

PetroNeft Resources plc
Preliminary Statement of Results
for the year ended 31 December 2020

Final Accounts

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Annual Report and Financial Statements

Forward Looking Statements

This report contains forward-looking statements. These statements relate to the Group's prospects, developments, and business strategies. Forward-looking statements are identified by their use of terms and phrases such as 'believe', 'could', 'envisage', 'potential', 'estimate', 'expect', 'may', 'will' or the negative of those, variations or comparable expressions, including references to assumptions.

The forward-looking statements in this report are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements. These forward-looking statements speak only as at the date of these financial statements.

PetroNeft Resources plc

Chairman's Statement

Dear Shareholders,

The world today is rightly increasingly focus on a future with cleaner air, water, and a fairer planet, and while your Company can make no apologies over having the extraction of fossil fuels as its core business, we are determined to do what we can within the constraints of our business model to work towards that future. We accept that within the medium-term fossil fuels are destined to be only a peripheral part of the energy future. However, today, and in the immediate future, a stable and secure supply of oil is still needed, perhaps more than ever.

We are doing what we can to ensure that our operations are carried out safely, reliably, and efficiently as well as with minimal disruption to the natural environment. Our production of associated natural gas is largely used for on-site electricity generation and heating, dramatically reducing emissions by eliminating the need for diesel fuel and its transportation by truck. We have constructed a mini oil processing unit, reducing the need for imported diesel for field operations. In total, we have eliminated almost 25,000km/yr. of trucking requirements. We are currently working on a pipeline project to link our newly commissioned Cheremshanskoye field to local infrastructure, further reducing trucking and associated emissions. We play our part in the local community, supporting local schools and re-foresting areas no longer required for operations. And finally, we are proud to have passed 2020 with zero lost time accidents. Your board is acutely aware of its responsibilities in respect of minimising the ecological impact in its operations, and continually upgrading environmental and safety performance while cultivating a meritocratic, open, and fair management style.

The energy sector is experiencing a considerable rebound from the unprecedented, combined challenges of the dramatic fall in the price of oil caused initially by the OPEC +++ divorce and the demand collapse caused by Coronavirus lockdowns. We deeply regret the suffering, deprivation, and tragedy that the pandemic has brought to all of us but feel it is reasonable to view the worst as being behind us now. In terms of our business, this has been reflected in significant increases in demand starting from 3rd quarter 2020, which have been translated through to increases in prices, which we see as a continuing trend in a more disease-free world.

As a Company we remain focused on improvements in operational performance aimed at efficiently lifting production, increasing revenue, and adding to reserves. Despite the challenging environment through 2020, because of the increased technical focus initiated in 2019, the emphasis on rigorous cost control and judicious allocation of capital, we feel the executive team can look back on the Company's recent performance with pride. Real benefits are beginning to emerge for all the Company's stakeholders. The successful acquisition of an additional 40% of Licence 67 which closed Q1 2021, which has seen a commencement of production and a key addition to the Company's cash flow on a 90% basis is a good example of this trend. As a board, we are determined to continue to prove up the value proposition that is PetroNeft Resources PLC.

Corporate Development

2020 saw considerable Board changes for the Company with the appointment of Daria Shaftelskaya, who is a major shareholder, holding 9.64% of the equity in our Company, to join the Board as a Non-Executive Director. Pavel Tetyakov, who has been Vice President of Business Development since 2016, was also appointed as an Executive Director. After a considerable time with the Company as Non-Executive Director Thomas Hickey chose to not run for re-election, we wish him well with his future endeavours and thank him for his support and considerable contribution over many years.

Change continued as we entered 2021. David Golder retired from the Board as our Non-Executive Chairman. I would like to thank David who has provided excellent service to the Company, driving through the initial development, and more recently guiding it through very challenging times. I wish him well in his retirement.

I was elected to the Board on the 29 January 2021 as Non-Executive Director and on David Golder's retirement was elected to the position of Non-Executive Chairman. As a new Board member of the Company, I look forward to working with the Board.

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Chairman's Statement (*continued*)

Capital Structure

Despite the challenging market conditions, the Company has been able to improve its financial position through successful capital structuring:

- At the beginning of 2020, the Company successfully raised capital, with monies received in January 2020. Overall, we were pleased to be able to raise capital in the amount of US\$2.1 million, by the issuance 107,755,037 Ordinary Shares at £0.015 which represented a 58% premium to the previous closing price. The placement had strong support from institutional and other investors with strong Board participation representing approximately 44% of the placement. The Company received US\$1.57 million by way of cash proceeds and the balance of US\$0.53 million related to salaries and Directors fees owing which was settled by the issuance of shares.
- Following the successful completion of the C4 extended well test at the Cheremshanskoye field on Licence 67 in spring of 2020, a Financing Agreement has been executed between the owner and operator of Licence 67, LLC Lineynoye (90% owned by PetroNeft Resources) and AOR (*Alexandrovskoye Refinery*) to finance the cost of constructing an all-season road to connect the C4 well with the local year-round road network up to a maximum expenditure of \$1 million. The financing facility covered the entire cost of road construction with completion occurring in April 2021. This now enables year-round production, a considerable improvement over past performance where the well could only produce for three to four months each winter. This all-season new road will reduce operational expenses and complexity. It may also be able to service future producing wells in the license area in the event of successful drilling. In addition, the strong operational performance, combined with the improving oil price, has significantly improved the finances of the Company which has enabled us to fund construction of the road and re-entry of the Ledovoye L-2a well without the need to call down agreed financing arrangements which now remain in place should we need the capital in the future.
- The Petrogrand AB loan redemption date was extended from 15th December 2020 to 15th December 2021. The redemption date can also now be extended at our option, provided we make a repayment of 20% of the loan on or before 15th December 2021. In such circumstances the final redemption date would be the earliest of (a) 15th December 2022 or (b) the date of completion of the License 61 sale or (c) the date of completion of License 67 sale.
- Successfully raised US\$2.9m in February 2021 through a convertible loan from a group of 13 lenders including new and existing investors, Directors, and senior management
- As part of the acquisition of an additional 40% interest in Licence 67, which concluded in March 2021, issued a US\$1.7 million convertible loan to the seller Sarum Energy.

The Company has been very pleased by the support and confidence shown by the participants in these fund raisings, especially as the embedded share placings were all at a premium to the prevailing share price when the agreements were signed. This confidence was further endorsed when we were then able to retire US\$ 2.864 million of debt through conversion.

Outlook

During the early stages of the Covid pandemic, we set about upgrading and revising our HSE protocols to meet the challenges faced by the pandemic so that when production restarted, our staff and suppliers/contractors could operate in a safer environment. Through this period, we minimized cash outgoings by working with our contractors and service providers to reschedule key payments, our staff took voluntary salary reductions in some cases with 50% reduction of the Tomsk office salary overhead. With our oil offtakers, we worked on a prepayment basis. We kept a minimum crew in the fields to ensure ongoing operations could be continued. I am very pleased to have been able to watch such support and belief in our future by all our stakeholders during the challenging times in 2020. Now that our operations are back to normal, we are seeing production volumes increasing year on year through 2021.

On License 67 I am particularly looking forward to the development of this asset. Operational results in both assets through the start of 2021 have been very encouraging and provide further confidence in the potential of our assets to drive forward

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Chairman's Statement (continued)

shareholder value. It is also pleasing to see that this improvement in our operational performance is reflected in an improving share price. Whilst this movement is very positive, I believe there is significant further scope, and we are committed to narrowing the gap between the share price and the long-term value of the Company's assets and reserves.

Licence 61 and 67 Reserves

Independent reserve consultants Ryder Scott completed an assessment of petroleum reserves on Licence 61 and 67 as at 1 January 2016. As we initiate production from Licence 67, combined with improved knowledge of our assets in Licence 61, we are aiming to generate an updated third-party assessment of the Company's reserves in 2021.

The Ryder Scott reserves report estimated total Proved and Probable ("2P") reserves for Licence 61 at that time at 102.92 mmbbls. PetroNeft's net interest in these reserves is 50%. As shown in the table below, PetroNeft's share of the combined Licence 61 and Licence 67 reserves is 104.4 mmbbls 3P, 63.5 mmbbls 2P and 15.9 mmbbls P1 as at 31 December 2020 following adjustment of the Ryder Scott numbers for production. Note that during Q1 2021 our interest in Licence 67 increased to 90%, the numbers shown in this report are correct as of 1st January 2021, and do not reflect this equity increase.

While we have not yet asked Ryder Scott to prepare an updated report for Licence 67 following the C-4 result we have had reserves approved by the State Reserves Committee (GKZ) for C1 + C2 reserves of 2.5 mmtons (this is approximately equal to 2P reserves of 19.26 mmbbls). The reserves approved are in the Upper Jurassic (J1) and Lower Jurassic (J14) intervals.

We have had good exploration success in the past and feel we can add further reserves with additional appraisal at Emtorskaya in the near term and Traverskaya and Tuganskaya in the medium term. In the longer term we expect to grow our reserves further with continued exploration and appraisal on our two Licence areas. Numerous prospects have been seismically defined but not yet drilled, particularly in the southern half of Licence 61 and surrounding the Cheremshanskoye and Ledovoye fields in Licence 67.

Ryder Scott Estimated Reserves in Oil Fields (net to PetroNeft)

Oil Field Name	Proved	Proved & Probable	Proved, Probable & Possible
Licence 61	1P mmbo	2P mmbo	3P mmbo
Lineynoye + West Lineynoye	6.4	12.2	15.3
Arbuzovskoye	1.0	3.5	4.7
Tungolskoye	0.3	2.8	3.6
Sibkrayevskoye	5.8	29.3	29.3
Kondrashevskoye	0.7	1.3	1.6
North Varyakhskoye	0.2	0.4	0.5
Emtorskaya	0	0	32.00
	14.4	49.5	87.00
Licence 67			
Ledovoye	1.5	14.0	17.4
Total net to PetroNeft	15.9	63.5	104.4

- Licence 61 as at 31 December 2020 (Ryder Scott report as at 1 January 2016, adjusted for 2016-2020 production).
- Reserves reflect just PetroNeft's 50% share of reserves for each licence.
- All oil in discovered fields is in the Upper Jurassic section.
- Reserves were determined in accordance with the Society of Petroleum Engineers ("SPE") Petroleum Resources Management System ("PRMS") rules.
- Note equity change licence 67 effective Q1 2021.

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Chairman's Statement (continued)

These numbers do not include 19.26 mmbbls (gross) C1+C2 reserves which were audited by GKZ (Russian State Reserves Committee) for the Cheremshanskoye field in Licence 67. Russian State C1+C2 is approximately equivalent to 2P under the PRMS classification system.

Review of PetroNeft loss for the year

The loss after taxation for the year was US\$4,541,861 (2019: US\$6,042,454).

The loss included the Company's share of joint venture's net loss in WorldAce Investments of US\$5,737,042 (2019: US\$7,510,318) which arose mainly due to the loss in margins as Revenues declined from US\$24,852,620 to US\$16,719,562 in 2020. This decline was due to the significant fall in the global price of oil, with the realised price falling by 32.7% from an average realised price per barrel of \$41.8/bbl (2019) to \$28.15/bbl (2020).

In addition, the share of joint venture's net loss in Russian BD Holdings B.V. increased to US\$705,249 (2019: US\$664,455)

	2020	2019
	US\$	US\$
Revenue	1,695,524	1,443,568
Cost of sales	<u>(1,440,560)</u>	<u>(1,333,339)</u>
Gross profit	254,964	110,229
Administrative expenses	<u>(1,035,040)</u>	<u>(807,507)</u>
Operating loss	(780,076)	(697,278)
Share of joint venture's net loss - WorldAce Investments Limited	(5,737,042)	(7,510,318)
Share of joint venture's net loss - Russian BD Holdings B.V.	(705,249)	(664,455)
Finance income	3,583,166	4,275,181
Finance costs	(432,362)	(369,950)
Profit on equity settlement of financial liabilities	206,044	-
Profit on modification of financial liabilities	<u>218,898</u>	<u>-</u>
Loss for the year for continuing operations before taxation	(3,646,621)	(4,966,820)
Income tax expense	<u>(895,240)</u>	<u>(1,075,634)</u>
Loss for the year attributable to equity holders of the Parent	<u>(4,541,861)</u>	<u>(6,042,454)</u>

Revenue

Revenue in 2020 and 2019 includes income as operator of both licences, and the revenue of PetroNeft's wholly owned subsidiary, Granite Construction, in respect of construction services provided in relation to both joint ventures.

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Chairman's Statement (*continued*)

Income of PetroNeft Group as Operator of Licence 61 and Licence 67

PetroNeft performs the role of operator for both the licence 61 and 67 joint ventures. This means that PetroNeft employees and management are responsible for the day to day running of both Licences. Major strategic and financial decisions relating to the Licences require unanimous approval by both shareholders in the respective joint venture agreements.

As operator, PetroNeft is entitled to charge certain administrative, management and technical costs to the joint ventures. The costs associated with this revenue are included in cost of sales. In 2020 PetroNeft Group charged a total of US\$895,590 (2019: US\$678,161) to the joint ventures in respect of management services. PetroNeft also owns a construction Company, Granite Construction, which carries out ad hoc construction projects such as well pads and on-site accommodation on both licences as well as maintaining the winter road network each year. In 2020 Granite Construction charged the WorldAce Group US\$799,934 (2019: US\$765,407) in respect of these services.

Administrative expenditure showed an increase year on year of 28%, following a notable reduction year over year of 47% in 2019. In 2017 the Company implemented a cost cutting program across the Group and the Directors and management agreed to reduce and defer significant portions of their remuneration; as at 31 December 2020 a total of US\$1,049,092 (2019: US\$1,278,068) had been deferred by the Directors and senior management - (of this, a total of \$576,000 was settled through director participation in the Convertible debt raise of March 2021, part of which in the amount of US\$301,278 was subsequently converted into equity in April 2021).

Most of the Finance income relates to interest receivable on loans to the joint ventures. During 2020 PetroNeft recognised interest income of US\$3,142,150 (2019: US\$3,802,594) on its loans to WorldAce Group and US\$440,822 (2019: US\$469,974) on its loans to Russian BD Holdings B.V. The Company considers no impairment should be provided in 2020 (2019: Nil). For more details see Notes 8 and 15.

Finance Costs

Finance costs relate to interest payable on loans from Petrogrand AB and on a separate convertible loan of US\$1.3million concluded on the 24 June 2019. The convertible loan is unsecured, with a maturity date of 31st December 2021. Interest charges on the loan are LIBOR plus 8%. The loan from Petrogrand AB has a revised maturity date of 15th December 2021. The redemption date can also now be extended at PetroNeft's option provided the Company makes a repayment of 20% of the loan on or before 15th December 2021. In such circumstances the final redemption date would be the earliest of (a) 15th December 2022 or (b) the date of completion of the License 61 sale or (c) the date of completion of License 67 sale. Petrogrand AB is also entitled to a share in the proceeds of any sale of assets.

The obligation and liability shall survive the repayment or mandatory repayment of the Petrogrand AB loan and shall continue to be secured by the floating charge over the assets of PetroNeft. The fees will be paid upon the completion of the sale of License 61 and or License 67, on or before 31st December 2023. For more details see Note 13.

Profit on equity settlement of Financial Liabilities

Relates to the implied profit occurring of US\$0.206 million in accordance with IFRS 2 Share based payments, where the agreed exercise price of the shares transferred was higher than the market price at time of exercise. In total during 2020, 37,456,431 shares were issued in satisfaction of US\$0.73 million in fees owing to Directors and Senior Management.

Profit on modification of Financial Liabilities

The Company performed an assessment under its accounting policies and the requirements of IAS 39 as to whether the restructuring of the terms of the Petrogrand loan facility was a deemed substantial modification. As the net present value of the cashflows under the original terms and the modified terms was greater than 10%, the modification was accounted for as substantial. As a result, on completion of the restructuring the carrying value of the Petrogrand loan facility with a note value of US\$2.89 million was derecognised by an amount of US\$0.22 million and the fair value of the loan notes of US\$2.67 million was recognised at the date of the Statement of Financial Position. The gain arising on substantial modification of the loan notes has been recognised in the Income Statement as a profit on modification of financial liabilities

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Chairman's Statement (*continued*)

Review of Statement of Financial Position as at 31st December 2020.

Financial Assets- loans to joint ventures.

The Statement of Financial Position reports a reduction in Financial Assets, loans to joint ventures of US\$10,250,945. During the year PetroNeft advanced loans totalling US\$ 152,900 to WorldAce Investments Limited and US\$124,195 to Russian BD Holdings B.V. Group, to support the continued development of the capex program and the operations. Interest Income from WorldAce Investment Limited of US\$3,142,150 and US\$440,882 from Russian Holdings B.V. Group was accrued but not paid. The total advances and fee income were offset by the share of losses of PetroNeft's joint venture operations WorldAce Investment Limited of US\$ 12,472,779 and Russian BD Holdings B.V. Group of US\$ 1,548,866. For more details see Notes 6,7,8 and 15.

Trade and Other Receivables.

There was a significant increase in Trade and Other Receivables. As at 31st December 2020, US\$ 2,528,931 (2019: US\$1,136,940). The primary reason for the growth in receivables was the increase in the receivable amounts owing from PetroNeft's joint venture businesses, which increased to US\$2,329,529 (2019: US\$1,005,991). Of the Joint venture trade receivable outstanding, WorldAce Investments Limited owed US\$1,879,475 (2019: US\$818,010) and Russian BD Holdings B.V. Group owed US\$450,054 (2019: US\$187,981). For more details see notes 10 and 15.

Called Up Share Capital and Share Premium Account.

During 2020 a total of 118,226,241 Ordinary Shares was issued. As part of a funding program, authorised by the Company in January 2020, a total of 107,755,037 Ordinary Shares were issued for a total of issued value of US\$2,104,936, which represented a premium over nominal value of 76%. Cash receipts of US\$1,573,668 was used to fund ongoing capex requirements and operational cost. The balance of the funds raised, include the issuance of shares, totalling 26,985,227 in satisfaction of Salaries and Fees owing of US\$531,268 to Directors and Senior Management. The debts owing and share issuance in satisfaction of same, are analysed as follows.

- David Sturt received 8,399,956 Ordinary Shares in satisfaction of US\$165,373 fees owing.
- Pavel Tetyakov received 11,428,650 Ordinary Shares in satisfaction of US\$225,000 fees owing.
- Maxim Korobov received 4,179,280 Ordinary Shares in satisfaction of US\$82,279 fees owing.
- Thomas Hickey received 2,977,341 Ordinary Shares in satisfaction of US\$58,616 fees owing.

In May 2020, a further 10,471,204 Ordinary Shares were issued in satisfaction of Directors fees owing of US\$200,000 to Dennis Francis, who had resigned as a Director in December 2018. The Shares issued were issued at a 77% premium to the nominal value of the Share Capital.

For more details see Note 12.

Interest Bearing Loans and Borrowings:

Movement in Interest Bearing Loans and Borrowings can be accounted for as follows. An agreement was concluded to extend the Petrogrand AB Loan redemption date from 16th December 2019 to 15th December 2020 on the proviso that interest accrued and not yet paid up to the time of the revised agreement on the extension, would be rolled up into a revised principal sum due of US\$2,872,148. Thereafter monthly interest accruing as and from 16th December 2019 would be paid within 7 calendar days of month end for the prior month. The Company has made the interest payments as they fell due. In December 2020, a further extension of the Loan facility was granted for a period of 12 months ending 15 December 2021, the loan can be further extended to 15 December 2022 at the option of the Company if certain conditions are met. As the net present value of the cashflows under the original terms and the modified terms was greater than 10%, the modification was accounted for as substantial. As a result, on completion of the restructuring the carrying value of the Petrogrand loan facility was derecognised by an amount of US\$218,898 and the fair value of the loan notes of US\$2,675,774 was recognised at the date of the Statement of Financial Position

In June 2019, PetroNeft secured loans from a group of 5 lenders, 3 of which are related parties. See note 13 for more details. The total of the loans provided was US\$1.3 million. A condition of the loans was that the lenders at any time may convert up to 65% of their loan advance into ordinary equity shares of PetroNeft. The date of maturity of the loans was 31st December 2020, which was subsequently revised to 31st December 2021. Interest on the loans is LIBOR plus 8%. In April 2021, four of the lenders elected to convert US\$812,500 of the principal amount into Ordinary Shares of the Company.

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Chairman's Statement *(continued)*

Key Financial Metrics – WorldAce Group

Because of the equity method of accounting for joint ventures that applies to PetroNeft's interest in WorldAce, listed below are the metrics which are an extraction from the audited financial statements of the WorldAce Group and give an indication as to the performance of Licence 61:

	WorldAce Group	WorldAce Group
	2020	2019
	US\$	US\$
Revenue	16,719,562	24,852,620
Cost of sales	<u>(17,465,593)</u>	<u>(25,100,495)</u>
Gross profit	(746,032)	(247,875)
Administrative expenses	(2,515,578)	(2,624,057)
Impairment of exploration and evaluation assets	-	(1,382,769)
Operating profit/(loss)	(3,261,610)	(4,254,701)
Write-off of oil and gas properties	-	-
Write-off of exploration and evaluation assets	-	(1,299,887)
Finance income	35,745	57,906
Finance costs	<u>(7,985,620)</u>	<u>(9,523,954)</u>
Loss for the year for continuing operations before taxation	(11,211,485)	(15,020,636)
Income tax expense	<u>(262,599)</u>	-
Loss for the year	<u>(11,474,084)</u>	<u>(15,020,636)</u>
Loss for the year	(11,474,084)	(15,020,636)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>		
Currency translation adjustments	<u>(13,471,473)</u>	<u>9,026,423</u>
Total comprehensive loss for the year	<u>(24,945,557)</u>	<u>(5,994,213)</u>
PetroNeft's Share 50%	<u>(12,472,779)</u>	<u>(2,997,107)</u>

Net Loss – WorldAce Group

PetroNeft's share of the net loss of WorldAce Group for the full year declined from US\$7,510,318 to US\$5,737,042 in 2020. Production volumes year over year were broadly similar, the gross margin loss was due to a significant deterioration in the average price per barrel of oil sold, primarily due to the Covid pandemic. The gross margin loss was mitigated by improved control over administrative expenses, combined with no charges in 2020 for impairment or write off of Exploration and Evaluation Assets and reduced Financing costs, due to a lower average LIBOR rate in 2020 versus 2019. Those factors resulted in PetroNeft's share of the net loss of WorldAce Group declining year over year.

Of the US\$7,985,620 in interest payable by WorldAce, US\$3,142,150 is payable to PetroNeft. (2019 US\$9,523,954/US\$3,802,594)

Revenue, Cost of Sales and Gross Margin – WorldAce Group

Gross Revenue from oil sales was US\$16,719,562 for the year (2019: US\$24,852,620). Cost of sales includes depreciation of US\$1,256,822 (2019: US\$1,936,923), which was lower mainly due to temporary suspension of most of our wells in April/ May following a collapse in the oil price due to the Covid pandemic and secondly in September / October period necessary third-party pipeline maintenance.

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Chairman's Statement *(continued)*

The gross margin declined during the year to US\$746,032 (2019: US\$247,875) due to significant erosion in the average price per barrel, a decline of 32.7% year on year, primarily due to Covid pandemic. Operating costs per barrel (cost of sales excluding depreciation and Mineral Extraction Tax) at US\$12.39 (2019: US\$13.82 per barrel) was lower as most overhead lines showed declines year on year. We would expect the gross margin to improve in future periods as our facilities and field operations are fully staffed and can handle additional production from the Sibkrayevskoye oil field. We produced 570,510 barrels of oil (2019: 589,165 barrels) in the year and sold 593,840 barrels of oil (2019: 594,057 barrels) achieving an average oil price of US\$28.15 per barrel (2019: US\$41.84 per barrel). All oil was sold on the domestic market in Russia.

Finance Costs – WorldAce Group

Gross Finance costs of US\$7,985,620 (2019: US\$9,523,954) mainly relates to interest on loans from PetroNeft and Oil India.

Taxation – WorldAce Group

The tax charge accrued in the year amounted to US\$262,599 (2019: US\$ Nil).

Current and Future Funding of PetroNeft Group

While there were consolidated net current liabilities at the year-end of US\$3,416,497 (2019: US\$4,633,370), the Company has consistently demonstrated its ability to secure Shareholder funding and proactively works with its lenders in obtaining loan maturity extensions and securing new funding. In particular, the last Convertible debt funding in February 2021, which secured US\$2,903,802 demonstrated the continued support of institutional investors, the largest shareholders, the Directors and Senior Management. The Company continues to drive its cost cutting program across the Group and the Directors and Management have agreed to reduce and defer significant portions of their remuneration. Note 15 outlines the amounts owed to the Board and management in this regard.

The loan facility from Swedish Company Petrogrand AB was due to mature on 15 December 2020, however by mutual consent, a revised maturity date of 15 December 2021 was set, which may be extended if certain milestones are met by a further 12 months. The borrower can exercise the option to extend if the borrower pays 20% of the loan balance outstanding on or before the redemption date of 15th December 2021. The revised terms include an extension to the entitlement of the lender to a bonus on the sale of either or both Licence 61 and Licence 67 if they are sold by 31 December 2022 of \$2,500,000 per licence. When this loan was extended this bonus entitlement period was also extended by one year to 31 December 2023.

In June 2019, the Company agreed a convertible loan for US\$1,300,000 with a group of five investors which was to mature on 31 December 2020 and subsequently extended under mutual agreement, without any revision to loan terms to 31 December 2021. This loan is partially convertible into Ordinary shares of PetroNeft (up to 65% of the principal) at a price per Ordinary Share of US\$0.01547. In April 2021, four of the five lenders exercised their options to convert, accordingly a sum of US\$812,500 of the loan facility was converted into Ordinary Shares of the Company.

As previously announced the Company has engaged a financial advisor with the aim to test the market for both of its licences. This process is ongoing and the level of interest and the calibre of companies in the process to date is encouraging. Over the past 2 years the asset acquisition market in Russia has seen increased activity, especially for the larger domestic companies, albeit that activity has diminished due to the onset of the Covid 19 pandemic. In the event of a possible sale, it is expected that both loan facilities would be repaid from the proceeds of sale of one of the Licences.

Summary

Despite the considerable challenges through 2020, through the support of all our stakeholders we have not only survived but are now able to look forward to the future with renewed optimism. This renewed optimism is already being realised through early successes during the early months of 2021 on both our licences.

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Chairman's Statement (*continued*)

As well as the improvements within the Company, we are seeing within our industry an improvement in the market through the end of 2020 and into 2021. This combination enables me to look forward to the future with renewed confidence and belief in the ability to grow the value of the Company.

Finally, I know that I speak for all the Directors, management, and staff of the Group in giving sincere thanks to our shareholders for your continued support throughout the past extraordinary year.

Annual Report and AGM

The Annual Report will be mailed to shareholders and published on the Company's website (www.petroneft.com) on 30 June 2021. Notification, dating and location of the AGM will be notified shortly.

Finally, I know that I speak for all the Directors, management, and staff of the Group in giving sincere thanks to our shareholders for your continued support throughout the past year.

Alastair McBain

Non-Executive Chairman

Consolidated Income Statement

For the year ended 31 December 2020

	Note	2020 US\$	2019 US\$
Revenue	3	1,695,524	1,443,568
Cost of sales		<u>(1,440,560)</u>	<u>(1,333,339)</u>
Gross profit		254,964	110,229
Administrative expenses		<u>(1,035,040)</u>	<u>(807,507)</u>
Operating loss		(780,076)	(697,278)
Share of joint venture's net loss - WorldAce Investments Limited	6	(5,737,042)	(7,510,318)
Share of joint venture's net loss - Russian BD Holdings B.V.	7	(705,249)	(664,455)
Finance Income		3,583,166	4,275,181
Finance costs		(432,362)	(369,950)
Profit on equity settlement of financial liabilities		206,044	-
Profit on modification of financial liabilities		<u>218,898</u>	<u>-</u>
Loss for the year for continuing operations before taxation		(3,646,621)	(4,966,820)
Income tax expense		<u>(895,240)</u>	<u>(1,075,634)</u>
Loss for the year attributable to equity holders of the Parent		<u>(4,541,861)</u>	<u>(6,042,454)</u>
Loss per share attributable to ordinary equity holders of the Parent			
Basic and Diluted - <i>US dollar cent</i>	4	(0.55)	(0.84)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	2020 US\$	2019 US\$
Loss for the year attributable to equity holders of the Parent	(4,541,861)	(6,042,454)
<i>Other comprehensive income maybe reclassified to profit or loss in subsequent years:</i>		
Currency translation adjustments - subsidiaries	68,348	(77,816)
Share of joint ventures' other comprehensive income - foreign exchange translation differences	<u>(7,579,354)</u>	<u>4,996,109</u>
Total comprehensive loss for the year attributable to equity holders of the Parent	<u>(12,052,867)</u>	<u>(1,124,161)</u>

Consolidated Statement of Financial Position

As at 31 December 2020

	Note	2020 US\$	2019 US\$
Assets			
Non-current Assets			
Property, plant, and equipment	5	4,682	28,843
Equity-accounted investment in joint ventures - WorldAce Investments Limited		-	-
Equity-accounted investment in joint ventures - Russian BD Holdings B.V.		-	-
Financial assets - loans to joint ventures	8	27,340,710	37,591,655
		<u>27,345,392</u>	<u>37,620,498</u>
Current Assets			
Inventories	9	19,387	18,965
Trade and other receivables	10	2,528,931	1,136,940
Cash and cash equivalents	11	101,028	345,532
		<u>2,649,346</u>	<u>1,501,437</u>
Total Assets		<u><u>29,994,738</u></u>	<u><u>39,121,935</u></u>
Equity and Liabilities			
Capital and Reserves			
Called up share capital	12	10,896,668	9,585,965
Share premium account		141,794,897	141,006,709
Share-based payments reserve		6,796,540	6,796,540
Retained loss		(101,587,568)	(97,045,707)
Currency translation reserve		(39,551,087)	(32,040,081)
Other reserves		379,923	379,923
		<u>18,729,373</u>	<u>28,683,349</u>
Non-current Liabilities			
Interest-bearing loans and borrowings		-	-
Deferred tax liability		5,199,522	4,303,779
		<u>5,199,522</u>	<u>4,303,779</u>
Current Liabilities			
Interest-bearing loans and borrowings	13	4,151,391	4,242,849
Trade and other payables	14	1,914,452	1,891,958
		<u>6,065,843</u>	<u>6,134,807</u>
Total Liabilities		<u>11,265,365</u>	<u>10,438,586</u>
Total Equity and Liabilities		<u><u>29,994,738</u></u>	<u><u>39,121,935</u></u>

PetroNeft Resources plc

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Called up share capital	Share premium account	Share-based payment and other reserves	Currency translation reserve	Retained loss	Total
	US\$	US\$	US\$	US\$	US\$	US\$
At 1 January 2019	9,429,182	140,912,898	7,132,540	(36,958,374)	(91,003,253)	29,512,993
Issue of Share Capital	156,783	93,811	-	-	-	250,594
Convertible debt option reserve	-	-	43,923	-	-	43,923
Loss for the year	-	-	-	-	(6,042,454)	(6,042,454)
Currency translation adjustments - subsidiaries	-	-	-	(77,816)	-	(77,816)
Share of joint ventures' other comprehensive income - foreign exchange translation differences	-	-	-	4,996,109	-	4,996,109
Total comprehensive loss for the year	-	-	-	4,918,293	(6,042,454)	(1,124,161)
At 31 December 2019	9,585,965	141,006,709	7,176,463	(32,040,081)	(97,045,707)	28,683,349
At 1 January 2020	9,585,965	141,006,709	7,176,463	(32,040,081)	(97,045,707)	28,683,349
Issue of Share Capital *1	1,310,703	788,188	-	-	-	2,098,891
Loss for the year	-	-	-	-	(4,541,861)	(4,541,861)
Currency translation adjustments - subsidiaries	-	-	-	68,348	-	68,348
Share of joint ventures' other comprehensive income - foreign exchange translation differences	-	-	-	(7,579,354)	-	(7,579,354)
Total comprehensive loss for the year	-	-	-	(7,511,006)	(4,541,861)	(12,052,867)
At 31 December 2020	10,896,668	141,794,897	7,176,463	(39,551,087)	(101,587,568)	18,729,373

*1-During 2020, a total of 107,755,037 ordinary shares were issued as part of a fund raise of USD\$2.1 M. A total of 10,471,204 ordinary shares was issued to Dennis

Francis in satisfaction of \$200,000 Director's fees owing. Shares were issued at a premium to par value

Share premium is the amount received for shares issued more than their nominal value, net of share issuance costs.

Share based payment and other reserves is the credit arising on share-based payment charges in relation to the Company's share option scheme.

Currency translation reserves is gains or losses arising on the translation of the overseas operations.

Retained loss is the cumulative losses recognised in the Consolidated Statement of Comprehensive Income

PetroNeft Resources plc

Consolidated Cash Flow Statement

For the year ended 31 December 2020

	Note	2020 US\$	2019 US\$
Operating activities			
Loss before taxation		(3,646,621)	(4,966,820)
Adjustment to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation		21,671	23,884
Share of loss in joint ventures		6,442,296	8,174,773
Foreign Exchange Gains		146,580	(28,528)
Share based payment		731,268	-
Profit on equity settlement of financial liabilities		(206,044)	-
Profit on modification of financial liabilities		(218,898)	-
Finance Income		(3,583,166)	(4,275,181)
Finance costs		432,362	369,950
Income tax expense		503	(7,493)
Working capital adjustments			
Decrease/(Increase) in trade and other receivables		(1,415,494)	(875,067)
Decrease/(Increase) in inventories		(3,741)	(11,115)
Increase in trade and other payables		42,671	73,598
Net cash flows used in operating activities		(1,256,613)	(1,521,999)
Investing activities			
Loan facilities advanced to joint venture undertakings		(277,095)	(392,000)
Purchase of Property, Plant and Equipment		4,980	(9,720)
Interest received		194	2,613
Net cash used in investing activities		(271,921)	(987,607)
Financing activities			
Proceeds from the issue of Share Capital		1,573,667	250,594
Proceeds from issue of Convertible debt option		-	43,923
Repayment of interest on loan facilities		(277,746)	-
Proceeds from loan facilities		-	1,756,074
Net cash received from financing activities		1,295,921	2,050,591
Net increase/(decrease) in cash and cash equivalents		(232,613)	795,166
Translation adjustment		(11,891)	2,609
Cash and cash equivalents at the beginning of the year		345,532	9,389
Cash and cash equivalents at the end of the year	11	101,028	345,532

PetroNeft Resources plc

Notes to the Financial Statements

For the year ended 31 December 2020

1. Basis of Accounting and Presentation of Financial Information.

While the financial information included in this announcement has been prepared in accordance with the Group's accounting policies under International Financial Reporting Standards ("IFRS") as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. The Company is distributing the full financial statements that comply with IFRS on 30 June 2021.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2020 or 2019 but is derived from those accounts. Statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered following the Company's annual general meeting. The auditors have made reports under Section 391 of the Irish Companies Act, 2014 in respect of 2020. Their report was unmodified but did draw attention to the material uncertainty relating to going concern. The 2020 audited financial statements will be distributed to shareholders on 30 June 2021.

Adoption of IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

The following new standards, interpretations and standard amendments became effective for the Group as of 1 January 2020:

IFRS 3 Business Combinations – Definition of a business

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 – Definition of material
- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures - Interest Rate Benchmark Reform.

The following standard amendment was issued in May 2020 effective for annual reporting periods beginning on or after 1 June 2020 with earlier application permitted:

- Amendments to IFRS 16 Leases – COVID-19-Related Rent Concessions. The amendment was adopted effective 1 January 2020 and did not result in a material impact on the Group's results.

The introduction of these amendments on 1 January 2020 did not result in material changes to the results or financial position of the Group. Full details of the approach taken to the introduction of the new amendments and the impact of adoption will be provided in the full financial statements that comply with IFRS which will be distributed to shareholders on 30 June 2021.

2. Going Concern

As described in the Chairman's Statement, in December 2020 PetroNeft agreed an extension of the loan facility, which was due to mature on 15 December 2020 with Swedish Company Petrogrand AB, a related party. The revised loan maturity date is 15 December 2021, and may, at PetroNeft's option, be extended for a further year if certain milestones are met. The loan is secured by way of a floating charge on the assets of PetroNeft. The extension of the loan facility has provided time and space for a more long-term financing solution to be put in place.

In February 2021, the Company agreed another loan facility with a group of 13 investors for US\$2.9 million. This loan matures on 11 March 2023, or such later date as may be agreed, and a portion (up to 75% of the principal) may be repaid via conversion to Ordinary shares of the Company at the option of the lenders at a conversion price of STG0.02 per share. Seven of the thirteen investors are related parties. The money raised will primarily be used to fund the 2021 capital investment program and meet ongoing operational cost. It demonstrated significant commitment from the largest Shareholders, Directors and Senior Management

PetroNeft Resources plc

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

In early 2020, the emergence of the Covid-19 pandemic required the Company to make several adjustments to operating procedures, investment decisions and staff HSE protocols to protect its employees, joint venture partners and contractors. Production continued with a reduced level of essential field staff, home working was instituted where practicable, staff voluntarily took pay cuts and the Group actively worked with its suppliers and service providers in rescheduling payments to retain maximum financial flexibility. When the restrictions were partially lifted, the Group resumed full scale production in May. With a rebound in oil prices, the ongoing cost saving program and the Mineral Extraction Tax percentage per barrel produced trending lower in 2020 than 2019, the Group's cashflow improved, enabling it to address payables that had been rescheduled, reverse the temporary salary reduction, and engage constructively with joint venture partners, current and potential future lenders, and investors to support its ongoing investment plans. The Group continuously monitors the ongoing progress and status of the pandemic to ensure it reacts quickly where required. As part of this process the frequency of Board meetings has increased and Board members are closely involved in material cost and investment decisions as well as regular review of the Group's forecast cashflows, short term liquidity and expenditure plans

The Group has analysed its cash flow requirements through to 30 June 2022 in detail. The cash flows are highly dependent on the successful extension or re-financing of the Petrogrand AB loan and other loans, on future production rates and oil prices achieved in its joint-venture undertaking, WorldAce Investments Limited and future cash flows from LLC LIneynoye (Licence 67) once Cheremshanskoye is producing at material levels. In addition, the Group, together with its Joint Venture partner OIL India B.V is actively investigating the opportunity to secure debt in the local Russian market for Stimul-T. Should the Petrogrand AB loan or other loans not be extended or re-financed the Group will need additional funding to continue as a going concern.

The Group has put in place cost saving measures and the Board and management have agreed to reduce and defer significant portions of their remuneration. Note 15 outlines the amounts owed to the Board and management in this regard.

Given the remarkable rebound in oil prices, and Management demonstrating their capacity to maintain and increase production through efficient capital allocation programs, plus the real probability that Licence 67 will become a significant oil generating asset in 2021, the Board and Management are confident in the underlying investment case supporting both Licences. The Board and Management while rolling out their strategic plan for the operations will continue to realise the latent potential of both the Licences. Proving up reserves, boosting production, maintaining efficient programs on opex and capital spend, drives through enhanced valuation, improved cashflows and future sustainability.

None the less, the above circumstances represent material uncertainties that may cast significant doubt upon the Group and the Company's ability to continue as a going concern. After making enquiries, and considering the uncertainties described above, the Directors are confident that the Group and the Company will have adequate resources to continue in operational existence for the foreseeable future. The judgement is supported by

- the strong reserve inventory and improvements in operational performance
- the existing infrastructure in place that can support production volumes up to 14,700 bopd
- a very strong investment case
- the continued support of our Joint Venture and oil marketing partners
- the continuous support of our principal shareholders, as evidenced by their support for both debt and equity issues
- the continuous support of our lenders, both convertible and conventional debt

For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group or Company were unable to continue as a going concern

PetroNeft Resources plc

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

3. Segment information

The Group has several reporting segments which are shown below. They include segment information on allocation of assets and segment information on revenues by both location and customer.

The risk and returns of the Group's operations are primarily determined by the nature of the activities that the Group engages in, rather than the geographical location of these operations. This is reflected by the Group's organisational structure and the Group's internal financial reporting systems.

Management monitors and evaluates the operating results for the purpose of making decisions consistently with how it determines operating profit or loss in the consolidated financial statements.

Geographical segments

Although the joint venture undertakings WorldAce Investments Limited and Russian BD Holdings B.V. are domiciled in Cyprus and the Netherlands, the underlying businesses and assets are in Russia. Substantially all the Group's sales and capital expenditures are in Russia.

Segment Information

Assets are allocated based on where the assets are located:

	2020 US\$	2019 US\$
Non-current assets		
Russia	<u>27,345,392</u>	<u>37,620,498</u>
	<u>27,345,392</u>	<u>37,620,498</u>

Revenues are allocated on where the underlying business and asset location

	2020 US\$	2019 US\$
Revenue- Location		
Russia	<u>1,695,524</u>	<u>1,443,568</u>
	<u>1,695,524</u>	<u>1,443,568</u>

	2020 US\$	2019 US\$
Revenue- Customer		
WorldAce Investments Limited-40% (2019- 38%)	686,498	547,617
Russian BD Holdings B.V- 12% (2019-9%)	209,092	130,544
LLC Stimul T- 48% (2019-53%)	<u>799,934</u>	<u>765,407</u>
	<u>1,695,524</u>	<u>1,443,568</u>

PetroNeft Resources plc

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

4. Loss per Ordinary Share

Basic loss per Ordinary Share amounts is calculated by dividing net loss for the year attributable to ordinary equity holders of the Parent by the weighted average number of Ordinary Shares outstanding during the year.

	2020 US\$	2019 US\$
Numerator		
Loss attributable to equity shareholders of the Parent for basic loss	<u>(4,541,861)</u>	<u>(6,042,454)</u>
	<u>(4,541,861)</u>	<u>(6,042,454)</u>
Denominator		
Weighted average number of Ordinary Shares for basic	831,674,668	716,793,942
Loss per share:		
Basic and Diluted - <i>US dollar cent</i>	(0.55)	(0.84)

At the Financial year end the Company had convertible debt instruments in issue that could potentially dilute basic earnings per Ordinary Share. Of the 54,621,849 converts in issue at financial year end, a total of 52,521,008 were converted into Ordinary Shares of the Company in April 2021. Given the Company is substantially loss making, the addbacks and increased equity holding would be anti-dilutive.

5. Property, Plant and Equipment

	Plant and machinery US\$
Cost	
At 1 January 2019	839,805
Additions	9,720
Disposals	(213,181)
Translation adjustment	83,857
At 1 January 2020	<u>720,201</u>
Additions	-
Disposals	(3,846)
Translation adjustment	<u>(108,871)</u>
At 31 December 2020	607,484
Depreciation	
At 1 January 2019	801,509
Charge for the year	23,884
Disposals	(222,541)
Translation adjustment	88,506
At 1 January 2020	<u>691,358</u>
Charge for the year	21,671
Disposals	(3,846)
Translation adjustment	<u>(106,381)</u>
At 31 December 2020	602,802
Net book values	
At 31 December 2020	<u><u>4,682</u></u>
At 31 December 2019	<u>28,843</u>

➤ Petrogrand AB has a floating charge over the assets of the Company.

➤ At 31st December 2020 and 2019, there was no Property, Plant and Equipment Capital Commitments.

PetroNeft Resources plc

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

6. Equity-accounted Investment in Joint Venture – WorldAce Investments Limited

PetroNeft has a 50% interest in WorldAce Investments Limited (“WorldAce”), a joint venture which holds 100% of LLC Stimul-T, an entity involved in oil and gas exploration and the registered holder of Licence 61. The interest in this joint venture is accounted for using the equity accounting method. WorldAce Investments Limited is incorporated in Cyprus and carries out its activities, through LLC Stimul-T, in Russia.

	Share of net assets	US\$
At 1 January 2019		-
Elimination of unrealised profit on intra-Group transactions		-
Retained loss	(7,510,318)	
Translation adjustment	4,513,212	
Credited against loans receivable from WorldAce Investments Limited (Note 8)	2,997,106	
At 1 January 2020		-
Elimination of unrealised profit on intra-Group transactions		-
Retained loss	(5,737,042)	
Translation adjustment	(6,735,737)	
Credited against loans receivable from WorldAce Investments Limited (Note 8)	12,472,779	
At 31 December 2020		-

The balance sheet position of WorldAce shows net liabilities of US\$88,913,849 (2019: US\$63,968,289) following a loss in the year of US\$11,474,084 (2019: US\$15,020,636) together with a negative currency translation adjustment of US\$13,471,473 (2019: positive US\$9,026,423). PetroNeft’s 50% share is included above and results in a negative carrying value of US\$39,774,519 (2019: US\$24,304,633). Therefore, the share of net assets is reduced to Nil and, in accordance with IAS 28 Investments in Associates and Joint Ventures, the amount of US\$39,774,519 (2019: US\$27,301,740) is deducted from other assets associated with the joint venture on the Balance Sheet which are the loans receivable from WorldAce Investments (see Note 8).

PetroNeft Resources plc

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

6. Equity-accounted Investment in Joint Venture – WorldAce Investments Limited (continued)

Additional financial information in respect of PetroNeft's 50% interest in the equity-accounted joint venture entity is disclosed below.

Summarised Financial statements of equity-accounted joint venture

	2020 US\$	2019 US\$
<i>Continuing operations</i>		
Revenue	16,719,562	24,852,620
Cost of sales	(17,465,594)	(25,100,495)
Gross profit	(746,032)	(247,875)
Administrative expenses	(2,515,578)	(2,624,057)
Impairment of exploration and evaluation assets	-	(1,382,769)
Operating profit/(loss)	(3,261,610)	(4,254,701)
Write-off of oil and gas properties	-	-
Write-off of exploration and evaluation assets	-	(1,299,887)
Finance Income	35,745	57,906
Finance costs	(7,985,620)	(9,523,954)
Loss for the year for continuing operations before taxation	(11,211,485)	(15,020,636)
Income tax expense	(262,599)	-
Loss for the year	(11,474,084)	(15,020,636)
Loss for the year	(11,474,084)	(15,020,636)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>		
Currency translation adjustments	(13,471,473)	9,026,423
Total comprehensive loss for the year	(24,945,557)	(5,994,213)
Included in the above numbers are charges for		
Depreciation and Amortisation	1,256,822	1,936,923

Finance costs mainly relate to interest on shareholder loans from Oil India International B.V. and PetroNeft. The details of gross interest accrued on loans to PetroNeft are disclosed in Note 15 Related party disclosures.

The currency translation adjustment results from the movement of the Russian Rouble during the year. All Russian Rouble carrying values in Stimul-T, the 100% subsidiary of WorldAce are converted to US Dollars at each period end. The resulting gain or loss is recognised through other comprehensive income and transferred to the currency translation reserve. The Russian Rouble weakened against the US Dollar during the year from RUB61.905:US\$1 as at 31 December 2019 to RUB74.54:US\$1 as at 31 December 2020.

PetroNeft Resources plc

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

6. Equity-accounted Investment in Joint Venture – WorldAce Investments Limited (continued)

	2020 US\$	2019 US\$
Non-current Assets		
Oil and gas properties	63,884,598	78,147,884
Property, plant, and equipment	241,080	374,632
Exploration and evaluation assets	-	-
Assets under construction	1,517,064	1,468,233
Intangible Assets	1,829,477	2,178,884
	<u>67,472,219</u>	<u>82,169,633</u>
Current Assets		
Inventories	2,149,712	2,390,999
Trade and other receivables	904,824	996,439
Cash and cash equivalents	212,433	30,895
	<u>3,266,969</u>	<u>3,418,333</u>
	<u>70,739,188</u>	
Total Assets		<u>85,587,966</u>
Non-current Liabilities		
Provisions	1,360,704	1,833,969
Obligations under finance lease	61,222	172,969
Interest-bearing loans and borrowings	147,877,926	140,244,130
	<u>149,299,852</u>	<u>142,251,068</u>
Current Liabilities		
Interest-bearing loans and borrowings	2,475,992	2,346,265
Obligations under finance lease	43,242	41,318
Trade and other payables	7,833,951	4,917,604
	<u>10,353,185</u>	<u>7,305,187</u>
Total Liabilities	<u>159,653,037</u>	<u>149,556,255</u>
Net Liabilities	<u>88,913,849</u>	<u>63,968,289</u>
Non -Current Financial Liabilities	<u>147,939,148</u>	<u>140,417,099</u>
Current Financial Liabilities	<u>2,519,234</u>	<u>2,387,583</u>

Interest-bearing loans and borrowings are shareholder loans from Oil India International B.V. and PetroNeft. The details of loans due to PetroNeft are disclosed in Note 15 Related party disclosures.

Capital commitments

	2020 US\$	2019 US\$
Details of capital commitments at the balance sheet date are as follows:		
Contracted for but not provided in the financial statements	Nil	Nil

PetroNeft Resources plc

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

7. Equity-accounted Investment in Joint Venture - Russian BD Holdings B.V.

PetroNeft Resources plc has a 50% interest in Russian BD Holdings B.V., a joint venture which holds 100% of LLC Lineynoye, an entity involved in oil and gas exploration and the registered holder of Licence 67. The interest in this joint venture is accounted for using the equity accounting method. Russian BD Holdings B.V. is incorporated in the Netherlands and carries out its activities in Russia.

	Share of net assets US\$
At 1 January 2019	-
Elimination of unrealised profit on intra-Group transactions	-
Share of net loss of joint venture for the year	(664,455)
Translation adjustment	482,897
Credited against loans receivable from Russian BD Holdings B.V. (Note 8)	181,558
At 1 January 2020	-
Elimination of unrealised profit on intra-Group transactions	-
Retained loss	(705,249)
Translation adjustment	(843,617)
Credited against loans receivable from Russian BD Holdings B.V. (Note 8)	1,548,866
At 31 December 2020	-

The balance sheet position of Russian BD Holdings B.V. shows net liabilities of US\$7,350,155 (2019: US\$4,235,793) following a loss in the year of US\$1,410,498 (2019: US\$1,328,910) together with a negative currency translation of US\$1,687,233 (2019: positive US\$965,794). PetroNeft's 50% share is included above and results in a negative carrying value of US\$3,681,920 (2019: US\$2,117,897). Therefore, the share of net assets is reduced to Nil and, in accordance with IAS 28 *Investments in Associates and Joint Ventures*, the amount of US\$3,681,920 (2019: US\$2,117,897) is deducted from other assets associated with the joint venture on the Balance Sheet which are the loans receivable from Russian BD Holdings B.V. (Note 8).

PetroNeft Resources plc

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

7. Equity-accounted Investment in Joint Venture - Russian BD Holdings B.V. (continued)

Additional financial information in respect of PetroNeft's 50% interest in the equity-accounted joint venture entity is disclosed below

Summarised Financial statements of equity-accounted joint venture

	2020 US\$	2019 US\$
Revenue	37,400	-
Cost of sales	(157,567)	-
Gross profit	(120,167)	-
Administrative expenses	(393,639)	(332,635)
Operating loss	(513,806)	(332,635)
Finance Income	325	1,280
Finance costs	(897,017)	(997,548)
Loss for the year for continuing operations before taxation	(1,410,498)	(1,328,903)
Taxation	-	(7)
Loss for the year	(1,410,498)	(1,328,910)
Loss for the year	(1,410,498)	(1,328,910)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>		
Currency translation adjustments	(1,687,233)	965,794
Total comprehensive loss for the year	(3,097,731)	(363,116)
Included in the above numbers are charges for		
Depreciation and Amortisation	-	6,676

Finance costs comprise of interest on shareholder loans from Belgrave Naftogas B.V. and PetroNeft. The details of gross interest accrued on loans to PetroNeft are disclosed in Note 8 Financial assets- loans and receivables.

PetroNeft Resources plc

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

7. Equity-accounted Investment in Joint Venture - Russian BD Holdings B.V. (continued)

	2020 US\$	2019 US\$
Non-current assets	10,098,999	11,252,892
Current assets	199,720	118,311
Total assets	10,298,719	11,371,203
Non-current liabilities	16,404,101	14,758,627
Current liabilities	1,244,773	848,369
Total liabilities	17,648,874	15,606,996
Net Liabilities	7,350,155	4,235,793
Non -Current Financial Liabilities	16,404,101	14,758,627
Current Financial Liabilities	119,384	131,337
Capital commitments		
	2020 US\$	2019 US\$
Details of capital commitments at the balance sheet date are as follows:		
Contracted for but not provided in the financial statements	1,000,000	Nil

PetroNeft Resources plc

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

8. Financial assets - loans and receivables

Group	2020 US\$	2019 US\$
Loans to WorldAce Investments Limited	66,105,781	62,963,635
Loss Allowance	(3,109,501)	(3,109,501)
Less: share of WorldAce Investments Limited loss (Note 6)	(39,774,519)	(27,301,740)
	23,221,761	32,552,394
Loans to Russian BD Holdings B.V	7,800,869	7,157,158
Less: share of Russian BD Holdings B.V. loss (Note 7)	(3,681,920)	(2,117,897)
	4,118,949	5,039,261
	27,340,710	37,591,655

The Company has granted a loan facility to its joint venture undertaking WorldAce Investments Limited of up to US\$45 million. This loan facility is US\$ denominated and unsecured. Interest currently accrues on the loan at USD LIBOR plus 6.0% but the Company has agreed not to seek payment of interest until 2022 at the earliest. The loan is set to mature on 31 December 2025. As at 31 December 2020 the loan was fully drawn down. The realisation of financial assets of \$23.2m in respect of WorldAce is dependent on the continued successful development of economic reserves which is subject to several uncertainties including the ability to raise finance, future rates of oil production and future international oil prices to continue to successfully generate revenue from the assets or the monetisation of the asset through a sale or farmout.

The loan from the Company to Russian BD Holdings B.V. is repayable on demand. Interest currently accrues on the loan at USD LIBOR plus 5.0% per annum. The group drilled the Cheremshanskoye No. 4 well in 2018 which tested oil at 450 bopd and demonstrated the potential of Licence 67. This activity was augmented by further well simulation in Spring 2021, and the well is expected to be in daily production during 2021. The realisation of financial assets of US\$4.1 m in respect of Russian BD Holdings B.V. is ultimately dependent on the successful development of reserves as outlined above in relation to Cheremshanskoye, which is subject to several uncertainties including the ability to finance the well development and bringing the assets to economic maturity and profitability or the monetisation of the asset through a sale or farmout. As previously advised to shareholders, the Company has been examining development options for Licence 67. The Company previously announced that they would be re-entering the C4 and C3 wells on the Cheremshanskoye field during 2020 with the combined aim of bringing the field into production and at the same time providing crucial reservoir performance data. This would enable the Company to optimise forward development of the field which benefits from a favourable infrastructure location, allowing low-cost operations. There is a road running along the eastern edge of the field, plus powerlines running close to the western margin of the field, which should allow the Company to reduce OPEX over the longer term.

In March 2021, the Company increased its equity holding in Licence 67 from 50% to 90%. Also in March 2021, the Company announced commercial production on Licence 67. The C-4 well was successfully re-entered in Q1 2021 to perform an extended well test. During this test, the well flowed at various choke sizes from the same Upper Jurassic J1-1 & J1-3 reservoirs and flowed naturally at up to a maximum 476 bopd on a 10mm choke size. The Cheremshanskoye field reserves are 19.26 mmbbls C1+C2 which were approved by GKZ (Russian State Reserves Committee) January 2019.

In addition, the Company is also working on plans to re-enter two wells on the Ledovoye field, also in Licence 67, during the 2021 period. Should this be successful the Company will be looking to both book additional reserves and promptly start production from the Ledovoye field. Like the Cheremshanskoye field, Ledovoye is ideally located close to existing infrastructure, being only 60m away from a major all-weather road.

Due to the difference in carrying value caused by the application of the equity method of accounting to the Group financial statements the Company thought it was deemed prudent in 2018, to provide for an allowance for doubtful debts against

PetroNeft Resources plc

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

8. Financial assets - loans and receivables (continued)

the carrying value of these loans on the Company Balance Sheet to align the balances on the Group and Company balance sheets. It is not expected that any repayment will be received within 12 months of the balance sheet date.

The weakened trading performance during 2020, including the ongoing Covid pandemic have been considered as impairment factors, but there has been sufficient headroom in the detailed calculations of future trading performance, so no impairment provision was recorded during 2020.

9. Inventories

	2020 US\$	2019 US\$
Materials	19,387	18,965
	<u>19,387</u>	<u>18,965</u>

10. Trade and other receivables

	2020 US\$	2019 US\$
Receivable from joint ventures (Note 15)	2,329,529	1,005,991
Trade Receivables	45,718	44,670
Prepayments	84,188	83,145
Advances to contractors	1,468	1,353
Other receivables	68,028	1,781
	<u>2,528,931</u>	<u>1,136,940</u>

Other receivables are non-interest-bearing and are normally settled on 60-day terms. Amounts owed by subsidiary undertakings are interest-bearing. Interest is charged at 10%.

11. Cash and Cash Equivalents

Group	2020 US\$	2019 US\$
Cash at bank	101,028	345,532
	<u>101,028</u>	<u>345,532</u>

Bank deposits earn interest at floating rates based on daily deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

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Notes to the Financial Statements (continued)

For the year ended 31 December 2020

12. Share Capital - Group and Company

	2020	2019
	€	€
Authorised Share Capital		
1,000,000,000 (2019: 1,000,000,000) Ordinary Shares of €0.01 each	10,000,000	10,000,000
Authorised Share Capital increase of 250,000,000 Shares of €0.01 each	2,500,000	-
	12,500,000	10,000,000
	Number of Ordinary Shares	Called up share capital US\$
Allotted, called up and fully paid equity		
At 1 January 2019	707,245,906	9,429,182
Issued during the year	13,884,594	156,783
At 1 January 2020	721,130,500	9,585,965
Issued during the year	118,226,241	1,310,703
At 31 December 2020	839,356,741	10,896,668

13. Loans and Borrowings

Group and Company	Effective interest rate	Contractual maturity date	2020	2019
	%		US\$	US\$
Interest-bearing				
<i>Current liabilities</i>				
Petrogrand AB	10.59%	15-Dec-21	2,675,774	2,897,958
Natlata Partner Limited	10.14%	31-Dec-21	632,417	577,347
ADM Consulting	10.16%	31-Dec-21	459,297	417,051
Daria Shaftelskaya	10.13%	31-Dec-21	269,259	246,341
Michael Murphy	10.14%	31-Dec-21	57,322	52,076
David Sturt	10.14%	31-Dec-21	57,322	52,076
Total current liabilities			4,151,391	4,242,849
Total loans and borrowings			4,151,391	4,242,849
Contractual undiscounted liability			4,151,391	4,242,849
Changes in financial liabilities arising from financing activities			2020	2019
			US\$	US\$
At 1 January			4,242,849	2,116,825
Cash flows			(277,746)	1,799,997
Accrued interest			432,362	369,950
Profit on modification of financial liabilities			(218,898)	-
Translation adjustment			(27,176)	-
Convertible debt option reserve			-	(43,923)
At 31 December			4,151,391	4,242,849

PetroNeft Resources plc

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

Loan facilities.

PetroNeft had entered a convertible loan facility of US\$1.3 million with a group of five lenders in 2019. The convertible loan, when renegotiated in January 2021, was to remain unsecured, to mature on 31st December 2021 or on the sale of either Licence 61 or Licence 67. The loan facility carries an interest rate of USD LIBOR plus 8%. Lenders can elect at any time to convert up to 65% of the outstanding loan to shares at a conversion price of US\$0.01547 (1.547 cent). In April 2021 four of the five lenders elected to convert their rights into Ordinary Shares of the Company. The principal on the Convertible loan post conversion was reduced by an amount of US\$812,500.

In 2018 the Company obtained a US\$2m secured loan facility from Petrogrand AB. The security attaches to any of the assets of PetroNeft Resources plc. An asset being defined as any present or future assets, revenues, and rights of every description. The security is for any obligation for the repayment of monies owed to Petrogrand AB, be it present, or future, actual or contingent. This loan facility was fully drawn down in 2018 and carries an interest rate of US\$ LIBOR plus 9%. In March 2019, the parties agreed a further increase in the facility by US\$500,000 and it was agreed that the maturity date would be extended for one year until 15th December 2020. It was further agreed between the parties that the loan plus any outstanding interest would be further extended for another 12-month period ending 15th December 2021, which can be further extended if PetroNeft on or before 15th December 2021, makes a payment of 20% of the loan balance outstanding at that time.

The Company performed an assessment under its accounting policies and the requirements of IAS 39 as to whether the restructuring of the terms of the loan facility was a deemed substantial modification. As the net present value of the cashflows under the original terms and the modified terms was greater than 10%, the modification was accounted for as substantial. As a result on completion of the restructuring the carrying value of the Petrogrand loan facility with a note value of US\$2,894,672 was derecognised by an amount of US\$218,898 and the fair value of the loan notes of US\$2,675,774 was recognised at the date of the Statement of Financial Position. The gain arising on substantial modification of the loan notes has been recognised in the Income Statement as a profit on modification of financial liabilities.

Petrogrand AB is a related party by virtue of Maxim Korobov, until 17th January 2020 a director of PetroNeft, being a significant shareholder of Petrogrand AB. For details of transactions between PetroNeft and Petrogrand AB see Note 15 Related party disclosures.

14. Trade and other payables

	2020	2019
	US\$	US\$
Trade payables	552,841	403,835
Trade and other payables to joint ventures (Note 15)	57,703	113,532
Corporation tax	55,232	55,232
Other taxes and social insurance costs	59,395	28,457
Accruals and other payables	<u>1,189,281</u>	<u>1,290,902</u>
	<u>1,914,452</u>	<u>1,891,958</u>

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

Trade and other payables are non-interest-bearing and are normally settled on 60-day terms.

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

PetroNeft Resources plc

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

15. Related party disclosures

PetroNeft Resources had the following transactions with its Joint Venture Partners in 2020 and 2019.

Related parties - PTR Group with JVs

Group	Russian BD Holdings BV Group US\$	WorldAce Investments Limited Group US\$
Receivable by PetroNeft Group at 1 January 2019	3,818,994	31,773,261
Advanced during the year	980,500	-
Transactions during the year	154,521	1,642,624
Interest accrued in the year	469,974	3,802,594
Payments for services made during the year	29,564	(947,209)
Share of joint venture's translation adjustment	(181,558)	(2,997,106)
Impairment Provision	-	-
Translation adjustment	(44,753)	(17,293)
At 1 January 2020	5,227,243	33,256,871
Advanced during the year	124,195	152,900
Transactions during the year	209,092	1,524,310
Interest accrued in the year	440,822	3,142,150
Payments for services made during the year	65,630	(604,237)
Share of joint venture's translation adjustment	(1,548,866)	(12,472,780)
Translation adjustment	50,884	44,322
At 31 December 2020	4,569,000	25,043,536
Balance at 31 December 2019 comprised of:		
Loans receivable (Note 8)	5,039,262	32,552,394
Trade and other receivables (Note 10)	187,981	818,010
Trade and other Payables (Note 14)	-	(113,532)
	5,227,243	33,256,871
Balance at 31 December 2020 comprised of:		
Loans receivable (Note 8)	4,118,946	23,221,764
Trade and other receivables (Note 10)	450,054	1,879,475
Trade and other payables (Note 14)	-	(57,703)
	4,569,000	25,043,536

PetroNeft Resources plc

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

15. Related party disclosures (continued)

Remuneration of key management

Key management comprise the Directors, the Vice Presidents of Business Development and Operations of the Company and the consulting fees paid to Michael Power FCA for Finance and Company Secretarial support.

Remuneration of key management	2020 US\$	2019 US\$
Compensation of key management	1,154,882	898,501
Contributions to defined contribution pension plan	79,161	45,564
Consulting fees Michael Power	121,884	-
	<u>1,355,927</u>	<u>944,065</u>

The following amounts were owed to existing key management, former management as at 31st December 2020 and 2019

	2020 US\$	2019 US\$
Remuneration, fees, and expenses due to Directors who were in office during the year	470,023	932,344
Remuneration due to other key management	558,509	233,108
Consulting fees Michael Power (Tsarina Developments Limited)	11,314	-
Consulting fees (HGR Consulting – former CFO Paul Dowling)	9,246	112,616
	<u>1,049,092</u>	<u>1,278,068</u>

During 2020, 37,456,431 shares were issued in satisfaction of US\$0.73 million in fees owing to Directors and Senior Management. In accordance with IFRS 2 Share based payments, where the agreed exercise price of the shares transferred was higher than the market price at time of exercise an implied profit of US\$0.206 million was reported in the Income Statement.

Details of transactions between the Group and other related parties are disclosed below.

Transactions with Petrogrand AB

Petrogrand AB is a related party by virtue of Maxim Korobov, a director of PetroNeft who resigned as PetroNeft's Company Director on 17th January 2020. In 2018 the Company agreed a loan facility for up to US\$2m with Petrogrand AB. The loan facility is secured by way of a floating charge on the assets of the Company, carries an interest of US\$ LIBOR plus 9% and had an original maturity date of 31 December 2018. This loan facility was fully drawn down in 2018. In March 2019, the parties had agreed an increase in the facility by US\$500,000 and a revised maturity date of 15 December 2020. It was further agreed the revised maturity date could be extended for one year until 15th December 2021 and a further year if certain milestones are reached.

The following is the history of this transaction in:

	Petrogrand AB 2020 US\$
2018- Loan facility amount	2,000,000
2019- Loan drawdowns during the year	500,000
Interest accrued but not yet paid	394,672
Profit on modification of financial liabilities	(218,898)
Amount due to Petrogrand AB at 31 December 2020	<u>2,675,774</u>

PetroNeft Resources plc

Notes to the Financial Statements (continued)

For the year ended 31 December 2020

15. Related party disclosures (continued)

New Loan agreed in June 2019

As detailed in Note 13 above PetroNeft entered a convertible loan facility of US\$1.3 million with a group of five investors in June 2019. All lenders listed below elected in April 2021 to exercise their conversion rights. As of 31 December 2020, the balance owing to the related parties on the June 2019 funding was as follows:

Lender	Amount provided (US\$)	Interest accrued and not yet paid (US\$)	Amount due 31 December 2020 (US\$)	Relationship at time of transaction
Natlata Partners LLP.	560,000	72,417	632,417	Ultimate Beneficial owner is Maxim Korobov, former PetroNeft director
Daria Shaftelskaya	240,000	29,259	269,259	Substantial shareholder of PetroNeft and director from 17 th January 2020.
David Sturt	50,000	7,322	57,322	PetroNeft director and shareholder

16. Important Events after the Balance Sheet Date

In February 2021, the Company entered a convertible loan facility of US\$2.9 million with a group of thirteen lenders that matures in March 2023. The loan facility will be used for general corporate and ongoing operational purposes and carries an interest rate of 8% above the base rate of the Bank of England. Lenders can elect at any time to convert up to 75% of the outstanding loan to shares at a conversion price of stg£0.02 in year 1 and stg£0.025 in year 2.

In March 2021, the Company completed the migration of the Company's corporate securities from CREST to Euroclear Bank ("**Migration**") under the Migration of Participating Securities Act 2019.

In March 2021 PetroNeft's interest in Licence 67 has increased from 50% to 90%, following a partial disposal by Sarum Energy Ltd of its equity holding. The Consideration for the acquisition was US\$2.9 million which has been satisfied through the issuance of 80,000,000 PetroNeft ordinary shares ("New Ordinary Shares") to Belgrave Naftogas for a value of US\$1.2 million and cash consideration of US\$1.7 million, which was financed through a 3 year loan from Belgrave Naftogas to PetroNeft.

In April 2021, some lenders under the various Convertible Loan Agreements, elected to exercise their options to convert part of their Loan Facilities into Ordinary Shares of the Company. In total 125,878,647 Ordinary Shares were issued to various lenders and \$2.9 million of Convertible Debt was redeemed.

The Covid pandemic is a global crisis, and the Company was not immune from its economic impact. These Annual Accounts and Financial Statements report how all the Company's stakeholders supported the operations during these very difficult economic times.

17. Approval of financial statements

The financial statements were approved, and authorised for issue, by the Board of Directors on 22 June 2021