QTR 1

2018

Interim Quarterly report for

Sand Hill Petroleum B.V.

Amsterdam, 30 May 2018

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SUMMARY OF THE FIRST QUARTER 2018

The principal activities of the SHP Group for the first Quarter were focused on further developing the gas potential in the North East of Hungary with the aim of adding cashflow and hydrocarbon reserves. In Romania preparations for the committed seismic and drilling program have continued in parallel with working out the request for extending the end date for the Phase 1 work obligations under the EX-1 (Voivozi) and EX-5 (Adea) concessions.

Hungary

HSE

Focus on safety – aiming at zero incidents and zero fatalities – as top priority resulted in no reportable incidents during the period.

Production

Continued strong production ramp up. Total average daily production of gross gas (incl. condensate) during the period was 31.2 MMscfe/d, consisting of 27.4 MMscfd net gas and 626 bpd condensate. Oil production averaged 98 bpd.

Sales

Hydrocarbons sales revenue was USD 21.6 mn during the period, exceeding expectations due to favourable price environment. Gas sales contributed 85%, condensate sales 13% and oil sales 2% to sales revenues. Gas is sold at (Dutch) TTF and (Austrian) VTP linked prices, whereas oil and condensate prices are linked to Brent.

Operating Results

Group achieved USD 10.8 mn EBITDA during the period in line with expectations.

Investments

Capital Expenditures were USD 11.4 mn in the period. SHP Group invested in the following activities: USD 0.8 mn in exploration (Geology and Geophysics), USD 6 mn in drilling, USD 3 mn in completion and hook-up and USD 1.6 mn in facilities.

Exploration/Producing blocks

Geologist team prepared for the drilling of the next three gas wells, interpreting seismic and well data in the Koros Block and reviewing prospects in the Berettyoujfalu Block.

Exploration/Non-Producing blocks

Preparation works were undertaken to drill the Balmazújváros E-1 commitment well (Nadudvar Concession Block). Preparations started for the committed BAG 3D seismic acquisition (Mogyorod Concession Block) covering 400km^2, geologists reviewed 2D data and commissioned a study to be conducted with the ELTE University of Budapest on source rocks. Started preparation works on drilling of a prospect in the Ocsa Concession Block.

Drilling and hook-ups

Four wells have been drilled during the period in the NE region (producing blocks) out of which 3 wells were gas discoveries. The wells have been completed in April and are expected to be hooked up and producing by early June.

Facilities - Konyar Gas Plant and related facilities

Construction of the Konyar Gas Plant (Berettyoujfalu Block - North East Hungary) project continued during the period.

The Konyar Gas Plant project consists mainly of:

- the Konyar Gas Plant (GP) plus Gathering Station (GS)
  Planned completion date of the Gathering Station is 30 Jun 2018 whilst the Gas Plant is expected to process gas on 30 Sep 2018. Project Status as of the end of period is 20% completed in line with schedule.
- Konyar Ny Wells + Pipelines
  As of the end of the period a total of 6 wells have been drilled on two pads and are planned to start up by end of July 2018. These wells will feed the Konyar Gas Plant. Pipeline network will provide raw gas sales to 3rd party buyer (MOL) until Gas Plant is operational. Project 60% completed.
- Sarand Pipeline/FGSz Metering
  This project is designed to transport sales gas from Konyar Gas Plant to Sarand (Hungarian gas grid) Metering / Tie-In point. Planned completion 30 Sep 2018. Project is 10% completed.

Other major facility projects

Continued work on:

- Turkeve Ny7 CO2 Removal
  This unit will initially be used to treat gas produced from the Turkeve Ny7 well (Koros Producing Block) which has high CO2 content. Planned completion by end of July 2018. Project is 85% completed.

- Turkeve Ny5 (Koros Producing Block) Power Generation
  Project will utilize CO_2 Removal Unit waste gas, generating electricity for sale back to the local grid, and minimizing flaring. Project is 5% completed.

- Endrod Gas Plant Upgrade
  Due to higher production rates, implementation of additional condensate stabilizing capacity is needed. The plant had 240,000 m3/day gas processing and 30 m3/day condensate stabilizing design capacity but it is being upgraded to increase capacity up to 480,000 m3/day and 100 m3/day. Planned completion 1 August 2018. Project is 90% completed.

Romania

The permitting process for the EX-1 3D seismic survey continued during the Quarter. Current plan is to start field acquisition activities in July as per schedule. The general permit to drill has been received from the Romanian Mining Authority for the Sepreus #1 commitment well (EX-5), the first of multiple permits.

SHPR has filed for an extension of the Phase 1 exploration period under the EX-1 and EX-5 concessions from October 2018 to October 2021..

SUMMARY OF FINANCIAL RESULTS

(USD 000)	**31-Mar-18**
Operating profit/(loss)	6 947
EBITDA	10 828
Current Assets	25 567
Current Liabilities	23 029
Net Interest Bearing debt	n.a.
Current ratio	1,1
Leverage ratio	n.a.
Liquidity (unrestricted cash)	9 154

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) for the period.
- There was no third party interest bearing debt during the period.
- Liquidity reflects cash that can be used without restriction.

UNAUDITED CONSOLIDATED QTR 1 2018 FINANCIAL STATEMENTS WITH NOTES

INCOME STATEMENT

(USD 000)	Note	31-Mar-18
Hydrocarbons sales revenues	2	21 578
Other revenues		15
Production costs	3	7 702
Other operating expenses	4	3 063
Ordinary Depreciation		3 756
Additional Depreciation	5	-
Amortization of Goodwill	6	125
Impairment	6	
Total operating expenses		14 646
Operating Profit/Loss		6 947
Interest Income		4
Other financial income	7	1 801
Interest expenses		
Other financial expenses		
Net Financial Items		**1 805**
Profit/(Loss) before taxes		**8 752**
Tax	8	(303)
Net profit/(Loss) for the period		**8 449**

STATEMENT OF ASSETS

(USD 000)	Note	31-Mar-18
Intangible assets		
Goodwill	9	8 890
other intangible assets	10	41 511
Tangible fixed assets		
Property, Plant & Equipment	11	109 189
Financial assets		
Other non-current financial assets		772
Restricted cash	12	1 918
Total non-current assets		**162 280**
Inventories		5 490
Receivables		
Accounts receivable		10 107
other short-term receivables		816
Cash and cash equivalents		
Non-restricted cash		9 154
Total current assets		25 567
TOTAL ASSETS		**187 847**

STATEMENT OF EQUITY

(USD 000)

Equity	Note	31-Mar-18
Share Capital		254
Share Premium		209 113
Translation reserve		3 076
Accumulated deficit		(57 209)
Unappropriated result		8 449
Total equity		**163 683**
Non-current Liabilities		
Long-term bonds		
Long-term abandonment provisions	13	386
Prepayment of gas deliveries	14	749
Current liabilities		
Accounts payable		7 716
Accrued expenses		459
Tax payable		3 759
Other current liabilities		4 648
Accrued revenues	14	6 447
Total liabilities		**24 164**
TOTAL EQUITY AND LIABILITIES		**184 847**

STATEMENT OF CASHFLOW

(USD 000)		
CASH FLOW FROM OPERATING ACTIVITIES		
Net income (loss) for the period		8 449
Items not affecting cash		2 159
Change in working capital		(4 192)
NET CASH FLOW FROM OPERATING ACTIVITIES		**6 416**
CASH FLOW FROM INVESTING ACTIVITIES		
Intangible Fixed Assets		(807)
Tangible Fixed Assets		(10 644)
NET CASH FLOW FROM INVESTING ACTIVITIES		**(11 451)**
CASH FLOW FROM FINANCING ACTIVITIES		
Carry Loan to Panfora Oil & Gas srl.	15	(217)
Restricted cash release	16	5 110
Change in Equity		42
NET CASH FLOW FROM FINANCING ACTIVITIES		**4 935**
Net change in cash and cash equivalents		**(100)**
Cash and cash equivalents at start of period		9 254
CASH AND CASH EQUIVALENT AT END OF PERIOD		9 154

NOTES TO THE FINANCIAL STATEMENTS (Unaudited, consolidated)

The interim consolidated financial statements have been prepared in accordance with Dutch GAAP. The interim consolidated financial statements do not include all information required by Dutch GAAP and should be read in conjunction with the company's annual consolidated financial statements as at 31 December 2017. The interim consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the financial position, results of operations and cash flows for the dates and interim periods presented. Interim period results are not necessarily indicative of results of operations or cash flows for an annual period.
These interim consolidated financial statements have not been subject to review or audit by independent auditors.

Note 1 Accounting principles

The accounting principles used for this interim statement are consistent with the principles used in the Company's annual financial statements as at 31 December 2017. There are no new standards effective from 1 January 2018. The interim consolidated unaudited financial statements are presented in United States dollars which is the Company's functional currency.

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 (mining tax levied by the Mining Authorities and local business tax levied by local municipalities), 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 Production costs

Production costs consist of the costs of operating the wells (incl. workovers, capacity fees paid and processing costs), mining tax paid based on hydrocarbons production and local business tax paid based on revenues.

Note 4 Other operating expenses

Operating expenses not allocated to producing assets, mainly general and administrative expenses.

Note 5 Depreciation

The Company mainly employs linear depreciation of tangible assets based on gross value when 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 and 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.

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 additional depreciation.
If no potentially commercial hydrocarbons are discovered, the asset under construction (dry-hole) is written off through the statement of profit or loss as an additional depreciation.

Drilling tools which have a useful life of a certain number of well drillings are depreciated according to the useful life (number of the well drillings where these assets were used).

Note 6 Amortization of Goodwill, impairments

The amount paid in goodwill for the Koros exploration license is amortized over 20 years. Amortization was recorded first during the financial year when production started (2015). There is no impairment in the period.

Note 7 Other Financial Income

Mainly non-realised fx gain because of exchange rate movements between USD/RON and USD/HUF related to the outstanding USD denominated shareholder loans from SHPBV to the Hungarian and Romanian subsidiaries. HUF and RON are the functional currencies for the Hungarian and Romanian companies respectively.

Note 8 Tax

Current corporate Income tax booked in Hungary for the period.

Note 9 Goodwill

The net (after depreciation) amount paid in goodwill for the Koros exploration license.

Note 10 Other Intangible assets

Deferred tax assets, concession fees, other intangibles and mainly Koros related seismic expenses.

Note 11 PP&E

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

Note 12 Restricted cash

Cash set aside as collateral for obligations held on separate accounts and not available for at least 12 months after the reporting period.

Note 13 Long term abandonment provisions

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 reassessed 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.

Note 14 Prepayment of gas deliveries

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 EUR 5.8 M (USD 7.2.M).

Note 15 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 (please refer to Note 17 for further details). 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 M. According to the agreement there is no obligation on Panfora to repay the carry in case the Romanian fields do not result in any production.

Note 16 Restricted cash release

Cash collaterals released in Hungary in connection with an unsuccessful license bid and a reduction in cash collateral securing abandonment obligations.

Note 17 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 M) or HGT may enforce upon the Company's guarantee.

As of the end of QTR 1 the outstanding amount guaranteed by the Company was EUR 5.8 M (USD 7.2 M).

In 2016, 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 QTR 1 2018 the Company's total exposure under the outstanding Romania related guarantees (covering Minimum Work Program obligations and the Carry Loan) was estimated at EUR 42 M.