

Sand Hill Petroleum B.V.
Annual report for the year 2016
Amsterdam, the Netherlands

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

Sand Hill Petroleum B.V., Amsterdam Annual Report for the year 2016

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1 Report of the Supervisory Board

The Supervisory Board hereby presents to the shareholders the Annual Report in name of Sand Hill Petroleum B.V. (hereinafter: the "Company") for the year 2016 as prepared by the Management Board.

In conformity with article 20.3 of the articles of association in name of the Company the Annual Report for the year 2016 has been audited by Ernst & Young Accountants LLP. Their report has been included in the section 'Other information'.

The Supervisory Board proposes:

- In conformity with article 20.4 of the articles of association in name of the Company for the general meeting of shareholders to adopt the Annual Report for the year 2016;
- In conformity with article 22.1 of the articles of association in name of the Company to add the result for the year 2016 to the accumulated deficit.

Amsterdam, May 12, 2017

Supervisory Directors,

D.M. LeClair

S.W.C. Evers

P. Bratt

M.P. Fossum

Sir R.L. Olver

J.E. Golden

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2 Directors' report

Management herewith presents to the shareholders the Annual Report in name of the Company for the financial year ended December 31, 2016. The consolidated financial statements include the financial data of the Company and its wholly owned subsidiaries (jointly referred to as the "Group").

General

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

Overview of activities

On December 1, 2015, the Company resolved to issue 999,999 cumulative preference shares in the capital of the Company, numbered CP 10,860,403 up to and including CP 11,860,401, each with a nominal value of USD 0.01, at a subscription price of USD 10 per share. On January 7, 2016, the Company issued these 999,999 cumulative preference shares.

On January 27, 2016, the Company resolved to increase the share capital of O&G Development Kft. ("O&GD") by USD 35.32 (HUF 10,000) and to provide USD 5,000,000 to O&GD's capital reserve. On January 28, 2016, the Company paid these amounts to O&GD.

On February 8, 2016, the Company resolved to increase the share capital of Sand Hill Petroleum Romania S.r.l. ("SHPR") by USD 250,000. On February 12, 2016, the Company paid this amount to SHPR.

On February 18, 2016, the Company resolved to increase the share capital of O&GD by USD 35.89 (HUF 10,000) and to provide USD 4,000,000 to O&GD's capital reserve. On February 24, 2016, the Company paid these amounts to O&GD.

On April 20, 2016, the Company resolved to disburse a loan in the amount of up to USD 1,500,000 to O&GD under the loan agreement dated December 28, 2015. These funds were paid in three installments, USD 1,000,000 on April 22, 2016, USD 400,000 on May 11, 2016 and USD 100,000 on May 27, 2016.

On April 26, 2016, the Company resolved to issue 499,997 cumulative preference shares in the capital of the Company, numbered CP 11,860,402 up to and including CP 12,360,398, each with a nominal value of USD 0.01, at a subscription price of USD 10 per share. On May 27, 2016 the Company issued these 499,997 cumulative preference shares.

On May 31, 2016, the Company resolved to increase the share capital of O&GD by USD 35.96 (HUF 10,000) and to provide USD 4,500,000 to O&GD's capital reserve. On June 1, 2016, the Company paid these amounts to O&GD.

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Overview of activities (continued)

On June 22, 2016, the Company received an amount of USD 199,972 from O&GD as a partial loan repayment.

On May 31, 2016, the Company resolved to issue 2,314,902 cumulative preference shares in the capital of the Company, numbered CP 12,360,399 up to and including CP 14,675,300, each with a nominal value of USD 0.01, at a subscription price of USD 10 per share. On June 29, 2016 the Company issued these 2,314,902 cumulative preference shares.

On June 30, 2016, the Company resolved to increase the share capital of O&GD by USD 35.63 (HUF 10,000) and to provide USD 23,000,000 to O&GD's capital reserve. On July 1, 2016, the Company paid these amounts to O&GD.

On July 13, 2016, the Company received an amount of USD 199,972 from O&GD as a partial loan repayment.

On July 25, 2016, the Company received an amount of USD 250,000 from O&GD as a partial loan repayment.

On July 25, 2016, the Company resolved to increase the share capital of SHPR by USD 150,000. On July 26, 2016, the Company paid this amount to SHPR.

On August 4, 2016, the Company received an amount of USD 200,000 from O&GD as a partial loan repayment.

On September 9, 2016, the Company received an amount of USD 150,000 from O&GD as a partial loan repayment.

On September 19, 2016, the Company received an amount of USD 5,000,000 from WP XI Holdings B.V. as a loan.

On September 22, 2016, the Company resolved to increase the share capital of SHPR by USD 250,000. On September 26, 2016, the Company paid this amount to SHPR.

On September 20, 2016, the Company resolved to increase the share capital of O&GD by USD 36.71 (HUF 10,000) and to provide USD 4,500,000 to O&GD's capital reserve. On September 20, 2016, the Company paid these amounts to O&GD.

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Overview of activities (continued)

On October 12, 2016, the Company resolved to issue 1,770,000 cumulative preference 2 shares in the capital of the Company, numbered CP2 1 up to and including CP2 1,770,000, each with a nominal value of USD 0.01, at a subscription price of USD 10 per share, 43 cumulative preference 1 shares in the capital of the Company, numbered CP1 14,675,301 up to and including CP1 14,675,343, each with a nominal value of USD 0.01, at a subscription price of USD 10 per share, 1,730,920 A2 shares in the capital of the Company, numbered A2 1 up to and including A2 1,730,920, each with a nominal value of USD 0.01, at a subscription price of USD 0.15 per share and 128,632 B2 shares in the capital of the Company, numbered B2 1 up to and including B2 128,632, each with a nominal value of USD 0.01, at a subscription price of USD 0.15 per share. On October 21, 2016 the Company issued these 1,770,000 cumulative preference 2 shares, 43 cumulative preference 1 shares, 1,730,920 A2 shares and 128,632 B2 shares.

On October 21, 2016, the outstanding loan in the amount of USD 5,000,000 between the Company and its majority shareholder WP XI Holdings B.V. was settled by setting it off against the payment obligation by WP XI Holdings B.V. in relation to the capital call.

On October 12, 2016, the Company resolved to disburse a loan in the amount of up to USD 7,000,000 to O&GD under the loan agreement dated December 28, 2015. These funds were paid on October 24, 2016.

On November 17, 2016, the Company resolved to increase the share capital of SHPR by USD 500,000. On November 22, 2016, the Company paid this amount to SHPR.

Results

The net asset value of the Company as at December 31, 2016 amounts to USD 109,635,816 (December 31, 2015: USD 70,885,135). The result for the year 2016 amounts to a loss of USD 16,429,839 (previous year: a loss of USD 16,272,192).

Liquidity and capital resources

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

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Financial risk management

The Company is exposed to the following key risks:

Credit risk:

Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due. The Company's primary exposure to credit risk as at the reporting date is the carrying value of the receivables and prepayments and the cash and cash equivalents.

Liquidity risk:

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its obligations when they are due or will have to do so at excessive cost. The Company regularly reviews the level of liquidity to ensure that it always has sufficient cash to meet its liabilities when due.

Market risk:

Market risk is defined as the potential loss in value or earnings of the organization arising from changes in external market factors such as interest rates (interest rate risk), foreign exchange rates (foreign exchange risk), commodities and equities. The applicability of these risks is outlined below:

(a) Interest rate risk

Interest rate risk arises where the Company's financial assets and liabilities have interest rates set under different bases or reset at different times. The Company is not subject to interest rate risk.

(b) Foreign Exchange risk

The Company's major transactions are in US Dollars, which is also the reporting and functional currency. Through its subsidiary, the Company's principal operations are in Hungary and Romania, therefore the Company has an exposure to foreign exchange risks towards the Hungarian Forint (HUF), the Romanian Lei (RON) and EUR.

Research and development

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

Staff numbers and employment costs

The Group has 62 employees and hence incurred wages, salaries and related social security charges during the reporting period (previous year: 30 employees).

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Future outlook

No material change in activities is contemplated for the coming year. It is expected that the result will be in line with that of the reporting period. Furthermore management has no current plans which would have a significant influence on expectations concerning future activities, investments, financing, staffing and profitability.

Post-balance sheet events

On January 6, 2017, the Company resolved to increase the share capital of SHPR by USD 1,500,000. On January 11, 2017, the Company paid this amount to SHPR.

On December 13, 2016, the Company resolved to disburse a loan in the amount of up to USD 1,500,000 to O&GD under the loan agreement dated December 28, 2015. On January 13, 2017, the Company paid an amount of USD 1,000,000 to O&GD.

On January 25, 2017, the Company resolved to issue 25,000 class B1 shares in the capital of the Company, numbered B1 351,001 up to and including B1 376,000, each with a nominal value of USD 0.01, at subscription price of USD 1 per share and 8,055 cumulative preference 1 shares in the capital of the Company, numbered CP1 14,675,344 up to and including CP1 14,683,398, each with a nominal value of USD 0.01, at a subscription price of USD 10 per share. On February 14, 2017, the Company issued these 25,000 class B1 shares and 8,055 cumulative preference 1 shares.

On January 27, 2017, the Company resolved to issue 1,149,998 cumulative preference 2 shares in the capital of the Company, numbered CP2 1,770,001 up to and including CP2 2,919,998, each with a nominal value of USD 0.01, at a subscription price of USD 10 per share. On February 24, 2017, the Company issued these 1,149,998 cumulative preference 2 shares.

On February 15, 2017, the Company resolved to disburse a loan in the amount of up to USD 1,000,000 to O&GD under the loan agreement dated December 28, 2015. These funds were paid on February 20, 2017.

On March 2, 2017, the Company resolved to disburse a loan in the amount of up to USD 600,000 to Sand Hill Petroleum Romania S.r.l. under the loan agreement dated November 11, 2016. These funds were paid on March 3, 2017.

On December 16, 2016, the Company resolved to increase the share capital of O&GD by USD 34.79 (HUF 10,000) and to provide USD 6,000,000 to O&GD's capital reserve. On March 6, 2017, the Company paid these amounts to O&GD.

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Post-balance sheet events (continued)

On March 14, 2017, the Company resolved to issue 15,000 class B1 shares in the capital of the Company, numbered B1 376,001 up to and including B1 391,000, each with a nominal value of USD 0.01, at subscription price of USD 1 per share and 4,833 cumulative preference 1 shares in the capital of the Company, numbered CP1 14,683,399 up to and including CP1 14,688,231, each with a nominal value of USD 0.01, at a subscription price of USD 10 per share. On May 2, 2017, the Company issued these 15,000 class B1 shares and 4,833 cumulative preference 1 shares.

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

Amsterdam, May 12, 2017

Managing Directors

T. Lederer

G.F.X.M. Nieuwenhuizen

Intertrust (Netherlands) B.V.

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3 Financial statements (consolidated)

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3.1 Consolidated balance sheet as at December 31, 2016 (before the proposed appropriation of the result)

	<i>Notes</i>	December 31, 2016		December 31, 2015	
		USD	USD	USD	USD
ASSETS					
Financial fixed assets	3.4.1				
Intangible fixed assets		41,715,928		32,975,713	
Tangible fixed assets		53,474,047		26,255,245	
			95,189,975		59,230,958
Current assets	3.4.2				
Prepaid expenses and other receivables		3,608,858		3,084,324	
Inventory		2,526,491		-	
Cash and cash equivalents		15,752,796		15,652,482	
			21,888,145		18,736,816
			117,078,120		77,967,774
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	3.4.3				
Share capital		212,283		137,839	
Share premium		167,444,113		111,390,215	
Translation reserve		864,728		2,480,012	
Accumulated deficit		(43,102,931)		(26,830,739)	
Unappropriated result		(16,429,839)		(16,272,192)	
			108,988,354		70,885,135
Non-current liabilities	3.4.4				
Provisions			2,863,387		1,017,389
Current liabilities	3.4.5				
Accrued expenses and other liabilities			5,226,379		6,065,250
			117,078,120		76,950,385

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3.2 Consolidated profit and loss account for the year 2016

	<u>Note</u>	<u>2016</u>		<u>2015</u>	
		USD	USD	USD	USD
Operating income					
Net revenue			15,107,355		1,436,552
Operating expenses					
General and administrative expenses	3.4.6		(14,117,884)		(9,171,524)
Operating result			<u>989,471</u>		<u>(7,734,972)</u>
Financial income and expenses					
Interest income		33,223		230,840	
Amortization expense		(647,458)		-	
Other income/expense		(893,920)		93,659	
Currency exchange rate differences		(860,478)		(4,828,100)	
Impairment fixed assets		(6,480,669)		1,894,687	
Write off Seismic data		-		(26,256)	
Write off wells		(8,570,008)		(5,804,060)	
			<u>(17,419,310)</u>		<u>(8,537,220)</u>
Result before taxation			<u>(16,429,839)</u>		<u>(16,272,192)</u>
Corporate income tax			-		-
Net result	3.4.7		<u>(16,429,839)</u>		<u>(16,272,192)</u>

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3.3 General notes to the consolidated financial statements

3.3.1 General information

Sand Hill Petroleum B.V. (the "Company") has been incorporated as a private company with limited liability under the laws of the Netherlands on September 13, 2012. The registered office of the Company is in Amsterdam, the Netherlands. The Company is registered at the trade register of the Dutch Chamber of Commerce under number 56038038.

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

3.3.2 Group structure

The Company is a subsidiary of WP XI Holdings B.V., which is incorporated and domiciled in the Netherlands, and which directly holds 96.95% (2015: 96.5%) of the Company's shares. The remaining shares are held by private individuals.

3.3.3 Accounting policies

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

Basis of preparation

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

The Company qualifies as a small sized company. Therefore, based on article 396 Book 2 of the Dutch Civil Code, exemptions apply to the figures, presentation and disclosures in the Company's financial statements.

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

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

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3.3.3 Accounting policies (continued)

Basis of preparation (continued)

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

Foreign subsidiaries qualify as independent foreign units. For the translation of the financial statements of these foreign entities, the balance sheet items are translated at the exchange rate at balance sheet date. The profit and loss account items at the average exchange rate over the year. The translation differences that arise are directly deducted from or added to the shareholders' equity.

Subsidiaries are consolidated from the date on which control is obtained until the date that such control ceases, based on the purchase accounting method. All inter-company balances and transactions, including unrealized profits arising from such transactions, are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In order to prepare the consolidated financial statements, management has to make estimates and judgments. The matter described below are considered to be the most important in understanding the judgments that are involved in preparing these statements and the uncertainties that could impact the amounts reported in the results of operations, financial condition and cash flow.

Estimation of proved oil and gas reserves

Unit-of-production depreciation, depletion and amortization charges are principally measured based on the Reserve Auditor's estimates of proved developed oil and gas reserves. Also, exploration drilling costs are capitalized pending the results of further exploration and appraisal activity, which may take several years to complete and before any related proved reserves can be booked.

Proved reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of proved reserves are inherently imprecise, require the application of judgment and are subject to regular revision, either upward or downward, based on new information as such from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans.

Changes to estimates of proved developed reserves affect prospectively the amounts of depreciation, depletion and amortization about the carrying amounts of exploration and production assets.

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3.3.3 Accounting policies (continued)

Comparison previous year

The accounting principles remain unchanged compared to the previous year.

Income recognition

Dividends from subsidiaries entities are recorded as income when received and are stated gross of applicable withholding taxes. Other income and expenses, including taxation, are recognized and reported on accrual basis.

Foreign currencies

Other assets and liabilities in foreign currencies are translated into US dollars at their exchange rates prevailing on the balance sheet date. Transactions in foreign currencies are translated into US dollars at the exchange rate in effect at the time of the transactions. The resulting currency exchange rate differences are taken to the profit and loss account.

The Company's major transactions are in US dollars, which is also the reporting and functional currency.

The exchange rates used in the annual accounts are:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
1 USD = EUR (Euro)	0.948677	0.918527
1 USD = HUF (Hungarian Forint)	293.928	290.236
1 USD = RON (Romanian New Lei)	4.30604	4.15541
1 USD = GBP (British Pound)	0.812238	0.674153

Financial instruments

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

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3.3.3 Accounting policies (continued)

Intangible fixed assets

Licenses

Licenses that have a finite useful life are carried at cost less accumulated amortization and impairment losses. Amortization is calculated using the straight-line method to allocate the cost of the assets over their estimated useful lives.

Seismic data

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

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

Accounting of the capitalized value as part of Intangible assets shall be performed based on the analysis prepared and approved by the Company's geologic and seismic experts. Any impairment or diminution in value will be taken into a revaluation reserve.

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3.3.3 Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets shall only include assets that serve the Company for a period of more than one year. Tangible fixed assets shall be entered into the balance sheet at purchase price, decreased by depreciation and impairment loss, or increased by value adjustment.

Items included in the purchase price shall be accounted for at the time of purchase, but no later than the time when the asset is installed, at the value invoiced or charged. If the invoice was not received by the date of the installation of asset, or the price payable was not determined by the relevant authority, the value of the asset shall be determined based on available contracts or legislation and corrected accordingly once the specific value is available.

Residual value shall be the value of the asset – determined at taking the asset into use for its intended purpose based on available information and depending on its useful life – that the asset is expected to be sold at the end of its useful life cycle.

It is possible to appreciate (adjust the value) of a tangible asset based on market evaluations. Such appreciations and valuation reserves are to be recorded separately. Valuation reserves shall not be used to replenish other elements of the equity capital. Valuation shall be carried out each year and the required new adjustments shall be entered in the books. It must be ensured that value adjustment is indeed carried out based on market value, and as such, value adjustment may only be entered in the books based on an auditor's opinion, expert statement or publicly accessible resources (such as trade publications).

Raw materials, office equipment and inventories

Raw materials, office equipment and inventories are stated at cost or net realizable value, whichever is lower. Cost comprises direct purchase costs (including transportation), cost of production and manufacturing and taxes.

Investment projects

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

- If the information obtained during drilling can be used during the drilling of another well, the costs incurred should be capitalized in the gross cost of that new well.
- In other cases the Company shall account for these investment costs as extraordinary depreciation.

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3.3.3 Accounting policies (continued)

Depreciation

The Company mainly employs linear depreciation of tangible assets based on gross value in calculating the ordinary depreciation of tangible assets, with the exception of wells and pipelines, in the case of which depreciation is assessed according to current net value based on performance.

The Company shall not account for depreciation of assets the value of which is not decreased by usage.

Depreciation may be changed by the Company if significant changes occur in the circumstances considered at the assessment of the asset's depreciation. This may lead to a significant change in gross value, useful life or residual value.

Linear depreciation rates based on gross value are the following:

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

Further ordinary depreciation may not be accounted for if the asset's net value has reached its residual value.

3.3.4 Corporate income tax

Provisions for taxation have been made in accordance with the standard Dutch corporate income tax law.

3.3.5 Provisions

Provisions are recognized at the balance sheet date at management's best estimate of the expenditure required to settle the present obligation. The carrying amounts of provisions are regularly reviewed and adjusted for new facts of changes in law or technology.

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

3.4.1 Financial fixed assets

	Intangible fixed assets	
	December 31, 2016	December 31, 2015
	USD	USD
Licenses	18,041,360	13,567,987
Seismic data	23,674,568	19,407,726
	<u>41,715,928</u>	<u>32,975,713</u>

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

O&GD Central Kft. has one exploration license (Koros Exploration License) which will expire on October 1, 2017 but extendable for another two years. In addition, the company also owns 13 mining plots (production licenses) and one gas processing and stabilization plant. If production starts on a mining plot (Ormenyes I, Mezotur V, Turkeve III, Turkeve IV, Deva II, Deva III, Endrod II and Ecsegfalva II), the permit will be in force until the production is terminated. Production has not started on the Tiszakecske I, Szolnok VI and Szolnok V mining plots. These permits have been received in 2010 and are valid for 5 years but may be extended for a further 5, 4 and 3 years respectively. The agreements have been extended. O&GD Central Kft. has 6 concession rights (held indirectly through Companies) for exploration and production on Nadudvar, Ujleta, Berettyoujfalu, Mogyorod, Nagykata, and Ocsa blocks.

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

Seismic data

The Company capitalizes certain seismic expenses, which include costs and expenses of geological and geophysical measurements that the Company carried out on the areas under examination.

	Tangible fixed assets	
	December 31, 2016	December 31, 2015
	USD	USD
Asset under construction	17,021,502	16,870,634
Investment projects	34,569,834	5,965,896
Office equipment and other inventories	1,882,711	3,418,715
	<u>53,474,047</u>	<u>26,255,245</u>

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3.4.2 Current assets

Prepaid expenses and other receivables

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	USD	USD
Receivables	3,282,896	2,804,968
Prepaid expenses	325,851	234,643
Office deposit	211	44,713
	<u>3,608,858</u>	<u>3,084,324</u>

Cash and cash equivalents

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	USD	USD
Bank accounts	11,252,796	11,868,602
Deposit	4,500,000	3,783,890
	<u>15,752,796</u>	<u>15,652,492</u>

Inventory

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	USD	USD
Inventories	2,526,491	-
	<u>2,526,491</u>	<u>-</u>

3.4.3 Shareholders' equity

The shares are denominated into class A1 shares, class B1 shares, cumulative preference 1 shares, class A2 shares, class B2 shares, and cumulative preference 2 shares. The par value of each class A1 share, class B1 share, cumulative preference 1 shares, class A2 shares, class B2 shares and cumulative preference 2 shares respectively amounts to one United States dollar cent (USD 0.01).

As per balance sheet date, issued and paid-up are 2,572,500 class A1 shares, 351,000 class B1 shares, 14,675,343 cumulative preference 1 shares, 1,730,920 class A2 shares, 128,632 B2 shares and 1,770,000 cumulative preference 2 shares.

During this financial year, the Company made the following capital calls whereupon the participating parties subscribed for a number of cumulative preference shares, and cumulative preference 2 shares at a subscription price of ten United States dollars (USD 10) each and a number of A2 shares, and B2 shares at a subscription price of fifteen United States dollar cents (USD 0.15) each.

Issue date	Number of shares	Price USD	Amount USD	Allocated to share capital USD	Allocated to share premium USD
January 7, 2016	999,999	10	9,999,990	9,999	9,989,991
May 30, 2016	499,997	10	4,999,970	5,000	4,994,970
June 29, 2016	2,314,902	10	23,149,020	23,149	23,125,871
October 21, 2016	1,770,043	10	17,700,430	17,700	17,682,730
October 21, 2016	<u>1,859,552</u>	<u>0.15</u>	<u>278,933</u>	<u>18,596</u>	<u>260,337</u>
	<u>7,444,493</u>		<u>56,128,342</u>	<u>74,444</u>	<u>56,053,898</u>

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3.4.3 Shareholders' equity (continued)

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

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

	Share capital	Share premium	Translation reserve	Accumulated deficit	Unappropriated result
	USD	USD	USD	USD	USD
Balance at 1-1-2015	95,177	68,878,477	5,278,886	(6,009,765)	(20,820,974)
Paid in / (repaid)	42,662	42,511,738	-	-	-
Mutations	-	-	(5,278,886)	(20,820,974)	20,820,974
Exchange rate difference	-	-	2,275,842	-	-
Result for the year	-	-	-	-	(16,272,192)
Balance at 1-1-2016	<u>137,839</u>	<u>111,390,215</u>	<u>2,275,842</u>	<u>(26,830,739)</u>	<u>(16,272,192)</u>
Paid in / (repaid)	74,444	56,053,898	-	-	-
Mutations	-	-	(2,275,842)	(16,272,192)	16,272,192
Exchange rate difference	-	-	864,728	-	-
Result for the year	-	-	-	-	(16,429,839)
	<u>212,283</u>	<u>167,444,113</u>	<u>864,728</u>	<u>(43,102,931)</u>	<u>(16,429,839)</u>

The share capital is divided in:

	December 31, 2016	December 31, 2015
	USD	USD
Cumulative preference 1 shares	148,753	108,604
Cumulative preference 2 shares	17,700	-
Class A1 Shares	25,725	25,725
Class B1 Shares	3,510	3,510
Class A2 Shares	17,309	-
Class B2 Shares	1,286	-
	<u>212,283</u>	<u>137,839</u>

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3.4.3 Shareholders' equity (continued)

The share premium is divided in:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	USD	USD
Share premium reserve on cumulative preference 1 shares	146,606,677	108,495,416
Share premium reserve on cumulative preference 2 shares	17,682,300	
Share premium reserve A1	2,546,775	2,546,775
Share premium reserve B1	348,024	348,024
Share premium reserve A2	242,329	-
Share premium reserve B2	18,008	-
	<u>167,444,113</u>	<u>111,390,215</u>

Translation reserve

Exchange differences arising from the translation of the net investment in foreign entities that are valued at net asset value and of borrowings and other currency instruments designed as hedges of such investments, are recorded directly as currency translation differences within shareholders' equity.

3.4.4 Non-current liabilities

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	USD	USD
Provisions for field abandonment costs	2,863,387	1,017,389
	<u>2,863,387</u>	<u>1,017,389</u>

3.4.5 Current liabilities

Accrued expenses and other liabilities

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	USD	USD
Accrued expenses	1,246,580	1,008,400
Accounts payable	3,683,074	4,792,748
Wages and wage tax	296,725	199,554
Prepayments (capital call)	-	64,550
	<u>5,226,379</u>	<u>6,065,250</u>

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3.4.6 Operating expenses

General and administrative expenses

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	USD	USD
Salaries and payroll related contributions	2,393,895	1,579,602
Legal advice and consultancy fees	3,277,402	4,157,071
Other advisory fees	449,208	448,744
Management fees	478,562	467,453
Travel and hotel	598,847	328,698
Depreciation	5,468,187	926,374
Insurance	40,825	65,362
Office rent	135,188	116,349
Bank charges	73,613	78,444
Business development expenses	-	188,950
Other expenses	1,201,157	814,477
	<u>14,117,884</u>	<u>9,171,524</u>

Commitments and contingencies

Further to the requirements set by the Hungarian Mining Law, O&G Development Kft., as direct owner of OGD Central Kft., and indirect owner of OGD Nadudvar Kft., OGD Ujleta Kft., OGD Berettyoujfalu Kft., OGD Mogyorod Kft., OGD Nagykata Kft., OGD Ocsa Kft., has put up a HUF 1 billion bank guarantee (USD 3,488,818 as per balance sheet date) to secure certain obligations under the exploration licenses granted by the Hungarian Mining Authority.

Staff number and employment costs

The Group has 62 employees and hence incurred wages, salaries and related social security charges during the reporting period (previous year: 30 employees).

Directors

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	USD	USD
Managing directors	22,875	18,644
Supervisory directors	268,276	121,423
Wage tax	2,550	1,459
Closing balance	<u>293,701</u>	<u>141,526</u>

3.4.7 Net result

Reference on Net result is made in the notes to the Company balance sheet as of December 31, 2016.

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4 Financial statements (stand-alone)

Sand Hill Petroleum B.V., Amsterdam Annual Report for the year 2016

4.1 Company balance sheet as at December 31, 2016 (before the proposed appropriation of the result)

	<u>Notes</u>	<u>December 31, 2016</u>		<u>December 31, 2015</u>	
		USD	USD	USD	USD
ASSETS					
Financial fixed assets	4.3.2				
Financial fixed assets			102,471,016		72,401,229
Current assets	4.3.3				
Receivables from related parties		2,063,585		1,541,898	
Other receivables		33,901		24,561	
Cash and cash equivalents		4,882,100		1,594,965	
			<u>6,979,586</u>		<u>3,161,224</u>
			<u>109,450,582</u>		<u>75,562,453</u>
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	4.3.4				
Share capital		212,283		137,839	
Share premium		167,444,113		111,390,215	
Translation reserve		796,548		2,275,842	
Accumulated deficit		(38,713,045)		(26,524,100)	
Unappropriated result		<u>(20,751,545)</u>		<u>(12,188,945)</u>	
			108,988,354		75,080,851
Current liabilities	4.3.5				
Accrued expenses and other liabilities			462,228		471,602
			<u>109,450,582</u>		<u>75,562,453</u>

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4.2 Company profit and loss account for the year 2016

	<i>Note</i>	2016		2015	
		<u>USD</u>	<u>USD</u>	<u>USD</u>	<u>USD</u>
Operating expenses and income	4.3.6				
General and administrative expenses		(2,697,673)		(2,350,808)	
Management fee income		<u>48,072</u>		<u>50,510</u>	
			<u>(2,649,601)</u>		<u>(2,300,298)</u>
			<u>(2,649,601)</u>		<u>(2,300,298)</u>
Financial income and expenses					
Interest income		3,485,005		38,347	
Currency exchange rate differences		<u>(4,525)</u>		<u>284</u>	
			<u>3,480,480</u>		<u>38,631</u>
Profit / (loss) of subsidiaries		<u>(21,582,424)</u>		<u>(9,927,278)</u>	
			<u>(21,582,424)</u>		<u>(9,927,278)</u>
Result before taxation			<u>(20,751,545)</u>		<u>(12,188,945)</u>
Corporate Income tax					
Net result	4.3.7		<u>(20,751,545)</u>		<u>(12,188,945)</u>

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

4.3.1 General

The Company financial statements are part of the 2016 consolidated financial statements of Sand Hill Petroleum B.V.

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

Summary of significant accounting principles

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

4.3.2 Financial fixed assets

Investments in group entities are valued according to the equity method on the basis of net asset value. The net asset value is calculated on the basis of the accounting principles of the Company.

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	USD	USD
Interest in group entities	19,088,462	
Loan facility agreement	83,382,554	72,401,229
	<u>102,471,016</u>	<u>72,401,229</u>

Interest in group entities

The Company has direct interests in the following group entities:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	USD	USD
100% (2015: 100%) share in O&G Development Kft., Budapest, Hungary	18,582,912	-
100% (2015: 100%) share in Sand Hill Petroleum Romania S.r.l., Bucharest, Romania	505,550	-
	<u>19,088,462</u>	<u>-</u>

Movements in O&GD can be detailed as follows:

	<u>2016</u>	<u>2015</u>
	USD	USD
Opening balance	-	-
Increase of the share capital	41,000,180	9,000,072
Result on investment	(20,937,974)	(9,377,278)
Mutation translation reserve	(1,479,294)	377,206
Closing balance	<u>18,582,912</u>	<u>-</u>

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4.3.2 Financial fixed assets (continued)

Interest in group entities (continued)

Movements in SHPR can be detailed as follows:

	<u>2016</u>	<u>2015</u>
	USD	USD
Opening balance	-	-
Increase of the share capital	1,150,000	550,000
Result on investment	(644,450)	(305,008)
Provision	-	(244,992)
Closing balance	<u>505,550</u>	<u>-</u>

Loan Facility agreement

On December 28, 2015, the Company entered into a new Loan Facility Agreement with O&G Development Kft. The Company granted an unsecured USD term loan facility of a total principal amount not exceeding USD 322,730,000 subject to the terms, and subject to the conditions, of this facility agreement.

Movements:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	USD	USD
Balance as per January 1	72,401,229	43,164,400
Draw downs	8,500,000	29,200,000
Capitalised interest	3,481,269	36,829
Repayments	(999,944)	-
	<u>83,382,554</u>	<u>72,401,229</u>

On November 11, 2016, the Company entered into a Loan Facility Agreement with Sand Hill Petroleum Romania S.R.L. The Company granted an unsecured USD term loan facility of a total principal amount not exceeding USD 50,000,000 subject to the terms, and subject to the conditions, of this facility agreement. No drawdowns have been made in 2016.

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4.3.3 Current assets

Receivables from related parties:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	USD	USD
O&G Development Kft., Hungary	229,295	474,258
OGD Central Kft., Hungary	27,771	13,406
Sand Hill Petroleum Romania S.r.l., Romania	1,806,498	1,054,034
	<u>2,063,565</u>	<u>1,541,698</u>

Other receivables:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	USD	USD
Rent deposit	211	218
VAT reclaimable	33,690	24,234
Prepayments and other receivables	-	109
	<u>33,901</u>	<u>24,561</u>

Cash and cash equivalents:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	USD	USD
Bank accounts	382,100	1,594,965
Funds in deposit	4,500,000	-
	<u>4,882,100</u>	<u>1,594,965</u>

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4.3.4 Shareholders' equity

The shares are denominated into class A1 shares, class B1 shares, cumulative preference 1 shares, class A2 shares, class B2 shares, and cumulative preference 2 shares. The par value of each class A1 share, class B1 share, cumulative preference 1 shares, class A2 shares, class B2 shares and cumulative preference 2 shares respectively amounts to one United States dollar cent (USD 0.01).

As per balance sheet date, issued and paid-up are 2,572,500 class A1 shares, 351,000 class B1 shares, 14,675,343 cumulative preference 1 shares, 1,730,920 class A2 shares, 128,632 B2 shares and 1,770,000 cumulative preference 2 shares.

During this financial year, the Company made the following capital calls whereupon the participating parties subscribed for a number of cumulative preference shares, and cumulative preference 2 shares at a subscription price of ten United States dollars (USD 10) each and a number of A2 shares, and B2 shares at a subscription price of fifteen United States dollar cents (USD 0.15) each.

Issue date	Number of shares	Price USD	Amount USD	Allocated to share capital USD	Allocated to share premium USD
January 7, 2016	999,999	10	9,999,990	9,999	9,989,991
May 30, 2016	499,997	10	4,999,970	5,000	4,994,970
June 29, 2016	2,314,902	10	23,149,020	23,149	23,125,871
October 21, 2016	1,770,043	10	17,700,430	17,700	17,682,730
October 21, 2016	<u>1,859,552</u>	0.15	<u>278,933</u>	<u>18,596</u>	<u>260,337</u>
	<u>7,444,493</u>		<u>56,128,342</u>	<u>74,444</u>	<u>56,053,898</u>

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

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

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4.3.4 Shareholders' equity (continued)

In the General Meeting held on June 20, 2016 it was resolved to add the balance of the unappropriated result for the year 2015 to the accumulated deficit.

	Share capital	Share premium	Translation reserve	Accumulated deficit	Unappropriated result
	USD	USD	USD	USD	USD
Balance at 1-1-2015	95,177	68,878,477	5,278,886	(6,009,765)	(20,514,335)
Paid in / (repaid)	42,662	42,511,738	-	-	-
Mutations	-	-	(5,278,886)	(20,514,335)	20,514,335
Exchange rate difference	-	-	2,275,842	-	-
Result for the year	-	-	-	-	(12,188,945)
Balance at 1-1-2016	<u>137,839</u>	<u>111,390,215</u>	<u>2,275,842</u>	<u>(26,524,100)</u>	<u>(12,188,945)</u>
Paid in / (repaid)	74,444	56,053,898	-	-	-
Mutations	-	-	(2,275,842)	(12,188,945)	12,188,945
Exchange rate difference	-	-	796,548	-	-
Result for the year	-	-	-	-	(20,751,545)
	<u>212,283</u>	<u>167,444,113</u>	<u>796,548</u>	<u>(38,713,045)</u>	<u>(20,751,545)</u>

The share capital is divided in:

	December 31, 2016	December 31, 2015
	USD	USD
Cumulative preference 1 shares	146,753	108,604
Cumulative preference 2 shares	17,700	-
Class A1 Shares	25,725	25,725
Class B1 Shares	3,510	3,510
Class A2 Shares	17,309	-
Class B2 Shares	1,286	-
	<u>212,283</u>	<u>137,839</u>

The share premium is divided in:

	December 31, 2016	December 31, 2015
	USD	USD
Share premium reserve on cumulative preference 1 shares	146,606,877	108,495,416
Share premium reserve on cumulative preference 2 shares	17,882,900	-
Share premium reserve A1	2,548,775	2,546,775
Share premium reserve B1	348,024	348,024
Share premium reserve A2	242,329	-
Share premium reserve B2	18,008	-
	<u>167,444,113</u>	<u>111,390,215</u>

Translation reserve

Exchange differences arising from the translation of the net investment in foreign entities that are valued at net asset value and of borrowings and other currency instruments designed as hedges of such investments, are recorded directly as currency translation differences within shareholders' equity.

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4.3.4 Shareholders' equity (continued)

Appropriation of result

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

4.3.5 Current liabilities

The current liabilities can be detailed as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	USD	USD
Accounts payable	230,024	65,747
Accrued expenses and other liabilities	232,204	405,855
	<u>462,228</u>	<u>471,602</u>

4.3.6 Operating expenses / Income

General and administrative expenses

The general and administrative expenses can be detailed as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	USD	USD
Legal advice and consultancy fees	2,028,783	1,858,220
Other advisory fees	253,077	233,023
Management fees	293,701	141,528
Travel and hotel	86,905	72,858
Insurance	22,077	25,167
Office rent	1,847	3,758
Bank charges	7,625	6,138
Business development expenses	-	8,314
Other expenses	2,758	1,804
	<u>2,697,673</u>	<u>2,350,808</u>

Management fee income

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	USD	USD
O&G Development Kft., Hungary	10,918	22,584
OGD Central Kft., Hungary	1,322	638
Sand Hill Petroleum Romania S.r.l., Romania	35,832	27,288
	<u>48,072</u>	<u>50,510</u>

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4.3.6 Operating expenses / income (continued)

Commitments and contingencies

On December 28, 2015, the Company entered into a new Loan Facility Agreement with O&GD. The Company granted an unsecured USD term loan facility of a total principal amount not exceeding USD 322,730,000 subject to the terms, and subject to the conditions, of this facility agreement. The remaining loan facility amounts to USD 239,347,446.

On November 11, 2016, the Company entered into a Loan Facility Agreement with SHPR. The Company granted an unsecured USD term loan facility of a total principal amount not exceeding USD 50,000,000 subject to the terms, and subject to the conditions, of this facility agreement. The remaining loan facility amounts to USD 50,000,000.

4.3.7 Net result

The stand-alone net result for the year 2016 differs from the consolidated net result for the year 2016 by USD 4,321,706. This fully relates to a difference that arises due to the eliminations that have been made.

4.3.8 Employees

The group has 62 employees and hence incurred wages, salaries and related social security charges during the reporting period (previous year: 30 employees).

Directors

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	USD	USD
Managing directors	22,875	18,644
Supervisory directors	268,276	121,423
Wage tax	2,550	1,459
Closing balance	<u>293,701</u>	<u>141,526</u>

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4.3.9 Post-balance sheet events

On January 6, 2017, the Company resolved to increase the share capital of SHPR by USD 1,500,000. On January 11, 2017, the Company paid this amount to SHPR.

On December 13, 2016, the Company resolved to disburse a loan in the amount of up to USD 1,500,000 to O&GD under the loan agreement dated December 28, 2015. On January 13, 2017, the Company paid an amount of USD 1,000,000 to O&GD.

On January 25, 2017, the Company resolved to issue 25,000 class B1 shares in the capital of the Company, numbered B1 351,001 up to and including B1 376,000, each with a nominal value of USD 0.01, at subscription price of USD 1 per share and 8,055 cumulative preference 1 shares in the capital of the Company, numbered CP1 14,675,344 up to and including CP1 14,683,398, each with a nominal value of USD 0.01, at a subscription price of USD 10 per share. On February 14, 2017, the Company issued these 25,000 class B1 shares and 8,055 cumulative preference 1 shares.

On January 27, 2017, the Company resolved to issue 1,149,998 cumulative preference 2 shares in the capital of the Company, numbered CP2 1,770,001 up to and including CP2 2,919,998, each with a nominal value of USD 0.01, at a subscription price of USD 10 per share. On February 24, 2017, the Company issued these 1,149,998 cumulative preference 2 shares.

On February 15, 2017, the Company resolved to disburse a loan in the amount of up to USD 1,000,000 to O&GD under the loan agreement dated December 28, 2015. These funds were paid on February 20, 2017.

On March 2, 2017, the Company resolved to disburse a loan in the amount of up to USD 600,000 to SHPR under the loan agreement dated November 11, 2016. These funds were paid on March 3, 2017.

On December 16, 2016, the Company resolved to increase the share capital of O&GD by USD 34.79 (HUF 10,000) and to provide USD 6,000,000 to O&GD's capital reserve. On March 6, 2017, the Company paid these amounts to O&GD.

On March 14, 2017, the Company resolved to issue 15,000 class B1 shares in the capital of the Company, numbered B1 376,001 up to and including B1 391,000, each with a nominal value of USD 0.01, at subscription price of USD 1 per share and 4,833 cumulative preference 1 shares in the capital of the Company, numbered CP1 14,683,399 up to and including CP1 14,688,231, each with a nominal value of USD 0.01, at a subscription price of USD 10 per share. On May 2, 2017, the Company issued these 15,000 class B1 shares and 4,833 cumulative preference 1 shares.

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

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Amsterdam, May 12, 2017

Managing directors,

Supervisory directors,

T. Lederer

D.M. LeClair

G.F.X.M. Nieuwenhuizen

S.W.C. Evers

Intertrust (Netherlands) B.V.

P. Bratt

M.P. Fossum

Sir R.L. Olver

J.E. Golden

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5 Other Information

5.1 Statutory provisions

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

5.2 Independent auditors' report