

PetroNeft Resources plc
Preliminary Statement of Results
for the year ended 31 December 2018

Final Results

Table of Contents

Chairman’s Statement	2
Consolidated Income Statement	7
Consolidated Statement of Comprehensive Income	7
Consolidated Balance Sheet	8
Consolidated Statement of Changes in Equity	9
Consolidated Cash Flow Statement	10
Notes to the Preliminary Financial Statements	11

Forward Looking Statements

This report contains forward-looking statements. These statements relate to the Group's future 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

2018 was a year of significant change for our Company which saw the retirement of our Chief Executive Officer Dennis Francis in November 2018.

Dennis was a founder of PetroNeft in 2004 and oversaw its growth from a private company to a public company listed on the London AIM and Dublin ESM stock exchanges. In that time period the Company evolved from an explorer to an established production company employing over 170 people in the Tomsk Region of Russia. In 2016 Mr. Francis received a Certificate of honour from the Subsurface Management Department for the Tomsk Region (TomskNedra) for significant contributions to the development of mineral resources in the Tomsk Region.

In early 2019 the Company announced the appointment of David Sturt as the new Chief Executive Officer. David had been a Non-Executive Director of the Company since 2016 and brings over 35 years of international experience in the upstream oil and gas industry gained working on projects in Europe, CIS, Africa, South America and SE Asia.

In the period between Dennis' retirement and David commencing as CEO, Karl Johnson, our Vice President of Operations assumed the role of Interim CEO.

I would like to thank Dennis for his many years of dedicated service to PetroNeft and to thank Karl for his work as Interim CEO. I would also like to sincerely welcome David to his new position.

I would also like to thank Paul Dowling for his long service with the Company, first as CFO and Director and then as CFO on a consultancy basis following his departure from the Board in 2016. At the end of 2018, Paul elected to end his full-time consultancy contract, but continues to provide his services on a part-time basis to assist the Company in certain matters.

Operations

The existing production wells at Licence 61 generally performed well during 2018, with a slower than expected natural decline. No new wells were drilled on Licence 61 in 2018.

At Licence 67 we drilled the C-4 appraisal well in conjunction with our Joint Venture partner, Arawak Energy. Oil was tested across two zones in the Upper Jurassic horizon and we achieved combined open hole test rates of 399 bfpd. We also encountered oil pay in the Lower Jurassic horizon, however, the reservoir was of lower quality. A subsequent cased hole test achieved a rate of 450 bopd. We are pleased with the result of the C-4 well, which enabled us to receive State Reserves committee (GKZ) approval for C1 + C2 reserves of 2.5 Mtons for the Cheremshanskoye Oil Field, equivalent to 2P reserves of approximately 19.26 mmbbls and we believe that potential exists for significant upward revision to these figures in the future.

2019 outlook

The geo-political and investment climate for Russia, as with other emerging markets, remains challenging. This has resulted in a significant difference between the market capitalization of the company and the long-term value of its assets and reserves. We are committed to narrowing that gap and are actively examining all available options to do so.

The Company, in conjunction with its 50/50 Joint Venture partners, Oil India and Arawak Energy has engaged financial advisers to evaluate the possible sale of Licence 61 and/or Licence 67. While there is no certainty that any transaction will be completed, we have seen an encouraging level of interest from a range of well-financed industry players. We continue to evaluate the exploration, appraisal and development potential for both licence areas to ensure that, if we receive bids for either licence area which appropriately value the asset, we will be able to make an informed decision on whether or not to sell.

PetroNeft Resources plc

Chairman's Statement (*continued*)

Reserves

The table below contains the details of the oil reserves of the Company and highlights the large potential of the Sibkrayevskoye oil field and the potential upside that could be achieved from prospects such as Emtorskaya, which lies north of Lineynoye.

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	6.6	12.5	15.6
Tungolskoye	0.3	2.8	3.6
Kondrashevskoye	0.7	1.3	1.6
Arbuzovskoye	1.2	3.8	5.0
Sibkrayevskoye	5.8	29.4	29.4
North Varyakhskoye	0.2	0.4	0.5
	14.8	50.2	55.7
Licence 67			
Ledovoye	1.5	14.0	17.4
Total net to PetroNeft	16.3	64.2	73.1

- Licence 61 as at 31 December 2018 (Ryder Scott report as at 1 January 2016, adjusted for 2016, 2017 and 2018 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.

Review of PetroNeft loss for the year

The loss after taxation for the year was US\$7,561,762 (2017: US\$3,239,041). The loss included the share of joint venture's net loss in WorldAce Investments of US\$6,339,613 (2017: US\$4,285,833) which rose mainly due to the write-off of wells at Tungolskoye and the share of joint venture's net loss in Russian BD Holdings B.V. of US\$508,757 (2017: US\$381,654).

PetroNeft Resources plc

Chairman's Statement (continued)

	2018 US\$'000	2017 US\$'000
Continuing operations		
Revenue	1,767	1,713
Cost of sales	(1,560)	(1,550)
Gross profit	207	163
Administrative expenses	(1,390)	(1,403)
Exchange (loss)/gain on intra-Group loans	(123)	52
Operating loss	(1,306)	(1,188)
Share of joint venture's net loss – WorldAce Investments Limited	(6,340)	(4,286)
Share of joint venture's net loss – Russian BD Holdings B.V.	(508)	(382)
Finance revenue	966	3,511
Finance costs	(117)	-
Loss for the year for continuing operations before taxation	(7,305)	(2,345)
Income tax expense	(257)	(894)
Loss for the year	(7,562)	(3,239)

Revenue

Revenue in 2018 and 2017 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.

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 2018 PetroNeft Group charged a total of US\$0.85 million (2017: US\$0.85 million) to the joint ventures in respect of management services. PetroNeft also owns a small 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 2018 Granite Construction charged the WorldAce Group US\$0.92 million (2017: US\$0.86 million) in respect of these services.

Administrative expenditure was in line with last year. 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 2018 a total of US\$934,041 (2017: US\$824,080) had been deferred by the Directors and senior management - see Note 14 for details.

Finance Revenue

Most of the finance revenue relates to interest receivable on loans to joint ventures. During 2018 PetroNeft recognised interest income of US\$3,686,372 (2017: US\$3,238,839) on its loans to WorldAce Group and US\$387,687 (2017: US\$270,773) on its loans to Russian BD Holdings B.V. As a result of early adoption of amendments to IAS 28 in respect of Long-term Interest in Associates and Joint Ventures the Group recognised a loss allowance of US\$3,109,501 given the uncertainties relating to WorldAce The allowance was set against Finance Revenue.

PetroNeft Resources plc

Chairman's Statement (*continued*)

Finance Costs

Finance costs relate to interest payable on loan from Petrogrand AB. The Company agreed a secured loan facility of up to US\$2m with Petrogrand AB in January 2018. This loan facility was fully drawn down in 2018. For more details see Note 14.

Key Financial Metrics – WorldAce Group

Because of the equity method of consolidation that applies to PetroNeft's interest in WorldAce, it is difficult to extract meaningful metrics from the PetroNeft consolidated income statement. Therefore, the metrics below 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 2018 US\$'000	WorldAce Group 2017 US\$'000
Continuing operations		
Revenue	31,370	27,637
Cost of sales	(27,773)	(25,273)
Gross profit	3,597	2,364
Administrative expenses	(3,122)	(3,093)
Operating profit/(loss)	475	(729)
Write-off of oil and gas properties	(4,096)	-
Write-off of exploration and evaluation assets	(5)	(26)
Finance revenue	129	66
Finance costs	(9,183)	(7,883)
Loss for the year for continuing operations before taxation	(12,680)	(8,572)
Income tax	-	-
Loss for the year	(12,680)	(8,572)
PetroNeft's 50% share	(6,340)	(4,286)

Net Loss – WorldAce Group

PetroNeft's share of the net loss of WorldAce Group for the full year increased to US\$6.3 million from US\$4.3 million in 2017. The increase in the loss for the year before taxation can be attributed to the write-off of the cost of some non-performing wells. Of the US\$9.0 million in interest payable by WorldAce, US\$3.7 million is payable to PetroNeft.

Revenue, Cost of Sales and Gross Margin – WorldAce Group

Gross Revenue from oil sales was US\$31.4 million for the year (2017: US\$27.6 million). Cost of sales includes depreciation of US\$2.3 million (2017: US\$2.6 million), which was lower mainly due to lower production. The gross margin improved during the year due to improved oil prices. Operating costs per barrel (cost of sales excluding depreciation and Mineral Extraction Tax) were higher at US\$10.68 (2017: US\$10.36 per barrel) due to lower production. 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 once it comes online. We produced 713,603 barrels of oil (2017: 816,476 barrels) in the year and sold 706,395 barrels of oil (2017: 822,388 barrels) achieving an average oil price of US\$44 per barrel (2017: US\$35 per barrel). All oil was sold on the domestic market in Russia.

Finance Costs – WorldAce Group

Gross Finance costs of US\$9.2 million (2017: US\$7.9 million) mainly relates to interest on loans from PetroNeft and Oil India.

PetroNeft Resources plc

Chairman's Statement (*continued*)

Current and Future Funding of PetroNeft Group

In previous Annual Reports we outlined that PetroNeft expected to start receiving interest due on its shareholder loans to WorldAce in 2017 once the development of the Sibkrayeskoye oil field in Licence 61 was up and running. The S-374 appraisal well drilled in 2016 at the Sibkrayevskoye oil field, to assess the true extent of the field 10km to the south of existing wells, did not encounter commercial hydrocarbons. The result of this well has led to the postponement of the commencement of the development of the Sibkrayevskoye oil field. As a consequence of this, the date by which PetroNeft expects to start receiving interest due on its shareholder loans to WorldAce has been delayed until 2020 at the earliest.

The success of the S-375 well in 2017 has led to a period of extended testing at Sibkrayevskoye and we are currently refining and re-evaluating the development program. However, significant funding is required to develop the Sibkrayevskoye oil field.

While there were consolidated net current liabilities at the year-end of US\$2.8m (2017: US\$1.1m), the Company has implemented a cost cutting program across the Group and the Directors and management have agreed to reduce and defer significant portions of their remuneration. Note 14 outlines the amounts owed to the Board and management in this regard.

In January 2018 the Company agreed a secured loan facility for up to US\$2 million with Swedish company Petrogrand AB ("Petrogrand"). The loan was due to mature on 31 December 2018, however, in March 2019 the Company agreed an increase in the facility by US\$500,000 to US\$2.5 million and a revised maturity date of 15 December 2019 (which may be extended by mutual consent of the parties). The revised terms include the potential entitlement to bonus payments of US\$2.5 million per Licence if either or both Licence 61 or Licence 67 are sold before 31 December 2020. Discussions on a further supplementary financing for ongoing general corporate purposes are well advanced and the Company expects to update shareholders in the near future.

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 twelve months the asset acquisition market in Russia has seen increased activity, especially for the larger domestic companies. This gives management reason for optimism about a positive outcome. It is expected that both loan facilities would be repaid from the proceeds of sale of one of the Licences.

The ability to re-finance the Petrogrand loan represents a material uncertainty that may cast significant doubt upon the Group's and the Company's ability to continue as a going concern as described in Note 2 to the Preliminary Financial Statements.

Summary

2018 saw the drilling of a successful well at the Cheremshanskoye oil field in Licence 67 which has led to additional reserves being approved in Russia. The retirement of Dennis Francis was also a major event in 2018, however I am confident that David Sturt, thanks to his knowledge and experience, will focus on creating shareholder value whether through exploration, appraisal, development or sale of assets.

Our industry is continuing to experience unstable times but we have valuable future development targets at West Lineynoye, Cheremshanskoye and Sibkrayevskoye that can be profitable at a wide range of oil prices.

Annual Report and AGM

The annual report will be mailed to shareholders and published on the Company's website (www.petroneft.com) on 28 June 2019. The AGM will be held in Dublin on 20 September 2019.

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

David Golder

Non-Executive Chairman

PetroNeft Resources plc

Consolidated Balance Sheet

As at 31 December 2018

	Note	2018 US\$	2017 US\$
Assets			
Non-current Assets			
Property, plant and equipment	5	38,296	88,202
Equity-accounted investment in joint ventures - WorldAce Investments Limited	6	-	-
Equity-accounted investment in joint ventures - Russian BD Holdings B.V.	7	-	-
Financial assets at amortised cost	8	35,525,743	49,439,502
		<u>35,564,039</u>	<u>49,527,704</u>
Current Assets			
Inventories	9	6,547	21,908
Trade and other receivables	10	249,280	587,601
Cash and cash equivalents	11	801,938	9,389
		<u>1,057,765</u>	<u>618,898</u>
Total Assets		<u>36,621,804</u>	<u>50,146,602</u>
Equity and Liabilities			
Capital and Reserves			
Called up share capital	12	9,429,182	9,429,182
Share premium account		140,912,898	140,912,898
Share-based payments reserve		6,796,540	6,796,540
Retained loss		(91,003,253)	(83,441,491)
Currency translation reserve		(36,958,374)	(28,604,558)
Other reserves		336,000	336,000
Equity attributable to equity holders of the Parent		<u>29,512,993</u>	<u>45,428,571</u>
Non-current Liabilities			
Deferred tax liability		3,219,203	3,001,617
		<u>3,219,203</u>	<u>3,001,617</u>
Current Liabilities			
Interest-bearing loans and borrowings		2,116,825	-
Trade and other payables	13	1,772,783	1,716,414
		<u>3,889,608</u>	<u>1,716,414</u>
Total Liabilities		<u>7,108,811</u>	<u>4,718,031</u>
Total Equity and Liabilities		<u>36,621,804</u>	<u>50,146,602</u>

PetroNeft Resources plc

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Called up share capital US\$	Share premium account US\$	Share-based payment and other reserves US\$	Currency translation reserve US\$	Retained loss US\$	Total US\$
At 1 January 2017	9,429,182	140,912,898	7,132,540	(31,118,410)	(80,202,450)	46,153,760
Loss for the year	-	-	-	-	(3,239,041)	(3,239,041)
Currency translation adjustments - subsidiaries	-	-	-	(37,190)	-	(37,190)
Share of joint ventures' other comprehensive income - foreign exchange translation differences	-	-	-	2,551,042	-	2,551,042
Total comprehensive loss for the year	-	-	-	2,513,852	(3,239,041)	(725,189)
At 31 December 2017	9,429,182	140,912,898	7,132,540	(28,604,558)	(83,441,491)	45,428,571
At 1 January 2018	9,429,182	140,912,898	7,132,540	(28,604,558)	(83,441,491)	45,428,571
Loss for the year	-	-	-	-	(7,561,762)	(7,561,762)
Currency translation adjustments - subsidiaries	-	-	-	102,440	-	102,440
Share of joint ventures' other comprehensive income - foreign exchange translation differences	-	-	-	(8,456,256)	-	(8,456,256)
Total comprehensive loss for the year	-	-	-	(8,353,816)	(7,561,762)	(15,915,578)
At 31 December 2018	9,429,182	140,912,898	7,132,540	(36,958,374)	(91,003,253)	29,512,993

PetroNeft Resources plc

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	2018	2017
	US\$	US\$
Operating activities		
Loss before taxation	(7,304,881)	(2,345,371)
Adjustment to reconcile loss before tax to net cash flows		
Non-cash		
Depreciation	38,936	62,748
Share of loss in joint ventures	6,848,370	4,667,487
Finance revenue	(966,039)	(3,510,435)
Finance costs	116,825	-
Working capital adjustments		
Decrease in trade and other receivables	276,593	294,434
Decrease in inventories	12,960	7,066
Increase in trade and other payables	192,955	555,937
Income tax paid	(30,034)	(9,783)
Net cash flows used in operating activities	<u>(814,315)</u>	<u>(277,917)</u>
Investing activities		
Loan facilities advanced to joint venture undertakings	(392,000)	(40,000)
Interest received	1,481	823
Net cash used in investing activities	<u>(390,519)</u>	<u>(39,177)</u>
Financing activities		
Proceeds from loan facilities	2,000,000	-
Net cash received from financing activities	<u>2,000,000</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents	795,166	(317,094)
Translation adjustment	(2,617)	6,865
Cash and cash equivalents at the beginning of the year	9,389	319,618
Cash and cash equivalents at the end of the year	<u><u>801,938</u></u>	<u><u>9,389</u></u>

11

PetroNeft Resources plc

Notes to the Preliminary Financial Statements

For the year ended 31 December 2018

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 28 June 2019.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2018 or 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 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 2017. Their report was unmodified but did draw attention to the material uncertainty relating to going concern. The 2018 audited financial statements will be distributed to shareholders on 28 June 2019.

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

A number of amendments to IFRS (principally the introduction of IFRS 9 "Financial instruments" and IFRS 15 "Revenue from Contracts with Customers") became effective for, and have been applied in preparing, these Financial Statements. The introduction of these amendments on 1 January 2018 did not result in material changes to the results or financial position of the Group. An early adoption of amendments to IAS 28 in respect of Long-term Interest in Associates and Joint Ventures the Group resulted to recognised a loss allowance of US\$3,109,501 given the uncertainties relating to WorldAce. Full details of the approach taken to the introduction of the new standards and the impact of adoption will be provided in the full financial statements that comply with IFRS which will be distributed to shareholders on 28 June 2019.

2. Going Concern

As described in the Chairman's Statement on page 6 PetroNeft agreed an extension of the loan facility and an increase by US\$500,000 up to US\$2.5 million with Swedish company Petrogrand AB (in March 2019). The loan matures on 15 December 2019 and is secured by way of a floating charge on the assets of PetroNeft. The original loan facility was used for general corporate purposes and to finance the drilling programme in 2018. The increase is being used for general corporate purposes. This loan facility has provided time and space for a more long-term financing solution to be put in place. Discussions on a further supplementary financing for ongoing general corporate purposes are well advanced and the Company expects to update shareholders in the near future.

The Group has analysed its cash flow requirements through to 30 June 2020 in detail. The cash flows are highly dependent on the successful re-financing of the Petrogrand loan and on future production rates and oil prices achieved in its joint-venture undertaking, WorldAce Investments Limited. Should the Petrogrand loan not be re-financed the Group will need additional funding in order 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 14 outlines the amounts owed to the Board and management in this regard.

In 2018 the Company, in conjunction with its joint venture partners engaged financial advisers to evaluate the disposal of Licence 61 and/or Licence 67. While there remains significant uncertainty that any transaction will be completed, the Company has seen interest from a range of well-financed industry players. The result of the C-4 well which was drilled during 2018 has generated additional interest. The Company has signed non-disclosure agreements and opened data rooms in relation to the potential sale or farmout of both Licence 61 and 67. As there are delaying factors, including regulatory requirements, around transferring licences and in a share for share type transaction, the timeframe to close such a successful transaction could be at least six months following binding agreement between the parties. The Board is confident that one of these options will bring a solution.

PetroNeft Resources plc

Notes to the Preliminary Financial Statements

For the year ended 31 December 2018

2. Going Concern (continued)

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. Nevertheless, 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. 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 was unable to continue as a going concern.

3. Segment information

At present the Group has one reportable operating segment, which is oil exploration and production through its joint venture undertakings. As a result, there are no further disclosures required in respect of the Group's reporting segment.

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 of the Group's sales and capital expenditures are in Russia.

4. Loss per Ordinary Share

Basic loss per Ordinary Share amounts are 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. Basic and diluted earnings per Ordinary Share are the same as the potential Ordinary Shares are anti-dilutive.

	2018 US\$	2017 US\$
Numerator		
Loss attributable to equity shareholders of the Parent for basic and diluted loss	<u>(7,561,762)</u>	<u>(3,239,041)</u>
	(7,561,762)	(3,239,041)
Denominator		
Weighted average number of Ordinary Shares for basic and diluted earnings per Ordinary Share	<u>707,245,906</u>	<u>707,245,906</u>
Diluted weighted average number of shares	707,245,906	707,245,906
Loss per share:		
Basic and diluted - US dollar cent	(1.07)	(0.46)

The Company has instruments in issue that could potentially dilute basic earnings per Ordinary Share in the future, but are not included in the calculation for the reasons outlined below:

- Employee Share Options – These potential Ordinary Shares are anti-dilutive for the years ended 31 December 2018 and 2017.

PetroNeft Resources plc

Notes to the Preliminary Financial Statements

For the year ended 31 December 2018

5. Property, Plant and Equipment

Group	Plant and machinery US\$
Cost	
At 1 January 2017	945,868
Translation adjustment	47,060
At 1 January 2018	992,928
Disposals	(324)
Translation adjustment	(152,799)
At 31 December 2018	839,805
Depreciation	
At 1 January 2017	802,402
Charge for the year	62,748
Translation adjustment	39,576
At 1 January 2018	904,726
Charge for the year	38,936
Disposals	(324)
Translation adjustment	(141,829)
At 31 December 2018	801,509
Carrying amount	
At 31 December 2018	38,296
At 31 December 2017	88,202

PetroNeft Resources plc

Notes to the Preliminary Financial Statements

For the year ended 31 December 2018

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

PetroNeft Resources plc has a 50% interest in WorldAce Investments Limited, 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 2017	-
Elimination of unrealised profit on intra-Group transactions	(27,336)
Share of net loss of joint venture for the year	(4,285,833)
Translation adjustment	2,356,702
Credited against loans receivable from WorldAce Investments Limited (Note 8)	<u>1,956,467</u>
At 1 January 2018	-
Elimination of unrealised profit on intra-Group transactions	(1,174)
Share of net loss of joint venture for the year	(6,339,613)
Translation adjustment	(7,760,793)
Credited against loans receivable from WorldAce Investments Limited (Note 8)	<u>14,101,580</u>
At 31 December 2018	<u>-</u>

The balance sheet position of WorldAce Investments Limited shows net liabilities of US\$57,974,076 (2017: US\$29,773,264) following a loss in the year of US\$12,679,226 (2017: US\$8,571,665) together with a negative currency translation adjustment of US\$15,521,586 (2017: positive US\$4,713,403). PetroNeft's 50% share is included above and results in a negative carrying value of US\$24,304,633 (2017: US\$10,203,053). 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\$24,304,633 (2017: US\$10,203,053) 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 Preliminary Financial Statements

For the year ended 31 December 2018

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:

	50% Share of WorldAce Group	
	2018 US\$	2017 US\$
<i>Continuing operations</i>		
Revenue	15,684,984	13,818,415
Cost of sales	(13,886,409)	(12,636,469)
Gross profit	1,798,575	1,181,946
Administrative expenses	(1,560,913)	(1,546,643)
Operating profit/(loss)	237,662	(364,697)
Write-off of oil and gas properties	(2,048,038)	-
Write-off of exploration and evaluation assets	(2,346)	(13,051)
Finance revenue	64,712	33,176
Finance costs	(4,591,603)	(3,941,261)
Loss for the year for continuing operations before taxation	(6,339,613)	(4,285,833)
Income tax expense	-	-
Loss for the year	(6,339,613)	(4,285,833)
Loss for the year	(6,339,613)	(4,285,833)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>		
Currency translation adjustments	(7,760,793)	2,356,702
Total comprehensive loss for the year	(14,100,406)	(1,929,131)

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 14 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 depreciated against the US Dollar during the year from RUB57.86:US\$1 at 31 December 2017 to RUB69.47:US\$1 at 31 December 2018.

PetroNeft Resources plc

Notes to the Preliminary Financial Statements

For the year ended 31 December 2018

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

	50% Share of WorldAce Group	
	2018 US\$	2017 US\$
Non-current Assets		
Oil and gas properties	29,786,687	39,312,150
Property, plant and equipment	128,111	184,027
Exploration and evaluation assets	7,804,586	9,321,748
Assets under construction	562,307	824,992
	38,281,691	49,642,917
Current Assets		
Inventories	848,776	605,240
Trade and other receivables	380,156	282,925
Cash and cash equivalents	225,846	68,613
	1,454,778	956,778
Total Assets	39,736,469	50,599,695
Non-current Liabilities		
Provisions	(573,540)	(658,513)
Interest-bearing loans and borrowings	(65,682,097)	(61,435,277)
	(66,255,637)	(62,093,790)
Current Liabilities		
Interest-bearing loans and borrowings	(974,793)	(715,405)
Trade and other payables	(1,493,077)	(2,677,132)
	(2,467,870)	(3,392,537)
Total Liabilities	(68,723,507)	(65,486,327)
Net Liabilities	(28,987,038)	(14,886,632)

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 14 Related party disclosures.

Capital commitments

	2018 US\$	2017 US\$
Details of capital commitments at the balance sheet date are as follows:		
Contracted for but not provided in the financial statements	60,710	466,114

PetroNeft Resources plc

Notes to the Preliminary Financial Statements

For the year ended 31 December 2018

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

Future minimum rentals payable under non-cancellable operating leases at the balance sheet date are as follows:

	2018 US\$	2017 US\$
Within one year	76,971	65,570
After one year but not more than five years	333,355	244,391
More than five years	513,455	421,508
	<u>923,781</u>	<u>731,469</u>

The above capital commitments in the joint venture are incurred jointly with Oil India International B.V. The Group has a 50% share of these commitments.

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 2017	-
Share of net loss of joint venture for the year	(381,654)
Translation adjustment	194,339
Credited against loans receivable from Russian BD Holdings BV (Note 8)	<u>187,315</u>
At 1 January 2018	-
Elimination of unrealised profit on intra-Group transactions	(12,117)
Share of net loss of joint venture for the year	(508,757)
Translation adjustment	(695,463)
Credited against loans receivable from Russian BD Holdings BV (Note 8)	<u>1,216,337</u>
At 31 December 2018	<u>-</u>

The balance sheet position of Russian BD Holdings B.V. shows net liabilities of US\$3,848,446 (2017: US\$1,440,006) following a loss in the year of US\$1,017,514 (2017: US\$763,308) together with a negative currency translation of US\$1,390,926 (2017: positive US\$388,678). PetroNeft's 50% share is included above and results in a negative carrying value of US\$1,936,340 (2017: US\$720,003). 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\$1,936,340 (2017: US\$720,003) 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 Preliminary Financial Statements

For the year ended 31 December 2018

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:

	50% Share of Russian BD Holdings B.V. Group	
	2018	2017
	US\$	US\$
Revenue	-	-
Cost of sales	-	-
Gross profit	-	-
Administrative expenses	(104,256)	(94,626)
Operating loss	(104,256)	(94,626)
Finance revenue	520	259
Finance costs	(405,021)	(287,287)
Loss for the year for continuing operations before taxation	(508,757)	(381,654)
Taxation	-	-
Loss for the year	(508,757)	(381,654)
Loss for the year	(508,757)	(381,654)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>		
Currency translation adjustments	(695,463)	194,339
Total comprehensive loss for the year	(1,204,220)	(187,315)

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 14 Related party disclosures.

	50% Share of Russian BD Holdings B.V. Group	
	2018	2017
	US\$	US\$
Non-current assets	4,993,522	4,370,482
Current assets	238,093	12,048
Total assets	5,231,615	4,382,530
Non-current liabilities	(6,393,622)	(4,981,608)
Current liabilities	(762,216)	(120,925)
Total liabilities	(7,155,838)	(5,102,533)
Net Liabilities	(1,924,223)	(720,003)

PetroNeft Resources plc

Notes to the Preliminary Financial Statements

For the year ended 31 December 2018

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

Future minimum rentals payable under non-cancellable operating leases at the balance sheet date are as follows:

	2018 US\$	2017 US\$
Within one year	3,939	2,194
After one year but not more than five years	18,840	8,775
More than five years	52,006	26,416
	<u>74,785</u>	<u>37,385</u>

Capital commitments

	2018 US\$	2017 US\$
Details of capital commitments at the balance sheet date are as follows:		
Contracted for but not provided in the financial statements	78,406	-

8. Financial assets at amortised cost

	2018 US\$	2017 US\$
Loans to WorldAce Investments Limited (Note 14)	59,161,041	55,474,668
Less: accumulated share of WorldAce Investments Limited losses (Note 6)	(24,304,633)	(10,203,053)
Loss allowance	(3,109,501)	-
	<u>31,746,907</u>	<u>45,271,615</u>
Loans to Russian BD Holdings B.V. (Note 14)	5,715,176	4,887,890
Less: accumulated share of Russian BD Holdings B.V. losses (Note 7)	(1,936,340)	(720,003)
	<u>3,778,836</u>	<u>4,167,887</u>
	<u>35,525,743</u>	<u>49,439,502</u>

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 2020 at the earliest. The loan is set to mature on 31 December 2025. As at 31 December 2018 the loan was fully drawn down. The realisation of financial assets of \$31.7m in respect of WorldAce is dependent on the continued successful development of economic reserves which is subject to a number of 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.

PetroNeft Resources plc

Notes to the Preliminary Financial Statements

For the year ended 31 December 2018

8. Financial assets at amortised cost (continued)

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. The board believe that the successful well has great potential as it tested oil at 450 bopd and has demonstrated the potential of Licence 67.

The realisation of financial assets of US\$3.8m 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 a number of 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.

9. Inventories

	2018	2017
	US\$	US\$
Materials	6,547	21,908
	<u>6,547</u>	<u>21,908</u>

10. Trade and other receivables

	2018	2017
	US\$	US\$
Receivable from joint ventures (Note 14)	170,627	503,527
Prepayments	17,883	61,359
Advances to contractors	758	1,676
Other receivables	60,012	21,039
	<u>249,280</u>	<u>587,601</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	2018	2017
	US\$	US\$
Cash at bank	801,938	9,389
	<u>801,938</u>	<u>9,389</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.

PetroNeft Resources plc

Notes to the Preliminary Financial Statements

For the year ended 31 December 2018

12. Share capital	2018 €	2017 €
Authorised		
1,000,000,000 (2017: 1,000,000,000) Ordinary Shares of €0.01 each	<u>10,000,000</u>	<u>10,000,000</u>
	<u>10,000,000</u>	<u>10,000,000</u>
	Number of Ordinary Shares	Called up share capital US\$
Allotted, called up and fully paid equity		
At 1 January 2017	<u>707,245,906</u>	<u>9,429,182</u>
At 1 January 2018	<u>707,245,906</u>	<u>9,429,182</u>
At 31 December 2018	<u>707,245,906</u>	<u>9,429,182</u>

13. Trade and other payables

	2018 US\$	2017 US\$
Trade payables	428,734	570,476
Trade payables to joint ventures (Note 14)	104,115	212,442
Corporation tax	55,016	54,898
Other taxes and social insurance costs	42,918	83,305
Accruals and other payables	<u>1,142,000</u>	<u>795,293</u>
	<u>1,772,783</u>	<u>1,716,414</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 Preliminary Financial Statements

For the year ended 31 December 2018

14. Related party disclosures

Transactions with joint ventures

PetroNeft Resources plc had the following transactions with its joint ventures during the years ended 31 December 2018 and 2017:

Group	Russian BD Holdings BV Group US\$	WorldAce Investments Limited Group US\$
Receivable by PetroNeft Group at 1 January 2017	4,080,882	44,444,591
Advanced during the year	360,251	-
Transactions during the year	142,086	1,798,417
Interest accrued in the year	270,773	3,238,839
Payments for services made during the year	(480,723)	(2,019,374)
Share of joint venture's translation adjustment	(187,315)	(1,956,467)
Translation adjustment	32,962	5,665
At 1 January 2018	4,218,916	45,511,671
Advanced during the year	439,600	-
Transactions during the year	315,053	1,551,260
Interest accrued in the year	387,686	3,686,373
Payments for services made during the year	(309,505)	(1,758,280)
Share of joint venture's translation adjustment	(1,216,337)	(14,101,580)
Translation adjustment	(16,419)	(6,682)
At 31 December 2018	3,818,994	34,882,762
Balance at 31 December 2017 comprised of:		
Loans receivable (Note 8)	4,167,887	45,271,615
Trade and other receivables	51,029	452,498
Trade Payables	-	(212,442)
	4,218,916	45,511,671
Balance at 31 December 2018 comprised of:		
Loans receivable (Note 8)	3,778,836	34,856,408
Trade and other receivables	40,158	130,469
Trade and other payables	-	(104,115)
	3,818,994	34,882,762

PetroNeft Resources plc

Notes to the Preliminary Financial Statements

For the year ended 31 December 2018

14. 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 HGR Consulting Limited for the services of the CFO. Their remuneration and fees during the year were as follows:

Remuneration of key management	2018 US\$	2017 US\$
Compensation of key management	1,064,724	1,103,224
Contributions to defined contribution pension plan	48,947	52,693
Consulting fees (HGR Consulting – see below)	324,115	304,556
	<u>1,437,786</u>	<u>1,460,473</u>

The following amounts, which are included in the above, were owed to key management and former CEO Dennis Francis at 31 December 2018 and 2017:

Remuneration, fees and expenses due to Directors who were in office during the year	607,468	424,564
Remuneration due to other key management	133,354	122,946
Consulting fees (HGR Consulting – see below)	193,219	276,570
	<u>934,041</u>	<u>824,080</u>

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

Transactions with HGR Consulting Limited

Paul Dowling, Secretary and Chief Financial Officer of PetroNeft (until 31 January 2019), provided his services through HGR Consulting Limited (“HGR”) from May 2016. Services provided by HGR during 2018 amounted to US\$324,115 (2017: US\$304,556). An amount of US\$193,219 was owed to HGR at 31 December 2018 (2017: US\$276,570).

Transactions with Petrogrand AB

Petrogrand AB is a related party by virtue of Maxim Korobov, a director of PetroNeft, being a significant shareholder of Petrogrand AB. 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 has the original maturity date of 31 December 2018. This loan facility was fully drawn down in 2018. In March 2019, the parties have agreed an increase in the facility by US\$500,000 and a revised maturity date of 15 December 2019. Further detail is contained in Note 15. The following are the details of this transaction in 2018:

	Petrogrand AB 2018 US\$
Loan facility maximum amount	2,000,000
Loan drawdowns during the year	2,000,000
Interest accrued but not yet paid	116,825
Amount due to Petrogrand AB at 31 December	<u>2,116,825</u>

In 2018 Granite Construction LLC (100% subsidiary of PetroNeft) purchased tubing from Petrogrand Exploration and Production (100% subsidiary of Petrogrand AB) for US\$97,458. The amount due was fully paid in 2018.

PetroNeft Resources plc

Notes to the Preliminary Financial Statements

For the year ended 31 December 2018

15. Important Events after the Balance Sheet Date

In January 2018 PetroNeft agreed a loan facility for up to US\$2 million with Swedish company Petrogrand AB (“Petrogrand”) secured on the assets of PetroNeft. The loan facility was fully drawn down in 2018 and was used to finance the drilling of the successful C-4 well and for general corporate purposes. In March 2019 the parties have agreed an increase in the facility by US\$500,000 to US\$2.5 million and a revised maturity date of 15 December 2019 (which may be extended by mutual consent of the parties). The revised terms include the potential entitlement to bonus payments of US\$2.5 million per Licence if either or both Licence 61 or Licence 67 are sold before 31 December 2020.

16. Board approval

This announcement was approved by the Board of Directors of PetroNeft Resources plc on 20 June 2019.