H1

2018

Unaudited interim condensed financial information for

Sand Hill Petroleum B.V.

Amsterdam, 30 August 2018

Sand Hill Petroleum B.V.
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The Netherlands
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On 12 April 2018 Sand Hill Petroleum B.V. issued senior secured callable bonds in an amount of EUR 70 mn.

HSE
As top priority, resulted in no reportable incidents during the period.

Production
Total average daily production in H1 was 29.3 MMscfe/d, consisting of 25 MMscfd net gas, 618 bpd condensate and 103 bpd oil.

Sales
Hydrocarbons sales revenue was USD 40.2 mn during the first half year with higher than planned commodity prices.

EBITDA
Group achieved USD 20.6 mn EBITDA in H1.

Investments
Capital expenditure was USD 35.4 mn in H1. The Group invested in the following activities: USD 1.8 mn in exploration (Geology and Geophysics), USD 14.3 mn in exploration and appraisal drilling, USD 9.8 mn in completion and gathering facilities and USD 9.5 mn in facilities, mainly processing facilities.

Out of the 6 wells drilled in 2018 H1, two wells have been drilled during Q2 in the Koros and Berettyoujfalu blocks, where testing is currently in progress – preliminary results show that both gas wells will be productive. Three gas wells in the Berettyoujfalu Block (NE of Hungary) have been completed in Q2 and two started production in the middle of June with associated extensive gas gathering pipelines and facilities. Konyar Gas Plant project engineering and permitting had been completed, procurement was 80% complete and onsite construction had started by the end of the reporting period.

Romania

The permitting process for the EX-1 3D seismic survey continued during Q2. In EX-5 block preparations have been ongoing for the drilling of the first commitment well. The requests to extend until 2021 the end date for the Phase 1 work obligations under the EX-1 and EX-5 concessions were filed and were approved by the Romanian authorities in August.

SUMMARY OF RESULTS

	30-Jun-18
Dutch TTF Benchmark ($/mcf)	7.2
Production (MMcfe/d)	29.3
(USD 000)	
Operating profit/(loss)	13 353
EBITDA	20 560
Current Assets	68 039
Current Liabilities	19 421
Net Interest Bearing Debt	3 692
Current ratio	3.5
Liquidity	53 614

Notes:

EBITDA (consolidated operating profit before Interest, Taxes, Depreciation, Amortization, impairment and non-cash expenses, and excluding any items of a one-off, non-recurring, extraordinary and exceptional nature) is calculated for the period of 6 months ending on June 30, 2018.

Net Interest Bearing Debt means the sum of all interest bearing financial indebtedness on a consolidated basis (excluding any Shareholder Loan and any liability under any preference shares in the Issuer (equity instrument), the HMA Guarantee Facility and any Permitted Hedging), less the amount standing to the credit of Pledged Accounts.

Current Assets means the aggregate book value of the consolidated assets of the Group which are treated as current assets less the aggregate book value of any restricted cash (where restricted cash means cash which is held in accounts that are both pledged and blocked)

Current Liabilities means the aggregate book value of the consolidated liabilities of the Group which are treated as current liabilities excluding the current portion of long term debt, and liabilities to non-controlling interests.

Liquidity reflects cash that can be used without restriction.

Pledged Accounts means all accounts held by SHP BV and its subsidiaries, including but not limited to: the Escrow Account (in connection with the settlement of the Bonds); the Debt Service Retention Account; and any account that is held by the Issuer with banks in the Netherlands, but excluding the following accounts:

(i) the cash collateral account held by OGDC related to the HMA Guarantee Facility in an amount up to EUR 1,500,000;

(ii) any Hedging Collateral Account;

(iii) any cash collateral account securing counter-indemnity obligations in respect of a guarantee, bond, standby or documentary letter of credit issued by a bank or financial institution in respect of any underlying liability of a Group Company in the ordinary course of business of the Group up to a maximum of EUR 1,000,000;

(iv) any Abandonment Collateral; and

(v) any cash collateral security granted pursuant to paragraph (l) of the definition of "Permitted Encumbrances".

Please refer to the definition of the above terms in the Bond Terms for SHP BV (ISIN NO 0010820616).

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H1 2018

FINANCIAL

INFORMATION

WITH NOTES

Consolidated statement of profit or loss and other comprehensive income for the six month period 30 June 2018

	Notes	(USD 000's)
Revenue	2	40 182
Cost of sales	3	(273)
Gross Profit		**39 909**
Other income		28
Production costs	4	(14 842)
Exploration expenses	5	(205)
Production related depreciation	6	(6 629)
General and administrative expenses	7	(4 330)
Other depreciation	8	(578)
Operating profit		**13 353**
Finance income	9	23
Finance expense	9	(4 620)
Profit before income tax		**8 756**
Income tax expense	10	(2 100)
Profit for the year		**6 656**
Other comprehensive income		-
Total comprehensive income		**6 656**

Consolidated Statement of Financial Position as at 30 June 2018

	Notes	(USD 000's)
Non Current Assets		
Exploration rights	11	16 570
Exploration and Evaluation Assets	12	35 339
Assets in Development	13	33 328
Producing Assets	14	84 069
Other property, plant and equipment	15	642
Other intangible assets		433
Deferred tax assets		607
Other financial assets	16	26 832
Total non-current assets		**197 820**
Current assets		
Inventories		4 367
Trade and other receivables		10 058
Cash and short-term deposits	17	53 614
Total current assets		**68 039**
Total assets		**265 859**
Equity and liabilities		
Issued capital	18	3 471
Retained earnings		-48 862
Other reserve	19	205 941
Translation difference		14
Total equity		**160 564**
Non-current liabilities		
Interest-bearing loans and borrowings	20	81 350
Deferred tax liabilities		441
Provisions	21	4 083
Total non-current liabilities		**85 874**
Current liabilities		
Accounts payable and accrued liabilities	22	15 094
Taxes and mining royalties payable		4 327
Total current liabilities		**19 421**
Total liabilities		**105 295**
Total equity and liabilities		**265 859**

Consolidated Statement of Cash Flows for the six month period 30 June 2018

	Notes	(USD 000's)
Cash flows from operating activities		
Profit before income tax from operations		8 756
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation, depletion and amortisation		7 207
Impairment of oil and gas properties		-
Impairment of exploration and evaluation assets		-
Unwinding of discount on decommissioning		86
Working capital adjustments:		
Change in trade and other receivables		(136)
Change in inventories		206
Change in trade and other payables relating to operating activities		457
Add: Finance expense (disclosed in financing activities)		1 682
Income tax paid		(603)
Net cash flows from operating activities		**17 655**
Cash flows from investing activities		
Expenditures on E&E and oil&gas assets		(33 661)
Expenditure on other PPE		(124)
Expenditure on other intangible assets		(142)
Loans granted	23	(379)
Net cash used in investing activities		**(34 306)**
Cash flows from financing activities		
Proceeds from issuance of shares		87
Proceeds from loans and borrowings		80 031
Restricted cash decrease (increase)		(18 944)
Net cash (used in) from financing activities		**61 174**
Increase/(Decrease) in cash		44 523
Translation difference		(163)
Cash and cash equivalents, beginning of period		9 254
Cash and cash equivalents, end of period		53 614

NOTES TO FINANCIAL INFORMATION

Basis of reporting

In line with the terms of the Senior Secured Callable Bonds 2018-2022 ISIN NO 0010820616 this unaudited interim condensed consolidated financial information for the six months ended 30 June 2018 is reported in accordance with IFRS. The 2017 Annual Financial Statements and the 2018 Q1 unaudited interim condensed consolidated financial information have been prepared in accordance with Dutch GAAP.
The unaudited interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements.
The unaudited interim condensed financial information has been prepared on the going concern basis.
The preparation of the Group's consolidated financial information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial information. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.
This unaudited interim condensed consolidated financial information has not been subject to review or audit by independent auditors

Note 1 Significant accounting policies

The unaudited interim condensed consolidated financial information is presented in United States dollars which is the Company's functional currency

Exploration

The exploration costs in the Financial Information prepared in accordance with IFRS are accounted for using the Successful Efforts method of US GAAP (FAS-19), as it is allowed by IFRS 6 – Exploration for and Evaluation of Mineral Resources to follow consistently any previously applied accounting policy not contradictory to IFRS.

The Group does not apply IFRS 6 to expenditures incurred:

- before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area.
- after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Pre-licence costs

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

Licence and property acquisition costs

Exploration licence and acquisition costs are capitalised in intangible assets.
Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit, ie. the term of the concession contract.

Exploration and evaluation costs

Costs of E&E are initially capitalised as E&E assets.

Tangible assets used in E&E activities (such as the Group's vehicles, drilling rigs, seismic equipment and other property, plant and equipment used by the Company's Exploration Function) are classified as property, plant and equipment.

E&E costs are not amortised prior to the conclusion of appraisal activities.

Capitalization of borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset), form part of the cost of that asset.

Other borrowing costs are recognized as an expense using the effective interest method. The group capitalizes borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets.

Capitalization ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete.

The Group does not capitalize borrowing costs related to E&E assets as it is unlikely that future economic benefits from that project can be considered probable.

Note 2 Revenue 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 any sales related taxes, 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.

Note 3 Cost of Sales

Cost of balancing gas purchased from 3rd parties in order to comply with delivery commitments.

Note 4 Production costs

Production costs are all expenses incurred in relation to the production of hydrocarbons including materials and services used, salaries and wages of production employees, damage compensations related to wells in production, work-overs and mining royalties.

Note 5 Exploration expenses

Geological and geophysical exploration costs related to areas where the company does not hold the concession rights are charged against income as incurred.

Exploration expenses include further the impairment of E&E assets in case hydrocarbons are not found, and the exploration expenditure is written off as a dry hole, when the right to explore in a specific area has expired and is not expected to be renewed or when the company does not plan further expenditures or explorations in the specific area.

Note 6 Production related depreciation

Amortisation and depreciation of wells and pipelines is calculated on a unit-of-production basis, using the ratio of oil and gas production in the period to the estimated quantities of proved reserves on an entitlement basis at the end of the period plus production in the period, on a well-by-well basis. Proved reserve estimates are based on a number of underlying assumptions including oil and gas prices, future costs, oil and gas in place and reservoir performance, which are inherently uncertain.
Management uses established industry techniques to generate its estimates and regularly references its estimates against those of joint venture partners or external consultants.
However, the amount of reserves that will ultimately be recovered from any field cannot be known with certainty until the end of the field's life.
Depreciation of other oil and gas properties e.g. gas plants have a straight-line depreciation.

Note 7 General and Administrative expenses

Comprises costs that are considered part of general company overhead such as wages not allocated to capital expenditures or production costs, accounting, legal and other corporate expenses.

Note 8 Other depreciation and amortization

Depreciation of office equipment, and other intangible assets (mainly software).

Note 9 Finance income and expense

Finance income comprises the following: interest income on investments (including available-for-sale financial assets), gains from the sale of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues, using the effective interest method.

Finance expenses comprise the following: interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognized on financial assets. Exchange gains and losses are recognized on a netted basis.

The amounts under this item are mainly non-realised fx gain because of exchange rate movements between USD/RON and USD/EUR related to the outstanding USD denominated shareholder loans from SHPBV to the Hungarian and Romanian subsidiaries. EUR and RON are the functional currencies for the Hungarian and Romanian companies respectively.

Note 10 Tax

Corporate Income tax, local business tax and innovation contribution booked in Hungary for the period.

Note 11 Exploration rights

Concession fees, acquisition costs of the EX-1 and EX-5 Concession stakes in Romania and exploration rights related to the acquisition of the Koros license.

Note 12 Exploration and Evaluation assets

Exploration costs are accounted for using the Successful Efforts method of US GAAP (FAS-19), as it is allowed by IFRS 6 – Exploration for and Evaluation of Mineral Resources. The balance consists of capital expenditures the outcome of which are yet uncertain.

Note 13 Assets in Development

Expenditure is transferred from 'Exploration and evaluation assets' to 'Assets in development' once the work completed to date supports the future development of the asset and such development receives appropriate approvals. After transfer of the exploration and evaluation assets, all subsequent expenditure on the construction, installation or completion of infrastructure facilities such as pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within 'Assets in development'. E&E assets will no longer be classified as such when 'technical feasibility and commercial viability of extracting a mineral resource are demonstrable'.

When a development project moves into the production stage, all assets included in 'Assets in development' are then transferred to 'Producing assets'.
Assets in development contain the uncompleted infrastructure costs as well.

Note 14 Producing assets

Wells and infrastructure completed, plus other equipment not reported under inventory.

Note 15 Other PPE

Mainly office equipment.

Note 16 Other financial assets

Cash set aside as collateral for obligations (eg. as security for guarantees issued by Banks on behalf of OGDC Kft) held on separate accounts and not available for at least 12 months after the reporting period plus cash deposited on any blocked account (Escrow accounts including the DSRA account to service interest payments). Also includes amounts disbursed by Sand Hill Petroleum Romania srl. (SHPR) to Panfora Oil and Gas srl. under the Carry Financing Agreement signed with its JV partner in 2016.

	June-30 (USD 000s)
Cash and cash equivalents (escrowed account - Norway)	22 160
Debt Service Reserve Account (escrowed account - Norway)	1 884
Collateral securing Koros License (Hungary) related abandonment obligations (HMA)	886
Collateral securing mining plots related abandonment obligations in Hungary	918
Carry Financing / Panfora Oil & Gas srl.	959
SHPR Office and flat relared collaterals	24
	26 832

Note 17 Cash and short term deposits

Available non-restricted cash excluding cash items shown under Other Financial Assets.

Note 18 Issued capital
Ordinary and preferred shares issued.

Note 19 Other reserve
Premium paid over the nominal value of the ordinary and preference shares issued.

Note 20 Interest bearing loans and borrowings

The Company issued on April 13, 2018 a EUR 70 million senior secured callable bond maturing in 2022. The Company pays interest only during the term of the Bond. Bond is repayable in full at maturity.

Note 21 Provisions

The Group recognises a decommissioning liability where it has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the field location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related oil and gas assets to the extent that it was incurred by the development/construction of the field.

Liabilities due within 12 months are shown as current liability whereas liabilities beyond 12 months are shown under non-current liabilities.

Note 22 Accounts payable and accrued liabilities

The Company's 100% Hungarian subsidiary, O&GD Central Kft. ("OGDC"), has entered into an offtake prepayment agreement ("Prepayment Agreement") in November, 2017 with Hungarian Gas Trade Ltd. ("HGT"), whereby the Buyer paid in advance for future volumes. OGDC is committed to deliver a fixed volume of gas from its existing processing plant to the HGT between November 2017 and 30 June 2019.

The short term (liabilities within one year) portion of the payable are booked under current liabilities whereas the long term (liabilities exceeding one year) portion is booked as non-current liabilities.

As of the end of period the total outstanding amount under the prepayment agreement was net EUR 5.6 mn (USD 6.5 mn).

Normal trade creditors are also shown under this item.

Note 23 Carry Loan to Panfora Oil & Gas srl.

The Company's Romanian subsidiary (SHPR) is a JV partner and Operator in the Romanian EX-1 and EX-5 concessions. SHPR entered into a Carry Financing Agreement with its JV partner (Panfora Oil & Gas srl.) in 2016, whereas SHPR finances Panfora's share of expenditures within the Minimum Work Program obligations up to a total of EUR 6.35 mn, preferentially repayable from any production from the licences.

Note 24 Contingent liabilities

The Prepayment Agreement is secured by a parent company guarantee from the Company in favour of HGT, such security to terminate upon expiry of the agreement on 30 June 2019. In case OGDC could not supply gas, OGDC will either have to repay the outstanding value of the prepaid amounts not yet compensated by gas deliveries (max EUR 8 mn) or HGT may enforce upon the Company's guarantee.

As of the end of QTR 2 the outstanding amount guaranteed by the Company was gross EUR 7.1 mn (USD 8.26 mn).

In early 2017, the Company's 100% Romanian subsidiary, Sand Hill Petroleum Romania srl. ("SHPR"), acquired majority participating interests (70% and 80% respectively) in two existing onshore hydrocarbons exploration concessions (EX-1 and EX-5) in Romania thus entering into a non-incorporated JV with a Romanian company, Panfora Oil & Gas srl. („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. SHPR has provided a parent company guarantee from the Company in favor of JV partner for its share of such obligations and have received a reciprocal parent company guarantee from JV partner’s owner.

As of the end of H1 2018 the Company’s total exposure under the outstanding Romania related guarantees was estimated at EUR 41.8 mn (USD 48.5 mn).