> 5 years	Total
Interest-bearing loans and borrowings					162 972	162 972
Accounts payable and accrued liabilities	4 172					4 172

5.3.5.3 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group trades only with recognised, creditworthy third parties.

It is the Group's policy to always check the business partners financial position before trading and to update this regularly.

Refer to Note 6.2 for an analysis of trade receivables ageing.

5.3.6 Changes in liabilities arising from financing activities

€ 000	1 January 2018	Cash flows	Other	31 December 2018
Current borrowings	0	0	0	0
Non-current borrowings	195 560	66 491	-192 175	69 876
Total liabilities from financing activities	195 560	66 491	-192 175	69 876

The other item contains the preference share reclassification to equity (Note 5.1) and the interest accrual related to the bond liability (Note 5.3.4)

€ 000	1 January 2017	Cash flows	Other	31 December 2017
Current borrowings	0	0	0	0
Non-current borrowings	162 972	34 762	-2 175	195 560
Total liabilities from financing activities	**162 972**	**34 762**	**-2 175**	**195 560**

The other item contains 20,780 TEUR interest and -22,955 TEUR fx effects.

Section 6. Working capital

This section provides additional information that the directors consider is most relevant in understanding the composition and management of the Group's working capital:

- Cash and short-term deposits (Note 6.1)
- Trade and other receivables (Note 6.2)
- Inventories (Note 6.3)
- Accounts payable and accrued liabilities (Note 6.4)

6.1 Cash, short-term deposits

	December 31st, 2018	December 31st, 2017	January 1st, 2017
	€ 000	**€ 000**	**€ 000**
Unrestricted cash	30 442	7 721	10 823
Restricted cash for short term	0	1 588	0
Total	**30 442**	**9 309**	**10 823**

The restricted cash was held as collateral for a bank guarantee that expired and was debited on the bank account in January, 2018.

6.1A Accounting policy - Cash and short-term deposits

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and with a maturity of three months or less. Cash and cash equivalents include cash in hand and bank balances.

6.2 Trade and other receivables

	December 31st, 2018	December 31st, 2017	January 1st, 2017
	€ 000	**€ 000**	**€ 000**
Trade receivables	13 136	6 376	2 633
Other receivables and prepayments	3 398	1 063	717
Total trade and other receivables	**16 534**	**7 439**	**3 350**

Trade receivables are generally on terms of 0 (advance payment) to 30 days.

Movements in the allowance for impairment of receivables were, as follows:

	2018	2017
	€ 000	**€ 000**
At 1 January	6	2
Charge for the year	16	4
Amounts written off	0	0
Unused amounts reversed	0	0
At 31 December	**22**	**6**

As at 31 December 2018, the analysis of trade receivables, is, as follows:

	Total	Not past due	<30 Days	30-60 Days	60-90 Days	>90 Days
2018	**13 158**	8 472	4 686	0	0	0
2017	**6 382**	6 382	0	0	0	0

6.3 Inventories

	December 31st, 2018	December 31st, 2017	January 1st, 2017
	€ 000	**€ 000**	**€ 000**
Raw materials	6 534	3 981	2 396

The total value of inventory consists of raw materials bought to use for the drillings. There is no write-down for 2018 and 2017.

6.3A Accounting policy - Inventories

Inventories should be 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 amount of any write-down of inventories to net realizable value and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

6.4 Accounts payable, accrued liabilities and taxes and mining royalties payable

	December 31st, 2018 € 000	December 31st, 2017 € 000	January 1st, 2017 € 000
Trade payables	13 156	7 380	2 901
Income taxes payable	44	370	30
Taxes and mining royalties payables	3 348	3 252	537
Other payables	4 096	7 047	1 490
Total	**20 644**	**18 049**	**4 958**

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 30-day terms
- Other payables are non-interest bearing

Contract liability:

Other payables contains contract liabilities which include long-term advances received.

	December 31st, 2018 € 000	December 31st, 2017 € 000	January 1st, 2017 € 000
Contract liability	2 776	5 952	0

	2018 € 000	2017 € 000
Revenue recognized during the year included in contract liabilities at the beginning of the year	3 176	0

Section 7. Group structure

This section provides additional information that the directors consider is most relevant in understanding the structure of the Group, including:

- Group information (Note 7.1)
- Related party disclosures (Note 7.2)

7.1 Group information

Ultimate parent company:

The Company is a subsidiary of WP XI Holdings B.V., which is incorporated and domiciled in the Netherlands, and which directly holds 97.21% (2016: 96.95%) of the Company's shares. The remaining shares are held by private individuals.

1.90% of the Company's shares are held by members of the Management Board and Supervisory Board of the Company.

The Company is ultimately owned by Warburg Pincus Private Equity XI, L.P., WP XI Partners, L.P., Warburg Pincus XI Partners, L.P. and Warburg Pincus Private Equity XI-B, L.P., which are all incorporated and domiciled in the United States of America, and by Warburg Pincus Private Equity XI-C, L.P. and Warburg Pincus XI (Asia) L.P. which are incorporated and domiciled in the Cayman Islands.

Sand Hill B.V. – Holding company:

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

Subsidiaries held directly by Sand Hill B.V.:

Name	Principal activities	Country of incorporation	% equity interest	
			2018	2017
Sand Hill Petroleum Romania S.r.l	Exploration and development	Romania	100%	100%
O&GD Central Kft.	Exploration and development, Production	Hungary	100%	100%

Subsidiaries held indirectly by Sand Hill B.V:

Name	Principal activities	Country of incorporation	% equity interest 2018	2017
OGD Nádudvar Koncessziós Kft.	Exploration and development	Hungary	100%	100%
OGD Újléta Koncessziós Kft.	Exploration and development, Production	Hungary	100%	100%
OGD Berettyóújfalu Koncessziós Kft.	Exploration and development, Production	Hungary	100%	100%
OGD Nagykáta Koncessziós Kft.	Exploration and development	Hungary	100%	100%
OGD Ócsa Koncessziós Kft.	Exploration and development	Hungary	100%	100%
OGD Mogyoród Koncessziós Kft.	Exploration and development	Hungary	100%	100%

Joint operations:

The Company participates in two joint operating agreements ("JOA's"):

- Sand Hill Petroleum Romania S.r.l. participation (70%) in EX-1 Joint Operating Agreement with Panfora Oil & Gas S.r.l.
- Sand Hill Petroleum Romania S.r.l. participation (80%) in EX-5 Joint Operating Agreement with Panfora Oil & Gas S.r.l.

7.2 Related party disclosures

Transactions with key management personnel

Directors' loans

No loans, prepayments, advances and guarantees, were made for the benefit of any member of the Managment Board or the Supervisory Board as per December 31, 2018.

Other Directors' interests

Members of the Management Board and Supervisory Board of the Sand Hill Group own less than **{15%}** of the ordinary share capital of the Company as per December 31, 2018.

Compensation of the key management personnel of the Group

	2018	**2017**
	€ 000	€ 000
Supervisory Board	247	240
Management Board	78	20
Total compensation paid to key management	**325**	**260**

In 2018 an amount of TEUR 325 (2017: TEUR 260) was absorbed by the Sand Hill Group relating to salaries, pensions, and other similar payments to officers in their capacity as members of the Management Board and Supervisory Board of the Sand Hill Group.

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel. Directors do not receive pension entitlements from the Company.

There are no other related party transactions.

Section 8. Other

8.1 Events after the reporting period

The Konyar Gas plant started operations on 26 January 2019. The Company's Hungarian subsidiary, O&GD Central Kft. signed three new hydrocarbons concessions agreements with the Hungarian Ministry of Technology on 24 January 2019. The three concession areas (Békéscsaba, Körösladány and Tiszafüred) are located in the Pannonian Basin in Hungary adjacent to O&GD Central's operating area.

8.2 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements that the Group reasonably expects will have an impact on its disclosures, financial position or performance when applied at a future date, are disclosed below. The Group intends to adopt these standards when they become effective. Of the other standards and interpretations that are issued, but not yet effective, as these are not expected to impact the Group, they have not been listed.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group plans to adopt IFRS 16 using the modified retrospective approach, which means it will apply the standard from 1 January 2019, the cumulative impact of adoption will be recognised as at 1 January 2019 and comparatives will not be restated. The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low-value. The Group has leases of certain office equipment (i.e.,printing and photocopying machines) that are considered of low-value.

IFRS 16 are not expected to materially impact the financial statements. The increase in the Group's recognized assets (right-of-use assets) and liabilities (lease liabilities) will be less than 1% of the total asset at year end 2018.

In addition, compared with the existing accounting for operating leases, the classification and timing of expenses will be impacted which will lead to some improvement in the Group's operating profit, while its interest expense will increase.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

These improvements include:

- IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

- IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

Sand Hill Petroleum B.V.

Company only financial statements for the year ended 31 December 2018

Income statement for the year ended 31 December 2018

	Note	2018	2017
		€ 000	**€ 000**
Other income and expenses (after tax)		-23 130	-19 394
Share in results of subsidiaries	4	-2 630	3 236
Net loss		**-25 760**	**-16 158**

Balance sheet after proposed profit/loss appropriation

as at 31 December 2018

	Notes	31 December 2018	31 December 2017
		€ 000	€ 000
Assets			
Fixed assets			
Investment in subsidiary	3	47 712	49 618
Other financial assets	4	150 721	82 284
Total		**198 433**	**131 902**
Current assets			
Trade and other receivables		48	961
Cash and short-term deposits		6 903	1 017
Total current assets		**6 951**	**1 978**
Total assets		**205 384**	**133 880**
Equity and liabilities			
Share capital		222	63
Share premium		182 633	25 529
Legal reserve		4 214	6 279
Accumulated deficit		-52 134	-93 986
Total equity	5	**134 935**	**-62 115**
Non-current liabilities			
Interest-bearing loans and borrowings	6	69 876	195 560
Total non-current liabilities		**69 876**	**195 560**
Current liabilities			
Trade and other payables		573	435
Total current liabilities		**573**	**435**
Total liabilities		**70 449**	**195 995**
Total equity and liabilities		**205 384**	**133 880**

Notes to the financial statements

1 General

The Company's financial statements are presented in accordance with Section 402 of Book 2 of the Dutch Civil Code. All amount are in EUR thousands, unless stated otherwise.

Legal Name:	Sand Hill Petroleum B.V.
KvK-nummer:	56038038
Corporate Address:	Strawinskylaan 3051, 1077ZX Amsterdam
Place of Incorporation:	Amsterdam, The Netherlands
Formation Date:	September 13, 2012

2 Accounting policies

The parent company financial statements of Sand Hill Petroleum BV. have been prepared in accordance with Part 9, Book 2 of the Netherlands Civil Code.

In accordance with subsection 8 of section 362, Book 2 of the Netherlands Civil Code, the measurement principles applied in these parent company financial statements are the same as those applied in the consolidated financial statements, which were prepared in accordance with IFRS as adopted by the European Union (see Note 2 to the consolidated financial statements), except for the accounting principles for subsidiaries. These are accounted for in accordance with principles as disclosed below.

As the financial data of Sand Hill Petroleum BV. (the "Company") are included in the consolidated financial statements, the income statement in the parent company financial statements is presented in condensed form (in accordance with section 402, Book 2 of the Netherlands Civil Code).

2.1 Investments in subsidiaries

Investments in subsidiaries are valued using the net equity value method. Under this method, the subsidiaries are carried at the Group's share in their net asset value plus its share in the results of the subsidiaries and its share of changes recognized directly in the equity of the subsidiaries as from the acquisition date, determined in accordance with the accounting policies disclosed in these financial statements, less its share in the dividend distributions from the subsidiaries. The Company's share in the results of the subsidiaries is recognized in the profit and loss account. If and to the extent the distribution of profits is subject to restrictions, these are included in a legal reserve.

If the value of the subsidiaries under the net equity value method has become nil, this method is no longer applied, with the subsidiaries being valued at nil if the circumstances are unchanged. In connection with this, any interests that, in substance, form part of the Company's net investment in the subsidiary, are included. A provision is formed if and to the extent the company assumes all or part of the debts of the subsidiary or if it has a constructive obligation to enable the subsidiary to repay its debts.

The expected credit loss on intercompany receivables is eliminated against the intercompany receivables itself.

3 Participating interests in group companies

The company holds 100% of the share capital of O&GD Central Kft. and Sand Hill Petroleum Romania Srl.

	2018	2017
	€ 000	€ 000
Carrying amount at 1 January	49 618	20 696
Capital contributions	757	28 857
Net (loss)/ profit	-2 630	3 236
Foreign currency	-33	-3 171
Carrying amount at 31 December	**47 712**	**49 618**

4 Other financial assets

The other financial assets comprises loans and long term restricted cash.

	2018	2017
	€ 000	€ 000
Carrying amount at 1 January	82 284	79 103
New loans granted	58 692	13 544
Cash increase on restricted account	6 583	0
Repayments	-2 507	0
Foreign currency	5 669	-10 363
Carrying amount at 31 December	**150 721**	**82 284**

5 Shareholders' equity

Share capital	**December 31st, 2018**	**December 31st, 2017**
	€ 000	**€ 000**
Cumulative preference 1 shares	128	20
Cumulative preference 2 shares	52	3
Class A1 shares	22	21
Class B1 shares	4	3
Class A2 shares	15	15
Class B2 shares	1	1
Total	**222**	**63**

Share premium	December 31st, 2018	December 31st, 2017
	€ 000	€ 000
Cumulative preference 1 shares	128 181	19 540
Cumulative preference 2 shares	51 652	3 325
Class A1 shares	2 224	2 124
Class B1 shares	347	323
Class A2 shares	212	202
Class B2 shares	17	15
Total	**182 633**	**25 529**

See note 5.1 to the Consolidated Financial Statements for movements in the issued capital.

5.1 Appropriation of results

Appropriation of result for the year 2017
The financial statements 2017 were approved in the annual general meeting of shareholders held on July 22, 2018. The annual general meeting of the shareholders has determined the appropriation of the result in accordance with the proposal made by the management.

Proposed appropriation of the result for 2018
Management proposed to add the loss for the year 2018 to accumulated deficit.

6 Remuneration of Supervisory Board members and Executive Board members

	2018	2017
	€ 000	€ 000
Supervisory Board	247	240
Management Board	78	20
Total compensation paid to key management	**325**	**260**

7 Commitments

For the commitments reference is made to note 4.8 of the consolidated financial statements.

8 Subsequent events

Reference is made to subsequent events in the consolidated financial statements.

Managing Directors,

Guido Nieuwenhuizen

Tamas Lederer

Intertrust (Netherlands) B.V

Supervisory Board Directors,

Sir Richard L. Olver

Peder Bratt

Jack E. Golden

Simon W.C. Eyers

Martin P. Fossum

David M. Le Clair

OTHER INFORMATION

Independent auditor's report
Reference is made to the independent auditor's report as included on the next page.

Statutory rules concerning appropriation of the net result
According to article 22 of the Company's article of associations, the net result of the year is at disposal of the shareholder.