Sand Hill Petroleum B.V.

Annual report for the year ended 31 December 2021

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DIRECTOR'S REPORT

for the year ended December 31, 2021

The directors present their annual report in name of Sand Hill Petroleum B.V. for the year ended December 31, 2021.

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 a 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 10 subsidiaries directly and indirectly in Hungary, one subsidiary in Romania and one dormant subsidiary in the United Arab Emirates (collectively referred to as "Sand Hill Group" or "Group").

The principal exploration licenses (as of 31 December 2021) owned by the Company through its subsidiaries and joint operations are:

Holder of License (company name)	Name of license	Size of license area (km²)	Start of license period	Expiration of the Exploration period
O&GD Nádudvar Koncessziós Kft. (HU)	Nádudvar	797	2015.08.08	2023.01.12
O&GD Újléta Koncessziós Kft. (HU)	Újléta	790	2015.10.29	2023.04.04
OGD Berettyóújfalu Koncessziós Kft. (HU)	Berettyóújfalu	799	2016.08.21	2024.01.25
OGD Mogyoród Koncessziós Kft. (HU)	Mogyoród	545	2016.10.04	2022.03.10
OGD Nagykáta Koncessziós Kft. (HU)	Nagykáta	551	2016.10.04	2022.03.10
OGD Ócsa Koncessziós Kft. (HU)	Ócsa	600	2016.10.04	2022.03.10
OGD Békéscsaba Koncessziós Kft.	Békéscsaba	1 792	2019.09.14	2025.02.17
OGD Körösladány Koncessziós Kft.	Körösladány	601	2019.09.13	2024.02.17
OGD Tiszafüred Koncessziós Kft.	Tiszafüred	654	2019.09.01	2024.02.05
Sand Hill Petroleum Romania srl.	EX-1 Voivozi	1 014	2015.10.09	2025.04.08
Sand Hill Petroleum Romania srl.	EX-5 Adea	1 090	2015.10.13	2025.04.12

Note: Nadudvar, Ujleta and Berettyoujfalu concessions under 2nd phase of Exploration Period, other Hungarian exploration periods under 1st Phase of Exploration Period.

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

Hydrocarbon concessions in Hungary are granted for 20 years. The Exploration period consists of two phases, the first one for 4 years and the second phase for 2 years, followed by a production period for the remaining term (extendable by 10 years). All Hungarian concession agreements allow for an optional 2 years' extension (2nd phase) following the expiration and completion of the first phase of an Exploration period.

Due to the Covid crisis, the Hungarian government instituted an emergency situation and extended the current phase of all hydrocarbon exploration concessions. The emergency situation has been extended by the Hungarian government several times so far, the last extension announced on 4 November2021. This emergency situation initiated by the Hungarian government is a period when a

special periodical legislation is introduced in order to deal with the social and economic consequences of the epidemy.

The above table shows the expiration dates of the Exploration periods, including the extensions granted due to the Covid emergency.

The consequence of these extensions is that the original time schedule of the mandatory work program items under the respective phases may be suspended, but the mandatory work commitments will have to be completed until the respective final deadlines. There are no outstanding mandatory work commitments under the Nagykata, Mogyorod and Ocsa first phase Exploration periods. Regarding these concession areas Management has filed a request for a 2 year optional extension commencing as of the expiration of the first phase exploration periods. Management applied for the optional second phase extension for the Berettyóujfalu concession. Regarding the Bekescsaba and Korosladany Concessions the Company has filed a request to the Hungarian authorities to transfer the outstanding work programs under these concessions to another existing concession areas (Mogyorod and Ujleta) and relinquish these (the Bekescsaba and Korosladany) concessions. More information on these areas is presented under Events after reporting date.

In Romania, the concession term is 25 years, with the possibility of extension by a maximum of 15 years. The exploration period consists of ten years (included in the 25-year term) and is divided into 2 phases, Phase I – compulsory and Phase II – which can be performed after completing Phase I and becomes compulsory only after opting to proceed with one of the three available work commitment alternatives. Currently the 7th year of the exploration period (Phase I) is in progress. Sand Hill Petroleum Romania srl. received in 2021 an extension whereby the current deadline to complete the works for Phase I is in April 2025.

The principal production licenses owned by the Company through its subsidiary are:

Holder of License	Mining Plot	Size of license area (km^2)	Date of establishment	Production started	Deadline for beginning of production
O&GD Central Kft. (HU)	Abony V.	22,42	June 17, 2020		June 17, 2025
O&GD Central Kft. (HU)	Cibakháza I.	7,76	July 29, 2020		July 29, 2025
O&GD Central Kft. (HU)	Csataszög I.	10,98	August 4, 2020		August 4, 2025
O&GD Central Kft. (HU)	Csépa I.	10,53	July 8, 2020		July 8, 2025
O&GD Central Kft. (HU)	Dévaványa II.	11,76	October 13, 2008	January 19, 2009	
O&GD Central Kft. (HU)	Dévaványa III.	4,76	April 13, 2010	July 9, 2010	
O&GD Central Kft. (HU)	Ecsegfalva II.	2,87	April 17,2014	January 23, 2017	
O&GD Central Kft. (HU)	Endrőd II.	8,89	August 22, 2009	January 26, 2010	
O&GD Central Kft. (HU)	Kenderes II.	39,41	May 28, 2020		May 28, 2025
O&GD Central Kft. (HU)	Kengyel II.	68,52	August 26, 2020		August 26, 2025
O&GD Central Kft. (HU)	Kisújszállás I.	13,90	June 10, 2010	January 1, 2018	
O&GD Central Kft. (HU)	Mezőtúr V.	116,30	January 23, 2010	July 18, 2015	
O&GD Central Kft. (HU)	Nagyrév I.	19,80	August 4, 2020		August 4, 2025
O&GD Central Kft. (HU)	Öcsöd I.	88,68	May 8, 2020	January 1,2021	
O&GD Central Kft. (HU)	Öcsöd II.	67,17	May 7, 2020		May 7, 2025
O&GD Central Kft. (HU)	Örményes I.	91,85	June 9, 2010	March 3, 2015	
O&GD Central Kft. (HU)	Örményes II.	11,19	May 21, 2020		May 21, 2025
O&GD Central Kft. (HU)	Penészlek II.	43,38	April 15,2011	January 8 2019	
O&GD Central Kft. (HU)	Szajol II.	10,19	July 2, 2020		July 2, 2025
O&GD Central Kft. (HU)	Szarvas IV.	36,63	April 1,2020		April 1,2025
O&GD Central Kft. (HU)	Szolnok V.	67,75	August 12, 2010	October 1, 2018	
O&GD Central Kft. (HU)	Szolnok VI.	46,51	July 26, 2010	September 9, 2019	
O&GD Central Kft. (HU)	Szolnok XIII.	82,40	October 20, 2020	January 1, 2021	
O&GD Central Kft. (HU)	Tiszaföldvár II.	12,05	June 1, 2020		June 1, 2025
O&GD Central Kft. (HU)	Tiszaföldvár III.	9,97	June 1, 2020		June 1, 2025
O&GD Central Kft. (HU)	Tiszakécske I.	44,20	June 18, 2010		June 8, 2020
O&GD Central Kft. (HU)	Törökszentmiklós IX.	13,02	June 10, 2020		June 10, 2025
O&GD Central Kft. (HU)	Törökszentmiklós X.	29,96	August 4, 2020		August 4, 2025
O&GD Central Kft. (HU)	Törökszentmiklós XI.	26,62	June 24, 2020		June 24, 2025
O&GD Central Kft. (HU)	Túrkeve III.	8,17	October 20, 2012	May 9, 2013	
O&GD Central Kft. (HU)	Túrkeve IV.	9,62	February 12, 2013	May 9, 2013	
O&GD Central Kft. (HU)	Zagyvarékas II.	11,57	August 10, 2020		August 10, 2025

Note: OGDC did not place the Tiszakecske I into production for which it had 2 times 5 years. Cancellation of the mining plot rests with the authorities, there is no obligation on OGDC.

Production under the O&GD Central Kft. production licenses have no time limit because these rights are regulated by a legislation enacted prior to the introduction of the concession regime. Production of hydrocarbons also takes place in the Berettyóújfalu and Újléta concession areas under exploration licenses.

Revenues for the year ending December 31, 2021 were EUR 52.5 million (2020: EUR 33.2 million). The increase in revenues was attributable to the substantial increase in hydrocarbons prices and because the fixed price gas sales contract that expired by the end of September 2021 was replaced with a more favourable fixed price agreement within the new 3 years Gas Sales Agreement signed by O&GD Central Kft. with a major Hungarian offtaker. All revenues were generated by the operations in Hungary.

Due to a slowdown in investment activities because of the change of control process (see Events after reporting date section) the volume of hydrocarbons sold in 2021 dropped to an average of 13.2 mmcfe/d from 18.7 mmcfe/d in 2020.

The Company took several actions in 2021 to mitigate the drop in production by carrying out several workovers and installing compressors to boost production. These measures increased production costs. Production cost was also increased due to the write-off of a gas well, which stopped producing due to technical problems, and due to increased mining royalty despite lower production resulting from the new royalty calculation formula, which is based on Dutch TTF gas price instead of Brent for gas production and which is applicable in Hungary from 28 March 2021. The Company's Hungarian subsidiaries have also put 2 wells into production during 2021 (2020: 3 wells).

The average number of employees of the Group in 2021 was 99 (2020: 116). These employees are primarily employed within the operations in Hungary.

ln the year 2021, the Group reported an operating profit of EUR 5.8 million (2020: operating loss of EUR 32.7 million). The operating profit is largely attributed to the operations carried out in Hungary.

Finance expenses decreased because, due to the 2nd amendment of the "9.00 per cent Senior Secured 70,000,000 Callable Bond Issue 2018/2022" with ISIN NO001 0820616 Bond by adding additional three percent back-end fee, the effect of the change in contractual cash-flows (modification loss) had to be recognised immediately at the date of modification in 2020.

The Group incurred a tax expense of EUR 2.8 million during 2021 (2020: EUR 1.2 million), which is mainly the result of movements in deferred tax assets, local business tax and current tax expense arising in the Dutch holding entity.

The Group reported a loss for the year of EUR 5.8 million during 2021 (2020: EUR 43.4 million).

The directors consider the recent operational performance of the Group better than budgeted mainly due to the higher price environment. The directors plan that the Group will continue to operate in line with its approved budget. The approved budget for 2022 focuses on complying with the mandatory commitments both in Hungary and Romania.

Investments and financing

The Group's total assets increased to EUR 172.1 million as at December 31, 2021 (2020: EUR 159.4 million). The increase was caused by an increase in current assets, as there was, inter alia, more cash available at year end and trade receivables were significantly higher because of higher revenues. The Group drilled 2 development wells (in Hungary) during 2021, the hook-up of one being suspended because of technical reasons.

Net cash flows from operating activities increased to EUR 19.5 million in 2021 from EUR 4.9 million in 2020 due to the increase in operating profits as well as a less negative change in working capital. The increase of operating profits was mainly due to increased market and realised oil and gas prices in 2021 despite the drop in production (revenue increased by 59 % year on year) levels and a significant reduction in Impairment. The Group reduced its capital expenditure activity levels by spending EUR 9.1 million on investment activities in 2021, which was below capital expenditures in 2020. Operations and

investments in 2021 were financed through internal cash generation and use of available cash balances.

The Company issued EUR 70 million bonds in April 2018. 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 21.3 million (2020: EUR 11.1 million). A reconciliation of the adjusted EBITDA to the Consolidated statement of profit or loss for the year is presented below.

	2021	2020
	€ 000	**€ 000**
Operating profit/loss (EBIT)	**5 820**	**(32 686)**
Depreciation and amortization	11 174	15 239
Impairment of Exploration rights	0	1 822
Impairment and write off of exploration and evaluation assets (Note 4.5)	2 805	9 646
Impairment and write off of oil and gas properties (Note 4.5)	1 390	12 108
Impairment other assets (Note 4.5)	91	5 018
EBITDA	**21 280**	**11 147**
Expected credit losses (Note 3.6)	10	-1
Adjusted EBITDA	**21 290**	**11 146**

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

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

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

2P (proven and probable) gas and liquids (condensate & oil) reserves stood at 61 bcfe (billions of cubic feet equivalent) at the end of 2021 (2020: 68.61 bcfe). Reserves declined because of production and at the same time very limited capital expenditure spent on drilling and hooking up wells to replace produced reserves.

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 conscious, in order to effectively respond to new threats and opportunities, to reduce potential future losses and to optimize returns.

Risk management awareness is part of the Company's strategy and a priority for the Group's executive management.

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 Company and the Group's financial position, the outlook and the risks for the business are discussed by the Company's Supervisory Board and Management Board together with local management.

This framework attempts to ensure the identification, assessment and control of significant risks within the Group and at multiple levels of the organization.

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 risk management 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 risk management is represented by the Group's senior executive Management which establishes the internal control and risk management framework, coordinates, monitors and consolidates the information, supports and challenges operational managers 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.

The risk profile is periodically reviewed and approved by the Company's Board.

The treatment of risks focuses on reaching the optimal risk balance between efforts, 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 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 considerations drive 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 and seeks to avoid any negative impact on reputation with any of its key stakeholders and will only tolerate minimum exposure in this regard.

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

The volatility of hydrocarbons, the ongoing Ukranian-Russian war, unavailability or high cost of factors of production, market conditions or operational impediments may adversely affect the Group. Increasing environmental pressures and climate change are leading the EU to consider and deploy measures including carbon pricing, emissions caps and tighter regulation; these may in future negatively affect both demand and pricing for hydrocarbons including those produced by the Group, as well as the costs incurred by the Group in the development and production of its resources. These measures may also influence the ability to secure future funding.

Hungary and Romania are exposed to the market movements of the European onshore hydrocarbons market. Gas prices in Hungary are typically directionally linked to Dutch and Austrian benchmark market prices and are quoted in EUR, whilst gas prices in Romania are denominated in RON. Oil and other liquid prices are benchmarked to Brent prices. Availability of exploration equipment is exposed to EU wide market movements. Hungary is particularly exposed in terms of supply to the import of Russian gas and crude oil. The escalation of the war would likely increase the strategic importance of the Group's operations in Hungary. The Group might use hedging instruments in order to, to the extent possible, partially protect itself against price risk and ensures the availability of exploration and production equipment through entering into long-term contracts and fixed prices.

These risks are considered as having a high potential impact on overall 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.

These risks are considered as having a medium 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 while avoiding any health, safety or environmental incidents. 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 any contractual relationship.

These risks are considered as having a medium potential impact on overall Group activities and results.

3. Customer and Joint Operating 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 two large trading companies in Hungary, MVM CEE Energy and MOL Plc. 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 Group's executive monitors changing market trends and build relationships with new customers.

The Company has one Joint Operating partner in Romania, Panfora Oil & Gas srl., a subsidiary owned 100% by MOL Plc. which is considered as a reliable and financially sound partner.

These risks are considered as having a medium potential impact on overall 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 require 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.

These risks are considered as having a medium potential impact on overall Group activities and results.

5. Commodity Price Risks

The Company is exposed to commodity price risk mainly on the sale side of natural gas and liquids. Commodity prices have been extremely volatile over the last year and, given the uncertainties around the outcome of the Ukrainian-Russian war, the volatility is likely to continue. The Company has encountered instances where counterparties were not willing to offer financial hedges. In order to mitigate price volatility, the Company will continue to seek such opportunities and may enter into commodity hedging contracts to reduce risk to the extent practically possible, although this only partially reduces the ultimate risk to the financial performance of the Group companies. The Company partially mitigates commodity price risk by entering into one-year fixed price contracts with its customers. The Company may be left with significant exposure to spot prices.

These risks are considered as having a high potential impact on overall Group activities and results.

6. Interest Rate Risk

Inflationary trends are placing more and more pressure on Central Banks to increase interest rates. The Hungarian Central Bank has increased HUF interest rates several times over the last 5 months to offset the impact of inflation. The Company does not have at present any material floating rate interest rate debt.

The Company issued on April 13, 2018 a EUR 70 million bond maturing in 2022 at a fixed interest rate.

These risks are considered as having a low potential impact on overall Group activities and results.

7. Foreign Currency Risk

The business operation is economically driven mainly by EUR. The Company has currency risk exposure given that less than 50% of its costs are denominated in currencies other than the functional currencies of the entities in the Group. 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 5.3.6.1

These risks are considered as having a low potential impact on overall Group activities and results.

8. Capital Risk Management

The Group attempts to manage its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders.

The capital structure of the Group consists of equity and guarantees issued to subsidiaries and third-party debt. Given performance in recent years of the Group, its peer group as well as the overall commodity market, the Company and the Group is exposed to risks in terms of securing access to equity, debt or other sources to finance the business in the future. For more details, please refer to the note on Going Concern and Note 2.1. Basis of preparation.

These risks are considered as having a high potential impact on overall 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 4.7.

These risks are considered as having a medium potential impact on overall Group activities and results.

10. Retention of key talent

The progress of the Group to date has been achieved by its staff, and the future success of the business will depend largely on the Group's ability to attract and retain talented employees. The market for highly skilled workers has become more competitive due to strong commodity markets. Historically, 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. Turnover of personnel is now increasing as more opportunities open up both in hydrocarbons industry and in the general market. Staff compensation schemes are reviewed on a yearly basis with the assistance of an industry expert to align compensation with the market.

These risks are considered as having a medium potential impact on overall 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 Company and the Group has sufficient financial resources to meet all obligations as they fall due. The Company and the Group is exposed to risks to liquidity and solvency given inter alia the volatile commodity price environment, the Covid-19 pandemic, the performance of the Group’s producing hydrocarbon assets and the Group’s liabilities (see further details under the Going Concern section and Note 2.1).

SHPBV issued a senior secured callable EUR 70 million bond on 13 April 2018 with a maturity of 4 years. The Bonds are listed on the Nordic Alternative Bond Market. The Group obtained a waiver on 19 December 2019 further extended on 30 April 2020 and 29 November 2021 regarding compliance with financial covenants as set out in the Bond terms.

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

Pursuant to the Summons of 29 November 2021, the interest that was due on the Interest Payment Date on 13 October 2021 was postponed to 31 January 2022 (and paid on 3 February 2022) and the Leverage Ratio, which would otherwise be tested on 31 December 2021, was waived until 31 March 2022. On 27 April 2022 the Bondholders waived permanently the Leverage Ratio.

The financial covenant requirements under the terms of the Bonds are:

Covenants and requirements	**2021**	**2020**
Leverage ratio with a maximum of 2.5:1 (waived permanently)	3.38:1	6.57:1
Liquidity with a minimum of EUR 3 million	16 mn	6 mn

The definitions and calculations of the financial covenant requirements are further described in Note 5.3.2.

These risks are considered as having a high potential impact on overall Group activities 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 Group's operations take place in Hungary and Romania. Both countries are members of the EU and NATO, both are market economies. Both countries participate in sanctioning Russia because of the Russian military intervention in Ukraine. Russia considers both Hungary and Romania as unfriendly countries with the risk of cutting supplies of gas and oil to these countries. Such actions could cause severe internal economic problems.

The Company has no business relations with any Ukrainian or Russian entity and has no direct exposure to any of these countries. But the Company may be exposed to any consequence related to the war through the economic environment in which it operates.

Furthermore, Hungary has an ongoing dispute with the EU regarding the rule of law the result of which may be Hungary receiving significantly less EU funds both from the Recovery Fund and the new EU budget. Such measures could result in an increase in tax rates and place further pressure on HUF.

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 have been regularly reminded about the importance of complying with these policies and encouraged to use the whistleblowing lines if necessary.

The Group had a substantial exposure to Hungary, but it is now focusing again on the development of its activities in the Romanian market given that the Phase 1 exploration periods have been successfully extended until 2025.

These risks are considered as having a high potential impact on overall Group activities and results.

Future outlook

The European gas markets experienced a colder than normal winter weather at the beginning of 2022 and the industrial use recovered significantly from the pandemic impact. Gas prices increased to record highs by the end of 2021 and beginning of 2022. Storage stocks remained at low levels, LNG supplies into Europe reduced significantly. The ongoing Ukrainian-Russian war added to the high level of prices and there is a risk to Russia cutting supply of oil and gas to the Central European region (incl. Hungary). Uncertainties about supply and prices will likely remain throughout the year. While the industry's recovery is better than expected, uncertainty remains over market dynamics in the coming year.

Assuming the issues elaborated in detail under the Going Concern are solved the Group's business operations will continue to be primarily dependent on the revenues from oil & gas production to cover its operating and capital expenditures, which in 2022 will focus on the fulfilment of work commitments, safe and efficient operations with workovers and highly limited investment in production facilities and related infrastructure. Assuming the Plan designed by Management described more in detail under the Going Concern and Note 2.1. is implemented the price outlook on the forward gas markets (Dutch TTF and Austrian VTP forward curves) supports the Group's overall financial expectations for 2022.

Going Concern

The Company has prepared the 2021 consolidated financial statements on a going concern basis. In making this judgement, the Company has looked at a variety of factors to assist in evaluating the Group's sustainability and its ability to manage obligations due within 12 months from the date of authorization to issue this report (the "Period").

Based on the analysis, the Company has identified events and circumstances that could create serious uncertainty about the Company's ability to continue as a going concern and concluded that material uncertainty exists. These events and circumstances are related to, inter alia, the volatility of hydrocarbon prices caused mainly by the geopolitical change related to the ongoing Ukrainian-Russian war, the royalty related measures taken by the Hungarian Government in the current situation, the potential decline in the Group's production, the potential change-of-control (a potential change in the ownership of the Company's shares) as a result of the Company's ongoing strategic review process, the mandatory work-program related investment commitments in the countries where the Group operates, and the requirement of repaying the 9.00 per cent. Senior Secured 70,000,000 Callable Bond Issue 2018/2022 ("Bonds").

In order to support its assessment Company has developed different operational scenarios (Base Case, downside sensitivities) for the Period.

Base case assumed current production levels, hydrocarbons pricing as per forward curves quoted on 27 June 2022 (Argus, Platts, TheIce), operating costs adjusted by EUR inflation, termination on 30 September 2022 of cca 30% of gas sold at fixed prices with all gas sold at spot prices (based on forward curve) thereafter, increased royalty rates applied to all Hungarian hydrocarbons production as of August 2022, drilling of 3 mandatory wells until May 2023, some workovers and installation of compressors and mandatory seismic related works in Romania. Management considered as key uncertainties the price and production levels. Management analyzed scenarios where both production and price levels dropped by 15% during the Period compared to the Base Case (all under assumptions

being the same). Under both downside scenarios Group consolidated cash balances resulted robust enough to support the impact of the downside assumptions.

The Company believes that it will be able to generate sufficient cash during the Period to meet all the operational obligations arising out of the mandatory work-program related investment commitments and accommodate the increased royalty measures introduced by the Hungarian Government as of August 2022. However, Management still believes that material uncertainty exists due to significant uncertainty with regards to ability to repay the outstanding Bonds of EUR 63.7 million including all amounts and costs outstanding as of 1 August 2022.

Within the assessment process Management recognized that the key uncertainty during the Period is the repayment of the Bonds. The Company has been in regular contact with selected wall-crossed bondholders who have formally chosen to receive periodic updates over the change-of-control process. These Bondholders (the "Select Bondholders") have signed confidentiality and standstill undertakings with the Company. The Select Bondholders formed an Ad Hoc Committee ("AHC") and reached out to the Company on 11 February 2021 with the intention to play an active role in the change-of-control process. The Select Bondholders represent today ownership covering approximately 77% of the outstanding bonds. Since the date of their official notification, the Select Bondholders have been actively involved in the change-of-control process and are looking into detailed Company data including its financial outlook. The AHC has appointed on 27 September 2021 ABG Sundall Colliers (Norway) as their financial adviser. Bondholders signed a Governance Agreement on 26 January 2022 whereby the Investor appointed new members of the Supervisory and Management Board of the Company selected by the AHC.

The Bonds matured formally on 13 April 2022, but Bondholders decided to extend maturity to 30 September 2022 subject to a successful change of control agreement to be signed until 11 August 2022 and that the Bondholders, no later than 18 August 2022, by way of a Written Resolution have approved the mechanics and amount, together with cost accrued for Nordic Trustee AS (including legal and financial advisor costs), applicable to finally settle the Bonds, unless the Bonds will be redeemed in full, including all amounts and costs outstanding as of 1 August 2022. In case the conditions above are not met, the bonds become payable immediately.

Since 13 April 2022 the Company has made partial redemptions in an amount of EUR 22 million plus accrued interest on these amounts. On 11 July 2022, in order to support the going concern nature of the Company, the Company has received a letter from Nordic Trustee AS, representative of the Bondholders, stating that the Bondholders shall continue to support a sale/debt restructuring of the Company within the period ending 30 September 2023.

ABG Sundall Colliers has identified two serious investors interested in taking over the full ownership of the Company and provide a settlement of the Bonds. No agreements have been signed per preparation date of the financial statements.

Management believes that the Bondholders have the following options in the event that a change of control is not reached within any agreed deadline and therefore the Bond is declared matured.

a) request the Company to repay the outstanding amount of the Bonds plus accrued interest during the Period;
b) extend the terms of the Bond and continue looking for a new capital partner that is interested in taking over and accept cancellation of restructuring the Bonds;
c) become owners of the Company through a debt-to-equity swap;

Under a) the Company would not have sufficient cash to repay the full outstanding amount of the Bonds plus accrued interest. The Company would be forced into liquidation and Bondholders could exercise their rights under the Security arrangements. Management is of the opinion that it is not the intention of the Bondholders' to liquidate the Company but to find a way to ensure continuation of the operations until the change of control and/or debt restructuring is solved. Management interprets the letter received from Nordic Trustee dated 11 July 2022 as supportive of this view. This is also consistent with rational economic approach as liquidation / bankruptcy could put the Company's licenses (key assets) at risk, thereby reducing ultimate recovery for creditors materially.

Under b) to some extent the current process would continue, extending maturity and Bondholders requesting for partial redemptions or formalize a new debt service plan depending on the Company's cashflow generation capability until such point in time when a change of control and/or satisfactory settlement of the Bonds happens. The impact of this scenario would be a continuation of the Company's business, but with limited ability to grow because funds would be continually diverted to service the Bonds, postponing other non-mandatory capital expenditures. This scenario was taken as basis in the base case as described above. Management believes that this could be a very likely scenario in the event there is no change of control until 11 August 2022 as it continues to provide an option to the recovery of the Bonds. Under this option, the Company will continue to operate normally within the limitation as described earlier. However there remains a material uncertainty with respect to the going concern assumption.

Bondholders could become owners (option c) of the Company through a debt-to-equity swap. Management understands that there are several bondholders holding the Bonds. It is unknown by the Company whether all Bondholders can hold equity stakes. It could well happen that some of the Bondholders become owners alongside a new investor. Management believes this scenario to be less likely because of potential investment policy restrictions for some of the existing Bondholders and the complexity related to accommodating different interests (swapping bondholders and new investor).

Based on all of the above, Management considers the use of the going concern assumption to be appropriate, however material uncertainty exists due to significant uncertainty with regards to ability to repay the outstanding Bonds.

More details are provided under Section 2.1. and Section 5.3.2 of the Consolidated Financial Statements.

Covid assessment

The Company continued implementing a control framework with an emphasis on providing primarily for the security and welfare of its employees and contractors in order to ensure continuity of the business. Within this framework the Company arranged for a safe working environment, including regular workplace disinfection, regular covid testing of critical employees, distributing masks, and allowing home office or rotational physical presence where possible. The Company also provided regular communication to all stakeholders about current Company measures relating to operating during the pandemic. The Company does not believe that the pandemic has had a significant negative impact on production levels, compliance with existing sales contracts, contractual performance by Buyers or loss of manpower, therefore the Company is of the opinion that the measures implemented are reasonable to continue during the continuation of the COVID-19 pandemic.

Accounting Records

The measures that the directors have taken to secure compliance with the requirements included in IFRS as adopted by EU and 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.

Events after the Reporting Date

An optional second phase extension for the Berettyóujfalu concession was granted and signed with the Hungarian authorities in January 2022. The extension added HUF 760 million (EUR 2 million) to the HUF 9,418 million (EUR 25.5 million) total outstanding mandatory work programs in Hungary. In respect of the Ocsa, Nagykáta and Mogyoród concession areas the Company signed in March 2022 a 2 year optional extension commencing as of the expiration of the first phase exploration periods. In return for the extension the Company offered to add a total of HUF 180 million (cca EUR 0,5million) worth of mandatory work programs for all three concession areas.

In March 2022 the Management of the Company relinquished the Korosladany and Bekescsaba (Hungary) licenses. Through an agreement with the Hungarian authorities the work program items of the outstanding mandatory commitments in these two concession areas were transferred to the Berettyoujfalu and Ujleta concession companies and the concession agreements for Körösladány and Békéscsaba were terminated without any penalties. O&GD Central Kft, the sole owner of these concession companies, initiated the liquidation of OGD Korosladany Concession Kft. and OGD Bekescsaba Concession Kft.. From a monetary point of view this exchange of mandatory commitments could result in upto HUF 1 641 mn (EUR 4.3 mn) reduction of the outstanding mandatory work programs. The assets at Korosladany and Bekescsaba concession areas were written off in the 2021 Financial statements.

On 26 January 2022 the Company entered into an agreement with the Shareholders and Bondholders regarding certain transitional arrangements (the "Governance Agreement"), waived the occurrence of any Change of Control Event caused by the entry into of the Governance Agreement, the appointment of the Interim Board Members, or any of the elements contemplated by the Governance Agreement, approved of and granted to the Bond Trustee a power of attorney, such power of attorney to remain valid until the earlier of completion of the change of control process or the termination of the Governance Agreement.
The purpose of the Governance Agreement was to share control over the Company and the Group with the Bondholders.

Further to the Governance Agreement Mr. Guido Nieuwenhuizen and Intertrust Netherlands B.V. resigned as members of the Management Board, Sir Richard Olver, Mr. Peder Bratt and Mr. Simon Eyers resigned as members of the Supervisory Board. Mr. Hein Coops and Mr. Arnaud van der Lingen were appointed as new members of the Management Board and Mr.
Henrik A. Christensen, Mr. Jan Chalupa and Mr. Kjell Erik Eilertsen were appointed as new members of the Supervisory Board.

The Company paid in early February 2022 the interest that was due on the Interest Payment Date on 13 October 2021 and postponed to 31 January 2022.

On 8 April 2022 the Bondholders approved the extension of the Maturity Date to 2 May 2022 provided the Company paid on 13 April 2022 EUR 14 million as partial redemption, the interest due on 13 April 2022, settled outstanding invoices from Nordic Trustee and paid an advance of EUR 845,000 for future expenses. As of 13 April 2022 the amount of the outstanding bonds, after payment of the EUR 14 million partial redemption, was equivalent to EUR 65,881,627.

On 27 April 2022 the Bondholders announced that they have been presented with an offer ("Offer") dated 18 January 2022 submitted by certain members of the Company's management on behalf of themselves and a Hungarian financial investor (together with the bidding Company managers, the "Buyers").

Under the Offer it is contemplated that in addition to the acquisition of 100% of the shares in the Company by the Buyers, the Transaction shall involve a full redemption of the Bonds and outstanding accrued interest on or about the completion date of the Transaction against the Bond Trustee's receipt of:

(a) EUR 42,905,327 (the "Redemption Amount"); and

(b) payment of all outstanding costs, fees and any other amount (including all legal and financial advisor's fees) incurred by the Bond Trustee being outstanding at the date of completion of the Transaction.

Following the Bond Trustee's receipt of the Redemption Amount and the Trustee's Costs within 30 September 2022, the Bonds and all other amounts outstanding under and pursuant to the Finance Documents (as defined in the Bond terms) will be considered fully redeemed and the Bond Trustee shall thereafter release all Transaction Security.

On 27 April 2022 the Bondholders also approved to extend the Maturity Date from 2 May 2022 to the earlier of (i) the fifth Business Day following the day the Bond Trustee has received the Redemption Amount and (ii) 30 September 2022 (the "New Maturity Date"), provided that the share purchase agreement between Seller, Buyer and the Company is signed no later than 16 May 2022.

Given that the SPA was not signed on 16 May 2022 the Bondholders, on 17 May 2022, announced that they expected that a share purchase agreement documenting a sale of the shares in the Company could be signed by 31 May 2022, and that the commitments by a buyer under such share and purchase agreement will enable the Company to redeem the Bonds with an amount to be finally approved by Bondholders through a Written Resolution.

Bondholders extended the Maturity Date to 30 September 2022 conditional upon: a) that the Company by no later than 25 May 2022 (i) partially redeems the Bonds with an amount of EUR 5 million, together with interest accrued on this partial redemption amount from 13 April 2022 until payment of the partial redemption amount and (ii) pay any accrued and unpaid costs (iii) a share purchase agreement regarding the sale of the shares in the Company has been signed no later than 31 May 2022 (iv) the Bondholders no later than 6 June 2022, by way of a Written Resolution have approved the amount, together with cost accrued for the Bond Trustee applicable to finally redeem the bonds, unless the Bonds will be redeemed in full with all amounts and costs outstanding as of 17 May 2022.

In line with the request made by the Bondholders the Company, before 25 May 2022, made a partial redemption of the Bonds by paying EUR 5 million, together with interest accrued on this partial redemption amount from 13 April 2022 until payment of the partial redemption amount and paid any accrued and unpaid costs.

However, a share purchase agreement was not signed on 31 May 2022 therefore the Bondholders announced on 1 June 2022 that they wish to continue to extend the Maturity Date to 30 September 2022 (the "New Maturity Date") conditional upon:

a) that the Company by no later than 10 June 2022 partially redeems the Bonds with an amount of EUR 3 million, together with interest accrued on this partial redemption amount from 13 April 2022 until payment of the partial redemption amount;

b) that a share purchase agreement regarding the sale of the shares in the Company has been signed no later than 22 June 2022; and

c) that the Bondholders no later than 30 June 2022, by way of a Written Resolution have approved the mechanics and amount, together with cost accrued for the Bond Trustee, applicable to finally redeem the bonds.

On 4 June 2022 the Hungarian Government announced an increase in the rate of the mining taxes for the years 2022 and 2023. The increased rates shall enter into force on 1 August 2022. First increased royalty shall become payable in September 2022.

The Company made the EUR 3 million partial payment before 10 June 2022 together with interest accrued on this partial redemption amount from 13 April 2022 until payment of the partial redemption amount as required under the written resolution made by the Bondholders published on 1 June 2022. The other conditions were not met. After payment of the EUR 3 million partial redemption the outstanding amount of the Bonds was equivalent to EUR 57,881,627.

On 28 June 2022 Bondholders announced that, in order to facilitate a share sale process and final redemption of the Bonds, they were of the view that it is in the best interest of the Bondholders to continue to extend the Maturity Date to 30 September 2022 (the "New Maturity Date") conditional upon:

that a share purchase agreement regarding the sale of the shares in the Company has been signed no later than 12 July 2022; and

that the Bondholders no later than 19 July 2022, by way of a Written Resolution have approved the mechanics and amount, together with cost accrued for the Bond Trustee (including legal and financial advisor costs), applicable to finally settle the Bonds, unless the Bonds will be redeemed in full with all amounts and costs outstanding as of today.

The above deadlines were amended by Bondholders on 15 July 2022, 28 July 2022 and 1 August 2022. As per their decision of 1 August 2022 Bondholders decided to extend the above deadlines to 11 August 2022 and 18 August 2022 respectively.

Early July 2022, the Company's Hungarian subsidiary, O&GD Central Kft. entered into a fixed price gas sales delivery contract for 600 Mhw/d with CEEnergy Zrt. effective from 1 October 2022 to 30 September 2023.

Auditors

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

Amsterdam, August 4, 2022

Managing Directors,

Hein Coops

Tamas Lederer

Arnoud van der Lingen

Supervisory Board Directors,

Henrik A. Christensen

Jan Chalupa

Kjell Erik Eilertsen

Martin P. Fossum

David M. Le Clair

Sand Hill Petroleum B.V.

Consolidated financial statements for the year ended 31 December 2021

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021

	Notes	2021	2020
		€ 000	**€ 000**
Revenue	3.2	52 458	33 185
Other income		478	369
Own work capitalized	3.5	441	379
Production costs	3.3	-26 930	-15 012
Exploration expenses	3.4	-3 329	-2 134
Impairment	4.5	3 894	-26 001
Employee benefit expense	3.5	-3 389	-3 964
Depreciation and amortization	4.2, 4.3, 4.4	-11 174	-15 239
Other operating expenses	3.6	-6 629	-4 269
Operating profit /(loss)		**5 820**	**-32 686**
Finance income	5.3	561	293
Finance expense	5.3	-9 352	-9 827
Profit /(loss) before income tax		**-2 971**	**-42 220**
Income tax expense	3.7	-2 799	-1 182
Profit/(loss) for the year attributable to equity holders of the parent		**-5 770**	**-43 402**
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)		272	78
Net gain/ (loss) on cash flow hedge	5.3.4	0	-1 252
Total comprehensive income / (loss) attributable to equity holders of the parent		**-5 498**	**-44 576**

Consolidated statement of financial position as at 31 December 2021

	Notes	31 December 2021	31 December 2020
		€ 000	**€ 000**
Assets			
Non-Current Assets			
Exploration rights	4.4	5 992	7 639
Exploration and Evaluation Assets	4.1	22 994	24 444
Assets in Development	4.2	7 077	6 883
Producing Assets	4.2	89 769	91 437
Other property, plant and equipment	4.3	1 499	1 870
Goodwill	4.4	7 529	7 529
Other intangible assets	4.4	1 321	40
Deferred tax assets	3.7	613	1 450
Financial assets	4.6	1 264	1 346
Total non-current assets		**138 058**	**142 638**
Current assets			
Inventories	6.3	4 278	5 448
Trade and other receivables	6.2	13 511	4 921
Income taxes receivable	6.2	282	606
Derivative financial assets	5.3.4	0	0
Other current financial assets	4.6	88	0
Cash and short-term deposits	6.1	15 893	5 804
Total current assets		**34 052**	**16 779**
Total assets		**172 110**	**159 417**

	Notes	31 December 2021	31 December 2020
		€ 000	**€ 000**
Equity and liabilities			
Share capital	5.1	234	234
Share premium	5.1	194 163	194 163
Accumulated deficit		-141 505	-135 735
Cash flow hedge reserve	5.3.4, 3.7.3	0	0
Foreign currency translation reserve		11 037	10 765
Equity attributable to equity holders of the parent		**63 929**	**69 427**
Non-current liabilities			
Interest-bearing loans and borrowings	5.3.2	50	79 361
Deferred tax liabilities	3.7	0	0
Provisions	4.7	8 881	5 807
Total non-current liabilities		**8 931**	**85 168**
Current liabilities			
Trade and other payables	6.4	3 034	2 545
Interest-bearing loans and borrowings	5.3.2	88 085	322
Income taxes payable	6.4	927	138
Taxes and mining royalties payable	6.4	6 842	1 327
Provisions	4.7	362	490
Total current liabilities		**99 250**	**4 822**
Total liabilities		**108 181**	**89 990**
Total equity and liabilities		**172 110**	**159 417**

Consolidated statement of changes in equity for the year ended 31 December 2021

	Share capital	Share premium	Accumulated deficit	Foreign currency translation reserve	Cash flow hedge reserve	Equity attributable to equity holders of the parent
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Opening value as at 1 January 2020	**234**	**194 257**	**-92 333**	**10 687**	**1 252**	**114 097**
Profit for the year			-43 402			-43 402
Other comprehensive income				**78**	-1 252	-1 174
Total comprehensive income			**-43 402**	**78**	**-1 252**	**-44 576**
Repurchase of share capital	0	-94				-94
Closing value as at 31 December 2020	**234**	**194 163**	**-135 735**	**10 765**	**0**	**69 427**
Opening value as at 1 January 2021	**234**	**194 163**	**-135 735**	**10 765**	**0**	**69 427**
Profit for the year			-5 770			-5 770
Other comprehensive income				272		272
Total comprehensive income			**-5 770**	**272**	**0**	**-5 498**
Closing value as at 31 December 2021	**234**	**194 163**	**-141 505**	**11 037**	**0**	**63 929**

Consolidated statement of cash flows for the year ended 31 December 2021

	Notes	2021	2020
		€ 000	**€ 000**
Cash flows from operating activities			
Profit before income tax		-2 971	-42 220
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation	4.2, 4.3, 4.4	11 174	15 239
Impairment of Exploration rights	4.5	0	1 822
Write off of oil and gas properties	4.5	5 068	906
Impairment of oil and gas properties	4.5	802	13 066
Write off of exploration and evaluation assets	4.5	3 113	1 687
Impairment of exploration and evaluation assets	4.5	0	7 959
Impairment of other assets	4.5	90	5 018
Reversal of previously impaired assets	4.5	-4 787	-1 864
(Gain)/Loss on sale of assets		360	0
Unwinding of discount on decommissioning	4.7	117	127
Utilisation of decommissioning provision	4.7	-72	-1
Interest expense and income	5.3.1	8 629	9 200
FX effects		13	-3
Other non-cash items		96	-46
Working capital adjustments:			
Change in trade and other receivables	6.2	-8 593	3 046
Change in inventories	6.3	1 169	611
Change in trade and other payables, taxes and mining royalties payables	6.4	6 080	-9 018
Income tax paid		-808	-626
Net cash flows from operating activities		**19 480**	**4 903**
Cash flows from investing activities			
Expenditures on E&E assets	4.1	-1 202	-5 170
Expenditures on Oil and Gas assets	4.2	-7 543	-4 607
Expenditure on other PPE	4.3	-240	-30
Expenditures on exploration rights	4.4	0	0
Expenditure on other intangible assets	4.4	-46	0
Proceed on disposal of assets		3	0
Loans granted	4.6	-90	-224
Restricted cash decrease /increase	4.6	-10	1 859
Interest received			
Net cash used in investing activities		**-9 128**	**-8 172**

Cash flows from financing activities			
Proceeds from issuance of shares	5.1	0	0
Repurchase of shares	5.1	0	-94
Proceeds from loans and borrowings	5.3.7	0	-1 127
Payment of principal portion lease liabilities	5.4	-419	-449
Payment of loans and borrowing	5.4	0	-2 995
Interest paid	5.3.7	-50	-48
Net cash (used in) from financing activities		**-469**	**-4 713**
Increase/(Decrease) in cash		**9 883**	**-7 982**
Net foreign exchange difference		206	174
Cash and cash equivalents, beginning of period		**5 804**	**13 612**
Cash and cash equivalents, end of period		**15 893**	**5 804**

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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 2021 were authorized for issue in accordance with a resolution of the directors on August 4, 2022.

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 2 of the Netherlands Civil Code.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value.

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

Going Concern

The Company has prepared the 2021 consolidated financial statements on a going concern basis. In making this judgement, the Company has looked at a variety of factors to assist in evaluating the Group's sustainability and its ability to manage obligations due within 12 months from the date of authorization to issue this report (the "Period").

Based on the analysis, the Company has identified events and circumstances that could create serious uncertainty about the Company's ability to continue as a going concern and concluded that material uncertainty exists. These events and circumstances are related to, inter alia, the volatility of hydrocarbon prices caused mainly by the geopolitical change related to the ongoing Ukrainian-Russian war, the royalty related measures taken by the Hungarian Government in the current situation, the potential decline in the Group's production, the potential change-of-control (a potential change in the ownership of the Company's shares) as a result of the Company's ongoing strategic review process, the mandatory work-program related investment commitments in the countries

where the Group operates, and the requirement of repaying the 9.00 per cent. Senior Secured 70,000,000 Callable Bond Issue 2018/2022 ("Bonds").

In order to support its assessment Company has developed different operational scenarios (Base Case, downside sensitivities) for the Period.

Base case assumed current production levels, hydrocarbons pricing as per forward curves quoted on 27 June 2022 (Argus, Platts, TheIce), operating costs adjusted by EUR inflation, termination on 30 September 2022 of cca 30% of gas sold at fixed prices with all gas sold at spot prices (based on forward curve) thereafter, increased royalty rates applied to all Hungarian hydrocarbons production as of August 2022, drilling of 3 mandatory wells until May 2023, some workovers and installation of compressors and mandatory seismic related works in Romania. Management considered as key uncertainties the price and production levels. Management analyzed scenarios where both production and price levels dropped by 15% during the Period compared to the Base Case (all under assumptions being the same). Under both downside scenarios Group consolidated cash balances resulted robust enough to support the impact of the downside assumptions.

The Company believes that it will be able to generate sufficient cash during the Period to meet all the operational obligations arising out of the mandatory work-program related investment commitments and accommodate the increased royalty measures introduced by the Hungarian Government as of August 2022. However, Management still believes that material uncertainty exists due to significant uncertainty with regards to ability to repay the outstanding Bonds of EUR 63.7 million including all amounts and costs outstanding as of 1 August 2022.

Within the assessment process Management recognized that the key uncertainty during the Period is the repayment of the Bonds. The Company has been in regular contact with selected wall-crossed bondholders who have formally chosen to receive periodic updates over the change-of-control process. These Bondholders (the "Select Bondholders") have signed confidentiality and standstill undertakings with the Company. The Select Bondholders formed an Ad Hoc Committee ("AHC") and reached out to the Company on 11 February 2021 with the intention to play an active role in the change-of-control process. The Select Bondholders represent today ownership covering approximately 77% of the outstanding bonds. Since the date of their official notification, the Select Bondholders have been actively involved in the change-of-control process and are looking into detailed Company data including its financial outlook. The AHC has appointed on 27 September 2021 ABG Sundall Colliers (Norway) as their financial adviser. Bondholders signed a Governance Agreement on 26 January 2022 whereby the Investor appointed new members of the Supervisory and Management Board of the Company selected by the AHC.

The Bonds matured formally on 13 April 2022, but Bondholders decided to extend maturity to 30 September 2022 subject to a successful change of control agreement to be signed until 11 August 2022 and that the Bondholders, no later than 18 August 2022, by way of a Written Resolution have approved the mechanics and amount, together with cost accrued for Nordic Trustee AS (including legal and financial advisor costs), applicable to finally settle the Bonds, unless the Bonds will be redeemed in full, including all amounts and costs outstanding as of 1 August 2022. In case the conditions above are not met, the bonds become payable immediately.

Since 13 April 2022 the Company has made partial redemptions in an amount of EUR 22 million plus accrued interest on these amounts. On 11 July 2022, in order to support the going concern nature of the Company, the Company has received a letter from Nordic Trustee AS, representative of the Bondholders, stating that the Bondholders shall continue to support a sale/debt restructuring of the Company within the period ending 30 September 2023.

ABG Sundall Colliers has identified two serious investors interested in taking over the full ownership of the Company and provide a settlement of the Bonds. No agreements have been signed per preparation date of the financial statements.

Management believes that the Bondholders have the following options in the event that a change of control is not reached within any agreed deadline and therefore the Bond is declared matured.

a) request the Company to repay the outstanding amount of the Bonds plus accrued interest during the Period;
b) extend the terms of the Bond and continue looking for a new capital partner that is interested in taking over and accept cancellation of restructuring the Bonds;
c) become owners of the Company through a debt-to-equity swap;

Under a) the Company would not have sufficient cash to repay the full outstanding amount of the Bonds plus accrued interest. The Company would be forced into liquidation and Bondholders could exercise their rights under the Security arrangements. Management is of the opinion that it is not the intention of the Bondholders' to liquidate the Company but to find a way to ensure continuation of the operations until the change of control and/or debt restructuring is solved. Management interprets the letter received from Nordic Trustee dated 11 July 2022 as supportive of this view. This is also consistent with rational economic approach as liquidation / bankruptcy could put the Company's licenses (key assets) at risk, thereby reducing ultimate recovery for creditors materially.

Under b) to some extent the current process would continue, extending maturity and Bondholders requesting for partial redemptions or formalize a new debt service plan depending on the Company's cashflow generation capability until such point in time when a change of control and/or satisfactory settlement of the Bonds happens. The impact of this scenario would be a continuation of the Company's business, but with limited ability to grow because funds would be continually diverted to service the Bonds, postponing other non-mandatory capital expenditures. This scenario was taken as basis in the base case as described above. Management believes that this could be a very likely scenario in the event there is no change of control until 11 August 2022 as it continues to provide an option to the recovery of the Bonds. Under this option, the Company will continue to operate normally within the limitation as described earlier. However there remains a material uncertainty with respect to the going concern assumption.

Bondholders could become owners (option c) of the Company through a debt-to-equity swap. Management understands that there are several bondholders holding the Bonds. It is unknown by the Company whether all Bondholders can hold equity stakes. It could well happen that some of the Bondholders become owners alongside a new investor. Management believes this scenario to be less likely because of potential investment policy restrictions for some of the existing Bondholders and the complexity related to accommodating different interests (swapping bondholders and new investor).

Based on all of the above, Management considers the use of the going concern assumption to be appropriate, however material uncertainty exists due to significant uncertainty with regards to ability to repay the outstanding Bonds.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at 31 December 2021. 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	
			2021	2020
Sand Hill Petroleum BV.	Holding company	Netherlands	EUR	EUR
Sand Hill Petroleum Romania S.r.l	Exploration and development	Romania	RON	RON
Sand Hill Services FZ LLC	Engineering and technical services	UAE	EUR	EUR
O&GD Central Kft.	Exploration and development, Production	Hungary	EUR	EUR
OGD Nádudvar Koncessziós Kft.	Exploration and development	Hungary	EUR	EUR
OGD Újléta Koncessziós Kft.	Exploration and development, Production	Hungary	EUR	EUR
OGD Berettyóújfalu Koncessziós Kft.	Exploration and development, Production	Hungary	EUR	EUR
OGD Nagykáta Koncessziós Kft.	Exploration and development	Hungary	EUR	EUR
OGD Ócsa Koncessziós Kft.	Exploration and development	Hungary	EUR	EUR
OGD Mogyoród Koncessziós Kft.	Exploration and development	Hungary	EUR	EUR
OGD Körösladány Koncessziós Kft.	Exploration and development	Hungary	EUR	EUR
OGD Békéscsaba Koncessziós Kft.	Exploration and development	Hungary	EUR	EUR
OGD Tiszafüred Koncessziós Kft.	Exploration and development	Hungary	EUR	EUR

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 the 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) all resulting exchange differences are recognized in other comprehensive income as CTA (cumulative translation adjustments).

Significant judgement:

The functional currency for the parent entity and each of its subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgements to identify the primary economic environment in which the entity operates. This includes consideration of the currency which influences sales prices, the country whose competitive forces and regulations mainly determine the sale price of its goods and services, and the currency which influences the labour, materials, and other costs of providing goods or services differ.
The following factors may also provide evidence of an entity's functional currency:

- the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated
- the currency in which receipts from operating activities are usually retained.

Taking into account the above factors all entity within the Group use EUR as its functional currency except SHP Romania, where RON is applied.

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

Significant judgements, estimations and assumptions:

Judgement is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement.

Judgement is also required to classify a joint arrangement. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Different conclusion about both joint control and whether the arrangement is a joint operation or a joint venture, may materially impact the accounting.

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 be 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 – except contract liabilities and taxes- 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 effective 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.

Derivative financial instruments and hedge accounting

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast sales transactions arising from changes in commodity prices. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in OCI and accumulated in the cash-flow hedge reserve. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

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

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve are immediately reclassified to profit or loss.

2.3.5. Impairment of 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 2021	Expected default rate 2020
Not past due	0.1%	0.1%
1-30 days past due	0.3%	0.3%
31-60 days past due	1.0%	1.0%
61-90 days past due	3.0%	3.0%
More than 90 days past due	5.0%	5.0%

The Group considers financial asset to be in default when contractual payments are 90 day past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Further disclosures relating to impairment of trade and other receivables are set out in Note 6.2.

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:

Judgements:

- Joint arrangements (Note 2.3.2 and 7.1)
- Oil and gas exploration and evaluation assets (Note 4.1)
- Taxes (Note 3.7)
- Foreign currencies (Note 2.2.1)

Estimates and assumptions:

- Going concern assessment (Note 2.1)
- 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 4.7)
- Recovery of deferred tax assets (Note 3.7)

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 rights, 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 Changes in accounting policies and disclosures

Several amendments and interpretations apply for the first time in 2021, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The following amended standards did not have any impact on the accounting policies, financial position or performance of the Group:

Interest rate benchmark reform – Phase 2: Amendment to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

These amendments had no impact on the consolidated financial statements of the Group.

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases.

The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The

amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021.

These amendments had no impact on the consolidated financial statements of the Group.

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 Group's entity in the UAE is a dormant entity, therefore it is not considered a separate segment.

The Management Board of the Company (which is considered to be the chief operating 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) is managed on a group basis and is 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.

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

Year ended 31 December 2021	Hungary	Romania	Adjustments and eliminations	Consolidated
	€ 000	€ 000	€ 000	€ 000
Revenue				
External customers	52 458	0	0	52 458
Other income	418	60	0	478
Own work capitalized	441	0	0	441
Production costs	-26 939	0	9	-26 930
Exploration expenses	-3 284	-45	0	-3 329
Employee benefit expenses	-3 147	-242	0	-3 389
Depreciation and amortization	-11 068	-48	-58	-11 174
Impairment	3 996	-50	-52	3 894
Other operating expenses	-2 920	-123	-3 586	-6 629
Operating profit	**9 955**	**-448**	**-3 687**	**5 820**
Segment assets	**166 781**	**718**	**4 611**	**172 110**
Segment liabilities	**172 236**	**16 318**	**-80 373**	**108 181**
Other disclosures				
Capital expenditures	-9 035	-216	133	-9 118

Year ended 31 December 2020	Hungary	Romania	Adjustments and eliminations	Consolidated
	€ 000	€ 000	€ 000	€ 000
Revenue				
External customers	33 110	0	75	33 185
Other income	238	131		369
Own work capitalised	379	0		379
Production costs	-15 012	0		-15 012
Exploration expenses	-621	-1 719	206	-2 134
Employee benefit expenses	-3 604	-360		-3 964
Depreciation and amortization	-15 050	-177	-12	-15 239
Impairment	-12 245	-14 362	606	-26 001
Other operating expenses	-2 671	-266	-1 332	-4 269
Operating profit	**-15 476**	**-16 753**	**-457**	**-32 686**

Segment assets	**153 256**	**1 352**	**4 808**	**159 417**
Segment liabilities	**156 431**	**17 599**	**-84 040**	**89 990**
Other disclosures				
Capital expenditures	8 627	1 650	-246	10 031

Profit for each operating segment does not include finance income in an amount of EUR 0.8 million in 2021 (2020: EUR 0.3 million) and finance costs of EUR 9.4 million in 2021 (2020: EUR 9.8 million).

Segment assets do not include assets of the holding company in an amount of EUR 172.7 million in 2021 (2020: EUR 192.5 million), of which the investment in the segments is EUR 0 million (2020: EUR 25 million). EUR 169 million of inter-segment receivables (2020: EUR 163.7 million) are eliminated on consolidation, and EUR 0.9 million (2020: EUR 1.1 million) consolidation adjustment increases assets.

Segment liabilities do not include liabilities of the holding company as interest bearing loans and borrowings from the Bond in an amount of EUR 87.7 million (2020: EUR 79 million), and current liabilities EUR 1 million (2020: EUR 0.4 million). EUR 169 million (2020: EUR 163.7 million) of inter-segment liabilities are eliminated on consolidation.

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

All revenue is generated from sales to customers located in Hungary.

Revenue from three major customers exceeded 81% of Group consolidated revenue and amounted to EUR 32 million, EUR 6 million and EUR 6 million (2020: 83%, three major customers amounting to EUR 14 million, EUR 10 million, and EUR 3 million), respectively, arising from the sales of gas, condensate and oil.

3.2 Revenue from contracts with customers

Disaggregated revenue information

Type of goods	2021 € 000	2020 € 000
Gas	46 742	28 709
Condensate	4 169	2 756
Oil	1 228	743
Other	319	977
Total revenue from contracts with customers	**52 458**	**33 185**

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

In 2021 there were 2 new wells put into production (2020: 3 wells). Increase in revenue is the result of a significant increase in commodity prices in 2021 despite lower production levels.

3.2 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 recognized 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, which is generally when the product is physically transferred into a pipe or other delivery mechanism and the customer accepts the product. The only performance obligation is the sale of commodity. The Group applied the practical expedient not to disclose the remaining performance obligations when these are originally expected to have a duration of one year or less.

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

Consideration payable to customer:

Gas processing was performed by a customer of the Group for both the gas sold to that customer and sold to third parties until the end of August 2020.

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 records product revenue for the sale of the processed commodities to the third-party customers. Fees paid to the processor would be classified as expense.

Since 31 August 2020 gas produced is processed by gas plants owned by the Company.

Significant financing component:

The Group might receive 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.

Variable consideration

The products are sold based on market prices, in some cases through spot market transactions, and in other cases under contractual arrangements. While the transaction price is variable, at the time of delivery there is no risk of a change in the transaction price to be allocated to the gas volume sold. Accordingly at the point of sale there is not a significant risk of revenue reversal relative to the cumulative revenue recognized, and there is no need to constrain any variable consideration under IFRS 15.

Principal versus agent consideration

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), please 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. Please refer to Note 6.4.

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.

3.3 Production costs

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.

	2021	2020
	€ 000	**€ 000**
Production material	2 256	2 598
Capacity fees	812	1 177
Gas processing fees	0	2
Mining royalty	13 404	5 233
Write-off of producing assets	5 068	906
Maintenance costs	934	888
Balancing gas	726	371
Expert fees	185	436
Other production services	3 545	3 401
Total production costs	**26 930**	**15 012**

Mining royalty in Hungary is paid as a tax after production, the royalty base (revenue for royalty purpose) is calculated based on a formula set by the authorities. The formula for calculating royalty on gas sales changed in March 2021. As of March 2021 the formula is based on EUR denominated Dutch TTF gas price instead of USD denominated Brent as a reference price hence depending on the HUF/EUR exchange rate (2020: HUF/USD).

Other production services include compression costs, laboratory services, rental fees, permitting fees and transport.

Please refer to Note 4.5 for the details on write-off of producing assets.

3.4 Exploration expenses

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.

	2021	2020
	€ 000	**€ 000**
Write off of E&E assets	3 113	1 687
Geological expenses on no concession areas	163	377
Other	53	70
Total exploration expenses	**3 329**	**2 134**

Please refer to Note 4.5 for the details on write-off of E&E assets.

3.5 Employee benefit expenses

3.5.1 Salaries and payroll related contributions

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

	2021	2020
	€ 000	**€ 000**
Salaries and wages	2 756	3 274
Other related expenses	161	122
Social security and taxes on wages	472	568
Total of employee benefit expense	**3 389**	**3 964**

3.5.2 Own work capitalized

Own work capitalised is salaries and payroll related contributions that are associated to capital projects and are therefore capitalized and not expensed. Own work capitalized amounted to EUR 441 thousand in 2021 (2020: EUR 379 thousand).

3.5.3 Staff number

The Group had 104 employees at the end of 2021 and hence incurred wages, salaries and related social security charges during the reporting period (previous year: 116 employees). Average of the employees for the year was 99, of which 93 were based in Hungary and 6 based in Romania (previous year: 116, 105 in Hungary, 11 in Romania).

	2021	2020
Administration	18	23
Management	3	3
Operations	73	81
Exploration	5	9
Total average	**99**	**116**

3.6 Other operating expenses

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

	2021	**2020**
	€ 000	**€ 000**
Warehouse costs	55	65
Office costs	81	101
Trainings and travel expenses	99	261
Legal, accounting and professional services	3 530	1 556
Audit	259	321
IT, software rental and maintenance	443	559
Magisterial fees, bank, insurance and membership fees	291	247
Staff and representation expenses	68	73
Advisory fees	550	337
Board related fees	133	189
Other expenses	1 110	561
Expected credit losses on trade receivables relating to revenue from contracts with customers	10	-1
Total of other operational expenses	**6 629**	**4 269**

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.

		2020	
		€ 000	
	Ernst & Young Accountants LLP	**Other EY**	**Total**
Audit fee	222	99	321
Tax advisory services		53	53
Other services		15	15
Total	**222**	**167**	**389**

		2021	
		€ 000	
	Ernst & Young Accountants LLP	**Other EY**	**Total**
Audit fee	165	94	259
Tax advisory services	0	33	33
Other services	0	4	4
Total	**165**	**131**	**296**

3.7 Income tax

3.7.1 Income tax expense

The major components of income tax expense for the years ended 31 December 2021 and 2020 are:

	2021	2020
	€ 000	€ 000
Consolidated statement of profit or loss		
Current income tax:		
Current income tax charge	-1 962	-6 96
Deferred income tax:		
Relating to origination and reversal of temporary differences	-837	-486
Income tax expense	**-2 799**	**-1 182**

3.7.2 Reconciliation

	2021	2020
	€ 000	€ 000
Accounting loss before income tax	-2 971	-42 220
Applicable tax at weighted average rate 17.5% (2020: 11.9%)	519	5 021
Other income tax (local business tax, innovation contribution)	-1 145	-696
Disputed income tax	-361	0
Expenses not deductible for tax purposes	-574	-7
Thin capitalization (interest not deductible for tax purposes)	-187	-410
Utilisation of previously unrecognised tax losses	84	0
Reversal of previously recognized tax loss	-375	-600
Unrecognised DTA on temporary differences	-49	-2 405
Unrecognized DTA on current year losses	-711	-2 085
Income tax expense	**-2 799**	**-1 182**
Effective tax rate	**94%**	**3%**

Weighted average tax rate is computed by taking the share of the operating segments and the holding company in the consolidated loss before tax and applying the local tax rate for their portion. Weighted average tax rate is 17.5% in 2021 (2020: 11.9%). The increase is explained by the portion of loss in Romania and in the Netherlands that increased in 2021, where the tax rates are higher.

Disputed income tax is a current income tax claim by the Company in Hungary pending at court regarding the 2020 income tax. The dispute is related to question around conversion to IFRS of the local entity and related taxation.

Expenses not deductible for tax purposes increased due to the legal and advisory fees incurred in Netherland in relation to change of control process.

Unrecognised DTA on temporary differences arose in entity in Romania from impairment because the recognition criteria for recognising DTA in these entities were not met.

3.7.3 Deferred income tax

	Consolidated statement of financial position		Consolidated statement of profit or loss and other comprehensive income	
	31 December 2021	31 December 2020	2021	2020
	€ 000	€ 000	€ 000	€ 000
Deferred income tax liabilities				
Depreciation	169	65	-104	183
Development reserve	0	0	0	0
Decommissioning asset	473	260	-213	81
Cash-flow hedge	0	0	0	124
Deferred income tax assets				
Depreciation and Impairment	376	786	-410	-143
Provisions (including decommissioning liability)	804	539	265	-6
Losses available for offset against future taxable income	75	450	-375	-600
Deferred tax assets (net)	**613**	**1 450**		
Deferred tax income/(expense)			**-837**	**-485**
Deferred tax recognized through OCI			**0**	**124**

Deferred tax assets	613	1 450
Deferred tax liabilities	0	0
Deferred tax assets (net)	**613**	**1 450**

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.
The basis of calculation of the recognisable deferred tax asset is the 5-year plan of the Group's producing entities in Hungary. Due to history of loss in the previous years, and uncertainty described in the section Going concern, the Group does not recognize deferred tax asset on tax losses carried forward beyond the limit that would be used to offset deferred tax liability from temporary differences. Deferred tax assets from temporary differences are expected to be recovered based on the
5-year plan of producing entities.

In addition to recognised deferred income tax assets, the Group has unrecognised tax losses of EUR 79 million (2020: EUR 67 million) that are available to carry forward against future – latest in nine years - taxable income of the subsidiaries in which the losses arose. 10% of tax losses carried forward expire within 2 years, 65% expires in 3-5 years, and 25% expires after 5 years. 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 exceeds the amount that is probable to be utilized within the allowed time range.
Breakdown of unrecognized tax losses per segments:

At 31 December 2021

Expiration period	**Hungary**	**Romania**
	mEUR	**mEUR**
within 2 years	6	2
3-5 years	47	5
after 5 years	15	4
Total	**68**	**11**

At 31 December 2020

Expiration period	**Hungary**	**Romania**
	mEUR	**mEUR**
within 2 years	6	1
3-5 years	38	3
after 5 years	14	5
Total	**58**	**9**

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 utilized.

For transactions involving the initial recognition of an equal and opposite asset and liability which subsequently unwind on different bases, the Group recognises a deferred tax liability for any taxable temporary differences related to the asset component and a deferred tax asset for any deductible temporary differences related to the liability component. On initial recognition, the taxable temporary difference and the deductible temporary differences are equal and offset to zero. Deferred tax is recognised on subsequent changes to the taxable and deductible temporary differences.

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.

Significant judgements, estimation and assumptions

Judgement is required to determine whether deferred tax assets are recognised in the statement of financial position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted.

In addition, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

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 4.7)
- An analysis of capital expenditure to which the Group is committed (Note 4.8)

4.1 Oil and gas exploration and evaluation assets

	Notes	€ 000
Cost as of 1 January 2020		**37 889**
Additions		5 170
Decom.liability changes		37
Impairment of E&E assets		-1 687
Write off of E&E assets	4.5	-7 959
Transfer to oil and gas properties		-8 912
FX effect		-94
Cost as of 31 December 2020	**Notes**	**24 444**
Additions		1 202
Decom.liability changes		48
Write off of E&E assets	4.5	-1 954
Impairment/Reversal of Impairment of E&E assets	4.5	307
Transfer to oil and gas properties		-1 053
FX effect		
Cost as of 31 December 2021		**22 994**
Net book value as of 31 December 2020		**24 444**
Net book value as of 31 December 2021		**22 994**

Please refer to Note 4.5 for the details on write off and impairment 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.

Property acquisition costs

Property acquisition costs are capitalized in E&E assets.

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, the carrying value of 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 intangible assets. Geological and geophysical (G&G) costs, costs of technical services and studies, seismic acquisition, exploratory drilling and testing, activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource are capitalised as E&E assets.

Tangible assets used in E&E activities (such as the Group’s vehicles, drilling rigs, seismic equipment and other property, plant and equipment used by the Company’s Exploration Function) are classified as property, plant and equipment. E&E costs are not amortised prior to the conclusion of appraisal activities.

Significant judgements, estimates and assumptions

The application of the Group’s accounting policy for exploration and evaluation expenditure requires judgement to determine whether future economic benefits are likely from future either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is, in itself, an estimation process that involves varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Group defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in the statement of profit or loss and other comprehensive income in the period when the new information becomes available.

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 of 1 January 2020	**15 292**	**158 772**
Additions	4 607	0
Borrowing cost	252	0
Transferred from exploration and evaluation assets	8 912	0
Change in decommissioning provision	-132	0
Transfer between development asset and producing asset	-20 844	20 844
Transfer of borrowing cost between development asset and producing asset	-259	259
Transfer to other PPE		
Write off	0	0
Cost as of 31 December 2020	**7 828**	**179 875**
Additions	7 543	0
Borrowing cost	122	0
Transferred from exploration and evaluation assets	1 053	0
Change in decommissioning provision	2 762	0
Transfer between development asset and producing asset	-10 019	10 019
Transfer of borrowing cost between development asset and producing asset	0	0
Transfer to Intangible assets	-1 516	0
Transfer (to)/from other PPE	27	0
Write-off	0	-7 065
Disposals	-259	0
Cost as of 31 December 2021	**7 541**	**182 829**
Depreciation and impairment as of 1 January 2020	**0**	**63 377**
Depreciation charge for the year	0	13 898
Transfer to other PPE	0	0
Write off of development asset/ producing assets	83	823
Provision for impairment	862	12 204
Reversal of impairment	0	-1 864
Disposals	0	0
Depreciation and impairment as of 31 December 2020	**945**	**88 438**
Depreciation charge for the year		9 816
Transfer to other PPE		0
Write off of development and producing assets	243	-2 240
Provision for impairment	0	802
Reversal of impairment	-724	-3 756
Disposals	0	0
Depreciation and impairment as of 31 December 2021	**464**	**93 060**

Net book value as of 31 December 2020	**6 883**	**91 437**
Net book value as of 31 December 2021	**7 077**	**89 769**

Borrowing costs relating to drilling of development wells that have been capitalised as part of producing assets during the period amount to EUR 122 thousand (2020: EUR 252 thousand), at a weighted average interest rate of 11.11% (2020: 11.11%).

The net book value at 31 December 2021 includes EUR 7 077 thousand (2020: EUR 6 883 thousand), in respect of development assets under construction which are not being depreciated.

Please refer to Note 4.5 for the details on impairment testing and write-off 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. 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 expenditures.

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 (those which are not depreciated on a unit-of production basis)	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.

Estimates and assumptions

Oil and gas properties are depreciated using the units of production (UOP) method over total proved developed and undeveloped hydrocarbon reserves. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining production from the field. The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation/amortisation will be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, or future capital expenditure estimates change.

4.3 Other property, plant and equipment

€ 000

	Land and building	Right-of-use assets	Other plant and equipment	Total
Cost				
At 1 January 2020	**148**	**1 690**	**2 071**	**3 909**
FX effects	0	0	5	5
Additions	0	9	30	39
Reclassification between asset classes	41	0	-41	0
Disposals	0	-164	-41	-205
At 31 December 2020	**189**	**1 535**	**2 024**	**3 748**
FX effects	0	0	-1	-1
Additions	0	414	178	592
Reclassification between asset classes	0	0	-27	-27
Disposals	0	-220	-217	-437
At 31 December 2021	**189**	**1 729**	**1 957**	**3 875**
Depreciation				
At 1 January 2020	**0**	**502**	**816**	**1 318**
Fx effect	0	0	0	0
Depreciation charge for the year	26	467	187	680
Disposals	0	-85	-35	-120
At 31 December 2020	**26**	**884**	**968**	**1 878**
Fx effect	0	-2	-2	-4
Depreciation charge for the year	0	486	125	611
Disposals	0	0	-109	-109
At 31 December 2021	**26**	**1 368**	**982**	**2 376**
Net book value:				
At 31 December 2020	**163**	**651**	**1 056**	**1 870**
At 31 December 2021	**163**	**361**	**975**	**1 499**

Further information on Right-of use assets is disclosed in Note 5.4.

4.4 Intangible assets and goodwill

€ 000

	Goodwill	Concessions	Software and other rights	Total
Cost:				
At 1 January 2020	**7 529**	**11 973**	**1 363**	**20 865**
Additions	0	0	0	0
Disposal	0	0	-11	-11
FX effect	0	-39	0	-39
At 31 December 2020	**7 529**	**11 934**	**1 352**	**20 815**
Additions	0	0	46	46
Transfer			1 516	1 516
Disposal	0	0	-99	-99
FX effect	0	-35	-1	-36
At 31 December 2021	**7 529**	**11 899**	**2 814**	**22 242**
Amortisation and impairment:				
At 1 January 2020	**0**	**1 911**	**1 208**	**3 119**
Amortisation charge for the year	0	547	114	661
Impairment	0	1 822	0	1 822
Disposal	0	0	-10	-10
FX effect	0	15	0	15
At 31 December 2020	**0**	**4 295**	**1 312**	**5 607**
Amortisation charge for the year	0	488	281	769
Impairment	0	0	0	0
Write-off (see Note 4.5)	0	1 159	0	1 159
Disposal	0	0	-99	-99
FX effect	0	-35	-1	-36
At 31 December 2021	**0**	**5 907**	**1 493**	**7 400**
Net book value:				
At 31 December 2020	**7 529**	**7 639**	**40**	**15 208**
At 31 December 2021	**7 529**	**5 992**	**1 321**	**14 842**

Useful lives

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

Goodwill

Goodwill arose in connection with the acquisition of O&GD Central Kft. a Hungarian company which holds the Körös license. Impairment considerations are disclosed in Note 4.5.

4.4A Accounting policy – Intangible assets and goodwill

License costs

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

Licenses 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 is written off through the statement of profit or loss.

Other intangible assets

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 amortization (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 Depreciation and amortization.

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

	2021			2020		
	Hungary	Romania	Total	Hungary	Romania	Total
Impairment losses and write-offs	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**
Exploration rights write-off	1 159	0	1 159	0	0	0
Exploration and evaluation assets write-off	1 963	-9	1 954	268	1 419	1 687
Oil and gas properties Write off	5 068	0	5 068	906	0	906
Total write off	**8 190**	**-9**	**8 181**	**1 174**	**1 419**	**2 593**
Exploration rights	0	0	0	0	1 822	1 822
Exploration and evaluation assets Impairment	0	0	0	932	7 027	7 959
Oil and gas properties Impairment	802	0	802	13 066	0	13 066
Inventory impairment	0	0	0	0	0	0
Impairment of financial asset	0	91	91	0	5 018	5 018
Total impairment	**802**	**91**	**893**	**12 134**	**13 867**	**26 001**
Reversal of Impairment of Exploration and evaluation assets	-267	-40	-307	0	0	0
Reversal of Impairment of Oil and gas properties	-4 480	0	-4 480	-1 864	0	-1 864
Total Reversal of Impairment	**-4 747**	**-40**	**-4 787**	**-1 864**	**0**	**-1 864**
Total impairment and write-off	**4 245**	**42**	**4 287**	**13 308**	**15 286**	**28 594**

Write-off of exploration and evaluation assets are related to unsuccessful drillings for which the assets are written down to nil.

Write-off of exploration rights is related to two concession areas where the Company does not plan further expenditures or explorations in the specific area. The amount of write-off is included in Exploration expenses in the P&L.

Impairment of exploration and evaluation assets were related to one concession area in Hungary and the E&E assets in Romania in 2020. One concession area in Hungary was impaired because based on the prospects and estimated production profile the NPV of the concession area was below its book value. In 2021 the NPV of assets on the specific area increased due to the increased price forecast, so part of the previously recognized Impairment was reversed.

In Romania the E&E assets were impaired in 2020. Due to lack of comparable information of fair value and in light of the near maturity of the licences on these blocks (please refer to Section 4.8 for more information), the Group decided to fully impair the exploration assets and any other related assets. This decision affected the exploration rights and the loan extended to SHPR's Joint Operating Partner in Romania, which were also fully impaired at the end of 2020. In 2021 further impairment was recognised for the loan on additional drawdowns. Please refer to Note 4.6 regarding the loan from SHPR to its Joint Operating Partner.

The write-off of oil and gas properties are related mainly to one well in Hungary, which stopped producing due to technical problems (2020: 3 inactive wells). The amount of write-off of oil and gas properties is included in Production costs in the P&L.

The impairment of oil and gas properties are related to 3 wells in Hungary (in 2020: 9 wells and a gas processing plant in Hungary).

Reversal of impairment is related to 7 wells (2020: 3 wells due to increased price forecast. The reversal of impairment and the increase in carrying amount of the assets were determined by calculating the carrying amount net of depreciation had no impairment loss been recognized for the assets in prior years.

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 below for the impairment calculations. The value-in-use forecast takes into consideration cash flows which are expected to arise during the life of the wells.

The key assumptions for the calculation of value-in-use of the wells are discount rate, oil and gas prices, and estimated future production level, which is based on forecasted recoverable reserves.
Forecasted recoverable reserves are based on an independent reserve audit report.
The discount rate used is 10 per cent (2020: 10 per cent).
Forecast commodity prices are based on management's estimates and available market data (Dutch TTF, Austrian VTP, Brent), prices applied in the model range between 6-21 USD/mcf for gas (13.78-21 USD/mcf in next 2 years, 7.95-9.3 USD/mcf in year 3 and for, and 6 USD/mcf for long term forecast) and 60-71.75.79 USD/bbl (71.31-75.79 USD/bbl in next 2 years, 66.02-68.04 USD/bbl in year 3 and for, and 60 USD/mcf for long term forecast)for oil and condensate (2020: 5.5-7.1 USD/mcf for gas and 50-55 USD/bbl for oil and condensate). This includes consideration of forward curve pricing over the period for which there is a liquid market (2-3 years), thereafter reverting to a long-term commodity price assumption, supported by available market data. Conversion to EUR was made using the year-end FX rate.

Shared infrastructures that do not relate to a single CGU but relate to more than one CGU were considered for impairment purposes. For the purposes of this analysis the group of CGUs that benefit from the shared assets are grouped together with the shared assets to test the shared asset for impairment.

<u>Sensitivity to change in assumptions:</u>

With regard to the assessment of value in use for CGUs, management believes that decrease in commodity prices can result in additional impairment. Sensitivity was calculated for 10% decrease and 25% decrease in base prices. The effect of these changes on the Impairment of CGUs is EUR 4 million and EUR 12 million respectively (in 2020: EUR 5 million and EUR 16 million respectively).

1% increase in discount rate would increase Impairment by EUR 0.5 million (in 2020: EUR 2 million).

Management also assessed the potential impact of change in production levels. Sensitivity was calculated for 10% and 25% decrease in estimated future production levels, which would result in an increase in Impairment of CGUs by EUR 2 million and 4 million respectively (in 2020: EUR 3 million and 11 million respectively).
Other than for oil and gas prices, discount rate and production level, no reasonably possible changes in any of the key assumptions would cause further impairments.

Goodwill of EUR 7.5 million has been specifically assigned to the Körös field (including wells, the Endrőd gas plant and gathering stations), but there is no impairment arising in 2020 or 2021. The value-in-use exceeds the carrying amount with sufficient headroom. The discount rate used is 10 per cent (2020: 10 per cent). The value-in-use forecast takes into consideration cash flows which are expected to arise during the life of the wells.

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 contract 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 or CGU"). 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.

Estimates and assumptions

The Group assesses each asset or CGU (excluding goodwill, which is assessed annually regardless of indicators) in each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the FVLCD (Fair value less cost of disposal) and VIU (Value in use). The assessments require the use of estimates and assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

4.6 Financial assets

	December 31st, 2021	December 31st, 2020
	€ 000	**€ 000**
Restricted cash for long term	1 245	1 324
Other financial asset	107	22
Loans granted	0	0
Total	**1 352**	**1 346**
Total current	**88**	**0**
Total non-current	**1 264**	**1 346**

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

Loans granted includes the amounts disbursed by Sand Hill Petroleum Romania srl. to Panfora Oil and Gas srl. under the Carry Finance Agreement ("CFA") signed with Panfora Oil and Gas srl. in 2016. The loan was fully impaired at the end of 2020, because the recoverability of the loan is contractually tied to future production. Due to the close maturity of the concessions in Romania (please refer to section 4.8 for more information) and lack of comparables, the fair value of exploration and evaluation assets were assessed to be nil and were fully impaired in 2020 and 2021, which resulted in the impairment of interrelated financial assets. Accumulated impairment of financial asset is EUR 5 million (In 2020: EUR 5 million).

4.7 Provisions

	Decommissioning	Other	€ 000 Total
At 1 January 2020	**6 160**	**323**	**6 483**
Arising during the year	72	0	72
Reassessment of future decommissioning costs	-240	0	-240
Write-back of unused provisions	0	-78	-78
Utilisation	-1	-62	-63
Unwinding of discount	127	0	127
FX revaluation	0	-4	-4
At 31 December 2020	**6 118**	**179**	**6 297**
Arising during the year	2 917	62	2 979
Reassessment of future decommissioning costs	0	0	0
Write-back of unused provisions	0	-73	-73
Utilisation	-72	0	-72
Unwinding of discount	117	0	117
FX revaluation	-2	-3	-5
At 31 December 2021	**9 078**	**165**	**9 243**
Comprising:			
Current 2020	311	179	490
Non-current 2020	5 807	0	5 807
Current 2021	197	165	362
Non-current 2021	8 881	0	8 881

Decommissioning provision

The Group makes provisions 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 related to oil and gas properties, which are expected to be incurred up to 2069, 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 to 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 of 31 December 2021 equaled 3.6-5% based on the timing of the abandonment (2020: 0.4-2.45%). The inflation rate is 5% (2020: 3 %).

Other Provisions

Other provisions comprise provisions for damage compensation and 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

Commitments and contingencies

Commitments falling due	Hungary in EUR mn	Romania in EUR mn	Total in EUR mn
within 1 year	1,1		1,1
within 2 years	8,4		8,4
within 5 years	16,1	30,3	46,4
over 5 years	0,0		0,0
Total	25,5	30,3	55,8

year computation as of 31 December, 2021

Further to the requirements set by the Hungarian Mining Law, OGDC as direct owner of OGD Nadudvar Kft., OGD Ujleta Kft., OGD Berettyoujfalu Kft., OGD Mogyorod Kft., OGD Nagykata Kft., OGD Ocsa Kft., OGD Körösladány Kft, OGD Békéscsaba Kft, OGD Tiszafüred Kft., (collectively referred to as "Subsidiaries") has put up a HUF 1 billion bank guarantee (EUR 2.7 million) as per 2021 balance sheet date (2020: HUF 1 billion, EUR 2.7 million) to secure certain abandonment obligations under the exploration licenses granted by the Hungarian Mining Authority.

OGDC and its Subsidiaries are committed to carry out a compulsory work program under the various concession agreements signed with the Hungarian government the monetary value of which could be up to EUR 25.5 million at the end of 2021 (2020: EUR 25.7 million).

In January 2017, the Company's 100% Romanian subsidiary, Sand Hill Petroleum Romania srl. ("SHPR") acquired majority participating interests (70% and 80% respectively) in two existing onshore hydrocarbons exploration concessions in Romania thus entering into a non-incorporated joint arrangement with Panfora Oil & Gas srl. a Romanian company („Joint Operating Partner"). SHPR and Joint Operating Partner are jointly and severally liable towards the Romanian government for the work program obligations could be up to EUR 40.5 million (2020: EUR 39.7 million) in total at the end of 2021 (total commitment of both parties to which joint and several liability applies). The pro-rated share of SHPR for the work program obligations could be up to EUR 30.3 million in total at the end of 2021 (2020: EUR 29.7 million).

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

The first phase of both concession work programs expired in October 2018. SHPR and Joint Operating Partner filed for and obtained a multi-year extension of the first phase, thus the first phase of both concession blocks was extended until October 2021. In 2021 the first phase of both concession blocks was further extended by 3.5 years. The current deadline to complete the works by SHPR for Phase I is 8 April 2025 for block EX-1 VOIVOZI and 12 April 2025 for block EX-5 ADEA. The Company is currently actively exploring strategic alternatives aiming to increase the financial capability both at Group and at SHPR level.

The Company provided a Letter of Support to its Romanian subsidiary both in 2020 and 2021.

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 (2020: 2,572,500), 396,000 class B1 shares (2020: 396,000), 14,689,842 cumulative preference 1 shares (2020: 14,689,842), 1,730,920 class A2 shares (2020: 1,730,920), 133,762 class B2 shares (2020: 133,762) and 7,199,997 cumulative preference 2 shares (2020: 7,199,997).

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. Dividends on the preference shares of Sand Hill Petroleum B.V. are cumulative, which means that if there are no profits in a certain year, the annual fixed rate (8% of subscription price) of dividends shall accrue on these preference shares until there are enough profits to pay the dividends. 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. Please refer to note 5 in Company-only financial statements for information on dividend reserves.

Transactions in 2020

Repurchase date	Category	Number of shares	Price per share	Amount
23.jan.20	B1	- 25 000	1 USD	-25 000
23.jan.20	CP1	-8 055	10 USD	-80 550

Repurchased share capital: -331 USD

Repurchased share premium: - 105 219 USD

There were no share transactions in 2021.

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 in accordance with the provisions of article 25 paragraph 2 of the Company's articles of association.

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, 2021	December 31st, 2020
	€ 000	€ 000
Cumulative preference 1 shares	128	128
Cumulative preference 2 shares	63	63
Class A1 shares	23	23
Class B1 shares	4	4
Class A2 shares	15	15
Class B2 shares	1	1
Total	**234**	**234**

The share premium is divided in:

	December 31st, 2021	December 31st, 2020
	€ 000	€ 000
Cumulative preference 1 shares	128 165	128 165
Cumulative preference 2 shares	63 203	63 203
Class A1 shares	2 224	2 224
Class B1 shares	342	342
Class A2 shares	212	212
Class B2 shares	17	17
Total	**194 163**	**194 163**

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, loans extended 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.

Please refer to Note 5.3.2 on current issues related to capital management and financial covenants related to external capital requirements.

The Group monitors capital using a gearing ratio, which is 'net debt' divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 20% and 40%. The ratio at the end of 2021 exceeds the upper limit, management plans described in Note 2.1 about Going concern is expected to move back gearing ratio to the acceptable range. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and short-term deposits.

	December 31st, 2021	**December 31st, 2020**
	€ 000	**€ 000**
Interest bearing loans and borrowings	88 135	79 683
Trade and other payables	3 034	2 545
Less cash and short term deposit	-15 893	-5 804
Net debt	**75 276**	**76 424**
Equity	63 929	69 427
Capital and net debt	**139 205**	**145 851**
Gearing ratio	**54.1%**	**52.4%**

5.3 Financial instruments

5.3.1 Finance income and expense

	2021	**2020**
	€ 000	**€ 000**
Interest income	1	242
FX gain	560	51
Total of finance income	**561**	**293**

	2021	2020
	€ 000	€ 000
Interest expense bonds (Nordic Trustee AS) EUR 70M	8 581	9 413
Other interest expense	0	24
Interest on lease liabilities	50	24
Unwinding-Provision	117	127
FX loss	604	239
Total of finance expenses	**9 352**	**9 827**

Interest expense on bonds includes the modification loss on the change in contractual cash-flows of the Bond in an amount of EUR zero thousand (2020: EUR 1,842 thousand).

5.3.2 Interest-bearing loans and borrowings

Non - current liabilities

	December 31st, 2021	December 31st, 2020
	€ 000	€ 000
EUR 70 million 9% bonds due April 13, 2022	0	79 026
Lease liabilities	50	335
Total of interest-bearing loans and borrowings	**50**	**79 361**

Current liabilities

	December 31st, 2021	December 31st, 2020
	€ 000	€ 000
Bank loan	0	0
EUR 70 million 9% bonds due April 13, 2022	87 727	0
Lease liabilities	358	322
Total of interest-bearing loans and borrowings	**88 085**	**322**

On April 13, 2018 the Company issued Bonds. 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. On 19 December 2019 the Bond terms have been amended whereby the amount repayable at maturity was increased by 1%. The amendment was treated as a modification of the existing interest bearing borrowing with difference in the present values being recognized within finance expenses (Note 5.3.1).

Pursuant to approval of the Bondholders on 22 April 2020, the Company entered into a second amendment and restatement agreement to to the bond terms for its "9.00 per cent on 30 April 2020. Senior Secured 70,000,000 Callable Bond Issue 2018/2022" with ISIN NO001 0820616 (the "Bond Issue").

The Group examined if the modification was substantial or not. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received

and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. The Group concluded that the modification of terms was not substantial, therefore it did not result in the extinguishment of the liability, and therefore the net present value of the change in contractual cash-flows discounted using the original effective interest rate was recognised in profit and loss (2020: EUR 1,842 thousand)

The effective interest rate of the bond was 10.87% until 22 April 2020, since then 11.11%. Increase in effective interest rate is due to transaction costs attributable to the amendment of the bonds.

The amended terms of the Bond terms require the Company to meet and report quarterly compliance with the following financial covenants:

- from and including 1 October 2021 a minimum liquidity of EUR 3 million at all times;
- a Leverage Ratio (Net interest bearing debt/trailing 12 months EBITDA) in respect of the Relevant Periods expiring on 31 December 2021 and 31 March 2022 equal to or lower than 2.50:1 x
  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 Group).

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

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

On 6 October 2021 the Bondholders proposed that the interest due on 13 October 2021 be paid on 30 November 2021 without accruing any type of interest.

On 29 November 2021 the Bondholders consented to postponing the payment date for the interest amount (under ISIN NO0011129488) due originally on 13 October 2021 and then deferred to 30 November 2021 to 31 January 2022. The Bondholders also agreed to waive the Leverage Ratio, which would otherwise be tested 31 December 2021, so that the Leverage Ratio will be tested 31 March 2022. On 27 April 2022 the Bondholders waived permamently the Leverage Ratio.

On 23 December 2021 the Bondholders took a written resolution authorizing the Bond Trustee to enter into a Governance Agreement and appoint new members to the Supervisory and Management Boards of the Company and also waived its rights under the change of control clause.

For further information see 2.1 Going concern and Note 8.1 Events after Reporting date sections.

Covenants and requirements	**2021**	**2020**
Leverage ratio with a maximum of 2.5:1 (waived permanetly)	3.38:1	6.57:1
Liquidity with a minimum of EUR 3 million	16	6

The Leverage ratio was waived permanently. The Minimum Liquidity covenant shall apply at all times (first as of 1 October 2021). All financial covenants shall be calculated on a consolidated basis for the Group. Compliance with financial covenants shall be certified by the Issuer by way of a Compliance Certificate issued on the last date of the calendar quarter).

A breach of the financial covenants shall not constitute an Event of Default if such breach is prevented or remedied by cash proceeds received by the Issuer (i) in exchange for fully paid shares in the Issuer, or (ii) as Shareholder Loans, after the relevant Quarter Date (the "Cure Amount").

The Cure Amount can be applied for the benefit of the covenant calculation for the Relevant Period up until 20 Business Days after the due date for issuance of the Compliance Certificate and may be applied to reduce Net Interest Bearing Debt in the calculation of the Leverage Ratio.

For further information see 2.1 Going concern and Note 8.1 Events after Reporting date sections.

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

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

Further information on preference shares can be found in Note 5.1.

5.3.4 Derivatives designated as hedging instruments

Cash flow hedges

Commodity price risk

The Company is exposed to commodity price risk on the sale side of natural gas and liquids. Hedging strategy is to reduce variability in cash flows attributable to highly probable forecast sales. When necessary, the Company considers commodity hedging to eliminate risk rather than taking up general market price volatility.

The commodity swap contract, which commenced on 1 October 2019, requires net settlement in cash, determined as the difference between the natural gas VTP day ahead and weekend unweighted average price – Heren and a fixed price.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the commodity swap contracts match the terms of the expected highly probable forecast sales transactions (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the commodity swap contracts are identical to the hedged risk components.

The hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- Different indexes (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments

The commodity swap contract matured on 30 September 2020, and no new agreement was signed.

The effect of the cash flow hedge in the statement of profit or loss and other comprehensive income is, as follows:

	Total hedging gain/(loss) recognised in OCI without tax	**Amount reclassified from OCI to profit or loss**	**Line item in the statement of profit or loss**
	€000	**€000**	
Year ended 31 December 2021			
Highly probable future sales	0	0	
Year ended 31 December 2020			
Highly probable future sales	0	1 375	Revenue

5.3.5 Fair values

Carrying value versus fair value

	Fair value		**Carrying value**	
	December 31st, 2021 € 000	**December 31st, 2020 € 000**	**December 31st, 2021 € 000**	**December 31st, 2020 € 000**
Financial liabilities				
Bond	60 500	19 110	87 727	79 026
Financial assets				
Derivatives	0	0	0	0
Non-current financial assets	1 352	1 346	1 352	1 346

The bond has a quoted price at the Nordic Alternative Bond Market, but no transaction occurred in 2021. The fair value was based on the information available about the final redemption price of the bonds (level 3 in the fair value hierarchy).

Derivatives are measured at fair value in the financial statements, valued using valuation techniques with market observable inputs. The model uses commodity forward rate curves of the underlying commodity as input, and the model uses present value calculation (level 2 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.

Non-current financial assets consist of restricted cash, for which management assessed that fair value approximates its carrying value.

5.3.5 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.

5.3.6 Financial risk management objectives and policies

5.3.6.1 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, and derivative financial assets.

The sensitivity analysis in the following sections relate to the position as at 31 December 2021 and 2020.

The sensitivity analysis is 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 fixed natural gas pricing agreement in 2021 with one of its key buyers. A Producer Gas Sales Contract has been signed on 22 June, 2021 between O&GD Central Kft. and Hungarian Gas Trade Ltd. (now renamed to CEEnergy) as buyer.

The GSA provides exclusivity to the buyer for all gas produced and processed by the company in Hungary with the term of 3 gas years, starting on 1 October 2021 until 1 October 2024. Gas is delivered on the Hungarian virtual gas delivery point (MGP). Transmission system capacity fees booked by the seller are reimbursed by the buyer. Price is determined according to a TTF based formula. Delivery terms provide certain flexibility to the seller, taking into account technicalities that may arise at a natural gas producer. A price fixing mechanism is also included whereas the seller has the option to deliver variable gas volumes at a fixed price.

Exercising this option, OGDC undertook to deliver 1152 MWh per day at a fixed price for the period 1 October 2021 to 30 September 2022. This represents approximately 30-35% of daily gas production.

The Group's Board of Directors has developed and enacted a risk management strategy for commodity price risk and its mitigation. The Group follows closely the possibility of using fixed price and forward commodity sales contracts. The forward contracts do not result in physical delivery of gas but are designated as cash flow hedges to offset the effect of price changes in natural gas. Depending on available market conditions the Group may hedge approximately 50-60% of its expected gas sales.

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.

Commodity price sensitivity

The company had no open commodity derivatives at the end of 2021 and 2020.

Interest rate risk

Interest rate risk is the risk that future cash flows 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.

On 22 September, 2016 the Company's subsidiary, Sand Hill Petroleum Romania srl. ("SHPR"), entered into a Carry Financing Agreement ("CFA") with its Joint Operating Partner. The CFA carries a six months EURIBOR plus 5% p.a. interest rate. For more information please refer to Note 4.6.

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 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 some foreign exchange accounting results in the consolidated P&L of the Company.

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

Approximately <20% (2020: <20%) of the Group's sales are denominated in currencies other than the functional currencies, whereas 30-50% (2020: 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 after tax.

Increase/decrease in foreign exchange rate of EUR	Effect on profit before tax for the year ended December 31st,2021	Effect on profit before tax for the year ended December 31st,2020
	Increase/(Decrease)	Increase/(Decrease)
	EUR million	EUR million
EUR/USD +10%	-0.13	0.14
EUR/USD -10%	0.15	0.01
EUR/HUF +10%	0.57	0.12
EUR/HUF -10%	-0.61	-0.17
EUR/RON +10%	-0.01	0.02
EUR/RON -10%	0.01	-0.02

5.3.6.2 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 obligations as they fall due. The Group's appetite to liquidity and solvency risk is considered low.

For more information on additional risks related to liquidity please refer to the Note on Going Concern, Note 2.1. and Note 5.3.2.

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

Year ended 31 December 2021 **€ 000**	**On demand**	**< 1 year**	**1 - 2 years**	**2 - 5 years**	**> 5 years**	**Total**
Interest-bearing loans and borrowings	0	90 266	0	0	0	**90 266**
Lease liabilities	0	372	53	0	0	**425**
Accounts payable and accrued liabilities	0	3 034	0	0	0	**3 034**

Year ended 31 December 2020 **€ 000**	**On demand**	**< 1 year**	**1 - 2 years**	**2 - 5 years**	**> 5 years**	**Total**
Interest-bearing loans and borrowings	0	3 595	86 672	0	0	**90 267**
Lease liabilities	0	330	263	74	0	**667**
Accounts payable and accrued liabilities	0	2 545	0	0	0	**2 545**

Description of the Bond covenants are detailed in Note 5.3.2.

5.3.6.3 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 continuously check the financial position of business partners before trading and to update this regularly.

On 31 December 2021, the Group had 1 customer (2020: 1 customer) that owed the Group more than EUR 1 million and accounted for approximately 95% (2020: 46%) of all receivables and contract assets outstanding. There was 1 customer (2020: no customers) with balances greater than EUR 2 million accounting for 95% (2020: 0%) of total accounts receivables and contract assets.

On 22 September, 2016 the Company's subsidiary, Sand Hill Petroleum Romania srl. ("SHPR"), entered into a Carry Financing Agreement ("CFA") with its Joint Operating Partner. The CFA carries a six months EURIBOR plus 5% p.a. interest. For more information please refer to Note 4.6.

Please refer to Note 6.2 for an analysis on ageing of trade receivables.

5.3.7 Changes in liabilities arising from financing activities

Year ended 31 December 2021

€ 000	**1 January 2021**	**Cash flows**	**Other**	**31 December 2021**
Current borrowings	0	0	87 727	87 727
Lease liabilities current	322	-469	505	358
Non-current borrowings	79 026	0	-79 026	0
Lease liabilities non-current	335	0	-285	50
Total liabilities from financing activities	79 683	-469	8 921	88 135

Other item contains the followings: accretion of interests (EUR 8 751 thousand), recognition of new leasing liabilities (EUR 409 thousand), derecognition of leasing liabilities (EUR -223 thousand) Fx difference (EUR -16 thousand), reclassification of current portion of lease liabilities from Non-current lease liabilities (EUR 285 thousand) and reclassification of Bond loan from non-current to current liabilities (EUR 79 026 thousand).

Year ended 31 December 2020

€ 000	**1 January 2020**	**Cash flows**	**Other**	**31 December 2020**
Current borrowings	2 995	-3 019	24	0
Lease liabilities current	514	-473	281	322
Non-current borrowings	69 676	0	9 350	79 026
Lease liabilities non-current	663	0	-328	335
Total liabilities from financing activities	73 848	-3 492	9 327	79 683

Other item in 2020 contained the followings: accretion of interests (EUR 7,874 thousand), loss on modification of bond terms (EUR 1,842 thousand), capitalization of transaction costs (EUR -318), recognition of new leasing liabilities (EUR 9 thousand) derecognition of leasing liabilities (EUR -82 thousand), Fx difference (EUR 2 thousand) and reclassification of current portion of lease liabilities from Non-current lease liabilities (EUR 328 thousand).

In the Cash-flow statements proceeds from loans and borrowing also contained EUR 1,127 thousand paid transaction costs.

5.4 Leases

5.4.1 The Group as a lessee

The Group has lease contracts for various items of buildings, warehouse and vehicles used in its operations. Leases of warehouses and buildings generally have lease terms between two and five years, while vehicles generally have lease terms between three and four years. The Group's obligations under its leases are secured by the lessor's title to the leased assets.

The Group also has certain leases of assets with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the short-term lease and lease of low-value assets recognition exemptions for these leases.

There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period. All the leased assets are within the category Other property, plant and equipment:

€ 000	**Other property, plant and equipment**
As at 1 January 2020	**1 188**
Additions	9
Disposals	-79
Depreciation	-467
As at 31 December 2020	**651**
Additions	414
Disposals	-220
Depreciation	-486
FX effects	2
As at 31 December 2021	**360**

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	2021 € 000	**2020 € 000**
As at 1 January	**657**	**1 177**
Additions	409	9
Disposals	-223	-82
Accretion of interest	50	24
Fx difference	-16	2
Payments	-469	-473
As at 31 December	**408**	**657**
Current (Note 5.3.2)	**358**	**322**
Non-current (Note 5.3.2)	**50**	**335**

The maturity analysis of lease liabilities is disclosed in Note 5.3.6.2.

The following are the amounts recognised in profit or loss:

€ 000	2021	2020
Depreciation expense for right-of-use assets	486	467
Interest expense on lease liabilities	50	24
Expense relating to short-term leases (included in other operating expenses)	101	62
Expense relating to leases of low-value assets (included in other operating expenses)	5	7
Variable lease payments (included in other operating expenses)	42	51

The Group had total cash outflows for leases of EUR 526 thousand in 2021 (2020: EUR 593 thousand). The Group also had non-cash additions to right-of-use assets and lease liabilities of EUR 409 thousand in 2021 (2020: EUR 9 thousand).

The Group has lease contracts for warehouse storage places that contains variable payments based on the area actually used in the period. These terms are negotiated by management for certain locations where temporary storage need arise during the period. Management's objective is to minimize the lease expense but provide adequate storage facility for inventory.

5.4A Accounting policy – Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group is not a lessor in any transactions, it is only a lessee.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use asset is depreciated over the shorter of the lease term and the useful life of the right-of-use asset.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease if the lease term reflects the Group exercising the option to terminate.

In calculating the present value of lease payments the Group uses its incremental borrowing rate at the lease commencement date. After the commencement date the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in Interest bearing loans and borrowings (see Note 5.3.2).

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of assets. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Short term leases:
A lease that, at the commencement date, has a lease term of 12 months or less. The lease term is the non-cancellable period of the lease (considering relevant extension and termination options).

A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

Low-value asset:
Underlying assets with a value, when new, of EUR 5000.

Section 6. Working capital

This section provides additional information that the Directors consider as 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, 2021	December 31st, 2020
	€ 000	**€ 000**
Unrestricted cash	15 893	5 804
Total	**15 893**	**5 804**

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, 2021	December 31st, 2020
	€ 000	**€ 000**
Trade receivables	12 302	2 696
Other receivables and prepayments	1 209	2 225
Total trade and other receivables	**13 511**	**4 921**

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

Income tax receivables contain overpayment of corporate and local income tax in amount of EUR 282 thousand (2020: EUR 606 thousand).

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

	2021	2020
	€ 000	€ 000
At 1 January	3	4
Charge for the year	10	0
Amounts written off	0	0
Unused amounts reversed	0	-1
At 31 December	**13**	**3**

As of 31 December 2021 and 31 December 2020, the analysis of trade receivables is as follows:

	Total	Not past due	<30 Days	30-60 Days	60-90 Days	>90 Days
2021	**12 318**	12 315	0	0	0	0
2020	**2 699**	2 699	0	0	0	0

6.3 Inventories

	December 31st, 2021	December 31st, 2020
	€ 000	€ 000
Materials	4 278	5 448

The total value of inventory consists of materials bought to use for drilling wells. In 2021 no impairment was recognized on inventory (2020: 0).

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 sale.

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

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, 2021	**December 31st, 2020**
	€ 000	**€ 000**
Trade payables	2 816	2 357
Income taxes payable	927	138
Taxes and mining royalties payable	6 842	1 327
Other payables	218	188
Total	**10 803**	**4 010**

Terms and conditions of the above liabilities:

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

Increase in Taxes and mining royalties is the result of change in royalty calculation formula, which is based on Dutch TTF gas price instead of Brent for gas production and which is applicable in Hungary from 28 March 2021. The increase is accelerated by the increase in the base price in the formula.

Contract liability:

No contract liability exists in 2021 and in 2020.

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 97.29% (2020: 97.29%) of the Company's shares. The remaining shares are held by private individuals.

1.92% (2020: 1.92%) 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 Petroleum 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 Petroleum B.V.:

Name	Principal activities	Country of incorporation	% equity interest	
			2021	2020
Sand Hill Petroleum Romania S.r.l	Exploration and development	Romania	100%	100%
O&GD Central Kft.	Exploration and development, Production	Hungary	100%	100%
Sand Hill Services FZ LLC	Engineering and technical services	UAE	100%	100%

Subsidiaries held indirectly by Sand Hill Petroleum B.V:

Name	Principal activities	Country of incorporation	% equity interest	
			2021	2020
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%
OGD Körösladány Koncessziós Kft.	Exploration and development	Hungary	100%	100%
OGD Békéscsaba Koncessziós Kft.	Exploration and development	Hungary	100%	100%
OGD Tiszafüred Koncessziós Kft.	Exploration and development	Hungary	100%	100%

Joint operations:

The Company participates in two joint operating agreements:

- Sand Hill Petroleum Romania S.r.l. participation 70% (2020: 70%) in EX-1 Joint Operating Agreement with Panfora Oil & Gas S.r.l.
- Sand Hill Petroleum Romania S.r.l. participation 80% (2020: 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 Management Board or the Supervisory Board as per December 31, 2021 (2020: zero).

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, 2021 (2020: less than 15%).

Compensation of the key management personnel of the Group

	2021	**2020**
	€ 000	€ 000
Supervisory Board	116	167
Management Board	15	20
Total compensation paid to key management	**131**	**187**

The Company applies only short-term employee benefit forms for compensation.

In 2021 an amount of EUR 131 thousand (2020: EUR 187 thousand) was absorbed by the Sand Hill Group relating to salaries, social contribution, 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.

Other related party transactions

Amounts incurred by the Company for provision of technical services provided by entities belonging to the management personnel is EUR 550 thousand in 2021 (EUR 337 thousand in 2020) and is recognised under other operating expenses as advisory fees (see Note 3.6). Outstanding balance of technical service fees is EUR 26 thousand as of 31 December 2021 (2020: EUR 29 thousand).

Section 8. Other

8.1 Events after the reporting period

An optional second phase extension for the Berettyóujfalu concession was granted and signed with the Hungarian authorities in January 2022. The extension added HUF 760 million (EUR 2 million) to the HUF 9,418 million (EUR 25.5 million) total outstanding mandatory work programs in Hungary. In respect of the Ocsa, Nagykáta and Mogyoród concession areas the Company has filed a request for a 2 year optional extension commencing as of the expiration of the first phase exploration periods. In return for the extension the Company offered to add a total of HUF180million (cca EUR 0,5million) worth of mandatory work programs for all three concession areas.

In March 2022 the Management of the Company relinquished the Korosladany and Bekescsaba (Hungary) licenses. Through an agreement with the Hungarian authorities the work program items of the outstanding mandatory commitments in these two concession areas were transferred to the Berettyoujfalu and Ujleta concession companies and the concession agreements for Körösladány and Békéscsaba were terminated without any penalties. O&GD Central Kft, the sole owner of these concession companies, initiated the liquidation of OGD Korosladany Concession Kft. and OGD Bekescsaba Concession Kft.. From a monetary point of view this exchange of mandatory commitments could result in upto HUF 1 641 mn (EUR 4.3 mn) reduction of the outstanding mandatory work programs. The assets at Korosladany and Bekescsaba concession areas were written off in the 2021 Financial statements.

On 26 January 2022 the Company entered into an agreement with the Shareholders and Bondholders regarding certain transitional arrangements (the "Governance Agreement"), waived the occurrence of any Change of Control Event caused by the entry into of the Governance Agreement, the appointment of the Interim Board Members, or any of the elements contemplated by the Governance Agreement, approved of and granted to the Bond Trustee a power of attorney, such power of attorney to remain valid until the earlier of completion of the change of control process or the termination of the Governance Agreement. Further to the Governance Agreement Mr. Guido Nieuwenhuizen and Intertrust Netherlands B.V. resigned as members of the Management Board, Sir Richard Olver, Mr. Peder Bratt and Mr. Simon Eyers resigned as members of the Supervisory Board. Mr. Hein Coops and Mr. Arnoud van der Lingen were appointed as new members of the Management Board and Mr.
Henrik A. Christensen, Mr. Jan Chalupa and Mr. Kjell Erik Eilertsen were appointed as new members of the Supervisory Board.

The Company paid in early February 2022 the interest that was due on the Interest Payment Date on 13 October 2021 and postponed to 31 January 2022 in amount of EUR 3,595 thousand.

On 8 April 2022 the Bondholders approved the extension of the Maturity Date to 2 May 2022 provided the Company paid on 13 April 2022 EUR 14 million as partial redemption, the interest due on 13 April 2022, settled outstanding invoices from Nordic Trustee and paid an advance of EUR 845,000 for future expenses. As of 13 April 2022 the amount of the outstanding bonds, after payment of the EUR 14 million partial redemption, was equivalent to EUR 65,881,627.

On 27 April 2022 the Bondholders announced that they have been presented with an offer (“Offer”) dated 18 January 2022 submitted by certain members of the Company's management on behalf of themselves and a Hungarian financial investor (together with the bidding Company managers, the "Buyers").

Under the Offer it is contemplated that in addition to the acquisition of 100% of the shares in the Company by the Buyers, the Transaction shall involve a full redemption of the Bonds and outstanding accrued interest on or about the completion date of the Transaction against the Bond Trustee's receipt of:

(c) EUR 42,905,327 (the "Redemption Amount"); and

(d) payment of all outstanding costs, fees and any other amount (including all legal and financial advisor's fees) incurred by the Bond Trustee being outstanding at the date of completion of the Transaction.

Following the Bond Trustee's receipt of the Redemption Amount and the Trustee's Costs within 30 September 2022, the Bonds and all other amounts outstanding under and pursuant to the Finance Documents (as defined in the Bond terms) will be considered fully redeemed and the Bond Trustee shall thereafter release all Transaction Security.

On 27 April 2022 the Bondholders also approved to extend the Maturity Date from 2 May 2022 to the earlier of (i) the fifth Business Day following the day the Bond Trustee has received the Redemption Amount and (ii) 30 September 2022 (the "New Maturity Date"), provided that the share purchase agreement between Seller, Buyer and the Company is signed no later than 16 May 2022.

Given that the SPA was not signed on 16 May 2022 the Bondholders, on 17 May 2022, announced that they expected that a share purchase agreement documenting a sale of the shares in the Company could be signed by 31 May 2022, and that the commitments by a buyer under such share and purchase agreement will enable the Company to redeem the Bonds with an amount to be finally approved by Bondholders through a Written Resolution.

Bondholders extended the Maturity Date to 30 September 2022 conditional upon: a) that the Company by no later than 25 May 2022 (i) partially redeems the Bonds with an amount of EUR 5 million, together with interest accrued on this partial redemption amount from 13 April 2022 until payment of the partial redemption amount and (ii) pay any accrued and unpaid costs (iii) a share purchase agreement regarding the sale of the shares in the Company has been signed no later than 31 May 2022 (iv) the Bondholders no later than 6 June 2022, by way of a Written Resolution have approved the amount, together with cost accrued for the Bond Trustee applicable to finally redeem the bonds, unless the Bonds will be redeemed in full with all amounts and costs outstanding as of 17 May 2022.

In line with the request made by the Bondholders the Company, before 25 May 2022, made a partial redemption of the Bonds by paying EUR 5 million, together with interest accrued on this partial redemption amount from 13 April 2022 until payment of the partial redemption amount and paid any accrued and unpaid costs.

However a share purchase agreement was not signed on 31 May 2022 therefore the Bondholders announced on 1 June 2022 that they wish to continue to extend the Maturity Date to 30 September 2022 (the "New Maturity Date") conditional upon:

a) that the Company by no later than 10 June 2022 partially redeems the Bonds with an amount of EUR 3 million, together with interest accrued on this partial redemption amount from 13 April 2022 until payment of the partial redemption amount;

b) that a share purchase agreement regarding the sale of the shares in the Company has been signed no later than 22 June 2022; and

c) that the Bondholders no later than 30 June 2022, by way of a Written Resolution have approved the mechanics and amount, together with cost accrued for the Bond Trustee, applicable to finally redeem the bonds.

On 4 June 2022 the Hungarian Government announced an increase in the rate of the mining taxes for the years 2022 and 2023. The increased rates shall enter into force on 1 August 2022. First increased royalty shall become payable in September 2022.

The Company made the EUR 3 million partial payment before 10 June 2022 together with interest accrued on this partial redemption amount from 13 April 2022 until payment of the partial redemption amount as required under the written resolution made by the Bondholders published on 1 June 2022. The other conditions were not met. After payment of the EUR 3 million partial redemption the outstanding amount of the Bonds was equivalent to EUR 57,881,627.

On 28 June 2022 Bondholders announced that, in order to facilitate a share sale process and final redemption of the Bonds, they were of the view that it is in the best interest of the Bondholders to continue to extend the Maturity Date to 30 September 2022 (the "New Maturity Date") conditional upon:

that a share purchase agreement regarding the sale of the shares in the Company has been signed no later than 12 July 2022; and

that the Bondholders no later than 19 July 2022, by way of a Written Resolution have approved the mechanics and amount, together with cost accrued for the Bond Trustee (including legal and financial advisor costs), applicable to finally settle the Bonds, unless the Bonds will be redeemed in full with all amounts and costs outstanding as of today.

The above deadlines were amended by Bondholders on 15 July 2022, 28 July 2022 and 1 August 2022. As per their decision of 1 August 2022 Bondholders decided to extend the above deadlines to 11 August 2022 and 18 August 2022 respectively.

Early July 2022, the Company's Hungarian subsidiary, O&GD Central Kft. entered into a fixed price gas sales delivery contract for 600 Mhw/d with CEEnergy Zrt. effective from 1 October 2022 to 30 September 2023.

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.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

Effective for annual periods beginning on or after 1 January 2023 and must be applied retrospectively.

In January 2020, the International Accounting Standards Board issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current.

The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The IASB is currently reconsidering these amendments and will likely defer their effective date. The Company is monitoring these developments.

Amendments to IAS 16: Property, Plant and Equipment: Proceeds before the Intended Use

Effective for annual periods beginning on or after 1 January 2022.

In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and costs of producing those items in profit or loss.

The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have material impact on the Group's consolidated financial statements.

Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract

Effective for annual periods beginning on or after 1 January 2022.

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss making.

The amendments apply a "directly related cost approach". The cost that relates directly to a contract provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are not expected to have material impact on the Group's consolidated financial statements.

Amendments to IFRS 9: Financial Instruments – Fees in "10 per cent" test for derecognition of financial liabilities

Effective for annual periods beginning on or after 1 January 2022 with earlier application permitted.

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued amendments to IFRS 9. The amendment clarifies the fees that an entity includes when assessing the term of the new or modified financial liability are substantially different from the terms of original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group's consolidated financial statements.

Reference to the Conceptual Framework – Amendments to IFRS 3

Effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

Definition of Accounting Estimates - Amendments to IAS 8

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are not expected to have a material impact on the Group.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The Group is currently assessing the impact of the amendments to determine the consequences they will have on the Group's accounting policy disclosures.

Amendment to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 with earlier adoption permitted.

The Amendments narrow the scope of the initial recognition exception under IAS 12 Income Taxes, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The Amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.

The Group is currently assessing the impact of the amendments to determine the consequences they will have on the Group's financial statements.

Sand Hill Petroleum B.V.

Company only financial statements for the year ended 31 December 2021

Income statement for the year ended 31 December 2021

	Notes	2021	2020
		€ 000	**€ 000**
Other income and expenses (after tax)		-2 715	-18 080
Share in results of subsidiaries	3	-3 232	-25 120
Net loss		**-5 948**	**-43 200**

Other income and expense includes EUR 1,757 thousand impairment on loan receivables from the Hungarian and Romanian entities (2020: EUR 18,356 thousand).

In 2021, the Company incurred unrecognised loss on subsidiaries in amount of EUR 24 thousand (2020: EUR 202 thousand), the previous year's unrecognised loss was recognised during 2021.

Balance sheet after proposed profit/loss appropriation

as of 31 December 2021

	Notes	31 December 2021	31 December 2020
		€ 000	**€ 000**
Assets			
Fixed assets			
Investment in subsidiary	3	0	0
Other financial assets	4	0	144 276
Total		**0**	**144 276**
Current assets			
Trade and other receivables		1 133	1 082
Cash and short-term deposits		3 521	3 706
Other short term financial assets	4	147 999	0
Total current assets		**152 653**	**4 788**
Total assets		**152 653**	**149 064**
Equity and liabilities			
Share capital		234	234
Share premium		194 163	194 163
Legal reserve		4 564	4 292
Accumulated deficit		-135 008	-129 060
Total equity	5	**63 953**	**69 629**
Non-current liabilities			
Interest-bearing loans and borrowings	6	0	79 026
Total non-current liabilities		**0**	**79 026**
Current liabilities			
Interest-bearing loans and borrowings		87 727	0
Income tax payable		413	
Trade and other payables		561	409
Total current liabilities		**88 700**	**409**
Total liabilities		**88 700**	**79 435**
Total equity and liabilities		**152 653**	**149 064**

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 amounts are in EUR thousands, unless stated otherwise.

Legal Name:	Sand Hill Petroleum B.V.
KvK-nummer:	56038038
Corporate Address:	Strawinskylaan 3051, 1077 ZX 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., Sand Hill Petroleum Romania Srl and Sand Hill Services FZ LLC.

	2021	2020
	€ 000	€ 000
Carrying amount at 1 January	**0**	**19 244**
Capital contributions	2 960	7 050
Net (loss)/ profit	-3 232	-25 120
Other direct movements in equity of participating interests	0	1 252
Foreign currency	272	78
Carrying amount at 31 December	**0**	**0**

4 Other financial assets

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

	2021		2020	
	Loans receivable from Group companies	Restricted cash	Loans receivable from Group companies	Restricted cash
	€ 000	€ 000	€ 000	€ 000
Carrying amount at 1 January	144 276	0	152 651	1 575
New loans granted	8 066	0	9 697	0
Modification gain/(loss)	0	0	284	0
Cash increase/decrease on restricted account	0	88	0	-1 575
Repayments	-2 674	0	0	0
Impairment	-1 757	0	-18 356	
Foreign currency	0	0	0	0
Carrying amount at 31 December	**147 911**	**88**	**144 276**	**0**

Impairment was recognised against intercompany loans due to loss of subsidiaries exceeding the participation value.

5 Shareholders' equity

Share capital	December 31st, 2021	December 31st, 2020
	€ 000	**€ 000**
Cumulative preference 1 shares	128	128
Cumulative preference 2 shares	63	63
Class A1 shares	23	23
Class B1 shares	4	4
Class A2 shares	15	15
Class B2 shares	1	1
Total	**234**	**234**

Share premium	December 31st, 2021	December 31st, 2020
	€ 000	**€ 000**
Cumulative preference 1 shares	128 165	128 165
Cumulative preference 2 shares	63 203	63 203
Class A1 shares	2 224	2 224
Class B1 shares	342	342
Class A2 shares	212	212
Class B2 shares	17	17
Total	**194 163**	**194 163**

Cumulative preference shares build up a dividend reserve belonging to the share as from the date of the issuance of the specific share. The accumulated amount of accrued dividend not yet added to the dividend reserve amounts to EUR 108,369 thousand as of 31 December 2021 (2020: EUR 77,781 thousand). Breakdown of accumulated interest of CP1 and CP 2 shares is EUR 90,260 thousand and EUR 18,109 thousand respectively (2020: EUR 67,366 thousand and EUR 10,415 thousand).

See note 5.1 to the Consolidated Financial Statements for movements in the issued capital and details on preference shares.

Legal reserves

Legal reserves consist of the following items:

	2021	2020
	€ 000	**€ 000**
Foreign currency translation reserve on participating interests	4 564	4 292
Cash-flow hedge reserve of participating interests	0	0
Carrying amount at 31 December	**4 564**	**4 292**

Reconciliation of legal reserves:

	Foreign currency translation reserve	Cash flow hedge reserve of participating interest
	€ 000	**€ 000**
Carrying amount as of 1 January 2020	**4 214**	**1 252**
Additions/(Reversals)	78	-1 252
Carrying amount as of 31 December 2020	**4 292**	**0**
Additions/(Reversals)	272	0
Carrying amount at 31 December 2021	**4 564**	**0**

Reconciliation of consolidated equity with company only equity

	2021	2020
	€ 000	**€ 000**
Consolidated equity as of 31 December 2021	63 929	69 427
Unrecognised loss on participation interest	24	202
Company only equity as of 31 December 2021	63 953	69 629

Reconciliation of consolidated net results with company only net results

	2021	2020
	€ 000	**€ 000**
Consolidated net results as of 31 December 2021	(5 770)	(43 402)
Recognition of previously unrecognised loss on participation interest	(202)	0
Unrecognised loss on participation interest	24	202
Company only net results as of 31 December 2021	(5 948)	(43 200)

5.1 Appropriation of results

Appropriation of result for the year 2020

The financial statements 2020 were approved in the annual general meeting of shareholders held on 1 June, 2021. 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 2021

Management proposed to add the loss for the year 2021 to accumulated deficit.

6 Interest bearing loan

The movement of interest bearing loans were as follows:

	€ 000
Carrying amount as of 1 January 2020	**69 676**
Effect of change in contractual cash-flow	1 842
Transaction costs capitalised	-318
Accretion of interest	7 826
Payment of interest	0
Principal repayment	0
Carrying value as of 31 December 2020	**79 026**
Effect of change in contractual cash-flow	0
Transaction costs capitalised	0
Accretion of interest	8 701
Payment of interest	0
Principal repayment	0
Carrying value as of 31 December 2021	**87 727**

7 Remuneration of Supervisory Board members and Management Board members

	2021	**2020**
	€ 000	€ 000
Supervisory Board	116	167
Management Board	15	20
Total compensation paid to key management	**131**	**187**

For other related party disclosures reference is made to Note 7.2 of the consolidated financial statements.

Related party transaction with group entities:

Sand Hill Petroleum BV provides intercompany loans to O&GD Central Kft and Sand Hill Petroleum Romania S.r.l. The outstanding gross balance at year end 2021 is EUR 152,180 thousand and 15,844 thousand respectively, including accrued interest, but not including impairent (2020: EUR 145,558 and EUR 17,074 respectively). Interest income recognised from related party loans is EUR 9,633 from O&GD Central Kft, and EUR 1,721 thousand from Sand Hill Petroleum Romania.

Sand Hill Petroleum BV provides management services to its subsidiaries. The below table shows the amounts recharged to subsidiaries, and the year end open receivable/payable balances from recharges:

’000 EUR	**2021**		**2020**	
Subsidiary	**Recharge income**	**Open receivable/(payable)**	**Recharge income**	**Open receivable/(payable)**
Sand Hill Petroleum Románia S.r.l.	16	13	(6)	8
O&GD Centrál Kft	134	26	131	(10)
OGD Berettyóújfalu Koncessziós Kft	30	22	31	(22)
OGD Újléta Koncessziós Kft	52	34	13	(7)
OGD Mogyoród Koncessziós Kft	52	3	184	117
OGD Nádudvar Koncessziós Kft	12	(54)	5	(1)
OGD Nagykáta Koncessziós Kft	14	11	3	0
OGD Ócsa Koncessziós Kft	13	10	3	0
OGD Békéscsaba Koncessziós Kft	15	12	3	0
OGD Tiszafüred Koncessziós Kft	15	12	4	0
OGD Körösladány Koncessziós Kft	16	13	9	4

8 Commitments

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

9 Subsequent events

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

Managing Directors,

Hein Coops

Tamas Lederer

Arnoud van der Lingen

Supervisory Board Directors,

Henrik A. Christensen

Jan Chalupa

Kjell Erik Eilertsen

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 the disposal of the shareholder.
In accordance with article 22 of the Company’s articles of association, the management board is authorized to reserve the profits, or a part thereof. to the extent these profits are not reserved by the management board, firstly a dividend shall be distributed to the CP2 shareholders (until the accrued but unpaid CP2 dividend has been paid in full). Subsequently a dividend shall be distributed or allocated to the holder of CP1 shares (until the accrued but unpaid CP1 dividend has been paid in full). Further, the Company shall not, without prior written approval of the combined meeting of holders of class A1 shares and class A2 shares, pay any dividend or distributions in respect to the class A1 shares, class A2 shares, Class B1 shares or class B2 shares. After the cumulative preference shares have been bought back by the company, the management board may resolve, with the prior approval of the combined meeting of class A1 shares and class A2 shares, to distribute all or any part of the balance of the profits.