Sand Hill Petroleum B.V.

Annual report for the year 2017

Amsterdam, the Netherlands

Sand Hill Petroleum B.V.
Strawinskylaan 3051
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The Netherlands
Chamber of Commerce: 56038038

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1 Report of the Supervisory Board

The Supervisory Board hereby presents to the shareholders the Annual Report in name of Sand Hill Petroleum B.V. (hereinafter: the "Company") for the year 2017 as prepared by the Management Board.

The Supervisory Board proposes:

- In conformity with article 20.4 of the articles of association in name of the Company for the general meeting of shareholders to adopt the Annual Report for the year 2017;

- In conformity with article 22.1 of the articles of association in name of the Company to add the result for the year 2017 to the accumulated deficit.

Amsterdam, June 19, 2018

Supervisory Directors,

D.M. LeClair	S.W.C. Eyers
P. Bratt	M.P. Fossum
Sir R.L. Olver	J.E. Golden

2 Directors' report

Management herewith presents to the shareholders the Annual Report in name of the Company for the financial year ended December 31, 2017. The consolidated financial statements include the financial data of the Company and its wholly owned subsidiaries (jointly referred to as the "Group").

General

The Company is a private company with limited liability incorporated on September 13, 2012, under the laws of the Netherlands and acts as an intermediate holding and finance company for the purpose of exploration, development and production of oil and gas in Central and Eastern Europe.

Overview of activities

The Company continued in 2017 its exploration & production activities in the Pannonian Basin.

In Hungary the Group produced 5,724 mmscfe gas and condensate, and 19,949 barrels of oil from 19 wells. An exploration and development programme resulted in drilling 11 wells, completed and hooked-up 9 wells, almost doubling the production of hydrocarbons by the year end. Most of the wells were drilled in the North East of Hungary on the Berettyoujfalu and Ujleta Concession area and two wells drilled in the Koros Block. Work also commenced on building the Almosd gathering station to facilitate the flow of gas in the Ujleta Concession area and the refurbishment of the Endrod Gas plant in the Koros block in order to increase its daily capacity for processing raw gas. A seismic acquisition programme was undertaken in the Nadudvar Concession.

The Group also diversified its customer base by entering into a short-term and mid-term Gas sales contract with Hungarian Gas Trade Ltd., a company fully owned by the Hungarian MVM Group.

In Romania the Group completed the acquisition of the majority participations in the EX-1 (Voivozi) and EX-5 (Adea) Concession Agreements thus entering into a non-incorporated Joint Operating Agreements with Panfora Oil and Gas S.r.l. a company fully owned by MOL PLC. On March 12, 2018, the Company resolved upon a placement of up to EUR 70,000,000 senior secured bonds with credit investors through the Oslo Alternative Bond Market (the "Bond Issuance"). On April 12, 2018, the Company entered into a Bond Terms Agreement with Nordic Trustee AS, pursuant to which the Company agreed to the terms and conditions applicable to the Bond Issuance. The Bond Issuance ultimately comprised of an issuance of senior secured EUR 70,000,000 callable bonds with a maturity date of April 13, 2022.

During the year, the share capital of Sand Hill Petroleum Romania S.r.l. ("SHPR") has been increased by USD 5,600,076. During the year, the Company disbursed a loan in the total amount of USD 1,600,000 to SHPR under the loan agreement dated November 11, 2016.

During the year, the share capital of O&GD Central Kft (OGDC) has been increased by USD 150.18 (HUF 40,000) and USD 27,000,000 has been providedto OGDC's capital reserve. During the year, the Company disbursed a loan in the total amount of USD 9,000,000 to OGDC under the loan agreement dated December 28, 2015.

During the year, the Company issued 40,000 class B1 shares, 12,888 cumulative preference 1 shares and 4,149,997 cumulative preference 2 shares.

Developments and Results

During the year, the Company continued its expansion activity in Hungary by investing in drilling several new, mainly gas wells with the aim of adding hydrocarbons reserves and generating cash-flow. Its Hungarian subsidiary was also able to diversify its buyer base by entering into a long term gas sales contract with reputable and key Hungarian gas buyer. In Romania the Company's subsidiary, SHPR, successfully worked out a plan with its minority Joint Operations Agreement partner, Panfora Oil and Gas S.r.l. (member of the Hungarian stock exchange listed MOL Group) to carry out the work obligations under the EX-1 and EX-5 concessions. As a result the net asset value of the Company as at December 31, 2017 (USD 155,098,904) increased substantially compared to the previous year (December 31, 2016: USD 108,988,354). The year 2017 was the first profitable year (USD 2,298,948) on a consolidated basis (2016 a loss of USD 16,429,839) which confirms the Company's strategy of exploring the Pannonian Basin.

The internal cashflow generation resulting from previous investment decisions and the continuous support from the shareholders resulted in sufficient liquidity to finance the ongoing operational and capital expenditure programmes and, moreover, to test the appetite of the international capital markets.

The Company also continued focusing its attention on providing a high standard employment environment to staff by providing ongoing guidance on HSE standards, anti-bribery measures and the importance of the new EU regulation on GDPR.

Liquidity and capital resources

Liquidity and capital resources are considered sufficient in view of the nature of the Company's business.

Risk management

In the pursuit of its objectives, the Company is willing to accept, in some circumstances, risks that may result in some financial loss or exposure. It will not pursue additional income generating or cost saving initiatives unless returns are probable. The Company has no appetite for safety risk exposure that could result in injury or loss of life to the employees, contractors or the public or damage to the environment. Safety drives all major decisions in the organisation.

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 wants to be seen as a good and respected corporate citizen within the jurisdictions it operates. It will not accept any negative impact on reputation with any of its key stakeholders, and will only tolerate minimum exposure.

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

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

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

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

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

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

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

Both the Management Board and the Supervisory Board regularly review the internal control framework.

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

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

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

The Internal Control Framework is regularly updated for identifying all possible risks and maximizing the effective implementation of monitoring and risk management methods.

Risk Portfolio

The risks currently managed by the Group are organized and analyzed from various perspectives like supply chain and logistics, information technology and system related risks, external political and social factors related risks, legal and regulatory compliance related risks, customer relations, financial and commodity price risks, interest rate, foreign currency and capital risks.

Supply Chain and Logistics related risks:

The Group business is significantly dependent on timely supply, efficient production and effective distribution of hydrocarbons to customers. Key suppliers' financial and business backgrounds are regularly checked prior to entering into any major transaction. The Group has long-term contracts with reputable rig supply and seismic survey companies but there are several rig supplying and seismic survey companies available in the CEE region with available capacity should the engaged partners fail in performance. The Group has also conducted a review by an outside advisor of its warehouse management practice in Hungary. This risk is considered as having a medium pontential impact to the Group activities.

Information technology and systems related risks:

The Group operations are heavily dependent on IT systems and the electronic management of information therefore a great emphasis is placed on the need for secure and reliable IT systems and infrastructure and careful management of information.

Key hardware components that run and manage key operating data are backed up with separate contingency systems to provide regular back-up copy 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 trained to understand these requirements. OGDC conducted in 2017 an IT risk self-assessment based on ISO/IEC 27001-2013 standards.

External political and social factors:

The Company's operating subsidiaries are located in Hungary and Romania and the Company is therefore exposed to a range of external economic and political risks that may affect the execution of the strategy or the running of the operations.

Both Hungary and Romania are market economies, members of the EU and NATO therefore this risk is considered to have a low potential impact on overall Group results. The Group has a substantial exposure to Hungary but it is focusing on diversifying its exposure through the entry into the Romanian market.

Legal and regulatory compliance risks:

The Group needs to ensure compliance with laws and regulations in areas such as hydrocarbons product quality, competition, employee health and safety, the environment, corporate governance, employment and taxes. Legal and regulatory compliance risks are considered to have medium size potential impact on overall Group activities and results.

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.

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

Customer 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, MOL PLC and Hungarian Gas Trade Ltd. Both companies are considered reputable and in good financial standing.

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

Financial and Commodity Price Risks:

The Group's activities expose it to a variety of financial risks including the effects of changes in the international quotations for natural gas and crude oil, foreign currency exchange rates and interest rates. The main objective of the Group's overall risk management is to minimise the potential adverse effects on the financial performance of the Group companies. In this respect OGDC has entered into a fixed natural gas pricing agreement during the year with one of its key partners thereby removing commodity price volatility in respect of part of its revenues. The Group does not carry out any trading activities.

Interest Rate Risk:

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate that applies to the financial instrument. Interest rate cash flow risk is the risk that the interest cost will fluctuate over time. The Group did not have any third party long-term or short-term debt that would have exposed the Group to both fair value and cash flow risk.

Foreign Currency Risk Management:

The Company's functional currency is United States Dollar ("USD") whilst the functional currency of the operating companies' is Hungarian Forint ("HUF") and Romanian Lei ("RON"). Shareholder funding has been provided in USD and the Company has been also providing significant USD denominated loan financing to the operating subsidiaries in Hungary and Romania. The exchange rate fluctuations between the USD and these local currencies during the year resulted in substantial foreign exchange accounting results in the consolidated P&L of the Company but does not affect cash flows. Within the operational life of the current value drivers, the Hungarian subsidiaries, the majority of the revenues and capital expenditures are denominated in EUR, therefore there is a significant foreign currency exposure arising within the Hungarian operations. It is Company policy to fund expenditures with revenues received in the same currency were possible.

Foreign currency risk is considered to have a medium potential impact on overall Group results.

Capital Risk Management:

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balances at the level of subsidiaries.
The capital structure of the Group consists of equity and shareholders loans and guarantees issued to subsidiaries. Capital risk is considered to have a medium size potential impact.

Research and development

The Group is involved in research and development in connection with the exploration, development and production of oil and gas.

Staff numbers and employment costs

The Group has 83 employees and hence incurred wages, salaries and related social security charges during the reporting period (previous year: 62 employees).

Future outlook

The Company is expected to continue working during 2018 at the same pace as in 2017. The currently used drilling rig will continue working for the entire period in Hungary, drilling and completing an average of a well per month. In Romania, the first well is expected to be drilled by the 4th quarter of 2018. The Company's Romanian subsidiary, SHPR, will be permitting a 700 square kilometer seismic program in Block EX-1 and will begin permitting a 350 square kilometer program on Block EX-5.

The Company's Hungarian subsidiary O&GD Berettyoujfalu Concession Kft. plans to build a new, 500,000 m3/d capacity gas processing plant ("Konyar Project") on the Berretyoujfalu Block in Hungary to be completed in October of 2018. At the same time the existing Endrod Gas Processing Plant will be upgraded to increase its capacity from 240,000 m3/d to 480,000 m3/d. The Konyar Project will also include approximately 100 kilometer of pipelines connecting the wells to the plant.

The Company plans to finance the 2018 capital expenditure program out of internal cash generation and outside, third party financing.

Post-balance sheet events

The share capital of SHPR has been increased by USD 893,600 and the Company received an amount of EUR 1,650,000 from OGDC as a partial loan repayment. The Company issued 20,000 class B1 shares, 15,000 class B2 shares and 6,444 cumulative preference 1 shares.

The Company entered into a Bond Terms Agreement with Nordic Trustee AS. The Bond Issuance ultimately 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 Company disbursed a loan in the total amount of USD 300,000 to SHPR under the loan agreement dated November 11, 2016.

No other events have occurred since balance sheet date, which would change the financial position of the Company and which would require adjustment of or disclosure in the Annual Report currently presented.

Information on male/female split of board members

According to governance legislation in the Netherlands ("Wet Bestuur & Toezicht") the Company is required to have at least 30% women and 30% men on the Board of Managing Directors and the Supervisory Board. During 2017 and 2016, the members of both Boards were all male. Therefore, the ratio of male/female was below 30% and as such the target criteria was not met. This is a result of the historical involvement of the current members of the Board of Managing Directors and the Supervisory Board. The composition of the Board of the Managing Directors and the Supervisory Board are considered on a regular basis and if needed adjusted based on the knowledge and experience of the directors.

Amsterdam, June 19, 2018

Managing Directors,

T. Lederer

G.F.X.M. Nieuwenhuizen

Intertrust (Netherlands) B.V.

3 Financial statements (consolidated)

3.1 Consolidated balance sheet as at December 31, 2017 (before the proposed appropriation of the result)

	Notes	December 31, 2017		December 31, 2016	
		USD	USD	USD	USD
ASSETS					
Fixed assets	*3.5.1*				
Intangible fixed assets		47,895,931		41,715,928	
Tangible fixed assets		100,128,028		53,474,047	
Financial fixed assets		7,853,473		4,343,897	
			155,877,432		99,533,872
Current assets	*3.5.2*				
Inventories		4,774,079		2,526,491	
Prepaid expenses and other receivables		8,982,321		3,608,858	
Cash and cash equivalents		11,164,147		11,408,899	
			24,920,547		17,544,248
			180,797,979		117,078,120
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	*3.5.3*		155,098,904		108,988,354
Provisions	*3.5.4*		4,051,994		2,863,387
Current liabilities	*3.5.5*				
Accrued expenses and other liabilities			21,647,081		5,226,379
			180,797,979		117,078,120

3.2 Consolidated profit and loss account for the year 2017

	Notes		2017		2016
		USD	USD	USD	USD
Net revenue	*3.5.6*	36,039,121		15,107,355	
Production costs	*3.5.7*	(35,070,694)		(21,167,322)	
Gross operating result			968,427		(6,059,967)
General and administrative expenses	*3.5.8*		(11,527,568)		(8,648,697)
Operating result			(10,559,141)		(14,708,664)
Other income		146,720		-	
Interest income and similar income		10,834,749		33,223	
Interest expenses and similar expenses		-		(1,754,398)	
			10,981,469		(1,721,175)
Results before taxation			422,328		(16,429,839)
Taxation on result	*3.5.9*		1,876,620		-
Net result			2,298,948		(16,429,839)

3.3 Consolidated cash flow statement for the year 2017

	2017	2016
	USD	USD
Net income (loss) for the period	2,298,948	(16,429,839)
Items not affecting cash		
Amortisation and depreciation	20,915,291	14,686,653
Deferred income taxes	(2,180,256)	-
Changes in provision	1,188,607	1,845,998
Changes in ARO	(987,868)	-
Current tax liability of period	303,636	-
Unrealised FX	(13,248,910)	-
Net interest expense	(58,486)	-
	5,932,014	16,532,651
Changes in non-cash working capital items		
Prepaid expenses and other receivables	(5,373,463)	(524,532)
Inventories	(2,247,588)	892,224
Prepaid revenues	7,132,588	-
Accrued expenses and other liabilities	9,045,401	(838,871)
	8,556,938	(471,179)
Cash flow from operation activities	**16,787,900**	**(368,367)**
Interest received	53,360	29,487
Income taxes paid	(76,717)	-
	(23,357)	29,487
Total operating activities	**16,764,543**	**(338,880)**
Investing activities		
Acquisition of intangible fixed assets	(6,983,871)	(8,740,215)
Acquisition of tangible fixed assets	(51,703,710)	(45,324,170)
Changes in restricted cash	(774,475)	(4,343,897)
Loan Issued	(549,371)	-
	(60,011,427)	(58,408,282)
Total investing activities	**(60,011,427)**	**(58,408,282)**
Financing activities		
Issuance of share capital	41,668,850	56,128,342
Total financing activities	**41,668,850**	**56,128,342**
Increase (decrease) in cash	(1,578,034)	(2,618,820)
Effect of FX rate changes on cash held in foreign currency	1,333,282	(1,624,773)
Cash, beginning of the period	11,408,899	15,652,492
Cash, end of the period	11,164,147	11,408,899

3.4 General notes to the consolidated financial statements

3.4.1 General information

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

3.4.2 Group structure

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

3.4.3 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

Basis of preparation

The accompanying accounts have been prepared in accordance with accounting principles generally accepted in the Netherlands and in conformity with provisions governing financial statements as contained in Part 9, Book 2 of the Dutch Civil Code.

The Company qualifies as a medium sized company.

The consolidated financial statements are presented in US Dollars and include the financial statements of the Company and its subsidiaries, being those entities over which the Company, either directly or indirectly, has control through exposure or rights to their variable returns and the ability to affect those returns through its power over the entities. The consolidated financial statements comprise the financial data of the following subsidiaries:

- Sand Hill Petroleum Romania S.r.l., Romania (100%)
- OGD Central Kft., Hungary (100%)
- OGD Mogyorod Concession Kft., Hungary (100%)
- OGD Nagykata Concession Kft., Hungary (100%)
- OGD Nadudvar Concession Kft., Hungary (100%)

3.4.3 Accounting policies (continued)

Basis of preparation (continued)

- OGD Ujleta Concession Kft., Hungary (100%)
- OGD Berettyoujfalu consession Kft., Hungary (100%)
- OGD Ocsa Concession Kft., Hungary (100%)

In January 2017, the Company's 100% Romanian subsidiary, Sand Hill Petroleum Romaina S.r.l. and Panfora Oil & Gas S.r.l. are jointly and severally liable towards the Romanian government for the work program obligations.

Foreign subsidiaries qualify as independent foreign units. For the translation of the financial statements of these foreign entities, the balance sheet items are translated at the exchange rate at balance sheet date. The profit and loss account items at the average exchange rate over the year. The translation differences that arise are directly deducted from or added to the shareholders' equity.Subsidiaries are consolidated from the date on which control is obtained until the date that such control ceases, based on the purchase accounting method. All inter-company balances and transactions, including unrealized profits arising from such transactions, are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounted policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. In particular, the Group has identified the following areas where significant judgements, estimates and assumption are required: oil prices, reserves, inflation and discount rates and timing. Key related assumptions are disclosed in the notes to the financial statement items in question.

Joint ventures

The Company participates in the below entities, using joint operating agreements ("JOA's"). These are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes control over the economic activities of the companies. The agreements require unanimous agreement for financial and operating decisions among the venturers. The Company accounts for its interest in the joint ventures proportionally. This means that the assets and liabilities and income and expenses are included in the financial statements in proportion to the shareholding and share in the results respectively.

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

3.4.3 Accounting policies (continued)

Deferred Taxes

Judgement is required to determine whether deferred tax assets are recognised in the statement. Deferred tax assets require management to assess the likelihood that the group will generate sufficient taxable earning in future periods in order to utilise recognise deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and gas prices, reserves (2P), operating costs, decommissioning costs, capital expenditures) and judgement about the application of existing tax laws. Future changes in tax laws could limit the ability of the group to obtain tax deductions in future periods. In case of unused tax losses for the Hungarian subsidiaries deferred tax assets are recognised in line with regulation – losses can be used against up to 50% of the profit before tax of the relevant financial year. Tax losses generated before 2015 may be carried forward until 2025, but subsequent years for only five years, whereas losses should be used on a FIFO basis.

Tangible assets

Wells and related pipelines are depreciated using the units of production method over the total proved (1P) developed hydrocarbon reserves. The life of each items, which is assessed at least annually has regard to both its physical life limitations and present assessments of economically recoverable reserves. 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 Unit of Production ("UOP") rate of depreciation 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. Change to proved reserves could arise due to changes in the factors or assumptions used in estimating reserves including the effect on proved reserves of difference between actual commodity prices and price assumptions, and unforeseen operational issues.

Provisions

The group recognises a decommissioning liability for the expected costs of abandonment which will occur at the end of the production phase for each well. Estimates of the cost of future decomissioning are based on current legal and constructive requirements, technology and price levels, while estimates of when decomissioning will occur depend on assumptions made regarding the economic life of wells which in turn depend on such factors as oil prices and operating costs. Key assumptions relate to the discount and inflation rates applied as well.

Section 402, Book 2 of the Dutch Civil Code

Since the income statement for the financial year from January 1, 2017 through December 31, 2017 of the Company is included in the consolidated financial statements, an abridged income statement has been disclosed (in the stand-alone financial statements) in accordance with Section 402, Book 2 of the Dutch Civil Code.

3.4.3 Accounting policies (continued)

Comparison previous year

The accounting principles remain unchanged compared to the previous year.

Going concern

Management has made an assessment and has not identified uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to act as a going concern. As a result, these financial statements have been prepared on the basis of the going concern assumption.

Revenue and income recognition

Revenue from the sale of products in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of excise duties, returns, customer discounts and other sales-related discounts. Revenue from the sale of products is recognised in profit and loss when the amount of revenue can be measured reliably, the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probably and there is no continuing management involvement with the products. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism. Revenue from production of oil, natural gas properties in which the Group has an interest with other partners are recognized on the basis of the Group's working interest (entitlement method). If it is probable that discounts will be granted and the amount can be measured reliably, the discount is recognised as a reduction of revenue as the sales are recognised.

Deferred revenue

The Group entered into a long-term supply commitment in return for the consideration in advance at agreed terms. Revenue is not initially recognised but is deferred and recognised only when the product is delivered (gas is physically transferred into a pipe at the checkpoint).

Other income and expenses

Other income and expenses, including taxation, are recognized and reported on accrual basis. Other income includes income from the Joint Operating Agreement partner for services rendered by other members of the Group, inventory differences and sales of assets recognized in profit or loss when risks and rewards have been transferred to the buyer.

Expenses

Cost of sales consists of direct expenses attributable to turnover including raw materials and any other costs that can be directly linked to turnover. General and aministrative expenses are accounted for in the period to which they related and not directly attibutable tot he cost of the goods sold. Salaries, wages and social security contributions are taken to the profit and loss account based on the terms of exployment where they are due to employees.

3.4.3 Accounting policies (continued)

Foreign currencies

Transactions denominated in foreign currencies in the reporting period are recognized in the annual report at the exchange rate at the transaction date. Monetary assets and liabilities in foreign currencies of the Group are translated into US dollars at the year-end rate of exchange. Rate of exchange differences resulting from the translation are debited or credited to the profit and loss account, with the exception of exchange differences resulting from net investments in foreign activities, or from loans taken out to finance or effectively hedge net investments in foreign activities. These exchange differences are taken directly to the foreign currency translation reserve. The foreign currency translation reserve is included under the translation reserves.

The exchange rates used in the annual accounts are:	December 31, 2017	December 31, 2016
1 USD = EUR (Euro)	0.83382	0.948677
1 USD = HUF (Hungarian Forint)	258.759	293.928
1 USD = RON (Romanian New Lei)	3.88434	4.30604
1 USD = GBP (British Pound)	0.73979	0.812238

Financial instruments

Financial instruments are valued at amortized cost unless explained otherwise in the notes. Due to the short-term nature of the financial instruments included in these financial statements, the estimated fair value for these financial instruments approximates the book value.

Derivatives and embedded derivatives

An embedded derivative is not accounted for separately from the host contract if it is closely related to the host contract, or the entire contract is measured at fair value through profit or loss. The embedded derivative is always accounted for as a separate derivative if this embedded derivative is not closely related to the host contract. This also applies for host contracts that are financial assets.

Intangible fixed assets

The Company applies the principle of Purchase Price Allocation ("PPA") for an acquisition transaction of a business. The Company considers a business, for the purposes of applying the PPA, to be an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. All other acquisition targets are considered as assets. When applying PPA the Company categorizes the purchase price into the various assets and liabilities acquired. A large component of the PPA is the identification and assignment of the fair market value of all tangible and intangible assets and liabilities assumed in a business acquisition as at the date of closing. The difference between the purchase price and the sum of assets and liabilities is recognized as goodwill.

3.4.3 Accounting policies (continued)

Licenses:
Exploration licence and acquisition costs are capitalized as intangible assets. Licence costs paid in connection with a right to explore in an existing exploration area are capitalized and amortised over the term of the permit – a straight line amortization over 20 year is applied that reflects the Hungarian and Romanian concession contract terms. Licenses that have a finite useful life are carried at cost less accumulated amortization and impairment losses. Licence and property acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. If no future activity is planned or the licence has been relinquished or has expired the carrying value of the licence and property acquisition costs are written off through the profit and loss account.

Seismic data:
The Company capitalizes certain geological and seismic expenses which are directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the management of the Company. These type of costs are expected to generate probable future economic benefit. The asset will be carried at cost less accumulated amortization and any impairment losses (cost model). Any impairment or diminution in value will be taken into the profit and loss account.

The capitalized value of seismic expenses includes the costs and expenses of geological and geophysical measurements that the Company carried out on the areas under examination. Items that the Company used during the current year in a manner whereby they may no longer be accounted for as capitalized items, shall be accounted for as depreciation.

Goodwill:
Goodwill arising from acquisitions is capitalized and amortised on a straight-line basis over the estimated economic life with a maximum of 20 years, which is a reflection of the estimated economic life of the capitalized goodwill.

Tangible fixed assets

Tangible fixed assets shall only include assets that serve the Company for a period of more than one year. Tangible fixed assets are valued at cost plus additional direct expenses less depreciation over their economic life and less impairment losses. Items included in the purchase price shall be accounted for at the time of purchase, but no later than the time when the asset is installed, at the value invoiced or charged. If the invoice was not received by the date of the installation of asset, or the price payable was not determined by the relevant authority, the value of the asset shall be determined based on available contracts or legislation and corrected accordingly once the specific value is available. Residual value shall be the value of the asset – determined at taking the asset into use for its intended purpose based on available information and depending on its useful life – that the asset is expected to be sold at the end of its useful life cycle. A tangible fixed asset is derecognized upon sale or when no further economic benefits are expected from its continued use or sale. The gain or loss arising on the disposal is taken to the profit and loss account.

3.4.3 Accounting policies (continued)

Assets under construction

Assets under construction contain all drilling and construction costs (related surface facilities, pipelines, gathering stations and gas plants) that occur in relation with the construction. If no potentially commercial hydrocarbons are discovered after drilling, the asset is written off through the profit or loss account as depreciation. When proved reserves of oil and gas are identified and development is sanctioned by management, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to the category development and exploration projects.

Development and Exploration projects

Development and exploration projects related to wells shall be capitalized if the wells are successful. Unsuccessful wells shall be treated as follows:

- If the information obtained during drilling can be used during the drilling of another well, the costs incurred should be capitalized in the gross cost of that new well;

- In other cases an impairment charge is to be made in respect of these investment costs.

The Group has 18 producing wells at the end of the year, from which 8 started to produce during the year. 2 wells from this are in the Körös block, 3 in the Berettyóújfalu area and the other 3 in the Újléta area. The Group has one gas plant besides the wells and related pipelines.

Office equipments

Office equipments (furniture, computers and other equipments used in the offices) are recognised at cost plus additional direct expenses less depreciation on a straight-line basis over their economic life.

Depreciation

The Company mainly employs linear depreciation of tangible assets based on gross value in calculating the ordinary depreciation of tangible assets, with the exception of wells and pipelines and certain drilling tools. Oil and gas wells and related pipelines are depreciated using the units of production method over total proved developed hydrocarbon reserves. This results in a depreciation charge proportional to the depletion of the anticipated remaining production from the well. The life of each item is assessed annually. The calculations require the use of estimates assumptions including the amount of recoverable reserves and estimates of future capital expenditure. Changes to proved reserves could arise due to changes in the factors or assumptions used in estimating reserves including the effect on proved reserves of differences between actual commodity prices and commodity price assumptions and unforeseen operational issues.

3.4.3 Accounting policies (continued)

Depreciation (continued)

If no future activity is planned on an area, then the related (on pro-rata basis) seismic and geological expenses are written off through the statement of profit or loss as an depreciation. If no potentially commercial hydrocarbons are discovered, the asset under construction is written off through the statement of profit or loss as a dry-hole impairment. Drilling tools which have a useful life of a certain number of drillings are depreciated according to the useful life (number of the drillings where these assets were used). Other fixed assets are depreciated on a straight line linear basis that are the following:

Seismic surveys / data, exploration rights & Interests	25%
Other valuable rights and interests (e.g. software)	33%
Refurbishment of rented office	6%
Office equipment	14.5%
Furnishings of rented apartments	14.5%
Office machinery	14.5%
IT equipment	33%
Vehicles	14.5%
Gas pipelines	6%

The Company shall not account for depreciation of assets the value of which is not decreased by usage. Depreciation may be changed by the Company if significant changes occur in the circumstances considered at the assessment of the asset’s depreciation. This may lead to a significant change in gross value, useful life or residual value. Further ordinary depreciation may not be accounted for if the asset's net value has reached its residual value.

Impairment Financial Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

3.4.3 Accounting policies (continued)

Impairment Non-financial Assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. For the purpose of impairment testing, assets that cannot be tested individually 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.

The recoverable amount of an asset or group of assets is the higher of an asset's fair value less costs of disposal and value in use. 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 or group of assets. An impairment loss is recognised in profit or loss if the carrying amount of an asset or its group of assets exceeds its recoverable amount. Impairment losses recognised in a group of assets are first allocated by writing down goodwill then on a pro rata basis in the CGU. For intangible assets including goodwill impairment testing is only asessed if the assets are not yet available for use or are amortised over more than 20 years.

In respect of other assets, impairment losses recognised 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 amortisation, if no impairment loss had been recognised.

Inventories

Raw materials are valued at cost or net realisable value (estimated selling price less estimated costs necessary to make the sale) whichever is lower. Such cost is determined by the weighted average method calculation. Cost comprises of direct purchase costs including transportation (and duties if applicable), cost of production and manufacturing and taxes.

The Group believes that any non-recoverable inventories (gas in pipelines) are not material.

3.4.4 Corporate income tax

Income tax comprises current tax. Current tax is recognised in the income statement, and is the expected income tax payable in respect of the taxable income for the year using tax rates enacted at the balance sheet rate and any adjustment to income tax payable in respect of previous years.

Temporary differences between the reporting for tax purposes and the financial statements are recognized as deferred taxes based on the current tax rate. Deferred tax assets and liabilities are netted. Net deferred tax assets will be included in the balance sheet if actual realization is assumed probable by the Company's management.

Corporate income tax expense comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the period and any adjustment to tax payable in respect of previous periods. Corporate income tax expense is recognized in the statement of income except to the extent that it relates to items recognized directly in equity.

Deferred tax assets and liabilities are recognised in respect of timing differences between fiscal valuation of assets and liabilities and the valuation principles as used in these annual accounts. Deferred tax assets and liabilities are calculated based on the statutory tax rates as at year-end or future applicable rates, insofar as already decreed by law ('substantially enacted'). Deferred tax assets, including those from losses carried forward, are recognised if it is probable that fiscal profit will be available to offset losses, and settlement possibilities can be utilised. Deferred tax assets are recognised under receivables; deferred tax liabilities are recognised under provisions. Deferred income taxes are recognised at nominal value.

3.4.5 Provisions

Decommissioning

The Group recognizes provision for expected costs of abandonment, which will occur during and at the end of the production phase, for which the Group is liable. Provision for decommissioning costs, i.e. dismantling and site restoration costs has been capitalized as part of oil and gas properties and is amortized using the unit-of-production method on a field-by-field basis. The provision is re-assessed each year and any change in the present value of the estimated costs is reflected as an adjustment to the provision. The unwinding of discount on the provision is charged to the profit and loss statement. A discount of 2% and inflation rate of 2% has been used to calculate the net present value.

3.5 Notes to the consolidated balance sheet and the profit and loss account

3.5.1 Fixed assets

3.5.1.a Intangible fixed assets

The intangible fixed assets can be detailed as follows:

	Goodwill	Licenses	Seismic data	Total
	USD	USD	USD	USD
Balances as at January 1, 2017:				
Purchase price	10,171,634	9,208,560	23,720,269	43,100,463
Accumulated depreciation and impairment	(647,458)	(691,376)	(45,701)	(1,384,535)
Carrying amount	9,524,176	8,517,184	23,674,568	41,715,928
FX Revaluation	-	1,118,441	3,092,407	4,210,848
Additions	-	3,028,115	3,955,756	6,983,871
Depreciation	(508,234)	(939,513)	(3,709,266)	(5,157,013)
Reclassifications (*)	(18)	142,315	-	142,297
Balance	(508,252)	3,349,358	3,338,897	6,180,003
Balance as at December 31, 2017:				
Purchase price	10,171,616	13,497,431	30,768,432	54,437,479
Accumulated depreciation and impairment	(1,155,692)	(1,630,889)	(3,754,967)	(6,541,548)
Book value net as of December 31, 2017	9,015,924	11,866,542	27,013,465	47,895,931

	Goodwill	Licenses	Seismic data	Total
	USD	USD	USD	USD
Balances as at January 1, 2016:				
Purchase price	10,171,634	3,399,376	19,417,465	32,988,475
Accumulated depreciation and impairment	-	(3,024)	(9,738)	(12,762)
Carrying amount	10,171,634	3,396,352	19,407,727	32,975,713
FX Revaluation	-	(125,140)	(485,763)	(610,903)
Additions	-	5,940,152	4,809,455	10,749,607
Depreciation	(647,458)	(694,180)	(56,851)	(1,398,489)
Reclassifications	-	-	-	-
Balance	(647,458)	5,120,832	4,266,841	8,740,215
Balance as at December 31, 2016:				
Purchase price	10,171,634	9,208,560	23,720,269	43,100,463
Accumulated depreciation and impairment	(647,458)	(691,376)	(45,701)	(1,384,535)
Book value net as of December 31, 2016	9,524,176	8,517,184	23,674,568	41,715,928

(*) A reclassification was recorded from the Tangible Fixed Assets (Office Equipments) to Intangible Fixed Assets (Licenses).

3.5.1.a Intangible fixed assets (continued)

Goodwill

The goodwill arose on the acquisition of the Körös exploration licence in 2013.

Licenses

O&GD Central Kft. has several valuable rights, the exploration license for the Körös exploration area and thirteen mining plots. The Group acquired these rights on June 14, 2013 when it acquired RAG Hungary Central Kft. (renamed into O&GD Central Kft.) for a purchase price of USD 16,229,399. Based on the purchase price accounting method, an amount of USD 10,171,634, which is the amount paid in excess of the book value of RAG Hungary Central Kft. at acquisition date, is allocated to goodwill.

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

Production has not started on the Tiszakecske I, Szolnok VI, Szolnok V mining plots. These permits have been received in 2010 and are valid for 5 years and were extended in 2015 for a further 5, 4 and 3 years respectively. Peneszlek II mining plot is in development phase, one well was drilled and is waiting for tie-in. O&GD Central Kft. also holds 6 concession rights (held indirectly through Companies) for exploration and production on the Nadudvar, Ujleta, Berettyoujfalu, Mogyorod, Nagykata and Ocsa blocks.

The amount paid in goodwill for the license for the Körös exploration area is amortized over 20 years. Amortization shall be recorded in the first financial year during which production is started (2015) and shall be continued until 2035.

Sand Hill Petroleum Romania S.r.l. has a 70% share in the EX-1 Voivozi Concession block and a 80% share in the EX-5 Adea Concession block.

If commercial reserves have been established, these costs will be amortized during four years (25%). If the determination process has been completed and there are no commercial reserves, then these costs are written off in the income statement.

Seismic data

The Company capitalizes certain seismic expenses, which include costs and expenses of geological and geophysical measurements that the Company carried out on the areas under examination. If commercial reserves have been established, these costs will be amortized during four years (25%). If the determination process has been completed and there are no commercial reserves, then these costs are written off in the income statement.

3.5.1.b Tangible fixed assets

	December 31,2017	December 31,2016
	USD	USD
Assets under construction	34,166,391	17,021,502
Projects	65,302,928	34,569,834
Office equipment and other inventories	658,709	1,882,711
	100,128,028	53,474,047

The movements in the tangible fixed assets can be detailed as follows:

	Assets under construction	Development and Exploration	Office equipm. and other inventories	Total
	USD	USD	USD	USD
Balances as of January 1, 2017:				
Purchase price	17,021,502	39,691,255	2,394,171	59,106,928
Accumulated depreciation and impairment	-	(5,121,421)	(511,460)	(5,632,881)
Carrying amount	17,021,502	34,569,834	1,882,711	53,474,047
FX Revaluation	3,432,978	6,363,594	66,407	9,862,979
Additions	52,344,798	-	346,780	52,691,578
Transfer	(31,760,588)	31,760,588	-	-
Depreciation	-	(7,391,088)	(188,736)	(7,579,824)
Impairment Wells (*)	(8,178,455)	-		(8,178,455)
Reclassification (**) / (***)	1,306,156		(1,448,453)	(142,297)
Balance	17,144,889	30,733,094	(1,224,002)	46,653,981
Balance as at December 31, 2017:				
Purchase price	42,344,846	77,815,437	1,358,905	121,519,188
Accumulated depreciation and impairment	(8,178,455)	(12,512,509)	(700,196)	(21,391,160)
Book value net as of December 31, 2017	34,166,391	65,302,928	658,709	100,128,028

	Assets under construction	Development and Exploration	Office equipm. and other inventories	Total
	USD	USD	USD	USD
Balances as of January 1, 2016:				
Purchase price	16,870,634	6,727,880	1,082,346	24,680,860
Accumulated depreciation and impairment	-	(761,984)	(270,951)	(1,032,935)
Carrying amount	16,870,634	5,965,896	811,395	23,647,925
FX Revaluation	(407,281)	(595,227)	(28,624)	(1,031,132)
Additions	42,530,201	-	1,349,028	43,879,229
Transfer	(33,402,044)	33,402,044	-	-
Depreciation	-	(4,202,879)	(249,088)	(4,451,967)
Impairment Wells	(8,570,008)	-	-	(8,570,008)
Balance	150,868	28,603,938	1,071,316	29,826,122
Balance as at December 31, 2016:				
Purchase price	17,021,502	39,691,255	2,394,171	59,106,928
Accumulated depreciation and impairment	-	(5,121,421)	(511,460)	(5,632,881)
Book value net as of December 31, 2016	17,021,502	34,569,834	1,882,711	53,474,047

(*) An impairment has been recognized for the wells which are unsuccessfull, as these costs can not be used for the drilling of other wells and therefore can not be capitalized.
(**) A reclassification was recorded between the Assets under construction and the Office Equipments.
(***) A reclassification was recorded from the Tangible Fixed Assets (Office Equipments) to Intangible Fixed Assets (Licenses).

3.5.1.c Financial fixed assets

	December 31,2017	December 31,2016
	USD	USD
Restricted cash	5,118,372	4,343,897
Deferred tax	2,180,256	-
Loan due from Panfora Oil & Gas S.r.l.	554,845	-
	7,853,473	4,343,897

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

	December 31,2017	December 31,2016
	USD	USD
Restricted Cash	5,118,372	4,343,897
	5,118,372	4,343,897

The deferred tax can be detailed as follows:

	December 31,2017	December 31,2016
	USD	USD
Deferred tax	2,180,256	-
	2,180,256	-

Loan due from Panfora

On September 22, 2016, Sand Hill Petroleum Romania S.r.l. entered into a loan agreement ("Carry Loan") with Panfora Oil & Gas S.R.L. to finance Panfora's share of the Phase I Minimum Work Obligations ("MWO") under the EX-1, EX-5 and EX-6 concession agreements plus interest accrued, up to EUR 8,890,000. The EX-6 concession assignment was not approved by the Romanian authorities by the end of 2017, therefore SHPR's financing obligation under the Carry Loan dropped to up to EUR 6,350,000 out of which the EUR equivalent of USD 554,845 has been disbursed by the end of 2017. The loan covers net capital and G&G related expenditures which are part of the MWO and have been agreed by the Parties through the annual work program and budget process. The carry loan bears interest of 5.00% + EURIBOR (6 month), interest is capitalized at the end of each interest period. Interest is capitalized and shall be repaid (along with the principal) only from revenues generated by future production. The borrower does not have the obligation to repay the loan if the production in the two blocks does not generate sufficient cashflow.

The loan due from Panfora Oil & Gas S.r.l. can be detailed as follows:

	December 31,2017	December 31,2016
Balance as per January 1	-	-
Draw downs	554,845	-
	554,845	-

3.5.2 Current assets

Inventories

The inventories can be detailed as follows:

	December 31,2017	December 31,2016
	USD	USD
Raw materials	4,774,079	2,526,491
	4,774,079	2,526,491

The total value of inventory consists of raw materials bought to use for the drillings or building of other surface facilities. None of the inventories were obsolete, therefore no provision included.

Prepaid expenses and other receivables

The prepaid expenses and other receivables can be detailed as follows:

	December 31,2017	December 31,2016
	USD	USD
Receivables	8,575,153	3,282,996
Prepaid expenses	381,972	325,651
Office deposit	25,196	211
	8,982,321	3,608,858

Cash and cash equivalents

The cash and cash equivalents can be detailed as follows:

	December 31,2017	December 31,2016
	USD	USD
Unrestricted Cash	10,064,147	6,908,899
Deposit	1,100,000	4,500,000
	11,164,147	11,408,899

The unrestricted cash held on the bank accounts is at the free disposal of the Group.

3.5.3 Shareholders' equity

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, issued and paid-up are 2,572,500 class A1 shares, 391,000 class B1 shares, 14,688,231 cumulative preference 1 shares, 1,730,920 class A2 shares, 128,632 class B2 shares and 5,919,997 cumulative preference 2 shares.

During this financial year, the Company made the following capital calls whereupon the participating parties subscribed for a number of cumulative preference 1 shares and cumulative reference 2 shares and B1 shares at a subscription price of ten United States dollars (USD 10) each, and B shares at a subscription price of one United States dollar (USD 1) each.

Issue date	Number of shares	Price per share	Amount	Allocated to share capital	Allocated to share premium
		USD	USD	USD	USD
February 16, 2017	8,055	10	80,550	81	80,469
February 16, 2017	25,000	1	25,000	250	24,750
February 24, 2017	1,149,998	10	11,499,980	11,500	11,488,480
May 2, 2017	4,833	10	48,330	48	48,282
May 2, 2017	15,000	1	15,000	150	14,850
May 31, 2017	1,799,999	10	17,999,990	18,000	17,981,990
August 10, 2017	1,200,000	10	12,000,000	12,000	11,988,000
	4,202,885		41,668,850	42,029	41,626,821

Each class A1 share and each class B1 share shall entitle its holder to cast at least one vote at General Meetings in name of the Company in accordance with the provisions of article 25 paragraph 2 of the Company's articles of association. Each class A2 share and each class B2 share shall entitle its holder to cast one vote at General Meetings in name of the Company. Cumulative preference shares do not entitle its holder to cast a vote at General Meetings in name of the Company.

To the extent the profits allow this, a dividend shall be deducted from the profits as evidenced by the adopted annual accounts and shall first be distributed to the holders of cumulative preference 2 shares or allocated to the Preference 2 Share Reserve, and subsequently to the holders of cumulative preference 1 shares or allocated to the Preference 1 Share Reserve, on a share by share basis, in accordance with the provisions of article 22 paragraph 3 of the Company's articles of association. The Company shall not, without the prior written approval of the combined meeting of holders of class A1 shares and class A2 shares, pay any dividend or distribution in respect of the class A1 shares, class A2 shares, class B1 shares or class B2 shares while any cumulative preference shares are held by any person other than the Company.

3.5.3 Shareholders' equity (continued)

In the General Meeting held on June 30, 2017 it was resolved to add the balance of the unappropriated result for the year 2016 to the accumulated deficit.

	Share capital	Share premium	Translation reserve	Accumulated deficit	Unappropriated result	Total
	USD	USD	USD	USD	USD	USD
Balance at 1-1-2016	**137,839**	**111,390,215**	**2,275,842**	**(26,830,739)**	**(16,272,192)**	**70,700,965**
Paid in / (repaid)	74,444	56,053,898	-	-	-	56,128,342
Allocation of result 2015	-	-	-	(16,272,192)	16,272,192	-
Translation reserve mutations	-	-	(1,411,114)	-	-	(1,411,114)
Result for the year	-	-	-	-	(16,429,839)	(16,429,839)
Balance at 1-1-2017	**212,283**	**167,444,113**	**864,728**	**(43,102,931)**	**(16,429,839)**	**108,988,354**
Paid in / (repaid)	42,029	41,626,821	-	-	-	41,668,850
Allocation of result 2016	-	-	-	(16,429,839)	16,429,839	-
Translation reserve mutations	-	-	2,142,752	-	-	2,142,752
Result for the year	-	-	-	-	2,298,948	2,298,948
Balance at 31-12-2017	**254,312**	**209,070,934**	**3,007,480**	**(59,532,770)**	**2,298,948**	**155,098,904**

The share capital is divided in:

	December 31, 2017	December 31, 2016
	USD	USD
Cumulative preference 1 shares	146,882	146,753
Cumulative preference 2 shares	59,200	17,700
Class A1 Shares	25,725	25,725
Class B1 Shares	3,910	3,510
Class A2 Shares	17,309	17,309
Class B2 Shares	1,286	1,286
	254,312	212,283

The share premium is divided in:

	December 31, 2017	December 31, 2016
	USD	USD
Share premium reserve on cumulative preference 1 shares	146,735,428	146,606,677
Share premium reserve on cumulative preference 2 shares	59,140,770	17,682,300
Share premium reserve A1	2,546,775	2,546,775
Share premium reserve B1	387,624	348,024
Share premium reserve A2	242,329	242,329
Share premium reserve B2	18,008	18,008
	209,070,934	167,444,113

Translation reserve

Exchange differences arising from the translation of assets and liabilities and other currency instruments designed as hedges of such investments, are recorded directly as currency translation differences within shareholders' equity.

3.5.4 Provisions

The provisions can be detailed as follows:

	December 31, 2017	December 31, 2016
	USD	USD
Balance as per January 1	2,863,387	1,017,389
Additions for the year	987,868	2,494,563
Disposals for the year	(185,036)	(608,471)
FX revaluation	385,774	(40,094)
	4,051,993	2,863,387

3.5.5 Current liabilities

Accrued expenses and other liabilities

The accrued expenses and other liabilities can be detailed as follows:

	December 31,2017	December 31,2016
	USD	USD
Accrued expenses	1,049,543	1,246,580
Accounts payable	10,533,526	3,683,074
Prepaid revenues	7,132,588	-
Business tax	142,258	-
VAT payable	2,112,719	-
Wages and wage tax	433,734	296,725
Income tax payable	242,713	-
	21,647,081	5,226,379

3.5.6 Net revenue

The net revenue consists of sales of raw and processed gas, condensate and oil by the Company's Hungarian subsidiaries. Gas is sold in EUR whilst condensate and oil is sold in USD. In 2017 eight new wells started to produce that led to the significant increase of the net revenue.

3.5.7 Production Costs

The production costs can be detailed as follows:

	2017	2016
	USD	USD
Depreciation, impairments and amortization	20,915,291	14,686,653
Mining royalty	5,778,602	1,935,321
Gas processing fee	1,545,148	1,592,227
Workover	1,072,060	21,072
Capacity fee	1,049,745	499,577
Local business tax	760,963	269,278
Production chemical - w/o prop	609,426	208,651
Maintenance	722,834	403,520
Energy costs	335,591	95,261
Consultant charges	291,931	262,647
Reserve audit	273,861	50,334
Damage compensation	256,827	126,479
Other	1,458,415	1,016,302
	35,070,694	21,167,322

Production cost refers to the cost incurred by the Group when producing hydrocarbons from the producing wells. Production costs include a variety of expenses including, but not limited to, processing fees, materials, energy, transportation of hydrocarbons, marketing, insurance costs. Additionally, any taxes (mining tax levied by the Mining Authorities and local business tax) levied by the governments (central and local) on sales of hydrocarbons are also considered production costs.

Depreciation, impairments and amortization

The depreciation and amortization can be detailed as follows:

	2017	2016
	USD	USD
Depreciation	12,228,602	5,469,187
Impairment Wells	8,178,455	8,570,008
Amortization Goodwill	508,234	647,458
	20,915,291	14,686,653

3.5.8 General and administrative expenses

The general and administrative expenses can be detailed as follows:

	2017	2016
	USD	USD
Salaries and payroll related contributions	3,933,951	2,393,895
Legal advice and consultancy fees	3,700,287	3,277,402
Other advisory fees	933,375	449,208
Management fees	294,476	478,562
Travel and hotel	756,123	598,847
Insurance	77,950	40,825
Office rent	257,258	135,188
Bank charges	113,247	73,613
Other expenses	1,460,901	1,201,157
	11,527,568	8,648,697

Salaries and payroll related contributions

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

	2017	2016
	USD	USD
Salaries and wages	3,092,782	1,801,431
Other related expenses	103,223	74,672
Social security and taxes on wages	737,946	517,792
Total of salaries and payroll related contributions	3,933,951	2,393,895

Staff number and employment costs

The Group has 83 employees and hence incurred wages, salaries and related social security charges during the reporting period (previous year: 62 employees). Average of the employees for the year was 73, of which 68 are based in Hungary and 5 are based in Romania (previous year: 44, all in Hungary).

	2017	2016
Administration	17	10
Management	4	3
Operations	12	21
Exploration	40	10
Total average	73	44

Directors

The Company has three managing directors, of whom two receive remuneration. The Company has six supervisory directors, of whom four receive remuneration. The annual fee paid to the managing and supervisory directors during the reporting period partly fall within the scope of the Dutch wage tax and wage tax withholdings have been declared and paid in so far applicable.

	December 31, 2017	December 31, 2016
	USD	USD
Managing directors	19,991	23,254
Supervisory directors	274,485	270,447
	294,476	293,701

3.5.9 Taxation on result

The taxation on result can be detailed as follows:

	2017	2016
	USD	USD
Corporate income tax charge for the year	(303,636)	-
Deferred income tax benefits	2,180,256	-
	1,876,620	-

The corporate income tax charge for 2017 has been calculated as follows:

Net profit/(loss) according to the consolidated profit and loss account for 2017		2,298,948
Corporate income tax charge/benefit to profit and loss account		1,876,620
Profit before taxation according to the consolidated Profit and loss account for 2017		422,328
Valuation differences:		
Development and Exploration projects	159,530	
Total valuation differences	159,530	
Non-deductible expenses	35,067	
Non-deductible goodwill amortization prior-year adjustments	-	
Losses recorded by the Group	4,438,272	
Consolidation adjustments to P/L within group	2,859,096	
Losses utilized in 2017	(2,391,725)	
Development reserve	(3,132,257)	
Non-taxable income	-	
Thin capitalisation	173,933	
Taxable profit/(loss) for 2017		2,564,244
Tax payable:		
9% (Hungary)		303,636
Total corporate income tax payable for 2017	303,636	

Deferred taxation

The provision for deferred taxation relates to the following differences between the value of assets and liabilities for financial reporting and for tax purposes:

Deferred taxation (continued)

Value of property for financial reporting purposes	100,128,028
Value of property for tax purposes	105,232,910
Difference between value of investment property for tax and for financial reporting purposes	5,104,882
Value of intangible assets for financial reporting purposes	47,895,931
Value of intangible assets for tax purposes	51,681,886
Difference between value of investment property for tax and for financial reporting purposes	3,785,955
Value of development reserves for reporting purposes	-
Value of development reserves for tax purposes	(3,351,547)
Difference between value of development reserves for tax and for financial reporting purposes	(3,351,547)
Total temporary differences	5,539,290

The deferred tax assets relate to the following differences between the value of assets and liabilities for financial reporting and tax purposes, as well as the following losses available for set-off:

Total deductible temporary differences	5,539,290
Losses available for set-off	18,685,781
Total deductible temporary differences and losses available for set-off	24,225,071
The deferred tax assets have been calculated at 9% of this amount.	2,180,256
Total deferred tax assets at 31 December 2016	-
Deferred tax charge to the profit & loss account	2,180,256
Deferred tax assets at 31 December 2017	2,180,256

The effective tax rate in 2017 is 24.6% (2016: n/a) in comparison to the nominal corporation tax rate in the Netherlands of 25.0%. To determine the corporate tax amount of 2017, the companies in the Group, applied the rate of 25.0% as charged by a fiscal unity the Netherlands. Of the companies in the group; The Netherlands and Romania are in a taxable loss position, while Hungary is in a profit position.

The main reconciling items are:

- Tax impact by losses carried forward and other tax credits (0.4%);
- Other items (n/a).

Deferred taxation (continued)

The effective tax rate of the subsidiaries was 3.15-4.73% due to the possibility of using previous losses and other tax credits. The effective rate of the whole group is 24.6% due to the fact that the other group companies had a loss in 2017.

The deferred tax assets primarily relates to tax loss carry forward and other temporary differences (tax deductible) and is considered long term. Deferred tax assets and liabilities are recognised in respect of timing differences between fiscal valuation of assets and liabilities and the valuation principles as used in these annual accounts. Deferred tax assets and liabilities are calculated based on the statutory tax rates as at year-end or future applicable rates, insofar as already decreed by law ('substantially enacted'). Deferred tax assets, including those from losses carried forward, are recognised if it is probable that fiscal profit will be available to offset losses, and settlement possibilities can be utilized. Deferred income taxes are recognised at nominal value.

In 2016 no deferred tax asset was recognized due to the start-up phase of the Company and limited revenues were generated. In 2017 this situation was changed and future profits were recognized, due to positive outlook for the Group.

3.5.10 Audit fee breakdown

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

	2017		
	Ernst & Young Accountants LLP	Other EY	Total
	USD	USD	USD
Audit of the financial statements	35,095	75,006	110,101
Other audit services	-	-	-
Tax advisory services	-	193,600	193,600
Other non-audit services	-	-	-
	35,095	268,606	303,701

	2016		
	Ernst & Young Accountants LLP	Other EY	Total
	USD	USD	USD
Audit of the financial statements	25,634	47,612	73,246
Other audit services	-	-	-
Tax advisory services	-	155,584	155,584
Other non-audit services	-	-	-
	25,634	203,196	228,830

The fees stated above for the audit of the financial statements are based on the total fees for the audit of the 2017 financial statements, regardless of whether the procedures were already performed

3.5.11 Post-balance sheet events

The share capital of SHPR has been increased by USD 893,600 and the Company received an amount of EUR 1,650,000 from OGDC as a partial loan repayment. The Company issued 20,000 class B1 shares, 15,000 class B2 shares and 6,444 cumulative preference 1 shares. The Company entered into a Bond Terms Agreement with Nordic Trustee AS.

The Bond Issuance ultimately 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 Company disbursed a loan in the total amount of USD 300,000 to SHPR under the loan agreement dated November 11, 2016.

No other events have occurred since balance sheet date, which would change the financial position of the Company and which would require adjustment of or disclosure in the Annual Report currently presented.

3.5.12 Commitments and contingencies (continued)

Further to the requirements set by the Hungarian Mining Law, OGDC as indirect owner of OGD Nadudvar Kft., OGD Ujleta Kft., OGD Berettyoujfalu Kft., OGD Mogyorod Kft., OGD Nagykata Kft., OGD Ocsa Kft., has put up a HUF 1 billion bank guarantee (USD 3,488,818 as per balance sheet date) to secure certain obligations under the exploration licenses granted by the Hungarian Mining Authority. Outstanding Hungarian work commitments are 3.5 million USD on the Ocsa area, 7.5 million USD on the Mogyorod area and 1.8 million USD on the Nadudvar area.

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

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

3.5.12 Commitments and contingencies (continued)

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

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

The Company leases office facilities under operating leases, of which USD 257,258 is included in the general and administrative expenses for the year 2017 (2016: USD 135,188).

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

	2017	2016
	USD	USD
Within one year	335,692	158,085
In two to five years	886,383	65,869
Over five years	-	-
	1,222,075	223,954

4 Financial statements (stand-alone)

4.1 Company balance sheet as at December 31, 2017 (before the proposed appropriation of the result)

	Notes	December 31, 2017		December 31, 2016	
		USD	USD	USD	USD
ASSETS					
Financial fixed assets	*4.3.2*				
Financial fixed assets			153,248,186		102,471,016
Current assets	*4.3.3*				
Receivables from related parties		1,122,961		2,063,565	
Other receivables		29,120		33,901	
Cash and cash equivalents		1,219,794		4,882,100	
			2,371,875		6,979,566
			155,620,061		109,450,582
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	*4.3.4*				
Share capital		254,312		212,283	
Share premium		209,070,934		167,444,113	
Translation reserve		2,939,300		796,548	
Accumulated deficit		(59,464,590)		(38,713,045)	
Unappropriated result		2,298,948		(20,751,545)	
			155,098,904		108,988,354
Current liabilities	*4.3.5*				
Accrued expenses and other liabilities			521,157		462,228
			155,620,061		109,450,582

4.2 Company profit and loss account for the year 2017

	2017	2016
	USD	USD
Income from operations after tax	1,565,703	830,879
Share of result of subsidiaries	733,245	(21,582,424)
Net result	2,298,948	(20,751,545)

4.3 Notes to the Company's balance sheet and profit and loss account

4.3.1 General

The Company financial statements are part of the 2017 consolidated financial statements of Sand Hill Petroleum B.V. ("the Company").

Insofar as items from the Company balance sheet and profit and loss account are not clarified below, reference is made to the notes to the consolidated balance sheet and profit and loss account.

Summary of significant accounting principles:
The principles for the valuation of assets and liabilities and the determination of the result are the same as those applied for the consolidated balance sheet and profit and loss account.

Investments in group entities:
Investments in group entities are stated at net asset value. The net asset value is calculated on the basis of the accounting principles of the Company.

4.3.2 Financial fixed assets

The financial fixed assets can be detailed as follows:

	December 31,2017	December 31,2016
	USD	USD
Interest in group entities	54,564,685	19,088,462
Loan facility agreement	98,683,501	83,382,554
	153,248,186	102,471,016

Interest in group entities

The Company has direct interests in the following group entities:

	December 31, 2017	December 31, 2016
	USD	USD
100% (2016: 100%) share in O&GD Cental Kft., Budapest, Hungary	51,874,930	18,582,912
100% (2016: 100%) share in Sand Hill Petroleum Romania S.r.l., Bucharest, Romania	2,689,755	505,550
	54,564,685	19,088,462

Movements in O&GD Central Kft. can be detailed as follows:

	2017	2016
	USD	USD
Opening balance	18,582,912	-
Increase of the share capital	27,000,150	41,000,180
Result on investment	4,051,339	(20,937,974)
Mutation translation reserve	2,240,529	(1,479,294)
Closing balance	51,874,930	18,582,912

4.3.2 Financial fixed assets (continued)

Interest in group entities (continued)

Movements in Sand Hill Petroleum Romania S.r.l. can be detailed as follows:

	2017	2016
	USD	USD
Opening balance	505,550	-
Increase of the share capital	5,600,076	1,150,000
Result on investment	(3,318,094)	(644,450)
Mutation translation reserve	(97,777)	-
Closing balance	2,689,755	505,550

Loan Facility agreement

The loans due from group entities can be detailed as follows:

	December 31, 2017	December 31, 2016
	USD	USD
Loan due from O&GD Central Kft	97,006,977	83,382,554
Loan due from Sand Hill Petroleum Romania S.r.l.	1,676,524	-
	98,683,501	83,382,554

On December 28, 2015, the Company entered into a Loan Facility Agreement with O&G Development Kft., which merged into its subsidiary, O&GD Central Kft. ("OGDC") in 2017. The Company granted an unsecured USD term loan facility of a total principal amount not exceeding USD 322,730,000 subject to the terms, and subject to the conditions, of this facility agreement. The loan facility bears interest of 3.50% + LIBOR (12 month). The amount of the facility including accrued interest shall be repaid in full on December 31, 2020.

The loan due from O&GD Central Kft can be detailed as follows:

	2017	2016
	USD	USD
Balance as per January 1	83,382,554	72,401,229
Draw downs	9,000,000	8,500,000
Capitalised interest	4,624,423	3,481,269
Repayments	-	(999,944)
	97,006,977	83,382,554

4.3.2 Financial fixed assets (continued)

Loan Facility agreement (continued)

On November 11, 2016, the Company entered into a Loan Facility Agreement with Sand Hill Petroleum Romania S.r.l. The Company granted an unsecured USD term loan facility of a total principal amount not exceeding USD 50,000,000 subject to the terms, and subject to the conditions, of this facility agreement. The loan facility bears interest of 3.50% + LIBOR (12 month). The amount of the facility including accrued interest shall be repaid in full on November 11, 2021.

The loan due from Sand Hill Petroleum Romania S.r.l. can be detailed as follows:

	2017	2016
	USD	USD
Balance as per January 1	-	-
Draw downs	1,600,000	-
Capitalised interest	76,524	-
	1,676,524	-

4.3.3 Current assets

The receivables from related parties can be detailed as follows:

	December 31, 2017	December 31, 2016
	USD	USD
O&G Development Kft., Hungary	-	229,295
O&GD Central Kft., Hungary	406,803	27,771
Sand Hill Petroleum Romania S.r.l., Romania	716,158	1,806,499
	1,122,961	2,063,565

The other receivables can be detailed as follows:

	December 31, 2017	December 31, 2016
	USD	USD
Rent deposit	240	211
VAT reclaimable	28,880	33,690
	29,120	33,901

The cash and cash equivalents can be detailed as follows:

	December 31, 2017	December 31, 2016
	USD	USD
Bank accounts	119,794	382,100
Funds in deposit	1,100,000	4,500,000
	1,219,794	4,882,100

4.3.4 Shareholders' equity

In the General Meeting held on June 30, 2017 it was resolved to add the balance of the unappropriated result for the year 2016 to the accumulated deficit.

	Share capital	Share premium	Translation reserve	Accumulated deficit	Unappropriated result	Total
	USD	USD	USD	USD	USD	USD
Balance at 1-1-2016	**137,839**	**111,390,215**	**2,275,842**	**(26,524,100)**	**(12,188,945)**	**75,090,851**
Paid in / (repaid)	74,444	56,053,898	-	-	-	56,128,342
Allocation of result 2015	-	-	-	(12,188,945)	12,188,945	-
Exchange rate difference	-	-	(1,479,294)	-	-	(1,479,294)
Result for the year	-	-	-	-	(20,751,545)	(20,751,545)
Balance at 1-1-2017	**212,283**	**167,444,113**	**796,548**	**(38,713,045)**	**(20,751,545)**	**108,988,354**
Paid in / (repaid)	42,029	41,626,821	-	-	-	41,668,850
Allocation of result 2016	-	-	-	(20,751,545)	20,751,545	-
Exchange rate difference	-	-	2,142,752	-	-	2,142,752
Result for the year	-	-	-	-	2,298,948	2,298,948
Balance at 31-12-2017	**254,312**	**209,070,934**	**2,939,300**	**(59,464,590)**	**2,298,948**	**155,098,904**

Further reference on Shareholders' equity is made in the notes to the consolidated balance sheet as of December 31, 2017.

As the consolidated net result differs from the Company's net result, a reconciliation of the Shareholder's equity and the net result between both is included below:

	December 31, 2017	December 31, 2016
	USD	USD
Company's Shareholders' equity	155,098,904	108,988,354
Differences of value of subsidiaries	-	-
Consolidated Shareholders' equity	155,098,904	108,988,354

	2017	2016
	USD	USD
Company's net result	2,298,948	(20,751,545)
Differences of result for subsidiaries with negative equity as per 31 December 2015 stated at nil	-	4,321,706
Consolidated net result	2,298,948	(16,429,839)

Appropriation of result

The board of directors have the right to decide on the allocation of profits or loss which has been determined by the adoption of the annual report.

4.3.5 Current liabilities

The current liabilities can be detailed as follows:

	December 31, 2017	December 31, 2016
	USD	USD
Accounts payable	305,379	230,024
Accrued expenses and other liabillities	215,778	232,204
	521,157	462,228

4.3.5 Current liabilities (continued)

Management fee income

Management fee income relates to management services agreements entered into by the Company and its affiliated companies. The management fee income can be detailed as follows:

	2017	2016
	USD	USD
O&G Development Kft., Hungary	-	10,918
O&GD Central Kft., Hungary	35,845	1,322
Sand Hill Petroleum Romania S.r.l., Romania	59,211	35,832
	95,056	48,072

Commitments and contingencies

On December 28, 2015, the Company entered into a new Loan Facility Agreement with OGDC. The Company granted an unsecured USD term loan facility of a total principal amount not exceeding USD 322,730,000 subject to the terms, and subject to the conditions, of this facility agreement. The remaining loan facility amounts to USD 225,723,023. On November 11, 2016, the Company entered into a Loan Facility Agreement with SHPR. The Company granted an unsecured USD term loan facility of a total principal amount not exceeding USD 50,000,000 subject to the terms, and subject to the conditions, of this facility agreement. The remaining loan facility amounts to USD 48,323,476.

The Company has issued on May 7, 2018 a Letter of Support to Sand Hill Petroleum Romania S.r.l. (“SHPR”) whereby the Company stated that it was not planning to sell or liquidate SHPR and that it was willing to provide financial support”.

4.3.6 Employees

Reference on Employees is made in the notes to the consolidated balance sheet as of December 31, 2017.

4.3.7 Post-balance sheet events

Reference on Post-balance sheet evens is made in the notes to the consolidated balances sheet as of December 31, 2017.

Amsterdam, June 19, 2018

Managing directors,	Supervisory directors,
T. Lederer	D.M. LeClair
G.F.X.M. Nieuwenhuizen	S.W.C. Eyers
Intertrust (Netherlands) B.V.	P. Bratt
	M.P. Fossum
	Sir R.L. Olver
	J.E. Golden

5 Other information

5.1 Statutory provisions

In accordance with article 22.1 of the articles of association in name of the Company, the result for the year is at the disposal of the General Meeting. Book 2 of the Dutch Civil Code prescribes that the General Meeting may resolve on any profit distribution to the extent that the shareholder's equity exceeds the amount of the reserves to be maintained by law and the articles of association of the Company. The Company may only follow a resolution of the General Meeting to distribute after the management board has given its approval to do this. The management board withholds approval, at the moment of distribution, only if it knows or reasonably should be able to foresee that the Company cannot continue to pay its due debts after the distribution.

5.2 Independent auditors' report

The independent auditor's report is recorded on the next page.

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Independent auditor's report

To: the shareholders and supervisory board of Sand Hill Petroleum B.V.

Report on the audit of the financial statements 2017 included in the annual report

Our opinion

We have audited the financial statements 2017 of Sand Hill Petroleum B.V., based in Amsterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Sand Hill Petroleum B.V. as at 31 December 2017 and of its result for 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The consolidated and company balance sheet as at 31 December 2017
- The consolidated and company profit and loss account for 2017
- The notes, comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the Our responsibilities for the audit of the financial statements section of our report.

We are independent of Sand Hill Petroleum B.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information, that consists of:

- Report of the supervisory board
- The directors' report
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding, obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the directors' report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of responsibilities for the financial statements

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting, unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high but not absolute level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Amsterdam, 19 June 2018

Ernst & Young Accountants LLP

signed by M. Abdellati