

QTR1

2020

Unaudited interim condensed consolidated financial information for

Sand Hill Petroleum B.V.



Amsterdam, 29 May 2020

Sand Hill Petroleum B.V.
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Management Commentary

Pricing

Commodity prices decreased in Q1 2020 compared to Q4 2019 and were also below Q1 2019 levels:

- Dutch TTF day ahead averaged \$ 3.4/mcf for the quarter, down from \$4.5/mcf in Q4 2019 and \$ 6.7/mcf in Q1 2019
- Austrian VTP day ahead averaged \$3.6/mcf for the quarter, down from \$4.4/mcf in Q4 2019 and \$ 6.7/mcf in Q1 2019
- Brent dated averaged \$50/bbl for the quarter, down from \$63/bbl in Q4 2019 and \$63/bbl in Q1 2019.

Operational

Production

During Q1 2020, total daily production averaged 21.6 MMscfe/d, consisting of 18.8 MMscf/d gas, 398 bpd condensate and 84 bpd oil. Production increased compared to the previous quarter as a result of two new Szanda wells coming on-line and some of the previously technically suspended wells in the Endrod area (Hungary) placed back on production.

Compared to Q1 2019 production was lower mainly due to three gas wells in the North East of Hungary being shut down as a consequence of depletion. Their initial production was significantly higher than anticipated, therefore, these wells experienced accelerated declines due to faster depletion of the reservoirs.

Sales

Sales revenue was EUR 9.7 mn in Q1 2020, 3% lower compared to the previous quarter. Gas sales accounted for 85% of total sales. The effect of higher production was offset by the lower Q1 reference gas and oil prices, which dropped substantially during the quarter. These negative trends were mitigated by hedging arrangements put in place to support the revenue stream. Approximately 60% of Q1 2020 gas production was hedged.

Compared to Q1 2019, sales revenues were 44% lower due to lower market prices and lower production but supported by hedging arrangements in place.

Costs and expenses

Production costs in Q1 2020, excluding mining royalties and write-off costs, were 18% lower than Q4 2019 expenses mainly due to lower propane, workover and maintenance expenses. There were no write-off costs booked under production costs in Q1 2020.

Despite higher production, mining royalties decreased compared to Q4 2019 by 25% due to the decrease of Brent prices, which is the reference price in the royalty calculation formula applicable in Hungary. Employee benefit expenses decreased by 24% compared to the previous quarter due to a reduction (6 persons) in the average number of employees in Hungary, associated severance payments paid in QTR4 2019 and the devaluation against EUR of the HUF denominated salary expenses.

Other operating expenses decreased by 59% compared to Q4 2019 mainly due to less spending on professional (legal, audit, tax advisory, management) fees and travel expenses.

Compared to Q1 2019 production costs, excluding mining royalties and write-off costs, decreased by 23% due to less spending on workovers, chemicals, compressor usage fees paid to third parties, state supervisory and processing fees.

Employee benefit expenses were 12% lower compared to Q1 2019 as management continued to reduce staff numbers to align them with current operational and investment activity levels.

Other operating expenses decreased by 51% compared to Q1 2019 mainly due to continued cost rationalization programs (e.g. savings on software rental, legal, management and membership fees).

In Q1 one Romanian exploration commitment well has been written off.

Investments

Capital expenditure was EUR 4.2 mn in Q1 2020. The Group invested EUR 1.3 mn in geoscience and seismic activities, EUR 0.3 mn in exploration, appraisal, and development drilling, EUR 0.7 mn in well completions and gathering systems and EUR 1.8 mn in facilities.

Hungary

In Q1 2020 the drilling of new wells was deferred due to the low gas price environment in Hungary. Instead, workover projects and the installation of compressors have been undertaken to mitigate the natural production decline. The Company continues to develop new prospects and to procure drilling permits to be ready to restart drilling once the environment improves.

A 400 km² 3D seismic acquisition program has been completed on the Mogyoród block (Hungary) in Q1. All mandatory commitments have been fulfilled on the block. Hungarian seismic data interpretation and reprocessing activity continued during the quarter.

The first phase of development of the Szandaszőlős gas project was completed during the quarter. Production started through the facilities from three wells on 10th February. The project is continuing with a compressor installation scheduled for Q2. Another well in the Endrőd area with lower quality gas that had been worked over was placed back in production during March. A compressor project was also completed during March in the Ocsod area, contributing to the processing increase through the Endrod Gas Plant area.

Romania

In Romania one exploration commitment well was drilled during Q1, the well was a dry hole.

Prospecting and geologic evaluation continued for the first half of the Romanian EX-1 3D seismic program. The permitting process for 3D seismic acquisition continued for the second half. The permitting process for the EX-5 3D seismic survey was suspended.

HSE

There were no reportable high-potential HSE incidents during Q1 2020.

Operational overview

Q1 2020	Sales mmscfe/d	Number of producing wells
Koros	15	16
Ujleta	2	2
Berettyo	6	8

		Jan -20	Febr -20	March -20
Sales	<i>MMcfe/d</i>	21	22	23
Wells drilled	<i>#</i>	-	-	1

The Company does not plan to drill more wells in 2020.

SUMMARY OF 2020 QTR 1 RESULTS

31-Mar-20

Production (MMcfe/d) in Q1	21.6
	(EUR '000)
Operating profit/(loss) in Q1	(1 473)
Current Assets	20 647
Current Liabilities	11 065
Net Interest-Bearing debt	66 352
EBITDA (calculated for the last 12 months)	13 617
Current ratio	1.87
Leverage ratio	4.87
Liquidity	5 002

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

On 30 April 2020 the Company entered into a second amendment and restatement agreement to the bond terms for its "9.00 per cent. Senior Secured 70,000,000 Callable Bond Issue 2018/2022" with ISIN NO001 0820616 (the "Bond Issue"). Pursuant to the second amended and restated bond terms for the Bond Issue (the "Bond Terms") the Company secured a further extension of the waiver and suspension of the financial covenants and certain amendments to the Bond terms. Bondholders agreed to, inter alia, waive compliance with required financial covenants until end of September 2021, allow the Company access to funds accumulated on the Debt Service Reserve Account, terminate the obligation to maintain and fund the Debt Service Retention Account, in respect of the period from October 2019 to April 2021 receive the accruing interest as payment-in-kind interest ("PIK Interest") through the issuance of additional Bonds and apply an additional three percent back-end fee to the repayment.

Notes:

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

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

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.

Current ratio means the ratio of Current Assets to Current Liabilities.

Liquidity reflects cash that can be used without restriction.

Relevant Period means each period of twelve (12) months ending on a Quarter Date (each 31 March, 30 June, 30 September and 31 December).

Leverage Ratio means, in respect of any Relevant Period, the ratio of Net Interest Bearing Debt on the last day of that Relevant Period to EBITDA in respect of that Relevant Period.

"Pledged Accounts" means all accounts held by the Obligor, including but not limited to: (a) the Escrow Account (in connection with the settlement of the Bonds); (b) 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 amended and restated Bond Terms for SHP BV (ISIN NO 0010820616).

UNAUDITED
INTERIM
CONDENSED
CONSOLIDATED
QTR 1 2020
FINANCIAL
INFORMATION
WITH NOTES

Consolidated unaudited statement of profit or loss and other comprehensive income
(in EUR 000's)

		<i>2020.01.01- 2020.03.31</i>	<i>2019.01.01- 2019.03.31</i>
	<i>notes</i>	<i>unaudited</i>	<i>unaudited</i>
Revenue	2	9 712	17 374
Other income		96	1
Own work capitalised	5	135	0
Production costs	3	-4 795	-7 460
<i>-out of which write-off of Producing assets</i>		<i>0</i>	<i>0</i>
Exploration expenses	4	-928	-36
Impairment	6b	0	0
Employee benefit expenses	5	-1 148	-1 311
Depreciation	6a	-3 754	-4 770
Other operating expenses	7	-791	-1 626
Operating profit		-1 473	2 172
Finance income	8	245	30
Finance expense	8	-1 879	-1 678
Profit before income tax		-3 107	524
Income tax expense	9	-274	-345
Profit for the period		-3 381	179
Other comprehensive income		634	-39
Total comprehensive income		-2 747	140

Consolidated unaudited Statement of Financial Position
(In EUR 000's)

		2020.03.31	2019.12.31
Non Current Assets	notes	unaudited	audited
Exploration rights	10	9 900	10 062
Exploration and Evaluation Assets	11	38 743	37 889
Assets in Development	12	6 452	15 292
Producing Assets	13	103 356	95 395
Other property, plant and equipment	14	2 374	2 591
Goodwill	15	7 529	7 529
Other intangible assets		119	155
Deferred tax assets		1 929	1 985
Other financial assets	16, 24	9 574	7 811
Total non-current assets		179 976	178 708
Current assets			
Inventories	17	5 945	6 059
Trade and other receivables		6 617	7 936
Income tax receivable		999	854
Derivative financial assets		2 084	1 375
Cash and short-term deposits	18	5 002	13 612
Total current assets		20 647	29 836
Total assets	-	200 623	208 544
Equity and liabilities			
Equity and liabilities	notes	2020.03.31	2019.12.31
		unaudited	audited
Share capital	19	234	234
Share premium	20	194 163	194 257
Retained earnings		-95 714	-92 333
Cash-flow hedge reserve	25	1 897	1 252
Translation difference		10 676	10 687
Total equity		111 256	114 097
Non-current liabilities			
Interest-bearing loans and borrowings	21	72 074	70 339
Deferred tax liabilities		174	174
Provisions	22	6 054	6 022
Total non-current liabilities		78 302	76 535
Current liabilities			
Trade and other payables	23	5 796	11 730
Income tax payable		185	162
Taxes and mining royalties payable		1 201	2 050
Interest-bearing loans and borrowings	21	3 434	3509
Provisions	22	449	461
Total current liabilities		11 065	17 912
Total liabilities		89 367	94 447
Total equity and liabilities	-	200 623	208 544

Consolidated Statement of Cash Flows

(In EUR '000)	<i>notes</i>	<i>2020.01.01- 2020.03.31 unaudited</i>	<i>2019.01.01- 2019.03.31 unaudited</i>
Profit before income tax from operations		-3 107	524
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation, depletion and amortisation		3 754	4 770
Write off of oil and gas properties		0	0
Impairment of oil and gas properties		0	0
Impairment of exploration and evaluation assets		776	0
Impairment of other assets		0	0
Unwinding of discount on decommissioning		31	36
Utilisation of decommissioning provision		0	0
Interest expenses and incomes		1 695	1 484
FX effects		2	0
Other non-cash items		5	0
Working capital adjustments:			
Change in trade and other receivables		1 303	4 667
Change in inventories		114	-1 654
Change in trade and other payables		-5 926	-6 973
Income tax paid		-404	-483
Net cash flows from operating activities	-	-1 758	2 371
Cash flows from investing activities			
Expenditures on E&E and oil&gas assets		-4 163	-13 811
Expenditure on other PPE		-2	-108
Expenditure on exploration rights		0	0
Expenditure on other intangible assets		0	-5
Proceed on disposal of assets		0	0
Restricted cash decrease (increase)		-1 571	2 683
Interest received		0	0
Loans granted		-173	-477
Net cash used in investing activities		-5 909	-11 718
Cash flows from financing activities			
Proceeds from issuance of shares		-95	74
Proceeds from loans and borrowings		-808	0
<i>Payments of loan and borrowings</i>		-119	0
Interest paid		-9	0
Net cash (used in) from financing activities		-1 031	74
Increase/(Decrease) in cash		-8 698	-9 273
Translation difference		88	19
Cash and cash equivalents, beginning of period		13 612	30 442
Cash and cash equivalents, end of period		5 002	21 188

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 first three months ended on 31 March, 2020 is reported in accordance with IAS 34.

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. In making this judgement, Management has looked at a variety of factors to assist in evaluating the Group's sustainability and the ability to manage obligations due within 12 months from the date of the unaudited interim condensed consolidated financial information for the first three months ended on 31 March, 2020. Management determined that the unprecedented volatility and recent deterioration of the sales price in hydrocarbons raises material uncertainty about the Group's ability to continue as a going concern. Management has examined factors to mitigate these conditions and has developed a plan to attempt to mitigate these in order to alleviate the uncertainty about the going concern nature of the Group. Management is of the opinion that it is reasonable to expect that (a) the developed plan can be effectively implemented and (b) that the plan can mitigate the conditions that raise uncertainty about the Group's ability to continue as a going concern for a period of at least twelve months from the date of the unaudited interim condensed consolidated financial information for the first three months ended on 31 March, 2020. However, Management recognizes the inherent uncertainty in the Company's future outlook given the prevailing volatile macro-economic conditions, including impacts of the ongoing Covid-19 pandemic and the effect this may have on hydrocarbon prices, and that the possibility of further downside outcomes remains which create a material uncertainty regarding the Group's ability to continue as a going concern.

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 EUR which is the Company's functional currency.

The change of the functional currency took place in 2018 from USD to EUR due to changes in the business environment of the Company.

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, i.e. 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 completed.

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.

Hedge accounting

The Group hedges sales price using forward commodity sale contracts. The forward contracts do not result in physical delivery of gas but are designated as cash flow hedges to offset the effect of price changes in natural gas.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the commodity forward contracts match the terms of the expected highly probable forecast transactions (i.e., notional amount and expected payment date).

The effective portion of the gain or loss on the hedging instrument is recognised in the cash flow hedge reserve (through Other Comprehensive Income), while any ineffective portion is recognised immediately in the statement of profit or loss.

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

When a contract is accounted for as a hedge of a highly probable future transaction, the cash flows of the contract are classified in the same manner as the cash flows of the future transaction being hedged (in this case Sales revenue).

Note 2 Revenue recognition

Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

All revenue is recognized at a point in time when control transfers. The only performance obligation is the sale of commodity. The Group applied the practical expedient not to disclose the remaining performance obligations when these are originally expected to have a duration of one year or less.

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

Consideration payable to customer:

Gas processing is performed by a customer of the Group for both the gas sold to that customer and sold to third parties for the amount of gas, the processing of which is not feasible at the gas plants owned.

In the first case processor takes control of the condensate and gas at the gathering station. In this case the processing fees are reflected as a reduction of the transaction price (rather than an expense) since the processor is not providing distinct services to the Group in exchange for those fees.

In the second case processor does not take control of the gas at the gathering station. In this case the processor is a service provider. The Group record product revenue for the sale of the processed commodities to the third-party customers. Fees paid to the processor would be classified as expense.

Note 3 Production costs

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

There were no write-off costs booked under production costs in Q1 2020.

Note 4 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.

In Q1 one Romanian exploration well has been written off. EUR 0.78 mn write-off is included under exploration expenses.

Note 5 Employee benefit expenses and own work capitalised

Employee benefit expenses are salaries and payroll related contributions (social security and taxes on wages and other related expenses).

Own work capitalised is salaries and payroll related contributions that are associated to capital projects and are therefore capitalized and not expensed.

Note 6a 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.

Office equipment has a straight-line depreciation based on useful life.

With the adoption of IFRS16 Leasing Standard from 1 January 2019, the depreciation of Rights of Use Assets is included in Depreciation whereas before the adoption of the new standard, the costs of leased assets were included in Other operating expenses.

Depreciation in Q1 was lower than in Q4 2019 by 52% despite production increase. Q4 depreciation was high because 2019 depreciation charges were recalculated at year-end based on the then available reserve reports and all adjustments were booked in Q4, moreover an adjustment of a depreciation charge related to 2018 was also booked in Q4.

Compared to Q1 2019 depreciation charges in Q1 2020 were 21% lower mainly due to less production.

Note 6b Impairment

The Impairment expense relates to Impairment recognised on oil and gas properties and inventory.

The wells are considered the cash-generating units for the purposes of impairment testing, which is tested annually or more frequently if there are indications that the assets might be impaired. The recoverable amounts are determined from value-in-use calculations. The value-in-use forecast takes into consideration cash flows which are expected to arise during the life of the wells.

Inventories should be measured at the lower of cost and net realizable value that is equal to the estimated selling price less costs to complete and sell.

There was no impairment booked in Q1 2020.

Note 7 Other operating expenses

Other operating expenses comprise materials and supplies that cannot be held in inventory (energy, small items of equipment, office and cleaning materials), administrative and professional expenses (legal, audit, accounting and payroll), IT, travel and conference expenses, bank and postal charges and other items of expenditures. Rental fees (office and warehouse, cars) are included under Depreciation beginning in 2019 with the adoption of IFRS 16 standard (please refer to Note 6). Only costs related to the leases (e.g. heating, fuel) remained in this category.

Note 8 Finance income and expense

Finance income comprises the following: interest income on investments, dividend income, gains from the 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: FX losses, 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.

Note 9 Tax

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

Note 10 Exploration rights

Concession fees and acquisition costs of the EX-1 and EX-5 Concession stakes in Romania and of concession rights in Hungary.

Note 11 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 12 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 13 Producing assets

Wells and infrastructure completed (gas processing plants), plus other equipment not reported under inventory.

Producing assets increased in Q1 2020 mainly because of capitalising new wells and pipelines in relation to the commissioning of the Szandaszőlös project.

Note 14 Other PPE

Mainly office equipment.

IFRS 16 Leases was implemented on 01/01/2019 using the modified retrospective approach. The entire effect of the transition has been taken against the opening balance of 01/01/2019.

Note 15 Goodwill

Goodwill related to the acquisition of OGD Central Kft that holds the Koros license (exploration and production licenses) in Hungary. The exploration license expired on 30 September 2019. The Company applied for new and expanded production licenses covering the areas of production within the expired exploration territory. The expiration of the exploration license did not affect the existing production licenses.

Note 16 Other financial assets

Cash set aside as collateral for obligations (e.g. 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. ("Panfora") under the Carry Financing Agreement signed with Panfora in 2016.

Other financial assets increased compared to the end of 2019 mainly due to the increase of the balance of the Debt Service Retention Account.

	31-Mar-20	31-Dec-19
	(EUR 000s)	(EUR 000s)
Debt Service Retention Account (escrowed account)	3 147	1 575
Collaterals in Hungary (escrowed accounts)- concession rounds, Körös license, mining plots	1 607	1 607
Carry Financing / Panfora Oil & Gas srl.	4 819	4 628
Total	9 574	7 811

Note 17 Inventory

Raw materials (valves, pipes, etc) stored in warehouse for future use initially measured at cost, subsequent to initial recognition, inventories should be measured at the lower of cost and net realizable value that is equal to the estimated selling price less costs to complete and sell.

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

Note 18 Cash and short-term deposits

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

Note 19 Share capital

Ordinary and cumulative preference shares issued.

Note 20 Share premium

Premium paid over the nominal value of the ordinary and cumulative preference shares issued.

Note 21 Interest bearing loans and borrowings

Non-current liabilities

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

Current liabilities

The Company's Hungarian subsidiary, O&GDC Kft. took out a short-term EUR 3 million loan from UniCreditbank Hungary Zrt. in Q3 2019. Repayment of the short-term loan was deferred from mid-January 2020 to year-end 2020.

The Company recognizes a right-of-use asset and lease liability in line with IFRS 16. The lease liability is measured at the present value of the remaining lease payments, discounted using the incremental (or implicit where applies) borrowing rates at the date of initial application. The short-term portion is reported under current liabilities.

Note 22 Provisions

The Group recognizes 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 recognized, the present value of the estimated costs is capitalized 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 23 Trade and other payables

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

Normal trade creditors are also shown under this item.

Note 24 Loans granted

The Company's Romanian subsidiary (SHPR) entered into a Joint Operating Agreement with its partner Panfora Oil & Gas srl. ("Panfora") in January 2016 and acts as an Operator in the Romanian EX-1 and EX-5 concessions. SHPR also entered into a Carry Financing Agreement with Panfora 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, which is repayable from any production from the licences.

Note 25 Cash-flow hedge

Effective as of 1st October 2019 the Company's Hungarian subsidiary, OGDC, has entered into a 33,750 MWh per month natural gas Austrian VTP DA commodity swap with a Hungarian Bank. The hedge expires on 30 September 2020.

Contingent liabilities

Further to the requirements set by the Hungarian Mining Law, O&GDC Kft. as owner of OGD Nadudvar Kft., OGD Ujleta Kft., OGD Berettyoujfalu Kft., OGD Mogyorod Kft., OGD Nagykata Kft., OGD Ocsa Kft., OGD Tiszafüred kft, OGD Körösladány Kft., OGD Békéscsaba Kft., has put up a HUF 1 billion bank guarantee (EUR 2,777,623 as per balance sheet date) to secure certain obligations under the exploration licenses granted by the Hungarian Mining Authority.

In Q4 2018, OGDC participated in the 6th Hydrocarbons Concession round in Hungary and was awarded three blocks (Bekescsaba, Korosladany and Tiszafured). The Concession contracts for the three blocks were signed on 23 January 2019. These Concession Subsidiaries are committed to carry out a compulsory work program under the various concession agreements signed with the Hungarian government by September 2022 for Tiszafured and Korosladany and by September 2023 for Bekescsaba.

The estimated cost as of 31 March 2020 of the total compulsory work program under the various concession agreements signed with the Hungarian government could be up to EUR 26.5 million over the duration of the concessions which is a significant reduction compared to the end of 2019 mainly due to fulfilling the Mogyorod Block (Hungary) related seismic commitment.

The Company's 100% Romanian subsidiary, Sand Hill Petroleum Romania srl. ("SHPR"), is committed to carry out a work program together with its partner Panfora. SHPR and Joint Operating Partner are jointly and severally liable towards the Romanian government for the work program obligations which was EUR 39.8 million in total at the end of Q1 2020 (total commitment of both parties to which joint and several liability applies). The pro-rated share of SHPR for the work program obligations was EUR 29.8 million in total at the end Q1 2020.

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

The first phase of both concession work programs expired in October 2018. SHPR and Joint Operating Partner filed for and obtained a multi-year extension of the first phase, thus the first phase of both concession blocks was extended until October 2021. An additional one-year extension of the first phase of both concession agreements is available by law subject to fulfilling certain conditions.

A parent company guarantee securing the repayment of the EUR 3 mn loan taken out by O&GDC Kft. was issued during Q3 2019. The guarantee expires upon repayment of the loan in full by O&GDC Kft.