

Sand Hill Petroleum B.V.

Annual report for the year ended 31 December 2019

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DIRECTOR'S REPORT

for the year ended December 31, 2019

The directors present their annual report in name of Sand Hill Petroleum B.V. for the year ended December 31, 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

Sand Hill Petroleum B.V. ("SHPBV" or "Company") was incorporated in Amsterdam as a private company with limited liability on September 13, 2012, under the laws of the Netherlands. SHPBV acts as a holding and finance company for the purposes of exploration, development and production of oil and gas primarily in the Pannonian Basin in Central and Eastern Europe. SHPBV owns 10 subsidiaries directly and indirectly in Hungary and one subsidiary in Romania, (collectively referred to as "Sand Hill Group" or "Group").

The principal exploration licenses owned by the Company through its subsidiaries and joint operations are:

Holder of License (company name)	Name of license	Size of license area (km ²)	Start of license period	Expiration of exploration period
O&GD Nádudvar Koncessziós Kft. (HU)	Nádudvar	797	2015.08.08	2021.08.08
O&GD Újléta Koncessziós Kft. (HU)	Újléta	790	2015.10.29	2021.10.29
OGD Berettyóújfalu Koncessziós Kft. (HU)	Berettyóújfalu	799	2016.08.21	2020.08.21
OGD Mogyoród Koncessziós Kft. (HU)	Mogyoród	545	2016.10.04	2020.10.04
OGD Nagykáta Koncessziós Kft. (HU)	Nagykáta	551	2016.10.04	2020.10.04
OGD Ócsa Koncessziós Kft. (HU)	Ócsa	600	2016.10.04	2020.10.04
OGD Békéscsaba Koncessziós Kft.	Békéscsaba	1 792	2019.09.14	2023.09.14
OGD Körösladány Koncessziós Kft.	Körösladány	601	2019.09.13	2022.09.13
OGD Tiszafüred Koncessziós Kft.	Tiszafüred	654	2019.09.01	2022.09.01
O&GD Central Kft. (HU)	Kőrös	2 900	2010.11.03	2019.09.30
Sand Hil Petroleum Romania srl.	EX-1 Voivozi	1 014	2015.10.09	2021.10.09
Sand Hil Petroleum Romania srl.	EX-5 Adea	1 090	2015.10.13	2021.10.13

Sand Hill Petroleum Romania S.r.l. has a 70% share in the EX-1 Voivozi Concession block and a 80% share in the EX-5 Adea Concession block since 2017 which are both joint operations.

Hydrocarbons concessions in Hungary are granted for 20 years. The term consist of an exploration period of 4+2 years followed by a production period for the remaining term (extendable by 10 years). The above expiry dates show the expiration dates of the exploration phases.

In Romania, the concession term is 25 years, with the possibility of extension by a maximum of 15 years. The exploration period consists of six years. The above expiry dates show the expiration dates of the exploration phase.

In 2019 production of hydrocarbons took place in O&GD Central Kft., OGD Berettyóújfalu Kft. and OGD Újléta Kft. The principal production licenses owned by the Company through its subsidiaries are:

Holder of License	Mining Plot	Size of license area (km ²)	Start of production license period
O&GD Central Kft. (HU)	Szolnok V.	10,8	2010.08.12
O&GD Central Kft. (HU)	Szolnok VI.	46,5	2010.07.26
O&GD Central Kft. (HU)	Kisújszállás I.	13,9	2010.06.10
O&GD Central Kft. (HU)	Mezőtúr V.	36,5	2010.01.23
O&GD Central Kft. (HU)	Örményes I.	28,5	2010.06.09
O&GD Central Kft. (HU)	Penészlek II.	43,3	2011.04.15
O&GD Central Kft. (HU)	Dévaványa II.	11,8	2008.10.13
O&GD Central Kft. (HU)	Dévaványa III.	4,8	2010.04.13
O&GD Central Kft. (HU)	Ecsegfalva II.	2,9	2014.04.17
O&GD Central Kft. (HU)	Tizsakécske	44,2	2010.06.18
O&GD Central Kft. (HU)	Endrőd II.	8,7	2009.08.22
O&GD Central Kft. (HU)	Túrkeve III.	8,2	2012.10.20
O&GD Central Kft. (HU)	Túrkeve IV.	9,6	2013.02.12

The production of hydrocarbons is supported by pipelines, gathering stations and two gas processing plants in Hungary.

The directors consider the operational performance of the Group to be in line with current expectations and plan that the Group will continue to operate in line with its approved business plan. Revenues for the year ending December 31, 2019 were EUR 54.5 million (2018: EUR 79.3 million). All revenues were generated by the operations in Hungary. The Company's Hungarian subsidiaries have put 1 well into production during 2019.

The average number of employees of the Group in 2019 was 128 (2018: 105). These employees are primarily employed within the operations in Hungary.

In the year 2019, the Group reported an operating loss of EUR 24.5 million (2018: operating profit of EUR 6.5 million). The operating loss is largely attributed to the operations carried out in Hungary.

Finance expenses decreased because preference shares bore interest expense until December 18, 2018 when the Company's corporate documentation was amended and preference shares were reclassified from "Liabilities" to "Equity". The Group incurred a tax expense of EUR 1.8 million during 2019 (2018: EUR 1.2 million), which is mainly the result of movements in deferred tax assets. The Group increased its deferred tax assets in 2018 but reversed part of those assets in 2019.

The Group reported a loss for the year of EUR 33.7 million during 2019 (2018: EUR 25.8 million).

Investments and financing

The Group's total assets decreased to EUR 208.5 million as at December 31, 2019 (2018: EUR 230.8 million). The decrease was caused by a significant decrease in current assets, as there was less cash available at year end and the pre-sales contract between ODGC and MFGK (Hungarian Gas Trading Ltd) expired in 2019. The Group drilled 3 wells during 2019 out of which 2 successfully discovered gas. The Company commissioned the Konyar Gas plant in the North East of Hungary in 2019, which enabled a significant reduction in processing fees paid to third parties.

Net cash flows from operating activities reduced from EUR 29.5 million in 2018 to EUR 15.6 million in 2019 mainly due to the decrease in operating profits. This was due to lower oil and gas prices in 2019 coupled with a drop in production (revenue decreased by 31 % year on year) while expenses not dependant on production volumes did not decrease at the same rate. The Sand Hill Group (primarily the Hungarian operations) decreased its capital expenditure activities by spending EUR 42.9 million on investment activities in 2019, which was 37 % less than in 2018. Operations, Investments and working capital in 2019 were financed through internal cash generation, use of available cash balances, issue of share capital and drawing of a EUR 3 million working capital facility in Hungary.

The Company issued EUR 70 million bonds in April 2018. The terms of the bonds require the Company to use consolidated adjusted EBITDA for complying with certain financial covenants. Total adjusted EBITDA for the Group was EUR 17.5 million (2018: EUR 41.5 million). A reconciliation of the adjusted EBITDA to the Consolidated statement of profit or loss for the year is presented below.

	2019	2018
	€ 000	€ 000
Operating profit/loss (EBIT)	(24 481)	6 502
Depreciation and amortization	20 996	22 373
Write off of exploration and evaluation assets (Note 4.5)	7 073	12 341
Impairment and write off of oil and gas properties (Note 4.5)	12 797	0
Impairment other assets (Note 4.5)	1 117	238
EBITDA	<u>17 502</u>	<u>41 454</u>
Expected credit losses (Note 3.6)	-18	16
Adjusted EBITDA	<u>17 484</u>	<u>41 470</u>

Definition of adjusted EBITDA:

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.

Adoption of IFRS 16 improved adjusted EBITDA by EUR 0.5 million (see Note 5.4). The impact of the IFRS 16 to covenants is improving leverage ratio by 0.1 through the improved adjusted EBITDA. Current ratio and Minimum Liquidity is not affected by the adoption of the new standard.

2P (proven and probable) gas and liquids (condensate & oil) reserves stood at 85 bcfe (billions of cubic feet equivalent) at the end of 2019 (2018: 89.8 bcfe).

Risk management

As an organization operating in a volatile industry and exposed to a high variety of risks, the Company is dedicated to a disciplined approach of risk management, to building an environment in which the economic decisions are risk conscious, in order to effectively respond to new threats and opportunities, to reduce potential future losses and to optimize returns.

Risk management awareness is part of the Company's strategy and a priority for the Group's executive management. To ensure this objective, the Company regularly reviews potential risks the Company may face.

The most important components of the risk management framework include:

- Code of conduct, Anti-Bribery and Anti-Harassment policies and Whistle-blower procedures
- Responsibilities and authorization guidelines for operating and capital expenses, procedures for the evaluation and approval of acquisitions and capital investments
- Transfer pricing guidelines
- Treasury and Information Technology guidelines and procedures
- Insurance procedures
- Budget and reporting procedures whereby monthly results are analyzed, compared to budget and the forecast is revised for the entire year.

At least once a quarter the results of the Company and Sand Hill Group's financial position, the outlook and the risks for each license/subsidiaries are discussed by the Company's Supervisory Board and Management Board together with local management.

This framework attempts to ensure the identification, assessment and control of significant risks within all Group companies and at all levels of the organization so that the financial strength of the Group can be safe guarded and major losses are avoided to the best extent possible.

Risk management measures consist of risk transfer (like hedging strategies or insurance policies), risk reduction, risk retention or if possible risk avoidance.

From a governance perspective, the Company operates under the following terms:

The first line of defense is represented by operational managers who are responsible for maintaining effective internal controls and for executing risk and control procedures on a day-to day basis.

The second line of defense is represented by the senior Management which establishes the internal control and risk management framework, coordinates, monitors and consolidates the information, supports and challenges the first line of defense in the process of risk identification, evaluation and mitigation.

The Group's approach to risk management includes the following steps: review and identification of key risks, risk assessment, establishing risk tolerance, development of risk mitigating measures, monitoring and communication of risk management.

The risk profile is periodically reviewed and approved by the Company's Board.

The treatment of risks focuses on reaching the optimal risk balance between efforts, costs and benefits.

Risk tolerance

In the pursuit of its objectives, the Company is willing to accept, in some circumstances, risks that may result in financial loss or exposure. It will not pursue additional income generating or cost saving initiatives unless returns are probable. The Company does not accept avoidable safety risk exposure that could result in injury or loss of life to the employees, contractors or the public or damage to the environment. Safety considerations drive all major decisions in the organization.

The Company will only tolerate low-to-moderate gross exposure to delivery of operational performance targets including asset conditions, disaster recovery and succession planning, breakdown in information systems or information integrity. The Company seeks to act as a good and respected corporate citizen within the jurisdictions it operates. It will not accept any negative impact on reputation with any of its key stakeholders and will only tolerate minimum exposure.

Risk portfolio

The Directors consider that the principal risks and uncertainties currently faced by the Group should be organized and analyzed from various perspectives. These fall into the following main categories:

a) Risks related to the oil and gas industry

A decline in natural gas prices, unavailability or high cost of factors of production, market conditions or operational impediments may adversely affect the Group.

Hungary and Romania are exposed to the market movements of the European onshore hydrocarbons market. Gas prices in Hungary are typically directionally linked to Dutch and Austrian benchmark market prices and are quoted in EUR, whilst gas prices in Romania are denominated in RON and, at the moment, partly regulated. Oil and other liquid prices are benchmarked to Brent prices. Availability of exploration equipment is exposed to EU wide market movements. The Group uses hedging instruments in order to, to the extent possible, partially protect itself against price risk and ensures the availability of exploration and production equipment through entering into long-term contracts and fixed prices.

These risks are considered as having a high potential impact on overall Group activities and results.

b) Risks related to the Group's business

1. Risks related to maintenance of licenses and regulatory compliance

The Group is committed to fully complying with the laws and regulations of the countries in which it operates. In specific areas the teams of technicians at local levels are responsible for setting detailed internal regulations and ensuring that all employees are aware of and comply with the laws specific and relevant to their roles. The legal and regulatory specialists are regularly involved in monitoring and reviewing the Group practices to provide reasonable assurance that the Group is in line with all relevant laws and legal obligations, to actively monitor proposed changes in legislation, and to ensure these are taken into account into future business plans.

The Group needs to ensure compliance with laws and regulations in areas such as hydrocarbons licenses, product quality, competition, employee health and safety, the environment, corporate governance, employment and taxes.

A significant importance is given to the compliance with health and safety standards. The Group is committed to continuously improve the safety performance.

These risks are considered as having a medium potential impact on overall Group activities and results.

2. Risks related to drilling and production

The Group business is significantly dependent on the timely supply, efficient production and effective distribution of hydrocarbons to customers. The Group only engages third parties with reputable track record and sound financial background through mid and long-term contracts. Counterparties' financial and business backgrounds are also regularly checked after entering into any contractual relationship.

These risks are considered as having a medium potential impact on overall Group activities and results.

3. Customer and Joint Operating partner relations

The strength of the customer relationships affects the Group's ability to obtain better pricing and competitive commercial advantage. Customer relations are an important part of any business and risks arising thereof could have a medium potential impact to the overall Group results. The Group is mainly exposed to three large trading companies in Hungary, MOL Plc, Hungarian Gas Trade Ltd. and MET Ltd. All of these companies are considered reputable entities and in good financial standing.

It is a Group policy to develop trading relationships only with reputable and financially sound parties. The management of the operating companies' monitors changing market trends and build relationships with new customers.

The Company has one Joint Operating partner in Romania, a subsidiary owned 100% by MOL Plc. which is considered as a reliable and financially sound partner.

These risks are considered as having a medium potential impact on overall Group activities and results.

4. Information technology and systems related risks

The Group operations are exposed to Information Technology (IT) systems and electronic management of information therefore requires a great emphasis on the need for secure and reliable IT systems and infrastructure and careful management of information.

Key hardware components that run and manage operating data are backed up with separate contingency systems to provide regular back-up copies should they ever be required. Group companies maintain a group wide system for the control and reporting of access to critical IT systems. This is supported by an annual program of testing of access controls.

There are policies covering the protection of both business and personal information, as well as the use of IT systems and applications by employees and consultants. Employees are regularly trained to understand these requirements. IT related controls are regularly reviewed and updated. IT staff is sent on regular trainings.

These risks are considered as having a medium potential impact on overall Group activities and results.

5. Commodity Price Risks

The main objective of the Group's overall risk management is to minimize the potential adverse effects on the financial performance of the Group companies. The Company is exposed to commodity price risk mainly on the sale side of natural gas and liquids. When necessary, the Company enters into commodity hedging to reduce risk to the extent practically possible, rather than taking up general market price volatility.

These risks are considered as having a high potential impact on overall Group activities and results.

6. Interest Rate Risk

The Company issued on April 13, 2018 a EUR 70 million bond maturing in 2022 at a fixed interest rate. The Company's Hungarian subsidiary took out 3 EUR million bank loan with floating interest of EURIBOR + 1.25% p.a..

These risks are considered as having a minimal potential impact on overall Group activities and results.

7. Foreign Currency Risk

The business operation is economically driven mainly by EUR. The Company has limited currency risk given that its operating cashflow and financing cash flow is both denominated mainly in EUR. It is Company policy to fund expenditures with revenues received in the same currency where possible.

The Group's exposure to the foreign currency risk at year end is set out in Note 5.3.6.1

These risks are considered as having a low potential impact on overall Group activities and results.

8. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balances at the level of subsidiaries.

The capital structure of the Group consists of equity, shareholders loans and guarantees issued to subsidiaries and third party debt.

These risks are considered as having a high potential impact on overall Group activities and results.

9. Asset retirement obligation

Some of the Group's assets will eventually, at site closure, require decommissioning after operations are discontinued due to compliance with applicable regulations and contractual obligations. Costs related to such activities may exceed the Group's provisions and adversely impact its operating results. With regard to the permanent shutdown of an activity, asset retirement obligations are addressed in the provision for asset retirement obligations. Future expenditures related to asset retirement obligations are accounted for in accordance with the accounting principles described in Note 4.7.

These risks are considered as having a high potential impact on overall Group activities and results.

10. Retention of key talent

The success of the Group to date has been achieved by the people working in it, and the future success of the business will depend largely on the Group's ability to attract and retain talented employees. The market for highly skilled workers is currently less competitive due to weak commodity markets. Historically, the Group has enjoyed relatively low turnover of personnel by providing good terms and conditions of employment while dealing with staff in a fair and consistent manner. Staff compensation schemes are reviewed on a yearly basis with the assistance of an industry expert to align compensation with the market.

These risks are considered as having a low potential impact on overall Group activities and results.

11. Liquidity and solvency risk

Liquidity risk is managed by preparing and reviewing consolidated and operating company level cash flow forecasts and projections on a regular basis to ensure that the Group and the Company has sufficient liquid resources to meet all obligations as they fall due.

SHPBV issued a senior secured callable EUR 70 million bond on April 13, 2018 with a maturity of 4 years. The Bonds are listed on the Nordic Alternative Bond Market. The Group obtained a waiver on December 19, 2019 further extended on April 30, 2020 regarding compliance with financial covenants as set out in the Bond terms.

The financial covenant requirements under the terms of the Bonds are:

Covenants and requirements	2019	2018
Current ratio with a minimum of 1.1	1.67	2.6
Leverage ratio with a maximum of 2.5:1 (2018: 3:1)	3.28:1	0.8:1
Liquidity with a minimum of EUR 7 million	14 mn	30 mn

The definitions and calculations of the financial covenant requirements are further described in Note 5.3.2.

These risks are considered as having a high potential impact on overall Group activities and results.

c) Risks related to the Geopolitical and regulatory circumstances

Regulation may cause governmental authorities to delay or deny permits, new legislation resulting in increased costs, exposure to industry specific tax regimes and potential bribery.

The Group's operations take place in Hungary and Romania. Both countries are members of the EU and NATO, both are market economies. The Company operates a control framework that also include, inter alia, Anti-Bribery, Anti-Harassment, Code of Conduct and GDPR policies and procedures and

Whistleblowing lines operated by a reputable third party both in Hungary and Romania. All staff participated, on a compulsory basis, in yearly anti-bribery educational sessions and tests compliant with the FCPA and the UK Anti-Bribery Act. Reports on the status of these controls are filed and reviewed by the Supervisory Board on a quarterly basis.

The Group had a substantial exposure to Hungary but it is focusing on diversifying it through the development of its activities in the Romanian market.

These risks are considered as having a low potential impact on overall Group activities and results.

Future outlook

The European gas and power markets are set for an unprecedented period of challenge, with prices already at all-time lows, storage stocks and supplies at record highs and demand under pressure from the impact of the Covid-19 pandemic. In the gas market, the supply glut is set to be exacerbated by an influx of LNG due to an already oversupplied global LNG market and force majeure declarations by several Far East LNG importers, with resulting significant uncertainty among market participants about future price evolution scenarios.

The Group's business operations will continue to be primarily dependent on the revenues from gas production to cover its operating and capital expenditures, which in 2020 will focus on the fulfilment of work commitments, safe and efficient operations with workovers and highly limited investment in production facilities and related infrastructure. The negative impact of the above-mentioned gas market and price dynamics on the Group's overall financial position in 2020 is likely to be material.

Accordingly, the Company secured a further extension of the waiver and suspension of the financial covenants and certain amendments allowing the Company to access and retain more cash for its general corporate purposes as agreed to by the Company's bondholders at a bondholders' meeting convened on April 22, 2020, and reflected in the second amendment and restatement agreement signed on 30 April, 2020.

Going Concern

Management prepared these consolidated financial statements on a going concern basis. In making this judgement, Management has looked at a variety of factors to assist in evaluating the Group's sustainability and the ability to manage obligations due within 12 months from the date of approval of the financial statements. Based on the analysis, Management determined that the unprecedented volatility and recent deterioration of the sales price in hydrocarbons raises material uncertainty about the Group's ability to continue as a going concern. Management has examined factors to mitigate these conditions and has developed a plan to attempt to mitigate these in order to alleviate the uncertainty about the going concern nature of the Group.

The plan consists of maintaining the current production levels, the continued use of price hedging mechanisms whenever such opportunities arise at reasonable cost, further reduction of production related costs (e.g. by making better use of in-house processing capabilities, reducing the use of chemicals), reduction of employment benefit expenses (by reducing the number of staff employed that are considered not essential and reducing working hours where possible), reduction of other operating expenses (e.g. by reducing the number of outside advisors) and incurring only those capital

expenditures that are needed to maintain the production levels or improve operating margin. The plan also considers the sale of assets (e.g. disposing part of the Group's equipment inventory, farming out concessions), renegotiation of the timing of mandatory commitments with the Hungarian and Romanian authorities, as well as obtaining access to the funds accumulated on the Company's Debt Service Reserve Account and securing relief from paying cash interest to Bondholders until April 2021.

Management is of the opinion that it is reasonable to expect that (a) the developed plan can be effectively implemented and (b) that the plan can mitigate the conditions that raise uncertainty about the Group's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

However, Management recognizes the inherent uncertainty in the Company's future outlook given the prevailing volatile macro-economic conditions, including impacts of the ongoing Covid-19 pandemic and the effect this may have on hydrocarbon prices, and that the possibility of further downside outcomes remains which create a material uncertainty regarding the Group's ability to continue as a going concern.

Accounting Records

The measures that the directors have taken to secure compliance with the requirements included in IFRS as adopted by EU and Part 9 of Book 2 of the Netherlands civil code with regard to the keeping of accounting records are the employment of appropriately qualified accounting personnel and the maintenance of computerized accounting systems. Accounting records are held in various locations at the Group ultimate parent's and subsidiaries' premises.

Events after the Reporting Date

After the balance sheet date, we have seen significant volatility and uncertainty with regards to gas and oil prices as a result of the Covid-19 (coronavirus) pandemic. Furthermore, recent European developments (LNG shipments from the USA) in gas supply in April have caused further abnormally large volatility in commodity markets. The scale and duration of these developments remain highly uncertain but the negative impact of the above-mentioned gas market and price dynamics on the Group's overall financial position in 2020 is likely to be material.

Based on a Government decision due to the Covid-19 situation the Company's Hungarian subsidiary, O&GD Central kft., was able to defer the repayment of a EUR 3 million working capital facility until the end of December 2020.

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.

Auditors

The auditors, Ernst & Young Accountants LLP, have been engaged to audit these financial statements.

Amsterdam, May 15, 2020

Managing Directors,

Guido Nieuwenhuizen

Tamas Lederer

Intertrust (Netherlands) B.V

Supervisory Board Directors,

Sir Richard L. Olver

Peder Bratt

Jack E. Golden

Simon W.C. Evers

Martin P. Fossum

David M. Le Clair

Sand Hill Petroleum B.V.

Consolidated financial statements for the year ended 31 December 2019

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019

	Notes	2019	2018
		€ 000	€ 000
Revenue	3.2	54 487	79 272
Other income		238	16
Own work capitalized	3.5	1 199	1 133
Production costs	3.3	-28 304	-26 506
Exploration expenses	3.4	-7 676	-12 803
Impairment	4.5	-11 316	238
Employee benefit expense	3.5	-6 036	-4 953
Depreciation and amortization	4.2, 4.3, 4.4	-20 996	-22 373
Other operating expenses	3.6	-6 077	-7 046
Operating profit /(loss)		-24 481	6 502
Finance income	5.3	171	424
Finance expense	5.3	-7 572	-31 523
Profit /(loss) before income tax		-31 882	-24 597
Income tax expense	3.7	-1 844	-1 163
Profit/(loss) for the year attributable to equity holders of the parent		-33 726	-25 760
Other comprehensive income that may be reclassified to profit or loss in subsequent periods (net of tax)			
Exchange differences on translation of foreign operations (no tax applies)		0	712
Net gain/ (loss) on cash flow hedge	5.3.4	1 252	0
Total comprehensive income / (loss) attributable to equity holders of the parent		-32 474	-25 048

Consolidated statement of financial position as at 31 December 2019

	Notes	31 December 2019	31 December 2018
		€ 000	€ 000
Assets			
Non-Current Assets			
Exploration rights	4.4	10 062	8 312
Exploration and Evaluation Assets	4.1	37 889	43 211
Assets in Development	4.2	15 292	21 498
Producing Assets	4.2	95 395	81 492
Other property, plant and equipment	4.3	2 591	1 406
Goodwill	4.4	7 529	7 529
Other intangible assets	4.4	155	370
Deferred tax assets	3.7	1 985	2 466
Financial assets	4.6	7 811	10 628
Total non-current assets		178 708	176 912
Current assets			
Inventories	6.3	6 059	6 534
Trade and other receivables	6.2	7 936	16 534
Income taxes receivable	6.2	854	396
Derivative financial assets	5.3.4	1 375	0
Cash and short-term deposits	6.1	13 612	30 442
Total current assets		29 836	53 906
<u>Total assets</u>		<u>208 544</u>	<u>230 818</u>

	Notes	31 December 2019	31 December 2018
		€ 000	€ 000
Equity and liabilities			
Share capital	5.1	234	222
Share premium	5.1	194 257	182 633
Accumulated deficit		-92 333	-58 607
Cash flow hedge reserve	5.3.4, 3.7.3	1 252	0
Foreign currency translation reserve		10 687	10 687
Equity attributable to equity holders of the parent		114 097	134 935
Non-current liabilities			
Interest-bearing loans and borrowings	5.3.2	70 339	69 876
Deferred tax liabilities	3.7	174	211
Provisions	4.7	6 022	5 057
Total non-current liabilities		76 535	75 144
Current liabilities			
Trade and other payables	6.4	11 730	17 252
Interest-bearing loans and borrowings	5.3.2	3 509	0
Income taxes payable	6.4	162	44
Taxes and mining royalties payable	6.4	2 050	3 348
Provisions	4.7	461	95
Total current liabilities		17 912	20 739
Total liabilities		94 447	95 883
<u>Total equity and liabilities</u>		<u>208 544</u>	<u>230 818</u>

Consolidated statement of changes in equity for the year ended 31 December 2019

	Share capital	Share premium	Accumulated deficit	Foreign currency translation reserve	Cash flow hedge reserve	Equity attributable to equity holders of the parent
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Opening value as at 1 January 2018	63	25 529	-97 682	9 975		-62 115
Profit for the year			-25 760			-25 760
Other comprehensive income				712		712
Total comprehensive income			-25 760	712		-25 048
Issue of share capital		9				9
Reclassification of preference shares as a result of changes in term and conditions	151	151 132	70 806			222 089
FX effects on equity	8	5 963	-5 971			
Closing value as at 31 December 2018	222	182 633	-58 607	10 687		134 935
Opening value as at 1 January 2019	222	182 633	-58 607	10 687		134 935
Effect of adoption of IFRS 16 Leases						
Adjusted opening value as at January 2019						
Profit for the year			-33 726			-33 726
Other comprehensive income				0	1 252	1 252
Total comprehensive income			-33 726	0	1 252	-32 474
Issue of share capital	12	11 624				11 636
FX effects on equity						
Closing value as at 31 December 2019	234	194 257	-92 333	10 687	1 252	114 097

Consolidated statement of cash flows for the year ended 31 December 2019

	Notes	2019 € 000	2018 € 000
Cash flows from operating activities			
Profit before income tax		-31 882	-24 597
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation	4.2, 4.3, 4.4	20 996	22 374
Write off of oil and gas properties	4.5	2 598	0
Impairment of oil and gas properties	4.5	10 199	238
Write off of exploration and evaluation assets	4.5	7 073	12 341
Impairment of other assets	4.5	1 117	0
Unwinding of discount on decommissioning	4.7	141	101
Utilisation of decommissioning provision	4.7	-50	0
Interest expense and income	5.3.1	6 738	26 998
FX effects		30	3 418
Other non-cash items	5.3.7	-821	158
Working capital adjustments:			
Change in trade and other receivables	6.2	8 575	-9 084
Change in inventories	6.3	-642	-2 611
Change in trade and other payables, taxes and mining royalties payables	6.4	-6 614	2 898
Income tax paid		-1 895	-2 664
Net cash flows from operating activities		15 563	29 570
Cash flows from investing activities			
Expenditures on E&E assets	4.1	-15 079	-31 348
Expenditures on Oil and Gas assets	4.2	-25 213	-35 274
Expenditure on other PPE	4.3	-239	-1 036
Expenditures on exploration rights	4.4	-2 355	0
Expenditure on other intangible assets	4.4	-21	-228
Proceed on disposal of assets		0	0
Loans granted	4.6	-2 563	-1 446
Restricted cash decrease /increase	4.6	5 478	-4 184
Interest received		0	6
Net cash used in investing activities		-39 992	-73 510
Cash flows from financing activities			
Proceeds from issuance of shares	5.1	11 636	36
Proceeds from loans and borrowings	5.3.2	2 650	68 197
Payment of principal portion lease liabilities	5.4	-515	0
Payment of loans and borrowing		-5	0
Interest paid	5.3.7	-6 314	-3 150
Net cash (used in) from financing activities		7 452	65 083

Increase/(Decrease) in cash	-16 977	21 143
Net foreign exchange difference	147	-10
Cash and cash equivalents, beginning of period	30 442	9 309
Cash and cash equivalents, end of period	13 612	30 442

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Section 1. Corporate and group information

1.1 Corporate information

The consolidated financial statements of Sand Hill Petroleum B.V. and its subsidiaries (collectively, the Group) for the year ended 31 December 2019 were authorized for issue in accordance with a resolution of the directors on May 15, 2020.

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 principal activities of the Group are exploration and production of gas and crude oil. Information on the Group's structure is provided in Note 7.1. Information on other related party relationships of the Group is provided in Note 7.2.

Section 2. Basis of preparation and other significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS-EU) and Part 9 of Book 2 of the Netherlands Civil Code.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value.

The consolidated financial statements are presented in euros and all values are rounded to the nearest thousand (EUR 000), except when otherwise indicated.

The consolidated financial statements were prepared on a going concern basis. In making this judgement, Management has looked at a variety of factors to assist in evaluating the Group's sustainability and the ability to manage obligations due within 12 months from the date of approval of the financial statements. Based on the analysis, Management determined that the unprecedented volatility and recent deterioration of the sales price in hydrocarbons raises material uncertainty about the Group's ability to continue as a going concern. Management has examined factors to mitigate these conditions and has developed a plan to attempt to mitigate these in order to alleviate the uncertainty about the going concern nature of the Group.

The plan consists of maintaining the current production levels, the continued use of price hedging mechanisms whenever such opportunities arise at reasonable cost, further reduction of production related costs (e.g. by making better use of in-house processing capabilities, reducing the use of chemicals), reduction of employment benefit expenses (by reducing the number of staff employed that are considered not essential and reducing working hours where possible), reduction of other operating expenses (e.g. by reducing the number of outside advisors) and

incurring only those capital expenditures that are needed to maintain the production levels or improve operating margin. The plan also considers the sale of assets (e.g. disposing part of the Group's equipment inventory, farming out concessions), renegotiation of the timing of mandatory commitments with the Hungarian and Romanian authorities, as well as obtaining access to the funds accumulated on the Company's Debt Service Reserve Account and securing relief from paying cash interest to Bondholders until April 2021.

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, the financial covenants were 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 and apply a one percent back-end fee to the repayment.

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.

Management is of the opinion that it is reasonable to expect that (a) the developed plan can be effectively implemented and (b) that the plan can mitigate the conditions that raise uncertainty about the Group's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements.

However, Management recognizes the inherent uncertainty in the Company's future outlook given the prevailing volatile macro-economic conditions, including impacts of the ongoing Covid-19 pandemic and the effect this may have on hydrocarbon prices, and that the possibility of further downside outcomes remains which create a material uncertainty regarding the Group's ability to continue as a going concern.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at 31 December 2019. The Group controls an investee if, and only if, the Group has all of the following:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting, or similar, rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The relevant activities are those which significantly affect the subsidiary's returns. The ability to approve the operating and capital budget of a subsidiary and the ability to appoint key management personnel are decisions that demonstrate that the Group has the existing rights to direct the relevant activities of a subsidiary.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.2.1 Foreign currencies

The consolidated financial statements are presented in EUR.

The functional currency of the Group entities:

Name	Principal activities	Country of incorporation	Functional currency	
			2019	2018
Sand Hill Petroleum BV.	Holding company	Netherlands	EUR	EUR
Sand Hill Petroleum Romania S.r.l.	Exploration and development	Romania	RON	RON
O&GD Central Kft.	Exploration and development, Production	Hungary	EUR	EUR
OGD Nádudvar Koncessziós Kft.	Exploration and development	Hungary	EUR	EUR
OGD Újléta Koncessziós Kft.	Exploration and development, Production	Hungary	EUR	EUR
OGD Berettyóújfalu Koncessziós Kft.	Exploration and development, Production	Hungary	EUR	EUR
OGD Nagykáta Koncessziós Kft.	Exploration and development	Hungary	EUR	EUR
OGD Ócsa Koncessziós Kft.	Exploration and development	Hungary	EUR	EUR
OGD Mogyoród Koncessziós Kft.	Exploration and development	Hungary	EUR	EUR
OGD Körösladány Koncessziós Kft.	Exploration and development	Hungary	EUR	n/a
OGD Békéscsaba Koncessziós Kft.	Exploration and development	Hungary	EUR	n/a
OGD Tiszafüred Koncessziós Kft.	Exploration and development	Hungary	EUR	n/a

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated to the spot rate of exchange ruling at the reporting date. All differences are taken to the statement of profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction.

For consolidation purposes, the results and financial position of each Group entity that have a functional currency different from reporting currency of the Group (EUR) are translated into the reporting currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
- (ii) income and expenses for each income statement are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction;
- (iii) all resulting exchange differences are recognized in other comprehensive income as CTA (cumulative translation adjustments).

Significant judgement:

The functional currency for the parent entity and each of its subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of functional currency may involve certain judgements to identify the primary economic environment in which the entity operates. This includes consideration of the currency which influences sales prices, the country whose competitive forces and regulations mainly determine the sale price of its goods and services, and the currency which influences the labour, materials, and other costs of providing goods or services differ.

2.3 Summary of significant accounting policies not covered in other sections (below)

2.3.1 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in other operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. All contingent consideration (except that which is classified as equity) is measured at fair value with the changes in fair value in profit or loss. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on

disposal of the operation. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.3.2 Interest in joint arrangements

The Group undertakes a number of business activities through joint arrangements. A joint arrangement is an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control over an arrangement which exists only when the decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.

Joint operation

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement.

In relation to its interests in joint operations, the Group recognises its:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

Significant judgements, estimations and assumptions:

Judgement is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement.

Judgement is also required to classify a joint arrangement. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Different conclusion about both joint control and whether the arrangement is a joint operation or a joint venture, may materially impact the accounting.

2.3.3 Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle

- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.3.4 Financial instruments- recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments are initially measured at fair value plus or minus directly attributable transaction costs.

Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient for contracts that have a maturity of one year or less, are measured at the transaction price determined under IFRS 15.

Financial asset:

The Group measures financial assets at amortised cost as both of the following are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest rate method.

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset.

Financial liabilities

After initial recognition, interest-bearing loans and borrowings and trade and other payables – except contract liabilities and income taxes- are subsequently measured at amortised cost using the effective interest rate method.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the statement of profit or loss.

A financial liability is derecognised when the associated obligation is discharged or cancelled or expires.

Derivative financial instruments and hedge accounting

The Group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast sales transactions arising from changes in commodity prices. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are

subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in OCI and accumulated in the cash-flow hedge reserve. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The amount accumulated in OCI 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.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve remains in equity until it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedged future cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve are immediately reclassified to profit or loss.

2.3.5. Impairment Financial Assets

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortized cost. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The general approach reflects the pattern of deterioration or improvement in the credit quality of financial instruments (e.g. for other financial assets). The amount of ECL recognized as a loss allowance or provision depends on the extent of credit deterioration since initial recognition. Under the general approach, there are two measurement bases:

- 12-month ECL (Stage 1), which applies to all items (from initial recognition) as long as there is no significant deterioration in credit quality
- Lifetime ECL (Stages 2 and 3), which applies when a significant increase in credit risk has occurred on an individual or collective basis

The simplified approach does not require the tracking of changes in credit risk, but instead requires the recognition of lifetime ECL at all times. (E.g. for trade receivables or contract assets)

When lifetime ECLs are recognized, impairment losses are recognized through an allowance account to write down the asset's carrying amount to the present value of expected cash flows discounted at the original effective interest rate of the asset.

The Group determines lifetime ECLs using an impairment matrix for the calculation of lifetime ECL under the simplified approach.

The impairment matrix is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

	Expected default rate 2019	Expected default rate 2018
Not past due	0.1%	0.1%
1-30 days past due	0.3%	0.3%
31-60 days past due	1.0%	1.0%
61-90 days past due	3.0%	2.0%
More than 90 days past due	5.0%	3.0%

The Group considers financial asset to be in default when contractual payments are 90 day past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Further disclosures relating to impairment of trade and other receivables are set out in Note 6.2.

2.4 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In particular, the Group has identified the following areas where significant judgements, estimates and assumptions are required. Further information on each of these areas, and how they impact the various accounting policies, is set out throughout the financial statements, as described below. These include:

Judgements:

- Joint arrangements (Note 2.3.2 and 7.1)
- Oil and gas exploration and evaluation assets (Note 4.1)
- Taxes (Note 3.7)
- Foreign currencies (Note 2.2.1)

Estimates and assumptions:

- Hydrocarbon reserve and resource estimates (Note 2.4.1)
- Oil and gas exploration and evaluation assets (Note 4.1)
- Units of production (UOP) depreciation of oil and gas assets (Note 4.2)
- Recoverability of assets (Note 4.5)
- Decommissioning liabilities (Note 4.7)
- Recovery of deferred tax assets (Note 3.7)

2.4.1 Hydrocarbon reserve and resource estimates

Hydrocarbon reserves are estimates of the amount of hydrocarbons that can be economically and legally extracted from the Group's oil and gas properties. The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil and gas in place, recovery factors and future commodity prices.

The Group estimates and reports hydrocarbon reserves in line with the principles contained in the Society of Petroleum Engineers (SPE) Petroleum Resources Management Reporting System (PRMS) framework. As the economic assumptions used may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, which include:

- Impairment: The carrying value of exploration and evaluation assets; oil and gas properties; property, plant and equipment; and goodwill may be affected due to changes in estimated future cash flows

- Depreciation and amortisation charges in the statement of profit or loss may change where such charges are determined using the UOP method, or where the useful life of the related assets change
- Provisions for decommissioning may require revision — where changes to reserves estimates affect expectations about when such activities will occur and the associated cost of these activities
- The recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets

2.5 Changes in accounting policies and disclosures

The Group applied IFRS 16 for the first time in the year ended 31 December 2019. The nature and effect of the changes as a result of adoption of new accounting standards and interpretations is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The following new and/or amended standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement
- Annual IFRS Improvement Process
- ▶ IFRS 3 Business Combinations - Previously held Interests in a joint operation
- ▶ IFRS 11 Joint Arrangements - Previously held Interests in a joint operation
- ▶ IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity
- ▶ IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical

expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

Initial application - Lease liability:

The lessee recognizes a lease liability at the date of initial application for leases previously classified as an operating lease applying IAS 17. The lessee measures that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

Initial application - Right-of-use asset:

The lessee recognizes a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. The lessee measures that right-of-use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

Practical expedients:

The Group applies the following practical expedients:

- those leases which the lease term ends within 12 months of the date of initial application account in the same way as short-term leases
- exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

The Group elects the short-term lease and lease of low-value asset recognition exemptions (see definitions in Note 5.4A).

The effect of adoption IFRS 16 as at 1 January 2019 (increase/(decrease)) is, as follows:

	€000
Assets	
Right-of-use assets	1 564
Prepayments	35
Total assets	1 599
Liabilities	
Current - Interest-bearing loans and borrowings	466
Non-current - Interest-bearing loans and borrowings	1 098
Total liabilities	1 564
Total adjustment on equity:	
Accumulated deficit	0

Based on the above, as at 1 January 2019:

- Right-of-use assets of EUR 1.6 million (included in Other property, plant and other equipment) were recognized.
- Lease liabilities of EUR 1.6 million (included in Interest bearing loans and borrowings) were recognized.
- Prepayments of EUR 0.03 million related to previous operating leases were derecognized.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	€000
	1 January, 2019
Operating lease commitments as at 31 December 2018	1 787
Weighted average incremental borrowing rate as at 1 January 2019	2%
Discounted operating lease commitments as at 1 January 2019	<u>1 751</u>
Less:	
Non-lease components previously included as part of commitments with existing lease contracts	-361
Commitments relating to short-term leases	-6
Commitments relating to leases of low-value assets	<u>0</u>
Add:	
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	<u>180</u>
Lease liabilities as at 1 January 2019	1 564

Section 3. Results for the year

This section provides additional information that is most relevant in explaining the Group's performance during the year.

3.1 Segment information

The Group's assets and operations are located in Hungary and Romania. For management purposes, the Group has two reportable segments based on geographical regions, as follows:

- Hungary
- Romania

No operating segments have been aggregated to form the above reportable operating segments.

The Management Board of the Company (which is considered to be the Group wide decision maker) monitors the operating results of its reportable segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit and is measured consistently with operating profit or loss in the consolidated financial statements. However, the Group's financing (including finance costs and finance income) is managed on a group basis and is not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The accounting policies used by the Group in reporting segments internally are the same as those contained in Section 2 and the respective quantitative and qualitative notes of the financial statements.

Adjustments and eliminations

Finance income and costs are not allocated to individual segments as the underlying instruments are managed on a group basis.

Certain financial assets and liabilities are not allocated to those segments as they are also managed on a group basis.

Year ended 31 December 2018	Hungary	Romania	Adjustments and eliminations	Consolidated
	€ 000	€ 000	€ 000	€ 000
Revenue				
External customers	79 272			79 272
Results				
Other income	16	0		16
Own work capitalised	1 133			1 133
Production costs	-26 506			-26 506
Exploration expense	-11 171	-1 632		-12 803
Employee benefit expenses	-4 474	-479		-4 953
Depreciation and amortisation	-22 240	-133		-22 373
Impairment	-238	0		-238
Other operating expenses	-4 510	-938	-1 598	-7 046
Operating profit	11 282	-3 182	-1 598	6 502
Segment assets	208 579	8 191	14 048	230 818
Segment liabilities	160 946	8 625	-73 688	95 883
Other disclosures				
Capital expenditure	66 043	3 590	-301	69 332
Year ended 31 December 2019	Hungary	Romania	Adjustments and eliminations	Consolidated
	€ 000	€ 000	€ 000	€ 000
Revenue				
External customers	54 349		138	54 487
Results				
Other income	159	79	0	238
Own work capitalised	1 199	0	0	1 199
Production costs	-28 304	0	0	-28 304
Exploration expense	-7 500	-202	26	-7 676
Employee benefit expenses	-5 472	-564	0	-6 036
Depreciation and amortization	-20 751	-198	-47	-20 996
Impairment	-11 400	0	84	-11 316
Other operating expenses	-3 270	-1 062	-1 745	-6 077
Operating profit	-20 990	-1 947	-1 544	-24 481

Segment assets	179 563	16 499	12 482	208 544
Segment liabilities	161 956	14 963	-82 472	94 447
Other disclosures				
Capital expenditure	38 360	7 768	-658	45 470

Profit for each operating segment does not include finance income in amount of EUR 0.2 million in 2019 (2018: EUR 0.4 million) and finance costs of EUR 7.6 million in 2019 (2018: EUR 31.5 million).

Segment assets do not include assets of the holding company in amount of EUR 218.8 million in 2019 (2018: EUR 203.5 million), of which the investment in the segments is EUR 52.8 million (2018: EUR 45.9 million). EUR 153.7 million of inter-segment receivables (2018: EUR 144.1 million) are eliminated on consolidation, and EUR 0.2 million (2018: EUR 0.5 million) consolidation adjustment increases assets.

Segment liabilities do not include liabilities of the holding company as interest bearing loans and borrowings from Bond in amount of EUR 69.7 million (2018: EUR 69.9 million), and current liabilities EUR 1.52 million (2018: EUR 0.57 million). EUR 153.7 million (2018: EUR 144.1 million) of inter-segment liabilities are eliminated on consolidation.

Capital expenditure consists of capitalised exploration expenditure, development expenditure, additions to property, plant and equipment, financial assets and to other intangible assets including assets from the acquisition of subsidiaries

All revenue is generated from sales to customers located in Hungary.

Revenue from three major customers exceeded 89% of Group consolidated revenue and amounted to EUR 25 million, EUR 15 million and EUR 8 million (2018: three major customers amounting to EUR 42 million, EUR 20 million, and EUR 10 million), respectively, arising from sales of gas, condensate and oil.

3.2 Revenue from contracts with customers

Disaggregated revenue information

Type of goods	2019 € 000	2018 € 000
Gas	43 992	63 792
Condensate	7 871	12 785
Oil	1 655	1 939
Other	969	756
Total revenue from contracts with customers	54 487	79 272

The net revenue consists of sales of gas, condensate and oil by the Company's Hungarian segment.

In 2019 there was one new well put into production. Decrease in revenue is the result of significant drop in commodity prices in 2019.

3.2 A Accounting policy – Revenue from contracts with customers

The Group's commodity contracts are outside the scope of IFRS 9 because of the own-use exemption. The Group settles the contracts through the physical delivery of a commodity and commodity is always extracted by the Group as part of its own operations.

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, which is generally when the product is physically transferred into a pipe or other delivery mechanism and the customer accepts the product. 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.

In the first case processor takes control of the condensate and gas at the gathering station. In this case the processing fees is 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.

Significant financing component:

The Group might receive short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Variable consideration

The products are sold based on market prices, in some cases through spot market transactions, and in other cases under contractual arrangements. While the transaction price is variable, at the time of delivery there is no risk of a change in the transaction price to be allocated to the gas volume sold. Accordingly at the point of sale there is not a significant risk of revenue reversal relative to the cumulative revenue recognised, and there is no need to constrain any variable consideration under IFRS 15.

Principal versus agent consideration

The Group concluded that it is the principal in its revenue contracts because it typically controls the goods or services before transferring them to the customer.

Impact on financial position

Contract asset

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional. The Group does not have any contract assets as performance and a right to consideration occurs within a short period of time and all rights to consideration are unconditional.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due), refer to Note 6.2 .

Contract liability

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract. Refer to Note 6.4.

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- Receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

3.3 Production cost

Productions costs are all expenses incurred in relation to the production of hydrocarbons including materials and services used, damage compensations related to wells in production and mining royalties, besides the impairment of the producing assets.

	2019	2018
	€ 000	€ 000
Production material	5 537	3 208
Capacity fees	1 123	1 699
Gas processing fees	321	835
Mining royalty	12 423	16 984
Write-off of producing assets	2 598	0
Maintenance costs	910	458
Balancing gas	509	658
Expert fees	429	187
Other production services	4 454	2 477
Total production costs	28 304	26 506

Mining royalty in Hungary is paid as a tax after production, the royalty base (revenue for royalty purpose) is calculated based on a special government set formula, depending on USD exchange rate and Brent prices.

Other production services include compression costs, laboratory services and transport.

Please refer to Note 4.5 for the details on write-off of producing assets.

3.4 Exploration expense

Geological and geophysical exploration costs related to areas where the company does not hold the concession rights 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, 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.

	2019	2018
	€ 000	€ 000
Write off of E&E assets	7 073	12 341
Geological expenses on no concession areas	551	380
Other	52	82
Total exploration expenses	7 676	12 803

Please refer to Note 4.5 for the details on write-off of E&E assets.

3.5 Employee benefit expense

3.5.1 Salaries and payroll related contributions

2018 P&L was restated to separately disclose own work capitalized amounts from employee benefit expenses, because this presentation provides more useful information about the nature of expenses incurred.

The salaries and payroll related contribution can be detailed as follows:

	2019	2018
	€ 000	€ 000
Salaries and wages	4 921	4 108
Other related expenses	177	170
Social security and taxes on wages	938	675
Total of employee benefit expense	6 036	4 953

3.5.2 Own work capitalized

Own work capitalised is salaries and payroll related contributions that are associated to capital projects, and are therefore capitalized and not expensed. Own work capitalized amounted to EUR 1 199 thousand in 2019 (2018: EUR 1 133 thousand).

3.5.3 Staff number

The Group had 126 employees at the end of 2019 and hence incurred wages, salaries and related social security charges during the reporting period (previous year: 129 employees). Average of the employees for the year was 128, of which 116 are based in Hungary and 12 are based in Romania (previous year: 105, 96 in Hungary, 9 in Romania).

	2019	2018
Administration	31	23
Management	3	3
Operations	81	68
Exploration	13	11
Total average	128	105

3.6 Other operating expenses

Other operating expenses comprise materials and supplies that cannot be held in inventory (energy, small items of equipments, office and cleaning materials), administrative and professional expenses (legal, audit, accounting and payroll), rental fees (office and warehouse, cars) before the application of IFRS 16, travel and conference expenses, bank and postal charges and other items of expenditures.

	2019	2018
	€ 000	€ 000
Warehouse costs	95	108
Office costs	106	380
Trainings and travel expenses	663	652
Legal, accounting and professional services	2 351	2 310
Audit	247	259
IT, software rental and maintenance	767	601
Magisterial fees, bank, insurance and membership fees	234	287
Staff and representation expenses	132	178
Advisory fees	529	921
Board related fees	255	246
Other expenses	716	1 090
Expected credit losses on trade receivables relating to revenue from contracts with customers	-18	16
Total of other operational expenses	6 077	7 046

Audit fee breakdown

The costs of the Group for the external auditor and the audit organization and the entire network to which the audit organization belongs charged to the financial year are set out below.

	2018		
	€ 000		
	Ernst & Young Accountants LLP	Other EY	Total
Audit fee	166	93	259
Tax advisory services	-	71	71
Other services	-	41	41
Total	166	205	371

	2019 € 000		
	Ernst & Young Accountants LLP	Other EY	Total
Audit fee	149	98	247
Tax advisory services	-	91	91
Other services	-	52	52
Total	149	241	390

3.7 Income tax

3.7.1 Income tax expense

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

	2019 € 000	2018 € 000
Consolidated statement of profit or loss		
Current income tax:		
Current income tax charge	-1 524	-2 009
Deferred income tax:		
Relating to origination and reversal of temporary differences	-320	846
Income tax expense	-1 844	-1 163

3.7.2 Reconciliation

	2019 € 000	2018 € 000
Accounting loss before income tax	-31 882	-24 597
Applicable tax at weighted average rate 9% (2018: 25%)	2 900	6 160
Other income tax (local business tax, innovation contribution)	-1 129	-1 607
Expenses not deductible for tax purposes	-5	-6 092
Utilisation of previously unrecognised tax losses	0	916
Reversal of previously recognized tax loss	-1 276	0
Other adjusting items	0	141
Unrecognized DTA on current year losses	-2 334	-681
Income tax expense	-1 844	-1 163
Effective tax rate	6%	5%

Weighted average tax rate is computed by taking the share of the the operating segments and the holding company in the consolidated loss before tax and applying the local tax rate for their portion. Weighted average tax rate is 9% in 2019 (2018: 25%). The decrease is explained by higher weight of Hungarian segment in loss before income tax in 2019 compared to 2018 where losses before income tax were influenced by interest on the preference shares.

3.7.3 Deferred income tax

	Consolidated statement of financial position		Consolidated statement of profit or loss and other comprehensive income	
	31 December 2019 € 000	31 December 2018 € 000	2019 € 000	2018 € 000
Deferred income tax liabilities				
Depreciation	248	21	-227	- 21
Development reserve	0	140	140	112
Decommissioning asset	341	347	6	- 90
Cash-flow hedge	124	0	-124	0
Deferred income tax assets				
Depreciation and Impairment	929	0	929	- 202
Provisions (including decommissioning liability)	545	437	108	131
Losses available for offset against future taxable income	1 050	2 326	-1 276	916
Deferred tax assets (net)	1 811	2 255		
Deferred tax income/(expense)			-320	846
Deferred tax recognized through OCI			-124	
Deferred tax assets	1 985	2 466		
Deferred tax liabilities	174	211		
Deferred tax assets (net)	1 811	2 255		

Deferred tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available in the future against which the unused tax losses/credits can be utilised. Basis of calculation of the recognisable deferred tax for carry forward tax losses is the 5 year plan of the Group's producing entities in Hungary.

In addition to recognised deferred income tax assets, the Group has unrecognised tax losses of EUR 57 million (2018: EUR 19 million) that are available to carry forward against future – latest in eleven years - taxable income of the subsidiaries in which the losses arose. 30% of tax losses carried forward expire within 2 years, 40% expires in 3-5 years, and 30% expires after 5 years. Deferred tax assets have not been recognised in respect of these losses as

they may not be used to offset taxable profits elsewhere in the Group, they have arisen in subsidiaries that have been loss-making for some time or the loss exceeds the amount that is probable to be utilized within the allowed time range.

3.7 A Accounting policy – Income tax

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and it establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

For transactions involving the initial recognition of an equal and opposite asset and liability which subsequently unwind on different bases, the Group recognises a deferred tax liability for any taxable temporary differences related to the asset component and a deferred tax asset for any deductible temporary differences related to the liability component. On initial recognition, the taxable temporary difference and the deductible temporary differences are equal and offset to zero. Deferred tax is recognised on subsequent changes to the taxable and deductible temporary differences.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Significant judgements, estimation and assumptions

Judgement is required to determine whether deferred tax assets are recognised in the statement of financial position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and gas prices, reserves, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted.

In addition, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

Section 4. Invested capital

This section provides additional information about how the Group invests and manages its capital. This section contains:

- Reconciliations of movements of significant capital balances (Notes 4.1 to 4.4)
- Information regarding impairment testing of long-term non-financial assets (Note 4.5)
- Information regarding provisions (Note 4.7)
- An analysis of capital expenditure to which the Group is committed (Note 4.8)

4.1 Oil and gas exploration and evaluation assets

	Notes	€ 000
Cost as at 1 January 2018		33 492
Additions		31 348
Decom.liability changes		413

Write off of E&E assets	4.5	-12 341
Transfer to oil and gas properties		-9 701
Cost as at 31 December 2018	Notes	43 211
Additions		15 079
Decom.liability changes		85
Write off of E&E assets	4.5	-7 073
Transfer to oil and gas properties		-13 412
Cost as at 31 December 2019		37 889
Net book value as at 31 December 2018		43 211
Net book value as at 31 December 2019		37 889

Please refer to Note 4.5 for the details on write off of E&E assets.

4.1 A Accounting policy – Oil and gas exploration and evaluation expenditure

Oil and gas exploration and evaluation expenditure is accounted for using the successful efforts method of accounting.

Pre-license costs

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

Property acquisition costs

Property acquisition costs are capitalized in E&E assets.

Property acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and that sufficient progress is being made on establishing development plans and timing.

If no future activity is planned, the carrying value of property acquisition costs are written off through the statement of profit or loss. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

Exploration and evaluation costs

Costs of E&E are initially capitalised as E&E intangible assets. Geological and geophysical (G&G) costs, costs of technical services and studies, seismic acquisition, exploratory drilling and testing, activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource are 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.

Significant judgements, estimates and assumptions

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether future economic benefits are likely from future either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is, in itself, an estimation process that involves varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Group defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in the statement of profit or loss and other comprehensive income in the period when the new information becomes available.

4.2 Oil and gas properties

Oil and gas properties contain the assets in development and the producing assets.

	€ 000	
	Asset in development	Producing assets
Cost as at 1 January 2018	14 585	74 896
Additions	35 274	
Borrowing cost	1 206	
Transferred from exploration and evaluation assets	9 701	
Change in decommissioning provision	8	1 036
Transfer between development asset and producing asset	-38 988	38 988
Transfer of borrowing cost between development asset and producing asset	-288	288
Disposals	0	0
Cost as at 31 December 2018	21 498	115 208
Additions	25 249	
Borrowing cost	347	
Transferred from exploration and evaluation assets	13 412	
Change in decommissioning provision	1 071	
Transfer between development asset and producing asset	-45 324	45 324
Transfer of borrowing cost between development asset and producing asset	-961	961
Transfer to other PPE		-8
Write off	0	-2 713
Cost as at 31 December 2019	15 292	158 772
Depreciation and impairment as at 1 January 2018	0	12 144
Depreciation charge for the year	0	21 334
Provision for impairment	0	238
Disposals	0	0
Depreciation and impairment as at 31 December 2018	0	33 716
Depreciation charge for the year	0	19 580
Transfer to other PPE		-3
Write off of producing assets	0	-115
Provision for impairment	0	10 199
Disposals	0	0
Depreciation and impairment as at 31 December 2019	0	63 377
Net book value as at 31 December 2018	21 498	81 492
Net book value as at 31 December 2019	15 292	95 395

Borrowing costs relating to drilling of development wells that have been capitalised as part of producing assets during the period amount to EUR 347 thousand (2018: EUR 1 206 thousand), at a weighted average interest rate of 10,15% (2018: 10,15%).

The net book value at 31 December 2019 includes EUR 15 292 thousand (2018: EUR 21 498 thousand), in respect of development assets under construction which are not being depreciated.

Please refer to Note 4.5 for the details on impairment testing and write-off of oil and gas properties.

4.2A Accounting policy – Producing Asset – assets in development

Expenditure is transferred from 'Exploration and evaluation assets' to 'Assets in development' which is a subcategory of 'Oil and gas properties' 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 platforms, pipelines and the drilling of development wells is capitalised within 'Assets in development'. E&E assets should no longer be classified as such when 'technical feasibility and commercial viability of extracting a mineral resource are demonstrable'.

Before reclassification, E&E assets should be assessed for impairment individually or as part of a cash-generating unit and any impairment loss should be recognized.

4.2B Accounting policy - Oil and gas properties – producing assets and other property, plant and equipment

Initial recognition

Producing assets and Other property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost (if the asset was previously classified as assets in development), any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and, for qualifying assets (where relevant), borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Depreciation/amortization

Oil and gas properties are depreciated/amortised on a unit-of-production basis over the total proved developed and undeveloped reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case, the straight-line method is applied. The unit-of-production rate calculation for the depreciation/amortisation of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure.

Other property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives.

Useful lives

The useful lives of the assets are estimated as follows:

Producing assets (those which are not depreciated on a unit-of production basis)	20 to 25 years
Other property plant and equipment	3 to 20 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition

of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation/amortisation are reviewed at each reporting period and adjusted prospectively, if appropriate.

Major maintenance, refits, inspection and repairs

Expenditure on major maintenance refits, inspections or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset, or part of an asset that was separately depreciated and is now written off, is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalised. Where part of the asset replaced was not separately considered as a component and therefore not depreciated separately, the replacement value is used to estimate the carrying amount of the replaced asset(s) and is immediately written off. Inspection costs associated with major maintenance programs are capitalised and amortised over the period to the next inspection. All other day-to-day repairs and maintenance costs are expensed as incurred.

Estimates and assumptions

Oil and gas properties are depreciated using the units of production (UOP) method over total proved developed and undeveloped hydrocarbon reserves. This results in a depreciation/amortisation charge proportional to the depletion of the anticipated remaining production from the field. The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation/amortisation will be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves, or future capital expenditure estimates change.

4.3 Other property, plant and equipment

€ 000

	Land	Right-of-use assets	Other plant and equipment	Total
Cost				
At 1 January 2018	57		966	1 023
Additions	91		945	1 036
Disposals	0		-3	-3
At 31 December 2018	148	0	1 908	2 056
IFRS 16 initial recognition of Right-of use assets	0	1 599	0	1 599
Additions	0	91	164	255
Disposals	0		-1	-1
At 31 December 2019	148	1 690	2 071	3 909

Depreciation				
At 1 January 2018	0	0	391	391
Depreciation charge for the year	0	0	261	261
Disposals	0	0	-2	-2
At 31 December 2018	0	0	650	650
Depreciation charge for the year	0	502	167	669
Disposals	0	0	-1	-1
At 31 December 2019	0	502	816	1 318
Net book value:				
At 31 December 2018	148	0	1 258	1 406
At 31 December 2019	148	1 188	1 255	2 591

Further information on Right-of use assets is disclosed in Note 5.4.

4.4 Intangible assets and goodwill

	€ 000			
	Goodwill	Concessions	Software	Total
Cost:				
At 1 January 2018	7 529	9 677	1 115	18 321
Additions			228	228
Disposal				
FX effect		-2		-2
At 31 December 2018	7 529	9 675	1 343	18 547
Additions		2 355	20	2 375
Disposal				
FX effect		-57		-57
At 31 December 2019	7 529	11 973	1 363	20 865
Amortisation and impairment:				
At 1 January 2018		897	658	1 555
Amortisation charge for the year		466	315	781
Disposal				
At 31 December 2018	0	1 363	973	2 336
Amortisation charge for the year		548	234	782
Impairment			1	1
Disposal				
At 31 December 2019	0	1 911	1 208	3 119
Net book value:				
At 31 December 2018	7 529	8 312	370	16 211
At 31 December 2019	7 529	10 062	155	17 746

Useful lives

- Software 3 years
- Rights and concessions based on concession contract (typically 20-30 years)

Goodwill

The goodwill arose in connection with the acquisition of O&GD Central Kft. a Hungarian company which holds the Körös licence. Impairment considerations are disclosed in Note 4.5.

4.4A Accounting policy – Intangible assets and goodwill

License costs

License costs paid in connection with a right to explore in an existing exploration area are capitalized as an intangible asset and amortised over the term of the permit, ie. the term of the concession contract.

License are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and that sufficient progress is being made on establishing development plans and timing.

If no future activity is planned or the license has been relinquished or has expired, the carrying value of the license are written off through the statement of profit or loss.

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets with definite lives are carried at cost less any accumulated amortization (calculated on a straight-line basis over their useful lives) and accumulated impairment losses, if any. Indefinite lived intangibles and goodwill are not amortised, instead they are tested for impairment annually as a minimum, or when there are indicators of impairment.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in Depreciation and amortization.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

4.5 Impairment losses and goodwill impairment test

	2019			2018		
	Hungary	Romania	Total	Hungary	Romania	Total
Impairment losses and write-offs	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Exploration and evaluation assets write-off	7 073	0	7 073	11 055	1 286	12 341
Oil and gas properties Write off	2 598	0	2 598	0	0	0
Total write off	9 671	0	9 671	11 055	1 286	12 341
Oil and gas properties Impairment	10 199	0	10 199	238	0	238
Inventory impairment	1 117	0	1 117	0	0	0
Total impairment	11 316	0	11 316	238	0	238
Total impairment and write-off	20 987	0	20 987	11 293	1 286	12 579

Write-off of exploration and evaluation assets are related to unsuccessful drillings for which the assets are written down to nil. The amount of write-off is included in Exploration expenses in the P&L.

The write-off of oil and gas properties are related to seven wells in Hungary, which are inactive wells. The amount of write-off of oil and gas properties is included in Production costs in P&L.

The impairment of oil and gas properties are related to seven wells in Hungary (in 2018: 2 wells).

The wells are considered the cash-generating unit 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 with the same key assumptions as noted below for the impairment calculations. The value-in-use forecast takes into consideration cash flows which are expected to arise during the life of the wells.

The key assumptions to the calculation of value-in-use of the wells are discount rate, oil and gas prices, forecasted recoverable reserves and estimated future costs.

Forecasted recoverable reserves are based on independent reserve audit report.

The discount rate used is 10 per cent (2018: 10 per cent).

Forecast commodity prices are based on management's estimates and available market data (Dutch TTF, Austrian VTP, Brent), prices applied in the model range between 6.4-6.5 USD/mcf for gas and 55-60 USD/bbl for oil and condensate. This includes consideration of forward curve pricing over the period for which there is a liquid market (2-3 years), thereafter reverting to a long term commodity price assumption, supported by available market data. Future operating expenses are based on historical average costs, capital expenditures are estimated by drilling and completion team.

Impairment in 2019 of the producing wells was a result of the significant decrease in oil and gas prices.

Sensitivity to change in assumptions:

With regard to the assessment of value in use for CGUs, management believes that further decrease in commodity prices can result in additional impairment. Sensitivity was calculated for 10% decrease and 25% decrease in base prices. The effect of these changes on the Impairment of CGUs is EUR 2 million and EUR 7.4 million respectively. Other than for oil and gas prices, no reasonably possible changes in any of the key assumptions would cause further impairments.

Goodwill of EUR 7.5 million has been specifically assigned to the Körös field, but there is no impairment arising in 2018 or 2019. The value-in-use exceeds the carrying amount with sufficient headroom. The discount rate used is 10 per cent (2018: 10 per cent). The value-in-use forecast takes into consideration cash flows which are expected to arise during the life of the wells.

4.5A Accounting policy - Impairment losses (non-financial assets)

Exploration and evaluation assets

E&E assets should be assessed for impairment when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount. Under IFRS 6 one or more of the following facts and circumstances could indicate that an impairment test is required:

- a) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- d) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the E&E asset is unlikely to be recovered in full from successful development or by sale.

If finding a dry hole marks the end of budgeted or planned exploration activity, indicator (b) above would require impairment testing under IAS 36. Similarly, if the dry hole led to a decision that activities in the area would be discontinued, indicator (c) would require that an impairment test be performed, and indicator (d) requires an entity to do an impairment test if it is unlikely that it will recover the E&E costs from successful development or sale.

Other non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, deferred tax assets and contract assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The Group examines on an annual basis whether there are any indications of impairment, and reviews whether there is an impairment for goodwill. Accordingly, the recoverable amount of the cash-generating unit to which the goodwill is related must be estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("cash-generating unit or CGU"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In case the fair value less cost of disposal of an asset or a cash-generating unit is higher than its carrying amount, there is no need to determine the value in use for the purpose of the impairment test.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Costs of disposal are incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense.

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Estimates and assumptions

The Group assesses each asset or CGU (excluding goodwill, which is assessed annually regardless of indicators) in each reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the FVLCD (Fair value less cost of disposal) and VIU (Value in use). The assessments require the use of estimates and assumptions such as long-term oil prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

4.6 Financial assets

	December 31st, 2019	December 31st, 2018
	€ 000	€ 000
Restricted cash for long term	3 183	8 661
Loans granted	4 628	1 967
Total	7 811	10 628

The restricted cash is held as collateral for a bank guarantee issued to secure certain abandonment related obligations under the several exploration and production licenses granted by the Hungarian Mining Authority. Restricted cash also includes cash deposited on blocked account (Escrow accounts including DSRA account to service interest payments).

In 2018 there was a restricted cash related to the bond issue, the full amount was released from the Escrow Account in 2019 following the execution of the registration of title and pledge on the Konyar gas plant land plot.

Loans granted includes the amounts disbursed by Sand Hill Petroleum Romania srl. to Panfora Oil and Gas srl. under the Carry Finance Agreement ("CFA") signed with Panfora Oil and Gas srl. in 2016. The balance of the loan increased because Sand Hill Petroleum Romania srl. financed the works performed on the EX-1 and EX-5 concession areas in line with the CFA.

There is no material expected credit loss in relation to financial assets.

4.7 Provisions

	Decommissioning	Other	€ 000 Total
At 1 January 2019	4 995	157	5 152
Arising during the year	1 074	227	1 301
Write-back of unused provisions	0	0	0
Utilisation	-50	-57	-107
Unwinding of discount	141	0	141
FX revaluation		-4	-4
At 31 December 2019	6 160	323	6 483
Comprising:			
Current 2018	95	0	95
Non-current 2018	4 900	157	5 057
Current 2019	138	323	461
Non-current 2019	6 022		6 022

Decommissioning provision

The Group makes provisions for the future cost of decommissioning oil and gas wells on a discounted basis on the installation of those wells and infrastructure.

The decommissioning provision represents the present value of decommissioning costs related to oil and gas properties, which are expected to be incurred up to 2067, when the producing oil and gas properties are expected to cease operations. These provisions have been created based on the Group's internal estimates.

Assumptions based on the current economic environment have been made, which management believes to form a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required that will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This, in turn, will depend upon future oil and gas prices, which are inherently uncertain.

The discount rate used in the calculation of the provision as at 31 December 2019 equaled 0.2-3 % based on the timing of the abandonment (2018: 0.6-4 %). The inflation rate is 3% (2018: 3 %).

Other Provisions

Other provisions comprise provisions for damage compensation, bonuses and tax claims (VAT in Romania).

4.7A Accounting policy – Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as part of finance costs in the statement of profit or loss.

Decommissioning provision

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

Provision for decommissioning is recognised in full based on the following:

- In case of wells when drilling is finished (E&E asset)
- In case of gas plants, gathering stations and other significant Oil and gas PPE when facilities are installed.

The amount recognised is the present value of the estimated future expenditure. This is calculated based on actual price offers where the future value of this amount is calculated with the assumed inflation rate until the expected date of the decommissioning. This expense is discounted then with the discount rate reflecting the risk and time value of money which is based on a government bond rate with a similar currency and remaining term as the provision.

Changes in the estimated timing or cost of decommissioning are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to oil and gas properties. Any reduction in the decommissioning liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to the statement of profit or loss.

If the change in estimate results in an increase in the decommissioning liability and, therefore, an addition to the carrying value of the asset, the Group considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment. If, for mature fields, the estimate for the revised value of oil and gas assets net of decommissioning provisions exceeds the recoverable value, that portion of the increase is charged directly to expense.

4.8 Capital commitments and other contingencies

Commitments and contingencies

Further to the requirements set by the Hungarian Mining Law, OGDC as direct owner of OGD Nadudvar Kft., OGD Ujleta Kft., OGD Berettyoujfalu Kft., OGD Mogyorod Kft., OGD Nagykata Kft., OGD Ocsa Kft., OGD Körösladány Kft., OGD Békéscsaba Kft., OGD Tiszafüred Kft., (collectively referred to as "Subsidiaries") has put up a HUF 1 billion bank guarantee (EUR 3,025,536) as per 2019 balance sheet date (2018: HUF 1 billion, EUR 3,110,323) to secure certain abandonment obligations under the exploration licenses granted by the Hungarian Mining Authority.

OGDC and its Subsidiaries are committed to carry out a compulsory work program under the various concession agreements signed with the Hungarian government the monetary value of which was EUR 35.2 million at the end of 2019 (2018: EUR 6.1 million).

In January 2017, the Company's 100% Romanian subsidiary, Sand Hill Petroleum Romania srl. ("SHPR") acquired majority participating interests (70% and 80% respectively) in two existing onshore hydrocarbons exploration concessions in Romania thus entering into a non-incorporated joint arrangement with Panfora Oil & Gas srl. a Romanian company („Joint Operating Partner"). SHPR and Joint Operating Partner are jointly and severally liable towards the Romanian government for the work program obligations which was EUR 41.5 million in total at the end of 2019 (total commitment of both parties to which joint and several liability applies). The pro-rated share of SHPR for the work program obligations was EUR 31 million in total at the end of 2019.

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

The first phase of both concession work programs expired in October 2018. SHPR and Joint Operating Partner filed for and obtained a multi-year extension of the first phase, thus the first phase of both concession blocks was extended until October 2021. An additional one year extension of the first phase of both concession agreements is available by law subject to fulfilling certain conditions. The Company is currently actively seeking for farmout opportunities for the EX-5 concession block. In the event that SHPR fails to complete the mandatory works by the expiry date of the first phase of the concession agreements and also fails to obtain another one-year extension, or, in the case of the second concession block, fails to agree on a farmout, the Company estimates that it could be required to settle a payment obligation of up to EUR 20.5 million and up to EUR 19.2 million, if such events were to occur.

The Company provided a Letter of Support to its Romanian subsidiary both in 2018 and 2019.

Operating lease commitments — Group as lessee as of 31 December 2018

The Company leases office facilities under operating leases, of which TEUR 1,750 was included in the other operating expenses for the year 2018.

Outstanding commitments for future minimum lease payments under non-cancellable operating leases as of 31 December 2018 were:

	2018
	€ 000
Within one year	540
After one year but not more than five years	1 247
More than five years	0

Section 5. Capital and debt structure

This section provides additional information about the Group's business and management policies that the directors consider is most relevant in understanding the business and management of the Group's capital and debt structure including:

- Objectives and policies of how the Group manages its financial risks, liquidity positions and capital structure (Notes 5.1, 5.2, 5.3)

5.1 Share capital and premium

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, the issued and paid-up shares consist of 2,572,500 class A1 shares (2018: 2,572,500), 421,000 class B1 shares (2018: 401,000), 14,697,897 cumulative preference 1 shares (2018: 14,691,453), 1,730,920 class A2 shares (2018: 1,730,920), 133,762 class B2 shares (2018: 133,762) and 7,199,997 cumulative preference 2 shares (2018: 5,919,997).

There are no differences between the class A1, A2, B1 and B2 ordinary shares. Each of these shares entitles its holder to cast one vote per share.

Holders of cumulative preference shares are entitled to receive dividends prior to holders of ordinary shares.

Cumulative preference shares build up a dividend reserve belonging to the share as from the date of the issuance of the specific share. Dividends on the preference shares of Sand Hill Petroleum B.V. are cumulative, which means that if there are no profits in a certain year, the annual fixed rate of dividends shall accrue on these preference shares until there are enough profits to pay the dividends. The holders of the cumulative preference shares are entitled to the right to firstly receive dividend up until the dividend reserve belonging to the cumulative preference shares is fully paid up. Holders of cumulative preference shares no. 2 have priority over holders of cumulative preference shares no. 1.

After these dividend reserves have been fully paid up, the ordinary shareholders are entitled to receive dividend. Please refer to note 5 in company-only financial statements for information on dividend reserves.

Issue date	Category	Number of shares	Price per share	Amount
16.apr.18	B1	20 000	1 USD	20 000
16.apr.18	B2	15 000	0,15 USD	2 250
16.apr.18	CP1	6 444	10 USD	64 440
17.dec.18	B1	-30 000	1 USD	-30 000
17.dec.18	B2	-9 870	0,15 USD	-1 481
17.dec.18	CP1	-9 666	10 USD	-96 660
20.dec.18	B1	20 000	1 USD	20 000
20.dec.18	CP1	6 444	10 USD	64 440

Allocated share capital: 184 USD

Allocated share premium: 42,806 USD

Issue date	Category	Number of shares	Price per share	Amount
01.mar.19	B1	20 000	1 USD	20 000
01.mar.19	CP1	6 444	10 USD	64 440
05.dec.19	CP2	280 000	10 USD	2 800 000
23.dec.19	CP2	1 000 000	10 USD	10 000 000

Allocated share capital: 13,064 USD

Allocated share premium: 12,871,376 USD

The issuance of shares on March 1, 2019 relates to an issuance of ordinary and preference shares to a new minority shareholder and issuance to an existing shareholder.

The issuance of shares on December 5 and December 23, 2019, relates to an issuance of preference shares to existing shareholders.

Each class A1 share and each class B1 share shall entitle its holder to cast 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 in accordance with the provisions of article 25 paragraph 2 of the Company's articles of association.

Cumulative preference shares do not entitle its holder to cast a vote at General Meetings in name of the Company.

The share capital is divided in:

	December 31st, 2019	December 31st, 2018
	€ 000	€ 000
Cumulative preference 1 shares	128	128
Cumulative preference 2 shares	63	52
Class A1 shares	22	22
Class B1 shares	4	4

Class A2 shares	15	15
Class B2 shares	1	1
Total	234	222

The share premium is divided in:

	December 31st, 2019	December 31st, 2018
	€ 000	€ 000
Cumulative preference 1 shares	128 237	128 181
Cumulative preference 2 shares	63 203	51 652
Class A1 shares	2 224	2 224
Class B1 shares	364	347
Class A2 shares	212	212
Class B2 shares	17	17
Total	194 257	182 633

5.2 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balances at the level of subsidiaries.

The capital structure of the Group consists of equity and guarantees issued to subsidiaries and third party debt. In order to achieve this overall objective, the Group's capital management, among other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements.

Refer to note 5.3.2 on covenants related to external capital requirements.

The Group monitors capital using a gearing ratio, which is 'net debt' divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 20% and 40%. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and short-term deposits.

	December 31st, 2019	December 31st, 2018
	€ 000	€ 000
Interest bearing loans and borrowings	73 848	69 876
Trade and other payables	11 730	17 252
Less cash and short term deposit	-13 612	-30 442
Net debt	71 966	56 686
Equity	114 097	134 935
Capital and net debt	186 061	191 621
Gearing ratio	38.7%	29.6%

5.3 Financial instruments

5.3.1 Finance income and expense

	2019	2018
	€ 000	€ 000
Interest income	170	45
FX gain	1	379
Total of finance income	171	424

	2019	2018
	€ 000	€ 000
Interest expense bonds (Nordic Trustee AS) EUR 70M	6 862	3 571
Preference share interest	0	23 472
Other interest expense	9	0
Interest on lease liabilities	37	0
Unwinding-Provision	141	101
FX loss	523	4 379
Total of finance expenses	7 572	31 523

Interest expense on bonds includes the modification loss on the redemption price of the Bond in an amount of EUR 561 thousand.

5.3.2 Interest-bearing loans and borrowings

Non - current liabilities

	December 31st, 2019	January 1st, 2019	December 31st, 2018
	€ 000	€ 000	€ 000
EUR 70 million 9% bonds due April 13, 2022	69 676	69 876	69 876
Lease liabilities	663	1 098	-
Total of interest-bearing loans and borrowings	70 339	70 974	69 876

Current liabilities

	December 31st, 2019	January 1st, 2019	December 31st, 2018
	€ 000	€ 000	€ 000
Bank loan	2 995	-	-
Lease liabilities	514	466	-
Total of interest-bearing loans and borrowings	3 509	466	0

Bank loan contains short term non-revolving working capital loan drawn in 2019 in EUR currency, with floating interest rate of EURIBOR + 1.25% p.a. The maturity date of the loan was originally in March 2020, but as a subsequent event it was deferred by the Hungarian Government until 31 December 2020 due to the outbreak of the COVID-19 pandemic (see Note 8.1).

On April 13, 2018 the Company entered into a Bond Terms Agreement with Nordic Trustee AS. The Bond issuance comprised of an issuance of senior secured EUR 70,000,000 callable bonds at an interest rate of 9% per annum and a maturity date of April 13, 2022. The Bonds have been listed on the Nordic Alternative Bond Market (operated by the Oslo Stock Exchange) on September 25, 2018. On 19 December the Bond terms have been amended whereby the amount repayable at maturity was increased by 1%. The effective interest rate is 10.01% until 19 December 2019, since then 10.87% (2018: 10.15%). The amendment was treated as a modification of the existing interest-bearing borrowing with difference in the present values being recognized within finance expenses (Note 5.3.1).

Further amendment to bond terms occurred in April 2020, details are explained in Note 8.1.

The terms of the placement require the Company to meet and report quarterly compliance with the following financial covenants:

- a current ratio (current assets/current liabilities) of minimum 1:1;
- a minimum liquidity of EUR 7 million at all times;
- Leverage ratio (Net interest bearing debt/EBITDA) to be equal to or lower than
3.00:1x for a Relevant Period expiring on or after 31 December 2018 but before 31 December 2019
2.50:1x for a Relevant Period expiring on or after 31 December 2019 but before 31 December 2020
2.00:1x for a Relevant Period expiring on or after 31 December 2020 and until 13 April 2022;
where Relevant Period means a period of 12 months ending on a Quarter Date
- Negative pledge

In the event the Company does not comply with the financial covenants listed above, it will constitute an Event of Default (breach of other obligations). The breach may be remedied within 20 business days after the earlier of the Company's actual knowledge thereof.

If an Event of Default has occurred and is continuing, the Bond Trustee may, in its discretion, or upon instruction received from the Bondholders

- (a) declare that the Outstanding Bonds, together with accrued interest and all other amounts accrued or outstanding be immediately due and payable, at which time they shall become immediately due and payable; and/or
- (b) exercise any or all of its rights, remedies, powers or discretions under the Bond documentation or take such further measures as are necessary to recover the amounts outstanding under the Bond documentation (i.e. seek remedy from the various securities provided by the Company Group).

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 are currently 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.

Further amendment to bond terms occurred in April 2020, details are explained in Note 8.1.

Covenants and requirements	2019	2018
Current ratio with a minimum of 1.1	1.67	2.6
Leverage ratio with a maximum of 2.5:1 (in 2018 3:1)	3.28:1	0.8:1
Liquidity with a minimum of EUR 7 million	14	30

5.3.2 A Accounting policy - Interest-bearing loans and borrowings

Borrowing costs 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), are capitalised as part of the cost of the respective assets. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term from funds borrowed specifically to finance a project, the income generated from the temporary investment of such amounts is also capitalized and deducted from the total capitalised borrowing costs. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period.

All other borrowing costs are recognised in the statement of profit or loss in the period in which they are incurred.

Even though exploration and evaluation assets can be qualifying assets, generally, they do not meet the 'probable economic benefits' test. Any related borrowing costs incurred during this phase are generally recognised in the statement of profit or loss in the period in which they are incurred.

5.3.3 Preference shares

In line with the original intentions of the shareholders, and in accordance with Dutch GAAP the Company has continuously treated and reported the cumulative preference shares as an equity instrument. By adopting IFRS-EU as an accounting standard the Company has reviewed, with the help of its Dutch and UK legal and tax advisors, in detail the Shareholders' Agreement (SHA) and the Articles of Association of the Company taking into account the IFRS-EU standards, in particular which refers to the treatment of preference shares and similar instruments.

The Company came to a conclusion that, under IFRS-EU and based on the Corporate Documentations, the cumulative preference shares should be treated, from an accounting point of view, as a financial liabilities.

From a Dutch tax point of view the Company believes that the cumulative preference shares should not be treated as a financial liability.

The Company also came to a conclusion that, in line with the original intentions of the shareholders, the preference shares should be treated as equity and the Corporate Documentation should be changed accordingly.

Thus the SHA was amended on December 18, 2018 and the Company's Articles of Association on December 20, 2018.

Under the amended corporate documentations any distribution to the holders of the preference shares are at the discretion of the Company and will be subject to the prior approval of the Management Board which means the preference shares can be classified as an equity instrument.

5.3.3 A Accounting policy - Preference shares

Before modification of the corporate documentations:

The preference shares classified as a financial liability.

As the fair value of the preference share is less than the total issue proceeds of the preference share there is a liability and equity component as well.

The equity component is not recorded at its fair value. Instead, in accordance with the general definition of equity as a residual, the equity component of the preference share is simply the difference between the fair value of the compound instrument (total issue proceeds) and the liability component as determined above. The equity component will not be remeasured subsequently.

The liability component is accounted for in accordance with the requirements of IFRS 9 (amortised cost method), for the measurement of financial liabilities.

After modification of the corporate documentations:

The preference shares classified as an equity.

The debt for equity swap is outside the scope of IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments when the creditor is a shareholder acting in its capacity as such. At the date of modification the liability component classified as equity. No profit or loss recognized as the equity instrument issued at the carrying amount of the financial liability extinguished.

5.3.4 Derivatives designated as hedging instruments

Cash flow hedges

Commodity price risk

The Company is exposed to commodity price risk on the sale side of natural gas and liquids. Hedging strategy is to reduce variability in cash flows attributable to highly probable forecast sales. When necessary, the Company considers commodity hedging to eliminate risk rather than taking up general market price volatility.

The commodity swap contract, which commenced on 1 October 2019, requires net settlement in cash, determined as the difference between the natural gas VTP day ahead and weekend unweighted average price – Heren and a fixed price.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the commodity swap contracts match the terms of the expected highly probable forecast sales transactions (i.e., notional amount and expected payment date). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the commodity swap contracts are identical to the hedged risk components.

The hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- Different indexes (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments

The Group is holding the following swap contracts:

	Maturity					Total
	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	
As at 31 December 2019						
Commodity swap contracts						
Notional amount (in MWh)	33 750	67 500	101 250	101 250	0	303 750

The impact of the hedging instruments on the statement of financial position is, as follows:

	Carrying amount	Line item in the statement of financial position
	€000	
As at 31 December 2019		
Commodity swap contracts	1 375	Derivative financial assets

The effect of the cash flow hedge in the statement of profit or loss and other comprehensive income is, as follows:

	Total hedging gain/(loss) recognised in OCI without tax	Amount reclassified from OCI to profit or loss	Line item in the statement of profit or loss
Year ended 31 December 2019	€000	€000	
Highly probable future sales	1 375	426	Revenue

5.3.5 Fair values

Carrying value versus fair value

	Fair value		Carrying value	
	December 31st, 2019 € 000	December 31st, 2018 € 000	December 31st, 2019 € 000	December 31st, 2018 € 000
Financial liabilities				
Bond	64 050	69 876	69 676	69 876
Financial assets				
Derivatives	1 375	0	1 375	0
Non current financial assets	7 811	10 628	7 811	10 628

The bond has a quoted price at the Nordic Alternative Bond Market (level 1 in the fair value hierarchy).

Derivatives are measured at fair value in the financial statements, valued using valuation techniques with market observable inputs. The model uses commodity forward rate curves of the underlying commodity as input, and the model uses present value calculation (level 2 in the fair value hierarchy).

Management assessed that the fair values of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Non current financial assets consist of restricted cash, for which management assessed that fair value approximates its carrying value. The other part of the non-financial asset is loan provided, management assesses that the fair value approximates the carrying value, as credit risk is already taken into account in the carrying amount through ELC (level 3 in the fair value hierarchy).

5.3.5 A Accounting policy – Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

5.3.6 Financial risk management objectives and policies

5.3.6.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: commodity price risk, interest rate risk and foreign currency risk. Financial instruments affected by market risk include loans and borrowings, deposits, trade receivables, trade payables, and derivative financial assets.

The sensitivity analysis in the following sections relate to the position as at 31 December 2019 and 2018.

The sensitivity analysis are intended to illustrate the sensitivity to changes in market variables on the Group's financial instruments and show the impact on profit or loss and shareholders' equity, where applicable.

Commodity price risk

The Group is exposed to the risk of fluctuations in prevailing market commodity prices on the mix of oil and gas products it produces. In order to remove commodity price volatility in respect of part of its revenues the Company's Hungarian subsidiary, OGDC, has entered into a fixed natural gas pricing agreement during the year with one of its key partners.

The Group's Board of Directors has developed and enacted a risk management strategy for commodity price risk and its mitigation. The Group hedges sales price using forward commodity sale contracts. The forward contracts do not result in physical delivery of gas, but are designated as cash flow hedges to offset the effect of price changes in natural gas. The Group hedges approximately 50-60% of its expected gas sales considered to be highly probable.

The Group enters only into physical commodity contracts in the normal course of business. These contracts are not derivatives and are treated as executory contracts, which are recognised and measured at cost when the transactions occur.

Commodity price sensitivity

For open hedging contracts sensitivity analysis is performed to determine the effect of market price fluctuation (+/- 10%) on market value. The company has derivatives for which cash-flow hedge accounting is applied, so commodity price sensitivity is shown in a sensitivity table for equity:

	Change in year-end price +10%	Change in year-end price in -10%
2019		
Natural gas VTP price change effect on equity	-382	+382

The company had no commodity derivatives in 2018.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company issued on April 13 a EUR 70 million bond maturing in 2022 at a fixed interest rate. The Company's Hungarian subsidiary took out 3 EUR million bank loan with floating interest of EURIBOR + 1.25% p.a..

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has transactional currency exposures that arise from sales or purchases in currencies other than the respective functional currencies.

Third party funding has been provided in EUR and the Company has been also providing significant USD and EUR denominated loan financings to the operating subsidiaries in Hungary and Romania. The exchange rate fluctuations between the EUR, the USD and these local currencies during the year resulted in some foreign exchange accounting results in the consolidated P&L of the Company but does not affect cash flows.

It is Company policy to fund expenditures with revenues received in the same currency where possible.

Approximately <20% (2018: <1%) of the Group's sales are denominated in currencies other than the functional currencies, whereas 30-50% (2018: 30-50%) of costs are denominated in currencies other than the functional currencies of the entities in the Group.

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the carrying value of monetary assets and liabilities at reporting date. The impact on equity is the same as the impact on profit before tax.

Increase/decrease in foreign exchange rate of EUR	Effect on profit before tax for the year ended December 31 st ,2019	Effect on profit before tax for the year ended December 31 st ,2018
	<u>Increase/(Decrease)</u> EUR million	<u>Increase/(Decrease)</u> EUR million
EUR/USD +10%	-0,12	0,73
EUR/USD -10%	0,15	-0,74
EUR/HUF +10%	0,49	-1,92
EUR/HUF -10%	-0,60	2,12
EUR/RON +10%	0,43	0
EUR/RON -10%	-0,45	0

5.3.6.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is managed by preparing cash flow forecasts and projections to ensure that the Group and the Company has sufficient liquid resources to meet obligation as they fall due. The Group's appetite to liquidity and solvency risk is considered low.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Year ended 31 December 2019	On demand	< 1 year	1 - 2 years	2 - 5 years	> 5 years	Total
Interest-bearing loans and borrowings	0	9 295	6 300	73 850	0	89 445
Lease liabilities	0	528	357	336	0	1 221
Accounts payable and accrued liabilities	0	11 730	0	0	0	11 730
Year ended 31 December 2018	On demand	< 1 year	1 - 2 years	2 - 5 years	> 5 years	Total
Interest-bearing loans and borrowings	0	6 300	6 300	79 450	0	92 050
Accounts payable and accrued liabilities	0	17 252	0	0	0	17 252

Description of Bond covenants are detailed in Note 5.3.2.

5.3.6.3 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group trades only with recognised, creditworthy third parties.

It is the Group's policy to continuously check the financial position of business partners before trading and to update this regularly.

At 31 December 2019, the Group had 1 customer (2018: 3 customers) that owed the Group more than EUR 1 million each and accounted for approximately 43% (2018: 96%) of all receivables and contract assets outstanding. There was no customer (2018: two customers) with balances greater than EUR 2 million accounting for just over 0% (2018: 82%) of total accounts receivables and contract assets.

Refer to Note 6.2 for an analysis of trade receivables ageing.

5.3.7 Changes in liabilities arising from financing activities

Year ended 31 December 2019

€ 000	1 January 2019	Cash flows	Other	31 December 2019
Current borrowings	0	2 981	14	2 995
Lease liabilities current	466	-515	563	514
Non-current borrowings	69 876	-6 300	6 100	69 676
Lease liabilities non-current	1 098	0	-435	663
Total liabilities from financing activities	71 440	-3 834	6 242	73 848

Other item contains the followings: accretion of interests (EUR 6,748 thousand), loss on modification of bond terms (EUR 561 thousand), capitalization of transaction costs (EUR -1,158) recognition of new leasing liabilities (EUR 91 thousand) and reclassification of current portion of lease liabilities from Non-current lease liabilities (EUR 435 thousand).

In the Cash-flow statements proceeds from loans and borrowing also contain EUR 350 thousand paid transaction cost.

Year ended 31 December 2018

€ 000	1 January 2018	Cash flows	Other	31 December 2018
Current borrowings	0	0	0	0
Non-current borrowings	195 560	66 823	-192 507	69 876
Total liabilities from financing activities	195 560	66 823	-192 507	69 876

The other item in 2018 contained the preference share reclassification to equity (EUR -195,506), the interest accrual related to the bond liability (EUR 4,802) and capitalization of transaction costs (EUR -1,776).

Cash flows contained payment of transaction cost in amount of EUR 1,776.

5.4 Leases

5.4.1 Group as a lessee (applicable from 1 January 2019)

The Group has lease contracts for various items of buildings, warehouse and vehicles used in its operations. Leases of warehouses and buildings generally have lease terms between two and five years, while vehicles generally have lease terms between three and four years. The Group's obligations under its leases are secured by the lessor's title to the leased assets.

The Group also has certain leases of assets with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the short-term lease and lease of low-value assets recognition exemptions for these leases.

There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period. All the leased assets are within category Other property, plant and equipment:

	Other property, plant and equipment
As at 1 January 2019	1 599
Additions	91
Depreciation	-502
As at 31 December 2019	1 188

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

As at 1 January 2019	1 564
Additions	91
Accretion of interest	37
Payments	-515
As at 31 December 2019	1 177
Current (Note 5.3.2)	514
Non-current (Note 5.3.2)	663

The maturity analysis of lease liabilities is disclosed in Note 5.3.6.2.

The following are the amounts recognised in profit or loss:

	2019
Depreciation expense for right-of-use assets	502
Interest expense on lease liabilities	37
Expense relating to short-term leases (included in other operating expenses)	174
Expense relating to leases of low-value assets (included in other operating expenses)	10
Variable lease payments (included in other operating expenses)	59

The Group had total cash outflows for leases of EUR 515 thousand in 2019. The Group also had non-cash additions to right-of-use assets and lease liabilities of EUR 91 thousand in 2019.

The Group has lease contracts for warehouse storage places that contains variable payments based on the area actually used in the period. These terms are negotiated by management for certain locations where temporary storage need arise during the period. Management's objective is to minimize the lease expense but provide adequate storage facility for inventory.

5.4A Accounting policy – Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group is not a lessor in any transactions, it is only a lessee.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use asset is depreciated over the shorter of the lease term and the useful life of the right-of-use asset.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in Interest-bearing loans and borrowings (see Note 5.3.2).

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of assets. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Short term leases:

A lease that, at the commencement date, has a lease term of 12 months or less. The lease term is the non-cancellable period of the lease (considering relevant extension and termination options).

A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

Low-value asset:

Underlying assets with a value, when new, of EUR 5000.

Section 6. Working capital

This section provides additional information that the Directors consider as most relevant in understanding the composition and management of the Group's working capital:

- Cash and short-term deposits (Note 6.1)
- Trade and other receivables (Note 6.2)
- Inventories (Note 6.3)
- Accounts payable and accrued liabilities (Note 6.4)

6.1 Cash, short-term deposits

	December 31st, 2019	December 31st, 2018
	€ 000	€ 000
Unrestricted cash	13 612	30 442
Total	13 612	30 442

6.1A Accounting policy - Cash and short-term deposits

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and with a maturity of three months or less. Cash and cash equivalents include cash in hand and bank balances.

6.2 Trade and other receivables

	December 31st, 2019	December 31st, 2018
	€ 000	€ 000
Trade receivables	4 269	13 136
Other receivables and prepayments	3 667	3 398
Total trade and other receivables	7 936	16 534

Trade receivables are generally on terms of 0 (advance payment) to 30 days.

Income tax receivables contain overpayment of corporate and local income tax in amount of EUR 854 thousand (2018: EUR 396 thousand).

Movements in the allowance for impairment of receivables were, as follows:

	2019	2018
	€ 000	€ 000
At 1 January	22	6
Charge for the year	0	16
Amounts written off	0	0
Unused amounts reversed	-18	0
At 31 December	4	22

As at 31 December 2019 and 31 December 2018, the analysis of trade receivables is as follows:

	Total	Not past due	<30 Days	30-60 Days	60-90 Days	>90 Days
2019	4 273	4 273	0	0	0	0
2018	13 158	8 472	4 686	0	0	0

6.3 Inventories

	December 31st, 2019	December 31st, 2018
	€ 000	€ 000
Materials	6 059	6 534

The total value of inventory consists of materials bought to use for drilling wells. In 2019 impairment was recognized on inventory in an amount of EUR 1 117 thousand for inventory items which net realizable value was lower than the carrying amount.

6.3A Accounting policy - Inventories

Inventories should be 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 are 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.

The amount of any write-down of inventories to net realizable value and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

6.4 Accounts payable, accrued liabilities and taxes and mining royalties payable

	December 31st, 2019	December 31st, 2018
	€ 000	€ 000
Trade payables	11 464	13 789
Income taxes payable	162	44
Taxes and mining royalties payables	2 050	3 348
Other payables	266	3 463
Total	13 942	20 644

Terms and conditions of the above liabilities:

- Trade payables are non-interest bearing and are normally settled on 30-day terms
- Other payables are non-interest bearing

Contract liability:

Other payables in 2018 contained contract liabilities which included long-term advances received. The contract was completed during 2019.

	December 31st, 2019	December 31st, 2018
	€ 000	€ 000
Contract liability	0	2 776
	2019	2018
	€ 000	€ 000
Revenue recognized during the year included in contract liabilities at the beginning of the year	2 776	3 176

Section 7. Group structure

This section provides additional information that the directors consider is most relevant in understanding the structure of the Group, including:

- Group information (Note 7.1)
- Related party disclosures (Note 7.2)

7.1 Group information

Ultimate parent company:

The Company is a subsidiary of WP XI Holdings B.V., which is incorporated and domiciled in the Netherlands, and which directly holds 97.17% (2018: 97.21%) of the Company's shares. The remaining shares are held by private individuals.

1.92% (2018: 1.90%) of the Company's shares are held by members of the Management Board and Supervisory Board of the Company.

The Company is ultimately owned by Warburg Pincus Private Equity XI, L.P., WP XI Partners, L.P., Warburg Pincus XI Partners, L.P. and Warburg Pincus Private Equity XI-B, L.P., which are all incorporated and domiciled in the United States of America, and by Warburg Pincus Private Equity XI-C, L.P. and Warburg Pincus XI (Asia) L.P. which are incorporated and domiciled in the Cayman Islands.

Sand Hill B.V. – Holding company:

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.

Subsidiaries held directly by Sand Hill B.V.:

Name	Principal activities	Country of incorporation	% equity interest	
			2019	2018
Sand Hill Petroleum Romania S.r.l	Exploration and development	Romania	100%	100%
O&GD Central Kft.	Exploration and development, Production	Hungary	100%	100%
Sand Hill Services FZ LLC	Engineering and technical services	UAE	100%	n/a

Subsidiaries held indirectly by Sand Hill B.V:

Name	Principal activities	Country of incorporation	% equity interest	
			2019	2018
OGD Nádudvar Koncessziós Kft.	Exploration and development	Hungary	100%	100%
OGD Újléta Koncessziós Kft.	Exploration and development, Production	Hungary	100%	100%
OGD Berettyóújfalu Koncessziós Kft.	Exploration and development, Production	Hungary	100%	100%
OGD Nagykáta Koncessziós Kft.	Exploration and development	Hungary	100%	100%
OGD Ócsa Koncessziós Kft.	Exploration and development	Hungary	100%	100%
OGD Mogyoród Koncessziós Kft.	Exploration and development	Hungary	100%	100%
OGD Körösladány Koncessziós Kft.	Exploration and development	Hungary	100%	n/a
OGD Békéscsaba Koncessziós Kft.	Exploration and development	Hungary	100%	n/a
OGD Tiszafüred Koncessziós Kft.	Exploration and development	Hungary	100%	n/a

The Company's Hungarian subsidiary, O&GD Central Kft. signed three new hydrocarbons concessions agreements with the Hungarian Ministry of Technology on 24 January 2019. The three concession areas (Békéscsaba, Körösladány and Tiszafüred) are located in the Pannonian Basin in Hungary adjacent to O&GD Central's operating area.

Joint operations:

The Company participates in two joint operating agreements:

- Sand Hill Petroleum Romania S.r.l. participation 70% (2018: 70%) in EX-1 Joint Operating Agreement with Panfora Oil & Gas S.r.l.
- Sand Hill Petroleum Romania S.r.l. participation 80% (2018: 80%) in EX-5 Joint Operating Agreement with Panfora Oil & Gas S.r.l.

7.2 Related party disclosures

Transactions with key management personnel

Directors' loans

No loans, prepayments, advances and guarantees, were made for the benefit of any member of the Management Board or the Supervisory Board as per December 31, 2019 (2018: zero).

Other Directors' interests

Members of the Management Board and Supervisory Board of the Sand Hill Group own less than 15% of the ordinary share capital of the Company as per December 31, 2019 (2018: less than 15%).

Compensation of the key management personnel of the Group

	2019	2018
	€ 000	€ 000
Supervisory Board	233	247
Management Board	19	78
Total compensation paid to key management	252	325

The Company applies only short-term employee benefit forms for compensation.

In 2019 an amount of TEUR 252 (2018: TEUR 325) was absorbed by the Sand Hill Group relating to salaries, social contribution, and other similar payments to officers in their capacity as members of the Management Board and Supervisory Board of the Sand Hill Group.

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel. Directors do not receive pension entitlements from the Company.

Other related party transactions

Amounts incurred by the Company for provision of advisory services provided by entities belonging to the management personnel is EUR 529 thousand in 2019 (EUR 921 thousand in 2018), and is recognised in other operating expenses as advisory fees (see Note 3.6). Outstanding balance of advisory fees is EUR 16 thousand at 31 December 2019 (2018: EUR 382 thousand)

Section 8. Other

8.1 Events after the reporting period

After the balance sheet date, we have seen significant uncertainty with regards to gas and oil prices as a result of the Covid-19 (coronavirus) pandemic. Furthermore, recent European developments (LNG shipments from the USA) in gas supply in April have caused further abnormally large volatility in commodity markets. The scale and duration of these developments remain highly uncertain but the negative impact of the above-mentioned gas market and price dynamics on the Group's overall financial position in 2020 is likely to be material.

Based on a Government decision due to the Covid-19 situation the Company's Hungarian subsidiary, O&GD Central kft., was able to defer the repayment of a EUR 3 million working capital facility until the end of December 2020.

On 30 April 2020 the Company entered into a second amendment and restatement agreement to 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.

8.2 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements that the Group reasonably expects will have an impact on its disclosures, financial position or performance when applied at a future date, are disclosed below. The Group intends to adopt these standards when they become effective. Of the other standards and interpretations that are issued, but not yet effective, as these are not expected to impact the Group, they have not been listed.

Amendments to IFRS 3: Definition of a business
Effective for annual periods beginning on or after 1 January 2020.

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material
Effective for annual periods beginning on or after 1 January 2020.

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

Effective for annual periods beginning on or after 1 January 2022.

In January 2020, the International Accounting Standards Board issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current.

The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments to the standard is not expected to have a significant impact on the Group's consolidated financial statements.

Sand Hill Petroleum B.V.

Company only financial statements for the year ended 31 December 2019

Income statement for the year ended 31 December 2019

	Notes	2019	2018
		€ 000	€ 000
Other income and expenses (after tax)		1 123	-23 130
Share in results of subsidiaries	3	-34 849	-2 630
Net loss		-33 726	-25 760

Balance sheet after proposed profit/loss appropriation
as at 31 December 2019

	Notes	31 December 2019	31 December 2018
		€ 000	€ 000
Assets			
Fixed assets			
Investment in subsidiary	3	19 244	47 712
Other financial assets	4	154 226	150 721
Total		173 470	198 433
Current assets			
Trade and other receivables		900	48
Cash and short-term deposits		10 798	6 903
Total current assets		11 698	6 951
<u>Total assets</u>		<u>185 168</u>	<u>205 384</u>
Equity and liabilities			
Share capital			
Share capital		234	222
Share premium		194 257	182 633
Legal reserve		5 466	4 214
Accumulated deficit		-85 860	-52 134
Total equity	5	114 097	134 935
Non-current liabilities			
Interest-bearing loans and borrowings	6	69 676	69 876
Total non-current liabilities		69 676	69 876
Current liabilities			
Trade and other payables		1 395	573
Total current liabilities		1 395	573
Total liabilities		71 071	70 449
<u>Total equity and liabilities</u>		<u>185 168</u>	<u>205 384</u>

Notes to the financial statements

1 General

The Company's financial statements are presented in accordance with Section 402 of Book 2 of the Dutch Civil Code. All amount are in EUR thousands, unless stated otherwise.

Legal Name:	Sand Hill Petroleum B.V.
KvK-nummer:	56038038
Corporate Address:	Strawinskylaan 3051, 1077 ZX Amsterdam
Place of Incorporation:	Amsterdam, The Netherlands
Formation Date:	September 13, 2012

2 Accounting policies

The parent company financial statements of Sand Hill Petroleum BV. have been prepared in accordance with Part 9, Book 2 of the Netherlands Civil Code.

In accordance with subsection 8 of section 362, Book 2 of the Netherlands Civil Code, the measurement principles applied in these parent company financial statements are the same as those applied in the consolidated financial statements, which were prepared in accordance with IFRS as adopted by the European Union (see Note 2 to the consolidated financial statements), except for the accounting principles for subsidiaries. These are accounted for in accordance with principles as disclosed below.

As the financial data of Sand Hill Petroleum BV. (the "Company") are included in the consolidated financial statements, the income statement in the parent company financial statements is presented in condensed form (in accordance with section 402, Book 2 of the Netherlands Civil Code).

2.1 Investments in subsidiaries

Investments in subsidiaries are valued using the net equity value method. Under this method, the subsidiaries are carried at the Group's share in their net asset value plus its share in the results of the subsidiaries and its share of changes recognized directly in the equity of the subsidiaries as from the acquisition date, determined in accordance with the accounting policies disclosed in these financial statements, less its share in the dividend distributions from the subsidiaries. The Company's share in the results of the subsidiaries is recognized in the profit and loss account. If and to the extent the distribution of profits is subject to restrictions, these are included in a legal reserve.

If the value of the subsidiaries under the net equity value method has become nil, this method is no longer applied, with the subsidiaries being valued at nil if the circumstances are unchanged.

In connection with this, any interests that, in substance, form part of the Company's net investment in the subsidiary, are included. A provision is formed if and to the extent the company assumes all or part of the debts of the subsidiary or if it has a constructive obligation to enable the subsidiary to repay its debts.

The expected credit loss on intercompany receivables is eliminated against the intercompany receivables itself.

3 Participating interests in group companies

The company holds 100% of the share capital of O&GD Central Kft., Sand Hill Petroleum Romania Srl and Sand Hill Services FZ LLC.

	2019	2018
	€ 000	€ 000
Carrying amount at 1 January	47 712	49 618
Capital contributions	5 129	757
Net (loss)/ profit	-34 849	-2 630
Other direct movements in equity of participating interests	1 252	0
Foreign currency	0	-33
Carrying amount at 31 December	19 244	47 712

4 Other financial assets

The other financial assets comprises loans and long term restricted cash.

	2019		2018	
	Loans receivable from Group companies	Restricted cash	Loans receivable from Group companies	Restricted cash
	€ 000	€ 000	€ 000	€ 000
Carrying amount at 1 January	144 138	6 583	82 284	0
New loans granted	8 513	0	58 692	0
Cash increase/decrease on restricted account	0	-5 008	0	6 583
Repayments	0	0	-2 507	0
Foreign currency	0	0	5 669	0
Carrying amount at 31 December	152 651	1 575	144 138	6 583

5 Shareholders' equity

Share capital	December 31st, 2019	December 31st, 2018
	€ 000	€ 000
Cumulative preference 1 shares	128	128
Cumulative preference 2 shares	63	52
Class A1 shares	22	22
Class B1 shares	4	4
Class A2 shares	15	15
Class B2 shares	1	1
Total	234	222

Share premium	December 31st, 2019	December 31st, 2018
	€ 000	€ 000
Cumulative preference 1 shares	128 237	128 181
Cumulative preference 2 shares	63 203	51 652
Class A1 shares	2 224	2 224
Class B1 shares	364	347
Class A2 shares	212	212
Class B2 shares	17	17
Total	194 257	182 633

Cumulative preference shares build up a dividend reserve belonging to the share as from the date of the issuance of the specific share. The accumulated amount in the dividend reserve amount to EUR 56,880 thousand as at 31 December 2019 (2018: EUR 47,737 thousand).

See note 5.1 to the Consolidated Financial Statements for movements in the issued capital and details on preference shares.

Legal reserves

Legal reserves consist of the following items:

	2019	2018
	€ 000	€ 000
Foreign currency translation reserve on participating interests	4 214	4 214
Cash-flow hedge reserve of participating interests	1 252	0
Carrying amount at 31 December	5 466	4 214

Reconciliation of legal reserves:

	Foreign currency translation reserve	Cash flow hedge reserve of participating interest
	€ 000	€ 000
Carrying amount as at 1 January 2018	6 279	0
Additions/(Reversals)	-2 065	0
Carrying amount as at 31 December 2018	4 214	0
Additions	0	1 252
Carrying amount at 31 December 2019	4 214	1 252

5.1 Appropriation of results

Appropriation of result for the year 2018

The financial statements 2018 were approved in the annual general meeting of shareholders held on 9 May, 2019. The annual general meeting of the shareholders has determined the appropriation of the result in accordance with the proposal made by the management.

Proposed appropriation of the result for 2019

Management proposed to add the loss for the year 2019 to accumulated deficit.

6 Interest bearing loan

The movement of interest bearing loans were as follows:

	€ 000
Carrying amount as of 1 January 2018	195 560
Reclassification of preference shares to Equity	-195 560
Drawdown	70 000
Transaction costs capitalised	-1 776
Accretion of interest	4 802
Payment of interest	-3 150
Principal repayment	0
Carrying value as of 31 December 2018	69 876
Carrying amount as of 1 January 2019	69 876
Effect of change in contractual cash-flow	561
Transaction costs capitalised	-1 158
Accretion of interest	6 697
Payment of interest	-6 300
Principal repayment	0
Carrying value as of 31 December 2019	69 676

7 Remuneration of Supervisory Board members and Management Board members

	2019	2018
	€ 000	€ 000
Supervisory Board	233	247
Management Board	19	78
Total compensation paid to key management	252	325

For other related party disclosures reference is made to Note 7.2 of the consolidated financial statements.

8 Commitments

For the commitments reference is made to Note 4.8 of the consolidated financial statements.

9 Subsequent events

Reference is made to subsequent events in the consolidated financial statements.

Managing Directors,

Guido Nieuwenhuizen

Tamas Lederer

Intertrust (Netherlands) B.V

Supervisory Board Directors,

Sir Richard L. Olver

Peder Bratt

Jack E. Golden

Simon W.C. Evers

Martin P. Fossum

David M. Le Clair

OTHER INFORMATION

Independent auditor's report

Reference is made to the independent auditor's report as included on the next page.

Statutory rules concerning appropriation of the net result

According to article 22 of the Company's article of associations, the net result of the year is at the disposal of the shareholder.

In accordance with article 22 of the Company's articles of association, the management board is authorized to reserve the profits, or a part thereof. to the extent these profits are not reserved by the management board, firstly a dividend shall be distributed to the CP2 shareholders (until the accrued but unpaid CP2 dividend has been paid in full). Subsequently a dividend shall be distributed or allocated to the holder of CP1 shares (until the accrued but unpaid CP1 dividend has been paid in full). Further, the Company shall not, without prior written approval of the combined meeting of holders class A1 shares and class A2 shares, pay any dividend or distributions in respect to the class A1 shares, class A2 shares, Class B1 shares or class B2 shares. After the cumulative preference shares have been bought back by the company, the management board may resolve, with the prior approval of the combined meeting of class A1 shares and class A2 shares, to distribute all or any part of the balance of the profits.