

QTR1

2021

Unaudited interim condensed consolidated financial information for

Sand Hill Petroleum B.V.



Amsterdam, 31 May 2021

Sand Hill Petroleum B.V.
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Management Commentary

Pricing

Prices increased significantly in Q1 2021 compared to Q4 2020 and were well above Q1 2020 price levels:

- Dutch TTF day ahead averaged \$7.2/mcf for the quarter, up from \$5.6/mcf in Q4 2020 and up from \$3.4/mcf in Q1 2020
- Austrian VTP day ahead averaged \$6.7/mcf for the quarter, up from \$5.0/mcf in Q4 2020 and up from \$3.6/mcf in Q1 2020
- Brent prices averaged \$61/bbl for the quarter, up from \$44/bbl in Q4 2020 and up from \$50/bbl in Q1 2020.

Operational

Production

During Q1 2021 total daily production averaged 16 MMscfe/d consisting of 14.1 MMscf/d gas, 250 bpd condensate and 59 bpd oil. Production decreased compared to the previous quarter and Q1 2020 because some of the wells have reached their declining phase. The installation of new compressors and the hook-up of three gas wells starting in Q2-Q3/21 will change this trend.

Sales

Sales revenue was EUR 6.9 mn in Q1 2021, 2% higher compared to the previous quarter. Gas sales accounted for 83% of total sales. Despite significantly higher Q1 reference prices, sales revenue increased only slightly partly due to lower production and partly due to deliveries under fixed priced gas sales contracts.

Compared to Q1 2020 sales revenue was 28% lower because of lower production.

Costs and expenses

Production costs in Q1 2021, excluding mining royalties and write-off expenses, were 17% lower than in Q4 2020 mainly due to less spending on maintenance, consultant charges and less fees paid to authorities and less cost of goods sold. Technology improvements and measures supporting cost efficiency continued to be in focus during the period.

There were no write-off costs booked under production costs in Q1 2021.

Mining royalties increased compared to Q4 2021 by 14% despite lower production due to the considerable increase of Brent price, the reference price in the royalty calculation formula applicable in Hungary during the quarter.

Compared to Q1 2020, production costs, excluding mining royalties and write-off costs, decreased by 35% mainly due to less spending on chemicals, balancing gas, damage compensation, cost of sales, reserve audit and consultant charges.

Employee benefit expenses decreased by 11% compared to the previous quarter partly as a result of a reduction in the number of employees, and because in Q4 additional compensation was paid to field employees in charge of production operations.

Employee benefit expenses were 29% lower compared to Q1 2020 as management continued to reduce staff numbers to align them with current operational and investment activity levels.

Other operating expenses in Q1 decreased by 27% compared to Q4 2020 mainly due to less spending on audit fees, professional fees, engineering consultancy and tax advisory fees.

Other operating expenses increased by 37% compared to Q1 2020 partly due to one-off fees – data room services, professional fees, legal fees – related to the change of control process and partly due to accounting corrections booked under this item in Q1 2020.

There was no write off in Q1 2021.

Investments

Capital expenditure was EUR 0.9 mn in Q1 2021. The Group invested EUR 0.2 mn in geoscience and seismic activities, EUR 0.2 mn in exploration, appraisal, and development drilling, EUR 0.1 mn in well completions, workovers and gathering systems and EUR 0.3 mn in facilities.

Hungary

In Q1 2021 the drilling of new wells was deferred. Workover projects have been undertaken instead to mitigate the natural decline in production. The Company continued to develop new prospects and to procure drilling permits. Pre-drilling activities were financed for two potential wells.

The tie-in of a previously drilled gas well is expected by the end of Q2/21. Two new gas wells are also planned to be drilled in Q2/21 and hooked up in Q2 and Q3.

A 400 km² mandatory 3D seismic acquisition program was completed on the Mogyoród block (Hungary) in Q1 2020, interpretation work continued in Q1 2021. All mandatory commitments have now been fulfilled on this block.

Hungarian seismic data interpretation and reprocessing activity continued during the quarter.

Romania

The permitting process for the second half of the EX-1 block 3D seismic program and for the EX-5 3D seismic survey continued to be suspended due to Covid-19 restrictions.

HSE

There were no reportable high-potential HSE incidents during Q1 2021.

Operational overview

Q1 2021	Sales mmcfe/d	Number of producing wells
Koros	12	20
Ujleta	2	3
Berettyo	2	9

		Jan-21	Febr-21	March- 21
Sales	<i>MMcfe/d</i>	16	15	16
Wells drilled	<i>#</i>	-	-	-

SUMMARY OF 2021 QTR 1 RESULTS

31-Mar-21

	(EUR '000)
Operating profit/(loss)	-1 212
Current Assets	17 387
Current Liabilities	4 738
Net Interest-Bearing debt	75 161
EBITDA (calculated for the last 12 months)	10 058
Current ratio	3.67
Leverage ratio	7.47
Liquidity	5 945

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 Obligors, 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 2021
FINANCIAL
INFORMATION
WITH NOTES

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

		<i>2021.01.01- 2021.03.31</i>	<i>2020.01.01- 2020.03.31</i>	<i>2021Q1</i>	<i>2020Q1</i>
	<i>notes</i>	<i>unaudited</i>	<i>unaudited</i>		
Revenue	2	6 946	9 712	6 946	9 712
Other income		18	96	18	96
Own work capitalised	5	97	135	97	135
Production costs	3	-3 183	-4 795	-3 183	-4 795
<i>-out of which write-off of Producing assets</i>		<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Exploration expenses	4	-11	-928	-11	-928
Impairment	6b	-122	0	-122	0
Employee benefit expenses	5	-815	-1 148	-815	-1 148
Depreciation	6a	-3 057	-3 754	-3 057	-3 754
Other operating expenses	7	-1 085	-791	-1 085	-791
Operating profit		-1 212	-1 473	-1 212	-1 473
Finance income	8	83	245	83	245
Finance expense	8	-2 224	-1 879	-2 224	-1 879
Profit before income tax		-3 353	-3 107	-3 353	-3 107
Income tax expense	9	-161	-274	-161	-274
Profit for the period		-3 514	-3 381	-3 514	-3 381
Other comprehensive income		184	634	184	634
Total comprehensive income		-3 330	-2 747	-3 330	-2 747

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

		2021.03.31	2020.12.31
Non Current Assets	notes	unaudited	unaudited
Exploration rights	10	7 523	7 639
Exploration and Evaluation Assets	11	24 107	24 444
Assets in Development	12	8 003	6 883
Producing Assets	13	88 727	91 437
Other property, plant and equipment	14	1 901	1 870
Goodwill	15	7 529	7 529
Other intangible assets		56	40
Deferred tax assets		1 449	1 450
Other financial assets	16, 24	1 402	1 346
Total non-current assets		140 697	142 638
Current assets			
Inventories	17	5 468	5 448
Trade and other receivables		5 104	4 921
Income tax receivable		870	606
Derivative financial assets		0	0
Cash and short-term deposits	18	5 945	5 804
Total current assets		17 387	16 779
Total assets	-	158 084	159 417
Equity and liabilities			
	notes	2021.03.31	2020.12.31
		unaudited	unaudited
Share capital	19	234	234
Share premium	20	194 163	194 163
Retained earnings		-139 249	-135 735
Cash-flow hedge reserve		0	0
Translation difference		10 949	10 765
Total equity		66 097	69 427
Non-current liabilities			
Interest-bearing loans and borrowings	21	81 442	79 361
Deferred tax liabilities		0	0
Provisions	22	5 807	5 807
Total non-current liabilities		87 249	85 168
Current liabilities			
Trade and other payables	23	2 214	2 545
Income tax payable		186	138
Taxes and mining royalties payable		1 457	1 327
Interest-bearing loans and borrowings	21	403	322
Provisions	22	478	490
Total current liabilities		4 738	4 822
Total liabilities		91 987	89 990
Total equity and liabilities	-	158 084	159 417

Consolidated Statement of Cash Flows

(In EUR '000)	<i>notes</i>	2021.01.01- 2021.03.31	2020.01.01- 2020.03.31	2021Q1	2020Q1
		<i>unaudited</i>	<i>unaudited</i>		
Profit before income tax from operations		-3 353	-3 107	-3 353	-3 107
Adjustments to reconcile profit before tax to net cash flows:					
Depreciation, depletion and amortisation		3 057	3 754	3 057	3 754
Write off of oil and gas properties		0	0	0	0
Impairment of oil and gas properties		0	0	0	0
Write off of exploration and evaluation assets		0	776	0	776
Impairment of exploration and evaluation assets		0	0	0	0
Impairment of other assets		122	0	122	0
Unwinding of discount on decommissioning		0	31	0	31
Utilisation of decommissioning provision		0	0	0	0
Interest expenses and incomes		2 009	1 695	2 009	1 695
FX effects		2	2	2	2
Other non-cash items		-3	5	-3	5
Working capital adjustments:					
Change in trade and other receivables		-191	1 303	-191	1 303
Change in inventories		-21	114	-21	114
Change in trade and other payables		-142	-5 926	-142	-5 926
Income tax paid		-376	-404	-376	-404
Net cash flows from operating activities	-	1 104	-1 758	1 104	-1 758
Cash flows from investing activities					
Expenditures on E&E and oil&gas assets		-877	-4 163	-877	-4 163
Expenditure on other PPE		-2	-2	-2	-2
Expenditure on exploration rights		0	0	0	0
Expenditure on other intangible assets		-1	0	-1	0
Restricted cash decrease (increase)		-61	-1 571	-61	-1 571
Loans granted	24	-59	-173	-59	-173
Net cash used in investing activities		-999	-5 909	-999	-5 909
Cash flows from financing activities					
Proceeds from issuance of shares		0	-95	0	-95
Proceeds from loans and borrowings		0	-808	0	-808
<i>Payments of loan and borrowings</i>		-105	-119	-105	-119
Interest paid		-1	-9	-1	-9
Net cash (used in) from financing activities		-106	-1 031	-106	-1 031
Increase/(Decrease) in cash		-1	-8 698	-1	-8 698
Translation difference		142	88	142	88
Cash and cash equivalents, beginning of period		5 804	13 612	5 804	13 612
Cash and cash equivalents, end of period		5 945	5 002	5 945	5 002

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 quarter ended on 31 March 2021 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 of the Company has looked at a variety of factors to assist in evaluating the Group's sustainability and its ability to manage obligations due within 12 months from the date of this report (the "Period").

Based on the analysis, the Company has determined that there are material uncertainties about the Company and the Group's ability to continue as a going concern. These uncertainties arise, inter alia, from the volatility of hydrocarbon prices, potential impacts of the ongoing Covid-19 pandemic and the effect this may have on hydrocarbon prices as well as any measures various Governments may take in the current situation, the potential decline in the Group's production, the potential change-of-control (a potential change in the ownership of the Company's shares) as a result of the Company's ongoing strategic review process, the mandatory work-program related investment commitments in the countries where the Group operates, and the requirement of maintaining covenants and ultimately servicing and repaying the 9.00 per cent. Senior Secured 70,000,000 Callable Bond Issue 2018/2022.

The Company has examined these factors in detail and has developed a plan (the "Plan") to mitigate the uncertainty about the going concern nature of the Group.

The Plan consists of continuing to manage costs, production and capital investments so that, based on current reasonable estimates for future hydrocarbon prices, the Company and the Group has sufficient cash flow over the Period to meet its obligations, assuming that (i) the Company reaches an accommodation with the holders of the 9.00 per cent. Senior Secured 70,000,000 Callable Bond Issue 2018/2022 ("Bonds") so that the Company is not burdened by covenants, interest payments during the Period or repayment at current April 2022 maturity (most likely through a change of control as a result of the ongoing strategic review process or a comprehensive debt restructuring), and (ii) a satisfactory deferment of the Group's mandatory work-program related investment commitments in Hungary and Romania until some point after the Period.

Given the Company's ongoing strategic review process and ongoing dialogue with its various stakeholders, the Company is of the opinion that it is reasonable to believe that (a) the 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 over the Period.

However, the Company recognizes the inherent uncertainty in the Company's future outlook given the various sources of uncertainty detailed above, as well as the inherent risks in the Company's business

and the fact that a long-term accommodation with the holders of the 9.00 per cent. Senior Secured 70,000,000 Callable Bond Issue 2018/2022 have not yet been agreed. As such, the Company recognizes that a number of drivers, many of which are outside of the Company's control, can lead to downside outcomes, which collectively 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 may hedge 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 2021.

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.

There were no write-off costs booked under exploration expenses in Q1 2021.

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.

Compared to Q1 2020 depreciation charges in Q1 2021 were 19% lower due to lower 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.

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, impairment losses recognized on financial assets and modification loss on borrowings.

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.

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. At the end of December, 2020 the Company received 19 new and 3 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. 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.

Further to the 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 funds on the Debt Service Retention Account were released to the Company in May 2020 after which the Debt Service Reserve Account has been closed.

	31-Mar-21	31-Dec-20
	(EUR 000s)	(EUR 000s)
Other financial assets (escrowed account)	17	22
Debt Service Reserve Account (escrowed account)	0	0
Collaterals in Hungary (escrowed accounts)	1 385	1 323
Carry Financing / Panfora Oil & Gas srl.	0	0
Total	1 402	1 346

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. Pursuant to the second amended and restated bond terms for the Bond Issue (the "Bond Terms") the Bondholders, in respect of the period from October 2019 to April 2021 shall receive the accruing interest as payment-in-kind interest ("PIK Interest") through the issuance of additional Bonds. The Bond is repayable in full at maturity.

Current liabilities

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. Company booked impairment on this receivable in its 2020 and 2021QTR1 accounts.

Contingent liabilities

Further to the requirements set by the Hungarian Mining Law, OGDC. 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 2,764,722 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, further to the latest COVID related actions taken by the Hungarian Government, November 2023 for Tiszafured and Korosladany and by November 2024 for Bekescsaba.

The estimated cost as of 31 March 2021 of the total compulsory work program under the various concession agreements signed with the Hungarian government could be up to EUR 25.81 million over the duration of the concessions.

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 Oil & Gas SRL ("Panfora"). SHPR and Panfora are jointly and severally liable towards the Romanian government for the work program obligations which could be up to EUR 39.7 million in total at the end of Q1 2021 (total commitment of both parties to which joint and several liability applies). The pro-rated share of SHPR for the work program obligations could be up to EUR 29.7 million in total at the end Q1 2021.

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

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