

PetroNeft Resources plc

**Unaudited interim condensed
consolidated financial statements**

for the 6 months ended 30 June 2017

PetroNeft Resources plc

Table of Contents

Group Information	2
Chairman's Statement	4
Interim Condensed Consolidated Income Statement	8
Interim Condensed Consolidated Statement of Comprehensive Income.....	8
Interim Condensed Consolidated Balance Sheet	9
Interim Condensed Consolidated Statement of Changes in Equity	10
Interim Condensed Consolidated Cash Flow Statement	11
Notes to the Interim Condensed Consolidated Financial Statements	12

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

Group Information

Directors ¹

David Golder (U.S. citizen)
(Non-Executive Chairman)
Dennis Francis (U.S. citizen)
(Chief Executive Officer)
Thomas Hickey
(Non-Executive Director)
Maxim Korobov (Russian citizen)
(Non-Executive Director)
Anthony Sacca (Australian citizen)
(Non-Executive Director)
David Sturt (British citizen)
(Non-Executive Director)

Registered Office and Business Address

20 Holles Street
Dublin 2
Ireland

Secretary

Paul Dowling

Auditor

Ernst & Young
Chartered Accountants
Harcourt Centre
Harcourt Street
Dublin 2
Ireland

Nominated Adviser and ESM Adviser

Davy
49 Dawson Street
Dublin 2
Ireland

¹ Irish citizens unless otherwise stated

PetroNeft Resources plc

Group Information *(continued)*

Joint Brokers

Davy
49 Dawson Street
Dublin 2
Ireland

Canaccord Genuity
88 Wood Street
London
EC2V 7QR
United Kingdom

Principal Bankers

KBC Bank Ireland
Sandwith Street
Dublin 2
Ireland

AIB Bank
1 Lower Baggot Street
Dublin 2
Ireland

Solicitors

Eversheds
One Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland

White & Case
5 Old Broad Street
London
EC2N 1DW
United Kingdom

4 Romanov Pereulok
125009
Moscow
Russia

Registered Number

408101

Registrar

Computershare
Heron House
Corrig Road
Sandyford Industrial Estate
Dublin 18
Ireland

PetroNeft Resources plc

Chairman's Statement

Dear Shareholder,

I am pleased to report on the activities of the Group for the six months to 30 June 2017 and provide an update on recent progress. 2017 to date has seen the drilling of the S-375 and S-375s delineation well at the Sibkrayevskoye oil field. While the result at the initial location was below expectations we are very satisfied with the result from the sidetracked location.

Production and Sales

Gross production at Licence 61 in the six months to 30 June 2017 averaged 2,347 bopd, a small decrease compared to the same period in 2016 (2,366 bopd). We sold 430,421 (gross) barrels of oil in the six months to 30 June 2017 (H1 2016: 421,714 bbls) and achieved an average Russian Domestic oil price of \$32.07 (H1 2016: \$20.56). The rise in price was partly offset by higher taxes and a stronger Rouble but did lead to additional operating cashflows for the Licence 61 joint venture.

Licence 61 Gross Production	H1 2017	Q2-2017	Q1-2017	H1 2016
Total gross production	424,812	200,208	224,604	430,693
Gross bopd	2,347	2,200	2,496	2,366
PetroNeft 50% share bopd	1,174	1,100	1,248	1,183

Sibkrayevskoye

In 2016 we sought to ascertain the full potential of Sibkrayevskoye through the drilling of a 10 km step out well, S-374. The well, which was a significant step out from the existing discovery, was drilled in July and August 2016 but unfortunately did not encounter commercial oil and was plugged and abandoned. The result led to the decision to drill an additional delineation well, S-375, in 2017.

The objective of the S-375 well was to determine the sand distribution and confirm the oil water contact at the southern edge of the field. The well was drilled as a deviated well from the Pad 2 surface position to a targeted location 1.5 km to the south. The wireline logs indicated there is about 4.8 m of net oil pay in the well with the top of the Jurassic J1 interval located at -2,346 m tvdss, which was on prognosis, and the oil-down-to confirmed at -2,357 m tvdss.

The well was then sidetracked (S-375s) from the surface casing to a location about 400 m north of the Pad 2 surface position. The log and core evaluation of the primary Jurassic J1 reservoir indicates there is about 14.8 m of net oil pay and the top of the J1 interval is located at -2,334 m tvdss which is about 3 m high to prognosis. The net pay is thicker than encountered at other wells drilled at the northern part of Sibkrayevskoye, which typically had about 10 m of net oil pay. This increased reservoir thickness is encouraging.

The S-375s well has been cased and cemented and testing is continuing. So far, we have achieved an inflow rate of 15 m³/day (94 bopd) of clean oil which is similar in character to the oil produced by the S-373 well. It is expected that testing will continue for several weeks and will also include the installation of an electric submersible pump to assess the full potential of the well.

The reserve estimate and Development Plan for the field will be updated with the S-375 and S-375s drilling results in the coming months in conjunction with our joint venture partner Oil India. This data will help to shape our plans for drilling Sibkrayevskoye in 2018 and beyond.

PetroNeft Resources plc

Chairman's Statement (*continued*)

Review of PetroNeft loss for the period

The loss for the period was US\$1.6m (H1 2016: US\$2.3m). The loss includes PetroNeft's share of the losses on the joint ventures relating to Licences 61 and 67 of US\$2.2m and US\$0.2m respectively (H1 2016: US\$2.4m and US\$0.2m). The loss relating to the Licence 61 joint venture is discussed in more detail below. Finance revenue of US\$1.7m (H1 2016: US\$1.6m) relates primarily to interest receivable on loans to the joint ventures.

PetroNeft Key Financial Metrics

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2017 US\$'000	6 months ended 30 June 2016 US\$'000	Year ended 31 December 2016 US\$'000
Continuing operations			
Revenue	1,008	1,362	2,280
Cost of sales	(938)	(1,235)	(2,038)
Gross profit	70	127	242
Administrative expenses	(580)	(1,073)	(2,155)
Exchange gain on intra-Group loans	32	23	77
Operating loss	(478)	(923)	(1,836)
Share of joint venture's net loss – WorldAce Investments Limited	(2,219)	(2,408)	(5,721)
Share of joint venture's net loss – Russian BD Holdings B.V.	(184)	(173)	(288)
Finance revenue	1,710	1,596	3,248
Loss for the period for continuing operations before taxation	(1,171)	(1,908)	(4,597)
Income tax expense	(437)	(410)	(830)
Loss for the period	(1,608)	(2,318)	(5,427)

PetroNeft Resources plc

Chairman's Statement (*continued*)

Licence 61 joint venture – WorldAce Group

The metrics below are an extraction from the financial statements of the WorldAce Group which demonstrate the performance of Licence 61:

	PetroNeft's share 6 months ended 30 June 2017 US\$'000	PetroNeft's share 6 months ended 30 June 2016 US\$'000	PetroNeft's share Year ended 31 December 2016 US\$'000
Continuing operations			
Revenue	6,903	4,339	11,604
Cost of sales	(6,373)	(4,259)	(11,200)
Gross profit	530	80	404
Administrative expenses	(847)	(917)	(1,614)
Operating loss	(317)	(837)	(1,210)
Loss on disposal of oil and gas properties	-	-	(438)
Write-off of exploration and evaluation assets	(13)	-	(710)
Finance revenue	11	4	10
Finance costs	(1,900)	(1,575)	(3,373)
Loss for the period for continuing operations before taxation	(2,219)	(2,408)	(5,721)
Income tax	-	-	-
Loss for the period for continuing operations before taxation	(2,219)	(2,408)	(5,721)
WorldAce Analysis (PetroNeft's share)			
	6 months ended 30 June 2017 US\$'000	50% of WorldAce 6 months ended 30 June 2016 US\$'000	Year ended 31 December 2016
Revenue			
Oil sales	6,897	4,335	11,594
Other sales	6	4	10
Total revenue	6,903	4,339	11,604
Cost of Sales			
Mineral Extraction Tax	3,333	2,047	5,570
Pipeline tariff	872	820	1,948
Staff costs	494	402	818
Depreciation and amortisation	772	600	1,708
Other cost of sales	902	390	1,156
Total cost of sales	6,373	4,259	11,200

The detailed Income Statement and Balance Sheet of WorldAce Investments Limited is disclosed at note 8 to these condensed financial statements. Improved oil prices in H1 2017 have strengthened the margin in 2017 as compared to the same period last year.

In March 2017 Oil India agreed to provide 100% of the funding required to carry out the agreed work programme at Licence 61 in 2017 by way of a US\$4 million shareholder loan to WorldAce.

PetroNeft Resources plc

Chairman's Statement (*continued*)

Licence 67

We continue to consider all options in relation to this Licence with our joint venture partner Belgrave Naftogas (Arawak Energy). During 2015, we agreed an exploration programme for Licence 67 for the five years to 2020 with the Russian authorities; based on this, the first significant expenditure required will be in 2018. We view Licence 67 as having considerable long-term potential particularly at the Cheremshanskaya oil field.

Finance

As reported at our recent AGM and previously, due to the delay in the development of Sibkrayevskoye, Company finances are significantly constrained. Management have developed a number of potential solutions, which include potential farm down of Licence 67, debt finance or the acquisition of producing and non-producing assets in share for share type transactions. We are currently in detailed discussions with counterparties in this regard and will update shareholders as appropriate. Further information is provided at Note 2.

Outlook

The first half of 2017 has yielded positive results from the S-375s well at Sibkrayevskoye and some improvement in oil price. We will now work with our partner Oil India to update reserves and the Development Plan and confirm the route forward. We are in detailed discussions regarding growing the company through acquisitions and will update shareholders when appropriate to do so.

David Golder
Non-Executive Chairman

PetroNeft Resources plc

Interim Condensed Consolidated Income Statement

For the 6 months ended 30 June 2017

	Note	Unaudited		Audited
		6 months ended 30 June 2017 US\$	6 months ended 30 June 2016 US\$	Year ended 31 December 2016 US\$
<i>Continuing operations</i>				
Revenue		1,007,929	1,362,158	2,279,585
Cost of sales		(937,686)	(1,234,712)	(2,038,209)
Gross profit		70,243	127,446	241,376
Administrative expenses		(579,892)	(1,073,236)	(2,154,699)
Exchange gain on intra-Group loans		31,901	22,522	77,458
Operating loss		(477,748)	(923,268)	(1,835,865)
Share of joint venture's net loss - WorldAce Investments Limited	8	(2,218,754)	(2,407,781)	(5,721,232)
Share of joint venture's net loss - Russian BD Holdings B.V.	9	(184,674)	(172,677)	(288,198)
Finance revenue	5	1,710,060	1,595,944	3,247,876
Loss for the period for continuing operations before taxation		(1,171,116)	(1,907,782)	(4,597,419)
Income tax expense	6	(436,788)	(409,925)	(830,241)
Loss for the period attributable to equity holders of the Parent		(1,607,904)	(2,317,707)	(5,427,660)
Loss per share attributable to ordinary equity holders of the Parent				
Basic and diluted - <i>US dollar cent</i>		(0.23)	(0.33)	(0.77)

Interim Condensed Consolidated Statement of Comprehensive Income

For the 6 months ended 30 June 2017

	Unaudited		Audited
	6 months ended 30 June 2017 US\$	6 months ended 30 June 2016 US\$	Year ended 31 December 2016 US\$
Loss for the period attributable to equity holders of the Parent	(1,607,904)	(2,317,707)	(5,427,660)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>			
Currency translation adjustments - subsidiaries	(19,620)	61,935	25,298
Share of joint ventures' other comprehensive income - foreign exchange translation differences	1,405,547	5,467,539	7,741,440
Total comprehensive (loss)/profit for the period attributable to equity holders of the Parent	(221,977)	3,211,767	2,339,078

PetroNeft Resources plc

Interim Condensed Consolidated Balance Sheet

As at 30 June 2017

		<u>Unaudited</u>	<u>Audited</u>
		30 June 2017	31 December 2016
	Note	US\$	US\$
Assets			
Non-current Assets			
Property, plant and equipment	7	116,717	143,466
Equity-accounted investment in joint ventures - WorldAce Investments Limited	8	-	-
Equity-accounted investment in joint ventures - Russian BD Holdings B.V.	9	-	-
Financial assets - loans and receivables	10	48,407,536	47,713,421
		<u>48,524,253</u>	<u>47,856,887</u>
Current Assets			
Inventories	11	19,679	28,973
Trade and other receivables	12	825,267	1,143,904
Cash and cash equivalents	13	152,130	319,618
		<u>997,076</u>	<u>1,492,495</u>
Total Assets		<u>49,521,329</u>	<u>49,349,382</u>
Equity and Liabilities			
Capital and Reserves			
Called up share capital		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		(81,810,354)	(80,202,450)
Currency translation reserve		(29,732,483)	(31,118,410)
Other reserves		336,000	336,000
Equity attributable to equity holders of the Parent		<u>45,931,783</u>	<u>46,153,760</u>
Non-current Liabilities			
Deferred tax liability		2,545,004	2,113,541
		<u>2,545,004</u>	<u>2,113,541</u>
Current Liabilities			
Trade and other payables	14	1,044,542	1,082,081
		<u>1,044,542</u>	<u>1,082,081</u>
Total Liabilities		<u>3,589,546</u>	<u>3,195,622</u>
Total Equity and Liabilities		<u>49,521,329</u>	<u>49,349,382</u>

PetroNeft Resources plc

Interim Condensed Consolidated Statement of Changes in Equity

For the 6 months ended 30 June 2017

	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 2016	9,429,182	140,912,898	7,132,540	(38,885,148)	(74,774,790)	43,814,682
Loss for the year	-	-	-	-	(5,427,660)	(5,427,660)
Currency translation adjustments - subsidiaries	-	-	-	25,298	-	25,298
Share of joint ventures' other comprehensive income - foreign exchange translation differences	-	-	-	7,741,440	-	7,741,440
Total comprehensive profit for the year	-	-	-	7,766,738	(5,427,660)	2,339,078
At 31 December 2016	9,429,182	140,912,898	7,132,540	(31,118,410)	(80,202,450)	46,153,760
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 period	-	-	-	-	(1,607,904)	(1,607,904)
Currency translation adjustments - subsidiaries	-	-	-	(19,620)	-	(19,620)
Share of joint ventures' other comprehensive income - foreign exchange translation differences	-	-	-	1,405,547	-	1,405,547
Total comprehensive loss for the period	-	-	-	1,385,927	(1,607,904)	(221,977)
At 30 June 2017	9,429,182	140,912,898	7,132,540	(29,732,483)	(81,810,354)	45,931,783

PetroNeft Resources plc

Interim Condensed Consolidated Cash Flow Statement

For the 6 months ended 30 June 2017

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2017 US\$	6 months ended 30 June 2016	Year ended 31 December 2016 US\$
Operating activities			
Loss before taxation	(1,171,116)	(1,907,782)	(4,597,419)
Adjustment to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation	31,899	36,970	68,568
Share of loss in joint ventures	2,403,428	2,580,458	6,009,430
Finance revenue	5 (1,710,060)	(1,595,944)	(3,247,876)
Working capital adjustments			
Decrease/(increase) in trade and other receivables	352,199	(322,891)	860,444
Decrease in inventories	9,295	24,626	25,330
(Decrease)/increase in trade and other payables	(83,173)	292,234	(59,474)
Income tax paid	(6,980)	(12,771)	(16,650)
Net cash flows used in operating activities	(174,508)	(905,100)	(957,647)
Investing activities			
Loan facilities advanced to joint venture undertakings	-	-	(10,000)
Interest received	532	1,480	2,449
Net cash received from/(used in) investing activities	532	1,480	(7,551)
Net decrease in cash and cash equivalents	(173,976)	(903,620)	(965,198)
Translation adjustment	6,488	1,954	604
Cash and cash equivalents at the beginning of the period	319,618	1,284,212	1,284,212
Cash and cash equivalents at the end of the period	13 152,130	382,546	319,618

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements

For the 6 months ended 30 June 2017

1. Corporate Information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2017 were authorised for issue in accordance with a resolution of the Directors on 28 September 2017.

PetroNeft Resources plc ('the Company', or together with its subsidiaries, 'the Group') is a Company incorporated in Ireland. The Company is listed on the Alternative Investment Market ('AIM') of the London Stock Exchange and the Enterprise Securities Market ('ESM') of the Irish Stock Exchange. The address of the registered office and the business address in Ireland is 20 Holles Street, Dublin 2. The Company is domiciled in the Republic of Ireland.

The principal activities of the Group are oil and gas exploration, development and production.

2. Going Concern

As described in the 2016 Annual Report PetroNeft is facing a potential funding shortfall in 2018 due to the delay in the commencement of the Sibkrayevskoye oil field development. The effect of this delay is to also delay the commencement of payments to PetroNeft of interest due to it under shareholder loan agreements with WorldAce. The effect of this is that PetroNeft will require additional funding to meet its operating costs during the next 12 months.

The Group has analysed its cash flow requirements through to 31 December 2018 in detail. The cash flow includes estimates for a number of key variables including timing of cash flows of expenditure and management of working capital, and the Directors believe that the Group's cash flow forecasts represent the best estimate of the actual cash flows over the forecast period at the date of approval of the financial statements. The cash flow is stress tested to assess the adverse effect arising from reasonable changes in circumstance. The cash flow projections for the period to 31 December 2018 indicate a potential shortfall of funds by the end of quarter one in 2018.

The Company is currently in detailed confidential discussions pursuing several options in order to meet this potential shortfall. These include the potential sale or farmout of Licence 67, short term debt financing from a related corporate entity and the acquisition of producing and non-producing assets in share for share type transactions. The Board believe that the first two options can be completed in a short timeframe. In relation to the latter option, the Company has signed non-disclosure agreements and opened data rooms. The Board is also putting in place cost cutting measures, including significant salary cuts for the Board and management to minimise the potential shortfall. 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.

The successful development of S-375 and the potential shortfall in funds 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 these 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.

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2017

3. Accounting Policies

3.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016 which are available on the Group's website – www.petroneft.com.

The interim condensed consolidated financial statements are presented in US dollars ("US\$").

3.2 Significant Accounting Policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

4. 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.

Assets are allocated based on where the assets are located:

	<u>Unaudited</u>	<u>Audited</u>
	<u>30 June 2017</u>	<u>31 December 2016</u>
	US\$	US\$
Non-current assets		
Russia	48,522,473	47,854,604
Ireland	1,780	2,283
	<u>48,524,253</u>	<u>47,856,887</u>

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2017

5. Finance revenue	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2017 US\$	6 months ended 30 June 2016 US\$	Year ended 31 December 2016 US\$
Bank interest receivable	532	1,480	2,449
Interest receivable on loans to Joint Ventures	1,709,528	1,594,464	3,245,427
	1,710,060	1,595,944	3,247,876

6. Income tax	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2017 US\$	6 months ended 30 June 2016 US\$	Year ended 31 December 2016 US\$
Current income tax			
Current income tax charge	5,398	2,968	3,078
Total current income tax	5,398	2,968	3,078
Deferred tax			
Relating to origination and reversal of temporary differences	431,390	406,957	827,163
Total deferred tax	431,390	406,957	827,163
Income tax expense reported in the Consolidated Income Statement	436,788	409,925	830,241

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2017

7. Property, Plant and Equipment

Group	Plant and machinery US\$
Cost	
At 1 January 2016	800,400
Translation adjustment	145,468
At 1 January 2017	945,868
Translation adjustment	26,556
At 30 June 2017	972,424
Depreciation	
At 1 January 2016	618,697
Charge for the year	68,568
Translation adjustment	115,137
At 1 January 2017	802,402
Charge for the period	31,899
Translation adjustment	21,406
At 30 June 2017	855,707
Net book values	
At 30 June 2017	116,717
At 31 December 2016	143,466

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

PetroNeft Resources plc has a 50% interest in WorldAce Investments Limited, a jointly controlled entity 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 2016	-
Elimination of unrealised profit on intra-Group transactions	(157,876)
Retained loss	(5,721,232)
Translation adjustment	7,149,140
Debited to loans receivable from WorldAce Investments Limited (Note 10)	(1,270,032)
At 1 January 2017	-
Elimination of unrealised loss on intra-Group transactions	(17,532)
Retained loss	(2,218,754)
Translation adjustment	1,296,301
Credited against loans receivable from WorldAce Investments Limited (Note 10)	939,985
At 30 June 2017	-

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2017

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

The balance sheet position of WorldAce Investments Limited shows net liabilities of US\$27,759,908 following a loss in the period of US\$4,437,507 together with a positive currency translation adjustment of US\$2,592,601. PetroNeft's 50% share is included above and results in a negative carrying value of US\$9,186,571. 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\$9,186,571 is deducted from other assets associated with the joint venture on the Balance Sheet which are the loans receivable from WorldAce Investments (see Note 10).

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

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2017	6 months ended 30 June 2016	Year ended 31 December 2016
	US\$	US\$	US\$
<i>Continuing operations</i>			
Revenue	6,903,472	4,339,111	11,604,182
Cost of sales	(6,373,066)	(4,259,206)	(11,199,845)
Gross profit	530,406	79,905	404,337
Administrative expenses	(847,477)	(916,886)	(1,614,435)
Impairment of oil and gas properties	-	-	-
Operating loss	(317,071)	(836,981)	(1,210,098)
Loss on disposal of oil and gas properties	-	-	(438,034)
Write-off of exploration and evaluation assets	(13,051)	-	(710,047)
Finance revenue	11,142	3,475	9,421
Finance costs	(1,899,774)	(1,574,275)	(3,372,474)
Loss for the period for continuing operations before taxation	(2,218,754)	(2,407,781)	(5,721,232)
Income tax expense	-	-	-
Loss for the period	(2,218,754)	(2,407,781)	(5,721,232)
Loss for the period	(2,218,754)	(2,407,781)	(5,721,232)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>			
Currency translation adjustments	1,296,301	5,042,837	7,149,140
Total comprehensive (loss)/profit for the period	(922,453)	2,635,056	1,427,908

The currency translation adjustment results from the revaluation of the Russian Rouble during the period. 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 appreciated slightly against the US Dollar during the period from RUB61.00:US\$1 at 31 December 2016 to RUB59.74:US\$1 at 30 June 2017.

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2017

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

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2017	31 December 2016
	US\$	US\$
Non-current Assets		
Oil and gas properties	38,872,902	37,945,273
Property, plant and equipment	193,258	199,338
Exploration and evaluation assets	7,906,187	7,556,920
Assets under construction	1,344,426	932,631
	<u>48,316,773</u>	<u>46,634,162</u>
Current Assets		
Inventories	455,405	536,685
Trade and other receivables	275,942	176,318
Cash and cash equivalents	132,292	40,415
	<u>863,639</u>	<u>753,418</u>
Total Assets	<u>49,180,412</u>	<u>47,387,580</u>
Non-current Liabilities		
Provisions	(485,039)	(433,573)
Interest-bearing loans and borrowings	(60,147,497)	(56,686,519)
	<u>(60,632,536)</u>	<u>(57,120,092)</u>
Current Liabilities		
Trade and other payables	(2,427,830)	(3,224,989)
	<u>(2,427,830)</u>	<u>(3,224,989)</u>
Total Liabilities	<u>(63,060,366)</u>	<u>(60,345,081)</u>
Net liabilities	<u>(13,879,954)</u>	<u>(12,957,501)</u>

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2017

9. 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 jointly controlled entity 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, through LLC Lineynoye, in Russia.

	Share of net assets US\$
At 1 January 2016	-
Retained loss	(288,198)
Translation adjustment	592,300
Debited against loans receivable from Russian BD Holdings BV (Note 10)	(304,102)
At 1 January 2017	-
Retained loss	(184,674)
Translation adjustment	109,246
Credited against loans receivable from Russian BD Holdings BV (Note 10)	75,428
At 30 June 2017	-

The balance sheet position of Russian BD Holdings B.V. shows net liabilities of US\$1,216,232 following a loss in the year of US\$369,348 together with a currency translation adjustment (gain) of US\$218,492. PetroNeft's 50% share is included above and results in a negative carrying value of US\$608,116. 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\$608,116 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 10).

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2017

9. 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:

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2017 US\$	6 months ended 30 June 2016 US\$	Year ended 31 December 2016 US\$
Revenue	-	-	-
Cost of sales	-	-	-
Gross profit	-	-	-
Administrative expenses	(45,987)	(56,435)	(66,718)
Operating loss	(45,987)	(56,435)	(66,718)
Finance revenue	228	204	294
Finance costs	(138,915)	(116,446)	(239,079)
Loss for the period for continuing operations before taxation	(184,674)	(172,677)	(305,503)
Taxation	-	-	17,305
Loss for the period	(184,674)	(172,677)	(288,198)
Loss for the period	(184,674)	(172,677)	(288,198)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>			
Currency translation adjustments	109,246	424,702	592,300
Total comprehensive (loss)/ profit for the period	(75,428)	252,025	304,102

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2017 US\$	31 December 2016 US\$
Non-current assets	4,230,634	4,069,104
Current assets	15,462	198,788
Total assets	4,246,096	4,267,892
Non-current liabilities	(4,651,703)	(4,512,667)
Current liabilities	(202,509)	(287,913)
Total liabilities	(4,854,212)	(4,800,580)
Net liabilities	(608,116)	(532,688)

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2017

10. Financial assets - loans and receivables

Group	<i>Unaudited</i>	<i>Audited</i>
	30 June 2017	31 December 2016
	US\$	US\$
Loans to WorldAce Investments Limited (Note 15)	53,814,552	52,235,829
Less: share of WorldAce Investments Limited loss (Note 8)	<u>(9,186,571)</u>	<u>(8,246,586)</u>
	44,627,981	43,989,243
Loans to Russian BD Holdings B.V. (Note 15)	4,387,671	4,256,866
Less: share of Russian BD Holdings B.V. loss (Note 9)	<u>(608,116)</u>	<u>(532,688)</u>
	3,779,555	3,724,178
	48,407,536	47,713,421

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 2018 at the earliest. The loan is set to mature on 31 December 2022. As at 30 June 2017 the loan was fully drawn down. The loan from the Company to Russian BD Holdings is repayable on demand. Interest currently accrues on the loan at LIBOR plus 5.0% per annum.

11. Inventories

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2017	31 December 2016
	US\$	US\$
Materials	19,679	28,973
	<u>19,679</u>	<u>28,973</u>

12. Trade and other receivables

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2017	31 December 2016
	US\$	US\$
Other receivables	25,232	155,651
Receivable from jointly controlled entity (Note 15)	745,539	920,390
Advances to contractors	2,437	8,047
Prepayments	<u>52,059</u>	<u>59,816</u>
	825,267	1,143,904

Other receivables are non-interest-bearing and are normally settled on 60-day terms.

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2017

13. Cash and Cash Equivalents

Group	<i>Unaudited</i>	<i>Audited</i>
	30 June 2017 US\$	31 December 2016 US\$
Cash at bank and in hand	152,130	319,618
	152,130	319,618

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.

14. Trade and other payables

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2017 US\$	31 December 2016 US\$
Trade payables	292,269	337,208
Trade payables to jointly controlled entity (Note 15)	231,078	108,338
Corporation tax	55,816	55,750
Oil taxes, VAT and employee taxes	58,602	56,165
Other payables	116,293	318,074
Accruals	290,484	206,546
	1,044,542	1,082,081

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 Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2017

15. Related party disclosures

Transactions with subsidiaries

Transactions between the Group and its subsidiaries, Granite and Dolomite, have been eliminated on consolidation.

Transactions with joint ventures

PetroNeft Resources plc had the following transactions with its joint ventures during the six months ended 30 June 2017 and year ended 31 December 2016:

Group	Russian BD Holdings BV Group US\$	WorldAce Investments Limited Group US\$
Receivable by PetroNeft Group at 1 January 2016	3,389,708	40,883,592
Advanced during the year	10,000	-
Transactions during the year	159,260	2,622,188
Interest accrued in the year	234,402	3,011,025
Payments for services made during the year	(10,821)	(3,426,007)
Share of joint venture's translation adjustment	304,102	1,270,032
Translation adjustment	(5,769)	83,761
At 1 January 2017	4,080,882	44,444,591
Advanced during the period	-	-
Transactions during the period	66,883	1,073,548
Interest accrued in the period	130,805	1,578,723
Payment for services made during the period	(160,472)	(1,300,206)
Share of joint venture's translation adjustment	(75,428)	(939,985)
Translation adjustment	18,392	4,269
At 30 June 2017	4,061,062	44,860,940
Balance at 31 December 2016 comprised of:		
Loan facility advanced	3,724,178	43,989,243
Trade and other receivables	356,704	563,686
Trade Payables	-	(108,338)
	4,080,882	44,444,591
Balance at 30 June 2017 comprised of:		
Loans receivable	3,779,555	44,627,981
Trade and other receivables	281,502	464,037
Trade and other payables	-	(231,078)
	4,061,057	44,860,940