QTR3

2018

Unaudited interim condensed financial information for

Sand Hill Petroleum B.V.

Amsterdam, 30 November 2018

Sand Hill Petroleum B.V.
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None of the Company or any of its parent or subsidiary undertakings or any such person’s officers or employees accepts any liability whatsoever arising directly or indirectly from the use of this Report.

Management Commentary

HSE
Considered a top priority for the Company. There were no reportable incidents during the period.

Production
Total average daily production in Q1-Q3 was 31.8 MMscfe/d, consisting of 27 MMscfd net gas, 700 bpd condensate and 105 bpd oil.

Sales
Hydrocarbons sales revenue was USD 69 mn during the first 9 months.

EBITDA
Group achieved USD 36.2 mn EBITDA during the first 9 months.

Investments
Capital expenditure was USD 53.1 mn in Q1-Q3. The Group invested in the following activities: USD 3 mn in geoscience and seismic activities, USD 22.5 mn in exploration, appraisal, and development drilling, USD 12.8 mn in well completions and gathering systems and USD 14.8 mn in facilities.

A total of eight wells have been drilled during Q1-Q3 2018. Two of these wells were drilled during Q3, one in the Koros block and one in the Ujleta block. Gas was found in the main target of the Koros block well, which will be further deepened to test an additional zone. The testing of the Ujleta block well has not been finished by the end of Q3. In total six out of the eight 2018 wells have successfully discovered gas. Two gas wells were completed during Q3 in the Koros Block with expected production to start in Q4 2018 and Q1 2019. On the Berettyo block, three gas wells began production during August and one in September. A semi-permeable membrane unit was successfully installed and began operations at a suspended well with high CO_2 content gas in the Koros block during August.
The Konyar Gas Plant project engineering, permitting and procurement has been completed and construction was 30% complete by the end of the quarter. Start-up of the plant is expected in December 2018.

Romania

The permitting process for the EX-1 3D seismic survey continued during Q3 and field operations (surveying) have begun. In the EX-5 block, preparations have been ongoing for the drilling of the first commitment well, including road and pad construction.

SUMMARY OF RESULTS

	30-Sept-18
Production (MMcfe/d)	31,8
(USD 000)	
Operating profit/(loss)	23 045
EBITDA	36 151
Current Assets	63 445
Current Liabilities	19 476
Net Interest Bearing Debt	19 120
Current ratio	3,26
Liquidity	42 197

Notes:

EBITDA (consolidated operating profit before Interest, Taxes, Depreciation, Amortization, impairment and non-cash expenses, and excluding any items of a one-off, non-recurring, extraordinary and exceptional nature) is calculated for the period of 9 months ending on September 30, 2018.

Net Interest Bearing Debt means the sum of all interest bearing financial indebtedness on a consolidated basis (excluding any Shareholder Loan and any liability under any preference shares in the Issuer (equity instrument), the HMA Guarantee Facility and any Permitted Hedging), less the amount standing to the credit of Pledged Accounts.

Current Assets means the aggregate book value of the consolidated assets of the Group which are treated as current assets less the aggregate book value of any restricted cash (where restricted cash means cash which is held in accounts that are both pledged and blocked)

Current Liabilities means the aggregate book value of the consolidated liabilities of the Group which are treated as current liabilities excluding the current portion of long term debt, and liabilities to non-controlling interests.

Liquidity reflects cash that can be used without restriction.

Pledged Accounts means all accounts held by SHP BV and its subsidiaries, including but not limited to: the Escrow Account (in connection with the settlement of the Bonds); the Debt Service Retention Account; and any account that is held by SHP BV with banks in the Netherlands, but excluding the following accounts:

(i) the cash collateral account held by OGDC related to the HMA Guarantee Facility in an amount up to EUR 1,500,000;

(ii) any Hedging Collateral Account;

(iii) any cash collateral account securing counter-indemnity obligations in respect of a guarantee, bond, standby or documentary letter of credit issued by a bank or financial institution in respect of any underlying liability of a Group Company in the ordinary course of business of the Group up to a maximum of EUR 1,000,000;

(iv) any Abandonment Collateral; and

(v) any cash collateral security granted pursuant to paragraph (l) of the definition of "Permitted Encumbrances".

Please refer to the definition of the above terms in the Bond Terms for SHP BV (ISIN NO 0010820616).

UNAUDITED

INTERIM

CONDENSED

CONSOLIDATED

QTR 3 2018

FINANCIAL

INFORMATION

WITH NOTES

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

	notes	*2018.01.01-2018.09.30 unaudited*	*2017.01.01-2017.09.30 unaudited*	*2018.07.01-2018.09.30 unaudited*	*2017.07.01-2017.09.30 unaudited*
Revenue	2	69 071	20 653	28 889	7 442
Cost of sales	3	-490	-114	-217	-30
Gross Profit		**68 581**	**20 539**	**28 672**	**7 412**
Other income		14	58	-14	44
Production costs	4	-25 128	-7 513	-10 286	-2 474
Exploration expenses	5	-459	-190	-254	33
Production related depreciation	6	-12 669	-5 033	-6 040	-1 971
General and administrative expenses	7	-6 857	-7 551	-2 527	-2 483
Other depreciation	8	-437	-715	141	-492
Operating profit		**23 045**	**-405**	**9 692**	**69**
Finance income	9	38	9 062	15	3 932
Finance expense	9	-7 517	-405	-2 897	-245
Profit before income tax		**15 566**	**8 252**	**6 810**	**3 756**
Income tax expense	10	-2 947	-1 114	-847	-420
Profit for the period		**12 619**	**7 138**	**5 963**	**3 336**
Other comprehensive income		0	0	0	0
Total comprehensive income		**12 619**	**7 138**	**5 963**	**3 336**

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

Non Current Assets	*notes*	*2018.09.30 unaudited*	*2017.12.31 unaudited*
Exploration rights	11	12 176	11 078
Exploration and Evaluation Assets	12	56 984	47 066
Assets in Development	13	12 268	8 209
Producing Assets	14	94 128	75 238
Other property, plant and equipment	15	1 476	767
Goodwill	16	8 716	9 029
Other intangible assets		0	0
Deferred tax assets		524	883
Other financial assets	17	24 926	7 614
Total non-current assets		**211 198**	**159 884**
Current assets			
Inventories		5 097	4 705
Trade and other receivables		16 151	10 185
Cash and short-term deposits	18	42 197	9 260
Total current assets		**63 445**	**24 150**
Total assets		**274 643**	**184 034**

Equity and liabilities	*notes*	*2018.09.30 unaudited*	*2017.12.31 unaudited*
Issued capital	19	254	254
Retained earnings		-40 091	-52 114
Other reserve	20	209 030	209 071
Translation difference		-502	420
Total equity		**168 691**	**157 631**
Non-current liabilities			
Interest-bearing loans and borrowings	21	82 801	0
Deferred tax liabilities		506	201
Provisions	22	3 169	4 121
Total non-current liabilities		**86 476**	**4 322**
Current liabilities			
Accounts payable and accrued liabilities	23	10 805	18 032
Taxes and mining royalties payable		7 791	4 049
Provisions	22	880	
Total current liabilities		**19 476**	**22 081**
Total liabilities		**105 952**	**26 403**
Total equity and liabilities	-	**274 643**	**184 034**

Consolidated Statement of Cash Flows

	notes	*2018.01.01-2018.09.30 unaudited*	*2017.01.01-2017.09.30 unaudited*	*2018.07.01-2018.09.30 unaudited*	*2017.07.01-2017.09.30 unaudited*
Profit before income tax from operations		**15 566**	8 252	6 810	3 756
Adjustments to reconcile profit before tax to net cash flows:					
Depreciation, depletion and amortisation		13 106	5 748	5 899	2 463
Unwinding of discount on decomissioning		72	39	-14	13
Working capital adjustments:					
Change in trade and other receivables		-6 388	-2844	-6 245	-1329
Change in inventories		-562	-648	-768	82
Change in trade and other payables relating to operating activities		-3 527	-10996	-3 984	-7523
Add: Finance expense (disclosed in financing activities)		3 870		2 188	0
Income tax paid		-1 420	-312	-817	-276
				0	
Net cash flows from operating activities		**20 717**	**-761**	**3 069**	**-2 814**
Cash flows from investing activities					
Expenditures on E&E and oil&gas assets		-51 969	-35003	-18 308	-11645
Expenditure on other PPE		-1 091	-686	-967	-199
Expenditure on other intangible assets		-13	-2564	129	-29
Loans granted	24	-551	-295	-172	-149
Net cash used in investing activities		**-53 624**	**-38 548**	**-19 318**	**-12 022**
Cash flows from financing activities					
Proceeds from issuance of shares		-41	41669	-128	12000
Proceeds from loans and borrowings		80 031		0	
Restricted cash decrease (increase)		-16 953	-2043	1 991	-1732
Net cash (used in) from financing activities		**63 037**	**39 626**	**1 863**	**10 268**
Increase/(Decrease) in cash		30 130	317	-14 386	-4 568
Translation difference		2 807	657	2 969	286
Cash and cash equivallents, begining of period		9 260	11381	53 614	16 637
Cash and cash equivallents, end of period		42 197	12 355	42 197	12 355

NOTES TO FINANCIAL INFORMATION

Basis of reporting

In line with the terms of the Senior Secured Callable Bonds 2018-2022 ISIN NO 0010820616 this unaudited interim condensed consolidated financial information for the nine months ended 30 September 2018 is reported in accordance with IFRS. The 2017 Annual Financial Statements and the 2018 Q1 unaudited interim condensed consolidated financial information have been prepared in accordance with Dutch GAAP.
The unaudited interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements.
The unaudited interim condensed financial information has been prepared on the going concern basis.
The preparation of the Group's consolidated financial information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial information. 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.
This unaudited interim condensed consolidated financial information has not been subject to review or audit by independent auditors

Note 1 Significant accounting policies

The unaudited interim condensed consolidated financial information is presented in United States dollars which is the Company's functional currency

Exploration

The exploration costs in the Financial Information prepared in accordance with IFRS are accounted for using the Successful Efforts method of US GAAP (FAS-19), as it is allowed by IFRS 6 – Exploration for and Evaluation of Mineral Resources to follow consistently any previously applied accounting policy not contradictory to IFRS.

The Group does not apply IFRS 6 to expenditures incurred:

- before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area.
- after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Pre-licence costs

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

Licence and property acquisition costs

Exploration licence and acquisition costs are capitalised in intangible assets.
Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit, i.e. the term of the concession contract.

Exploration and evaluation costs

Costs of E&E are initially capitalised as E&E assets.

Tangible assets used in E&E activities (such as the Group's vehicles, drilling rigs, seismic equipment and other property, plant and equipment used by the Company's Exploration Function) are classified as property, plant and equipment.

E&E costs are not amortised prior to the conclusion of appraisal activities.

Capitalization of borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset), form part of the cost of that asset.

Other borrowing costs are recognized as an expense using the effective interest method. The group capitalizes borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets.

Capitalization ceases when all activities necessary to prepare the qualifying asset for its intended use or sale are complete.

The Group does not capitalize borrowing costs related to E&E assets as it is unlikely that future economic benefits from that project can be considered probable.

Note 2 Revenue recognition

Revenue from the sale of products in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of any sales related taxes, excise duties, returns, customer discounts and other sales-related discounts. Revenue from the sale of products is recognised in profit and loss when the amount of revenue can be measured reliably, the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probably and there is no continuing management involvement with the products. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism. Revenue from production of oil, natural gas properties in which the Group has an interest with other partners are recognized on the basis of the Group's working interest (entitlement method). If it is probable that discounts will be granted and the amount can be measured reliably, the discount is recognised as a reduction of revenue when the sales are recognised.

Note 3 Cost of Sales

Cost of balancing gas purchased from 3rd parties in order to comply with delivery commitments.

Note 4 Production costs

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

Note 5 Exploration expenses

Geological and geophysical exploration costs related to areas where the company does not hold the concession rights are charged against income as incurred.

Exploration expenses include further the impairment of E&E assets in case hydrocarbons are not found, and the exploration expenditure is written off as a dry hole, when the right to explore in a specific area has expired and is not expected to be renewed or when the company does not plan further expenditures or explorations in the specific area.

Note 6 Production related depreciation

Amortisation and depreciation of wells and pipelines is calculated on a unit-of-production basis, using the ratio of oil and gas production in the period to the estimated quantities of proved reserves on an entitlement basis at the end of the period plus production in the period, on a well-by-well basis. Proved reserve estimates are based on a number of underlying assumptions including oil and gas prices, future costs, oil and gas in place and reservoir performance, which are inherently uncertain.
Management uses established industry techniques to generate its estimates and regularly references its estimates against those of joint venture partners or external consultants.
However, the amount of reserves that will ultimately be recovered from any field cannot be known with certainty until the end of the field's life.
Depreciation of other oil and gas properties e.g. gas plants have a straight-line depreciation.

Note 7 General and Administrative expenses

Comprises costs that are considered part of general company overhead such as wages not allocated to capital expenditures or production costs, accounting, legal and other corporate expenses.

Note 8 Other depreciation and amortization

Depreciation of office equipment, and other intangible assets (mainly software).

Note 9 Finance income and expense

Finance income comprises the following: interest income on investments (including available-for-sale financial assets), gains from the sale of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues, using the effective interest method.

Finance expenses comprise the following: interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognized on financial assets. Exchange gains and losses are recognized on a netted basis.

The amounts under this item are mainly non-realised foreign exchange gains because of exchange rate movements between USD/RON and USD/EUR related to the outstanding USD denominated shareholder loans from SHPBV to the Hungarian and Romanian subsidiaries. EUR and RON are the functional currencies for the Hungarian and Romanian companies respectively.

Note 10 Tax

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

Note 11 Exploration rights

Concession fees, acquisition costs of the EX-1 and EX-5 Concession stakes in Romania.

Note 12 Exploration and Evaluation assets

Exploration costs are accounted for using the Successful Efforts method of US GAAP (FAS-19), as it is allowed by IFRS 6 – Exploration for and Evaluation of Mineral Resources. The balance consists of capital expenditures the outcome of which are yet uncertain.

Note 13 Assets in Development

Expenditure is transferred from 'Exploration and evaluation assets' to 'Assets in development' once the work completed to date supports the future development of the asset and such development receives appropriate approvals. After transfer of the exploration and evaluation assets, all subsequent expenditure on the construction, installation or completion of infrastructure facilities such as pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within 'Assets in development'. E&E assets will no longer be classified as such when 'technical feasibility and commercial viability of extracting a mineral resource are demonstrable'.

When a development project moves into the production stage, all assets included in 'Assets in development' are then transferred to 'Producing assets'.
Assets in development contain the uncompleted infrastructure costs as well.

Note 14 Producing assets

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

Note 15 Other PPE

Mainly office equipment.

Note 16 Goodwill

Acquisition costs of the Koros license in Hungary.

Note 17 Other financial assets

Cash set aside as collateral for obligations (e.g. as security for guarantees issued by Banks on behalf of OGDC Kft) held on separate accounts and not available for at least 12 months after the reporting period plus cash deposited on any blocked account (Escrow accounts including the DSRA account to service interest payments). Also includes amounts disbursed by Sand Hill Petroleum Romania srl. (SHPR) to Panfora Oil and Gas srl. under the Carry Financing Agreement signed with its JV partner in 2016.

	Sept -18 (USD 000s)
Cash and cash equivalents (escrowed account - Norway)	17 837
Debt Service Reserve Account (escrowed account - Norway)	3 646
Collaterals in Hungary (escrowed accounts)- concession rounds, Körös licence, mining plots	2 314
Carry Financing / Panfora Oil & Gas srl.	1 129
	24 926

Note 18 Cash and short term deposits

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

Note 19 Issued capital

Ordinary and cumulative preference shares issued.

Note 20 Other reserve

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

Note 21 Interest bearing loans and borrowings

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

Note 22 Provisions

The Group recognizes a decommissioning liability where it has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made.

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

Liabilities due within 12 months are shown as current liability whereas liabilities beyond 12 months are shown under non-current liabilities.

Note 23 Accounts payable and accrued liabilities

The Company's 100% Hungarian subsidiary, O&GD Central Kft. ("OGDC"), has entered into an offtake prepayment agreement ("Prepayment Agreement") in November, 2017 with Hungarian Gas Trade Ltd. ("HGT"), whereby the Buyer paid in advance for future volumes. OGDC is committed to deliver a fixed volume of gas from its existing processing plant to HGT between November 2017 and 30 June 2019.

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

As of the end of period the total outstanding amount under the prepayment agreement was net EUR 4.2 mn (USD 4.8 mn).

Normal trade creditors are also shown under this item.

Note 24 Carry Loan to Panfora Oil & Gas srl.

The Company's Romanian subsidiary (SHPR) entered into a Joint Operating Agreement with its partner Panfora Oil & Gas srl. ("Panfora") in January 2017 and serves as an Operator in the Romanian EX-1 and EX-5 concessions. SHPR also entered into a Carry Financing Agreement with Panfora in 2017, whereas SHPR finances Panfora's share of expenditures within the Minimum Work Program obligations up to a total of EUR 6.35 mn, preferentially repayable from any production from the licences.

Note 25 Contingent liabilities

The Prepayment Agreement is secured by a parent company guarantee from the Company in favour of HGT, such security to terminate upon expiry of the agreement on 30 June 2019. In case OGDC could not supply gas, OGDC will either have to repay the outstanding value of the prepaid amounts not yet compensated by gas deliveries (max EUR 8 mn) or HGT may enforce upon the Company's guarantee.

As of the end of QTR 3 the outstanding amount guaranteed by the Company was gross EUR 5.32 mn (USD 6.2 mn).

In early 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 (EX-1 and EX-5) in Romania thus entering into a non-incorporated JV with a Romanian company, Panfora, a wholly owned subsidiary of MOL Oil & Gas Plc. („MOL"). As a result of the acquisition, SHPR is committed to carry out a compulsory work program together with Panfora. SHPR and Panfora are jointly and severally liable towards the Romanian government for the work program obligations. SHPR has provided a parent company guarantee from the Company in favor of Panfora for its share of such obligations and have received a reciprocal parent company guarantee from MOL.

As of the end of QTR 3 2018 the Company's total exposure under the outstanding Romania related guarantees was estimated at EUR 41.6 mn (USD 48.2 mn).