

**PetroNeft Resources plc**

**Unaudited interim condensed  
consolidated financial statements**

*for the 6 months ended 30 June 2018*

# PetroNeft Resources plc

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### ***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 <sup>1</sup>

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

**Deloitte Ireland LLP**  
Chartered Accountants  
Earlsfort Terrace  
Dublin 2  
Ireland

### Nominated Adviser and ESM Adviser

**Davy**  
49 Dawson Street  
Dublin 2  
Ireland

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<sup>1</sup> 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

**Byrne Wallace**  
88 Harcourt Street  
Dublin 2  
Ireland

### 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 2018 and provide an update on recent progress. 2018 has seen the drilling of the C-4 delineation well at the Cheremshanskoye oil field, with results to date exceeding pre-drill expectations.

As mentioned in the June we had anticipated being in a position to announce a material transaction in the third quarter of 2018. Negotiations have slowed but remain ongoing, however the successful C-4 well has also broadened the options available to the Company.

### Production and Sales for the period

Gross production at Licence 61 in the six months to 30 June 2018 averaged 2,135 bopd, a small decrease compared to the same period in 2017 (2,347 bopd) with the production decline continuing to be slower than expected. We sold 382,656 (gross) barrels of oil in the six months to 30 June 2018 (H1 2017: 430,421 bbls) and achieved an average Russian Domestic oil price of \$44.39 (H1 2017: \$32.07), a 38% increase. This welcome price rise was partly offset by higher taxes but did lead to enhanced operating cashflows for the Licence 61 joint venture.

Licence 61 Gross Production	H1-2018	Q2-2018	Q1-2018	H1-2017	FY-2017
Total gross production	386,482	183,368	203,114	424,812	816,476
Gross bopd	2,135	2,015	2,257	2,347	2,237
<b>PetroNeft 50% share bopd</b>	<b>1,068</b>	<b>1,008</b>	<b>1,128</b>	<b>1,174</b>	<b>1,118</b>

### Licence 67 - Cheremshanskoye

The C-4 well, which spudded on 2 August is located on the northern half of the Cheremshanskoye field in Licence 67. The aim of the well was to prove up the northern extent of the field based on the 3D seismic data acquired in 2014. The well is being drilled under the joint venture agreement with our partner for Licence 67, Arawak Energy on a 50:50 basis and operations have progressed smoothly.

Based on core and log data the base of the Bazhenov Formation was penetrated at -2,545.5 m TVDSS which is about 9.5 m high to pre-drill estimates.

The tertiary objective Upper Jurassic J1-1 sandstone interval encountered 1.6 m of net oil pay from -2,546 to -2,547.6 m TVDSS and coring recovered oil saturated sandstone with very good visual reservoir properties. A short duration open-hole test was run over the interval and the prorated flow was 228 bfpd consisting of 84% good quality light oil ( 35° API) and 16% mud/filtrate. This is a very good initial flow test, without any reservoir stimulation, which exceeds our expectations for the J1-1 interval.

The primary J1-3 interval was also cored, tested and logged. Calculations from the log data show net oil pay of 8.8 m from -2,559.4 to -2,569.2 m TVDSS. A short duration open-hole test was run over the interval and the prorated flow was 171 bfpd consisting of 70% oil and 30% mud/filtrate. This is a good flow test which exceeds our expectations for the J1-3 interval, even though the short flow test indicates some formation damage that restricted the flow rate.

The combined open-hole tests achieved a prorated test rate of 399 bfpd; this rate is expected to increase in a longer test once drilling fluids are cleared out from the well.

The two open-hole tests combined with the log and core data in the Upper Jurassic are very encouraging. There are currently no reserves booked for the Upper Jurassic at Cheremshanskoye and it is estimated that there could be about 40 million bbls of proven and probable reserves, adjacent to nearby infrastructure, at these horizons based on these results (20 mmbbls net to PetroNeft).

# PetroNeft Resources plc

## Chairman's Statement (*continued*)

Following this, drilling continued in order to target the J-13 and J-14 objectives in the Lower Jurassic. At the J-13 we encountered 7.6m of net oil pay (according to log data), however the reservoir was of low quality.

Now we have run casing in the well and have commenced a cased-hole test at the J1-3 interval which we expect to complete in the coming weeks.

### Review of PetroNeft loss for the period

The loss for the period narrowed to US\$1.2m (H1 2017: US\$1.6m). The loss includes PetroNeft's share of the losses on the joint ventures relating to Licences 61 and 67 of US\$1.9m and US\$0.2m respectively (H1 2017: US\$2.2m and US\$0.2m). The loss relating to the Licence 61 joint venture is discussed in more detail below. Finance revenue of US\$2.0m (H1 2017: US\$1.7m) 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 2018 US\$ '000	6 months ended 30 June 2017 US\$ '000	Year ended 31 December 2017 US\$ '000
<b>Continuing operations</b>			
<b>Revenue</b>	1,093	1,008	1,713
Cost of sales	(881)	(938)	(1,550)
<b>Gross profit</b>	<b>212</b>	<b>70</b>	<b>163</b>
Administrative expenses	(612)	(580)	(1,403)
Exchange (loss)/gain on intra-Group loans	(57)	32	52
<b>Operating loss</b>	<b>(457)</b>	<b>(478)</b>	<b>(1,188)</b>
Share of joint venture's net loss – WorldAce Investments Limited	(1,920)	(2,219)	(4,286)
Share of joint venture's net loss – Russian BD Holdings B.V.	(231)	(184)	(382)
Finance revenue	1,973	1,710	3,511
Finance costs	(48)	-	-
<b>Loss for the period for continuing operations before taxation</b>	<b>(683)</b>	<b>(1,171)</b>	<b>(2,345)</b>
Income tax expense	(510)	(437)	(894)
<b>Loss for the period</b>	<b>(1,193)</b>	<b>(1,608)</b>	<b>(3,239)</b>

# 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:

	<i>Unaudited</i>		<i>Audited</i>
	WorldAce Group 6 months ended 30 June 2018 US\$'000	WorldAce Group 6 months ended 30 June 2017 US\$'000	WorldAce Group Year ended 31 December 2017 US\$'000
<b>Continuing operations</b>			
Revenue	17,090	13,807	27,637
Cost of sales	(15,078)	(12,746)	(25,273)
<b>Gross profit</b>	<b>2,012</b>	<b>1,061</b>	<b>2,364</b>
Administrative expenses	(1,432)	(1,695)	(3,093)
<b>Operating profit/(loss)</b>	<b>580</b>	<b>(634)</b>	<b>(729)</b>
Write-off of exploration and evaluation assets	-	(26)	(26)
Finance revenue	48	22	66
Finance costs	(4,467)	(3,800)	(7,883)
<b>Loss for the period for continuing operations before taxation</b>	<b>(3,839)</b>	<b>(4,438)</b>	<b>(8,572)</b>
Income tax	-	-	-
<b>Loss for the period for continuing operations after taxation</b>	<b>(3,839)</b>	<b>(4,438)</b>	<b>(8,572)</b>
<b>PetroNeft's 50% share</b>	<b>(1,920)</b>	<b>(2,219)</b>	<b>(4,286)</b>

### WorldAce Analysis

	<i>Unaudited</i>		<i>Audited</i>
	WorldAce Group 6 months ended 30 June 2018 US\$'000	WorldAce Group 6 months ended 30 June 2017 US\$'000	WorldAce Group Year ended 31 December 2017 US\$'000
<b>Revenue</b>			
Oil sales	16,987	13,795	27,590
Other sales	103	12	47
<b>Total revenue</b>	<b>17,090</b>	<b>13,807</b>	<b>27,637</b>
<b>PetroNeft's 50% share</b>	<b>8,545</b>	<b>6,903</b>	<b>13,819</b>
<b>Cost of Sales</b>			
Mineral Extraction Tax	9,491	6,666	13,747
Pipeline tariff	1,602	1,744	3,390
Staff costs	1,014	988	1,994
Depreciation and amortisation	1,451	1,544	2,916
Other cost of sales	1,520	1,803	3,226
<b>Total cost of sales</b>	<b>15,078</b>	<b>12,745</b>	<b>25,273</b>
<b>PetroNeft's 50% share</b>	<b>7,539</b>	<b>6,373</b>	<b>12,637</b>

## PetroNeft Resources plc

### Chairman's Statement (*continued*)

The detailed Income Statement and Balance Sheet of WorldAce Investments Limited is disclosed at note 9 to these condensed financial statements. Improved oil prices and cost-cutting in H1 2018 have strengthened the margin in 2018 as compared to the same period last year. This led to an operating profit in the L-61 joint venture of US\$580k compared to an operating loss in the same period last year of US\$634k.

### Achieving value for Shareholders

The geo-political and investment climate for Russia, along with other emerging markets, remains challenging and this, combined with the current shareholding structure, has resulted in a significant difference between the market capitalization of the company and the true long-term value of its assets and reserves. The Company noted on 12 July 2018 that it was examining a number of options in relation to maximising shareholder value.

The Company, in conjunction with its 50/50 joint venture partner, Oil India has engaged financial advisers to evaluate the disposal of Licence 61. While we are only in the early stages of this process and 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. Furthermore, once the testing of the C-4 well at Licence 67 is complete we will consider a similar process for Licence 67, working with Arawak.

We had previously indicated a potential announcement of a material transaction during the third quarter, however commercial discussions are ongoing. While there can be no certainty that a deal will ultimately be concluded, the C-4 well result has broadened the options available to the Company. Further announcements will be made in due course.

### Finance

As detailed in the 2017 Annual Report the Company's finances continue to require close attention. The US\$2m Petrogrand loan agreed in January 2018 matures on 31 December 2018. This loan has allowed us to drill the C-4 well at Cheremshanskoye the results of which have broadened the funding options open to the Company. The Company has to date drawn down US\$1m and is in negotiations to re-finance this loan in advance of its current maturity date.

### Outlook

2018 to date has yielded very positive results from the C-4 well at Cheremshanskoye and good improvement in oil price. We look forward to updating shareholders with the final results of the C-4 well and with the progress on other value optimisation initiatives over the coming months.

David Golder  
Non-Executive Chairman



# PetroNeft Resources plc

## Interim Condensed Consolidated Income Statement

For the 6 months ended 30 June 2018

	<i>Note</i>	<i>Unaudited</i>		<i>Audited</i>
		<b>6 months ended</b>	<b>6 months ended</b>	<b>Year ended 31</b>
		<b>30 June 2018</b>	<b>30 June 2017</b>	<b>December 2017</b>
		<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<i>Continuing operations</i>				
<b>Revenue</b>		1,092,673	1,007,929	1,712,574
Cost of sales		(880,771)	(937,686)	1,550,119
<b>Gross profit</b>		<b>211,902</b>	<b>70,243</b>	<b>162,455</b>
Administrative expenses		(612,369)	(579,892)	(1,402,867)
Exchange (loss)/gain on intra-Group loans		(56,726)	31,901	52,093
<b>Operating loss</b>		<b>(457,193)</b>	<b>(477,748)</b>	<b>(1,188,319)</b>
Share of joint venture's net loss - WorldAce Investments Limited	<b>9</b>	(1,919,878)	(2,218,754)	(4,285,833)
Share of joint venture's net loss - Russian BD Holdings B.V.	<b>10</b>	(230,178)	(184,674)	(381,654)
Finance revenue	<b>5</b>	1,972,866	1,710,060	3,510,435
Finance costs	<b>6</b>	(48,256)	-	-
<b>Loss for the period for continuing operations before taxation</b>		<b>(682,639)</b>	<b>(1,171,116)</b>	<b>(2,345,371)</b>
Income tax expense		(510,381)	(436,788)	(893,670)
<b>Loss for the period attributable to equity holders of the Parent</b>		<b>(1,193,020)</b>	<b>(1,607,904)</b>	<b>(3,239,041)</b>
<b>Loss per share attributable to ordinary equity holders of the Parent</b>				
Basic and diluted - <i>US dollar cent</i>		<b>(0.17)</b>	<b>(0.23)</b>	<b>(0.46)</b>

## Interim Condensed Consolidated Statement of Comprehensive Income

For the 6 months ended 30 June 2018

	<i>Unaudited</i>		<i>Audited</i>
	<b>6 months ended</b>	<b>6 months ended</b>	<b>Year ended 31</b>
	<b>30 June 2018</b>	<b>30 June 2017</b>	<b>December 2017</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Loss for the period attributable to equity holders of the Parent</b>	<b>(1,193,020)</b>	<b>(1,607,904)</b>	<b>(3,239,041)</b>
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Currency translation adjustments - subsidiaries	46,256	(19,620)	(37,190)
Share of joint ventures' other comprehensive income - foreign exchange translation differences	(4,030,342)	1,405,547	2,551,042
<b>Total comprehensive loss for the period attributable to equity holders of the Parent</b>	<b>(5,177,106)</b>	<b>(221,977)</b>	<b>(725,189)</b>

# PetroNeft Resources plc

## Interim Condensed Consolidated Balance Sheet

As at 30 June 2018

		<i>Unaudited</i>	<i>Audited</i>
		<b>30 June 2018</b>	<b>31 December 2017</b>
	<i>Note</i>	US\$	US\$
<b>Assets</b>			
<b>Non-current Assets</b>			
Property, plant and equipment	<b>8</b>	56,845	88,202
Equity-accounted investment in joint ventures - WorldAce Investments Limited	<b>9</b>	-	-
Equity-accounted investment in joint ventures - Russian BD Holdings B.V.	<b>10</b>	-	-
Financial assets - loans and receivables	<b>11</b>	45,623,285	49,439,502
		<b>45,680,130</b>	<b>49,527,704</b>
<b>Current Assets</b>			
Inventories	<b>12</b>	100,112	21,908
Trade and other receivables	<b>13</b>	479,911	587,601
Cash and cash equivalents	<b>14</b>	40,378	9,389
		<b>620,401</b>	<b>618,898</b>
<b>Total Assets</b>		<b>46,300,531</b>	<b>50,146,602</b>
<b>Equity and Liabilities</b>			
<b>Capital and Reserves</b>			
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		(84,634,511)	(83,441,491)
Currency translation reserve		(32,588,644)	(28,604,558)
Other reserves		336,000	336,000
Equity attributable to equity holders of the Parent		<b>40,251,465</b>	<b>45,428,571</b>
<b>Non-current Liabilities</b>			
Deferred tax liability		3,484,128	3,001,617
		<b>3,484,128</b>	<b>3,001,617</b>
<b>Current Liabilities</b>			
Interest-bearing loans and borrowings	<b>15</b>	1,048,256	-
Trade and other payables	<b>16</b>	1,516,682	1,716,414
		<b>2,564,938</b>	<b>1,716,414</b>
<b>Total Liabilities</b>		<b>6,049,066</b>	<b>4,718,031</b>
<b>Total Equity and Liabilities</b>		<b>46,300,531</b>	<b>50,146,602</b>

## PetroNeft Resources plc

### Interim Condensed Consolidated Statement of Changes in Equity

For the 6 months ended 30 June 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\$
<b>At 1 January 2017</b>	<b>9,429,182</b>	<b>140,912,898</b>	<b>7,132,540</b>	<b>(31,118,410)</b>	<b>(80,202,450)</b>	<b>46,153,760</b>
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)
<b>At 31 December 2017</b>	<b>9,429,182</b>	<b>140,912,898</b>	<b>7,132,540</b>	<b>(28,604,558)</b>	<b>(83,441,491)</b>	<b>45,428,571</b>
<b>At 1 January 2018</b>	<b>9,429,182</b>	<b>140,912,898</b>	<b>7,132,540</b>	<b>(28,604,558)</b>	<b>(83,441,491)</b>	<b>45,428,571</b>
Loss for the period	-	-	-	-	(1,193,020)	(1,193,020)
Currency translation adjustments - subsidiaries	-	-	-	46,256	-	46,256
Share of joint ventures' other comprehensive income - foreign exchange translation differences	-	-	-	(4,030,342)	-	(4,030,342)
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,984,086)</b>	<b>(1,193,020)</b>	<b>(5,177,106)</b>
<b>At 30 June 2018</b>	<b>9,429,182</b>	<b>140,912,898</b>	<b>7,132,540</b>	<b>(32,588,644)</b>	<b>(84,634,511)</b>	<b>40,251,465</b>

# PetroNeft Resources plc

## Interim Condensed Consolidated Cash Flow Statement

For the 6 months ended 30 June 2018

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2018 US\$	6 months ended 30 June 2017 US\$	Year ended 31 December 2017 US\$
<b>Operating activities</b>			
Loss before taxation	(682,639)	(1,171,116)	(2,345,371)
<b>Adjustment to reconcile loss before tax to net cash flows</b>			
<b>Non-cash</b>			
Depreciation	25,745	31,899	62,748
Share of loss in joint ventures	2,150,056	2,403,428	4,667,487
Finance revenue	5 (1,972,866)	(1,710,060)	(3,510,435)
Finance costs	6 48,256	-	-
<b>Working capital adjustments</b>			
Decrease in trade and other receivables	103,454	352,199	294,434
(Increase)/decrease in inventories	(78,204)	9,295	7,066
(Decrease)/increase in trade and other payables	(140,482)	(83,173)	555,937
Income tax paid	(29,953)	(6,980)	(9,783)
<b>Net cash flows used in operating activities</b>	<b>(576,633)</b>	<b>(174,508)</b>	<b>(277,917)</b>
<b>Investing activities</b>			
Loan facilities advanced to joint venture undertakings	(392,000)	-	(40,000)
Interest received	685	532	823
<b>Net cash (used in)/received from investing activities</b>	<b>(391,315)</b>	<b>532</b>	<b>(39,177)</b>
<b>Financing activities</b>			
Proceeds from loan facilities	1,000,000	-	-
<b>Net cash received from financing activities</b>	<b>1,000,000</b>	<b>-</b>	<b>-</b>
Net increase/(decrease) in cash and cash equivalents	<b>32,052</b>	<b>(173,976)</b>	<b>(317,094)</b>
Translation adjustment	(1,063)	6,488	6,865
Cash and cash equivalents at the beginning of the period	9,389	319,618	319,618
<b>Cash and cash equivalents at the end of the period</b>	<b>14 40,378</b>	<b>152,130</b>	<b>9,389</b>

# PetroNeft Resources plc

## Notes to the Interim Condensed Consolidated Financial Statements

For the 6 months ended 30 June 2018

### 1. Corporate Information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018 were authorised for issue in accordance with a resolution of the Directors on 25 September 2018.

PetroNeft Resources plc ('PetroNeft, 'the Company', or together with its subsidiaries and joint ventures, 'the Group') is a public limited company incorporated in the Republic of Ireland with a company registration number 408101. 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 2017 Annual Report PetroNeft agreed a US\$2 million loan facility with Swedish Company Petrogrand AB. To date the Company has drawn down US\$1 million. The loan is repayable on 31 December 2018 and the Company is currently in negotiations to re-finance this loan in advance of its current maturity date. The successful C-4 well has broadened the options available to the Company in this regard.

The Group has analysed its cash flow requirements through to 31 December 2019 in detail. The cash flow includes estimates for a number of key variables including the timing and availability of any further drawdowns under the Petrogrand Loan, the timing of cash flows of expenditure and management of working capital, including significant deferral and reduction in remuneration of Directors and key management which has been in place since October 2017. 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 2019 indicate that, provided the Petrogrand loan is re-financed or extended before the maturity date and the deferral and reduction of remuneration of Directors and key management continues the Company will have sufficient cash resources to meet its obligations as they fall due.

The Company's obligation to amend, extend or otherwise re-finance the Petrogrand loan prior to the maturity date on 31 December 2018 represents a material uncertainty 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 uncertainty 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.

### 3. Accounting Policies

#### 3.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2018 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 2017 which are available on the Group's website – [www.petroneft.com](http://www.petroneft.com).

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

# PetroNeft Resources plc

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2018

### 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 2017.

### 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:

	<i>Unaudited</i>	<i>Audited</i>
	<b>30 June 2018</b>	<b>31 December 2017</b>
	US\$	US\$
Non-current assets		
Russia	45,679,324	49,526,318
Ireland	806	1,386
	<u>45,680,130</u>	<u>49,527,704</u>

# PetroNeft Resources plc

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2018

5. Finance revenue	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2018 US\$	6 months ended 30 June 2017 US\$	Year ended 31 December 2017 US\$
Bank interest receivable	685	532	823
Interest receivable on loans to Joint Ventures	1,972,181	1,709,528	3,509,612
	<u>1,972,866</u>	<u>1,710,060</u>	<u>3,510,435</u>
6. Finance costs	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2018 US\$	6 months ended 30 June 2017 US\$	Year ended 31 December 2017 US\$
Interest on loans	48,256	-	-
	<u>48,256</u>	<u>-</u>	<u>-</u>
7. Income tax	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2018 US\$	6 months ended 30 June 2017 US\$	Year ended 31 December 2017 US\$
<b>Current income tax</b>			
Current income tax charge	15,425	5,398	9,182
<b>Total current income tax</b>	<u>15,425</u>	<u>5,398</u>	<u>9,182</u>
<b>Deferred tax</b>			
Relating to origination and reversal of temporary differences	494,956	431,390	884,488
<b>Total deferred tax</b>	<u>494,956</u>	<u>431,390</u>	<u>884,488</u>
Income tax expense reported in the Consolidated Income Statement	<u>510,381</u>	<u>436,788</u>	<u>893,670</u>

# PetroNeft Resources plc

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2018

### 8. Property, Plant and Equipment

Group	Plant and machinery US\$
<b>Cost</b>	
At 1 January 2017	945,868
Translation adjustment	47,060
<b>At 1 January 2018</b>	<b>992,928</b>
<b>Translation adjustment</b>	<b>(71,297)</b>
<b>At 30 June 2018</b>	<b>921,631</b>
<b>Depreciation</b>	
At 1 January 2017	802,402
Charge for the year	62,748
Translation adjustment	39,576
<b>At 1 January 2018</b>	<b>904,726</b>
<b>Charge for the period</b>	<b>25,745</b>
<b>Translation adjustment</b>	<b>(65,685)</b>
<b>At 30 June 2018</b>	<b>864,786</b>
<b>Net book values</b>	
<b>At 30 June 2018</b>	<b>56,845</b>
At 31 December 2017	88,202

### 9. 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 2017	-
Elimination of unrealised profit on intra-Group transactions	(27,336)
Retained loss	(4,285,833)
Translation adjustment	2,356,702
Credited against loans receivable from WorldAce Investments Limited (Note 17)	1,956,467
<b>At 1 January 2018</b>	<b>-</b>
<b>Retained loss</b>	<b>(1,919,878)</b>
<b>Translation adjustment</b>	<b>(3,706,547)</b>
<b>Credited against loans receivable from WorldAce Investments Limited (Note 17)</b>	<b>5,626,425</b>
<b>At 30 June 2018</b>	<b>-</b>



# PetroNeft Resources plc

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2018

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

The balance sheet position of WorldAce Investments Limited shows net liabilities of US\$41,026,114 following a loss in the period of US\$3,839,756 together with a negative currency translation adjustment of US\$7,413,094. PetroNeft's 50% share is included above and results in a negative carrying value of US\$15,829,478. 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\$15,829,478 is deducted from other assets associated with the joint venture on the Balance Sheet which are the loans receivable from WorldAce Investments (see Note 11).

*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		
	Unaudited		Audited
	6 months ended 30 June 2018 US\$	6 months ended 30 June 2017 US\$	Year ended 31 December 2017 US\$
<i>Continuing operations</i>			
<b>Revenue</b>	8,545,032	6,903,472	13,818,415
Cost of sales	(7,539,017)	(6,373,066)	(12,636,469)
<b>Gross profit</b>	<b>1,006,015</b>	<b>530,406</b>	<b>1,181,946</b>
Administrative expenses	(716,069)	(847,477)	(1,546,643)
<b>Operating loss</b>	<b>289,946</b>	<b>(317,071)</b>	<b>(364,697)</b>
Write-off of exploration and evaluation assets	-	(13,051)	(13,051)
Finance revenue	23,921	11,142	33,176
Finance costs	(2,233,745)	(1,899,774)	(3,941,261)
<b>Loss for the period for continuing operations before taxation</b>	<b>(1,919,878)</b>	<b>(2,218,754)</b>	<b>(4,285,833)</b>
Income tax expense	-	-	-
<b>Loss for the period</b>	<b>(1,919,878)</b>	<b>(2,218,754)</b>	<b>(4,285,833)</b>
<b>Loss for the period</b>	<b>(1,919,878)</b>	<b>(2,218,754)</b>	<b>(4,285,833)</b>
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Currency translation adjustments	(3,706,547)	1,296,301	2,356,702
<b>Total comprehensive loss for the period</b>	<b>(5,626,425)</b>	<b>(922,453)</b>	<b>(1,929,131)</b>

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 17 Related party disclosures.

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 depreciated against the US Dollar during the period from RUB57.7:US\$1 at 31 December 2017 to RUB62.754:US\$1 at 30 June 2018.

# PetroNeft Resources plc

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2018

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

	50% Share of WorldAce Group	
	<i>Unaudited</i>	<i>Audited</i>
	<b>30 June 2018</b>	<b>31 December 2017</b>
	<b>US\$</b>	<b>US\$</b>
<b>Non-current Assets</b>		
Oil and gas properties	35,647,329	39,312,150
Property, plant and equipment	155,165	184,027
Exploration and evaluation assets	8,651,388	9,321,748
Assets under construction	830,555	824,992
	<u>45,284,437</u>	<u>49,642,917</u>
<b>Current Assets</b>		
Inventories	715,751	605,240
Trade and other receivables	270,285	282,925
Cash and cash equivalents	469,247	68,613
	<u>1,455,283</u>	<u>956,778</u>
<b>Total Assets</b>	<u>46,739,720</u>	<u>50,599,695</u>
<b>Non-current Liabilities</b>		
Provisions	(649,681)	(658,513)
Interest-bearing loans and borrowings	(63,474,495)	(61,435,277)
	<u>(64,124,176)</u>	<u>(62,093,790)</u>
<b>Current Liabilities</b>		
Interest-bearing loans and borrowings	(864,962)	(715,405)
Trade and other payables	(2,263,639)	(2,677,132)
	<u>(3,128,601)</u>	<u>(3,392,537)</u>
<b>Total Liabilities</b>	<u>(67,252,777)</u>	<u>(65,486,327)</u>
<b>Net Liabilities</b>	<u>(20,513,057)</u>	<u>(14,886,632)</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 17 Related party disclosures.

# PetroNeft Resources plc

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2018

### 10. 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 2017	-
Retained loss	(381,654)
Translation adjustment	194,339
Credited against loans receivable from Russian BD Holdings BV (Note 17)	<u>187,315</u>
<b>At 1 January 2018</b>	<b>-</b>
<b>Retained loss</b>	<b>(230,178)</b>
<b>Translation adjustment</b>	<b>(323,795)</b>
<b>Credited against loans receivable from Russian BD Holdings BV (Note 17)</b>	<b><u>553,973</u></b>
<b>At 30 June 2018</b>	<b><u>-</u></b>

The balance sheet position of Russian BD Holdings B.V. shows net liabilities of US\$2,547,952 following a loss in the period of US\$460,356 together with a negative currency translation adjustment of US\$647,590. PetroNeft's 50% share is included above and results in a negative carrying value of US\$1,273,976. 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\$1,273,976 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 11).

# PetroNeft Resources plc

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2018

### 10. 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.		
	Unaudited		Audited
	6 months ended 30 June 2018 US\$	6 months ended 30 June 2017 US\$	Year ended 31 December 2017 US\$
Revenue	-	-	-
Cost of sales	-	-	-
<b>Gross profit</b>	-	-	-
Administrative expenses	(42,993)	(45,987)	(94,626)
<b>Operating loss</b>	<b>(42,993)</b>	<b>(45,987)</b>	<b>(94,626)</b>
Finance revenue	360	228	259
Finance costs	(187,545)	(138,915)	(287,287)
<b>Loss for the period for continuing operations before taxation</b>	<b>(230,178)</b>	<b>(184,674)</b>	<b>(381,654)</b>
Taxation	-	-	-
<b>Loss for the period</b>	<b>(230,178)</b>	<b>(184,674)</b>	<b>(381,654)</b>
<b>Loss for the period</b>	<b>(230,178)</b>	<b>(184,674)</b>	<b>(381,654)</b>
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Currency translation adjustments	(323,795)	109,246	194,339
<b>Total comprehensive loss for the period</b>	<b>(553,973)</b>	<b>(75,428)</b>	<b>(187,315)</b>

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 17 Related party disclosures.

	50% Share of Russian BD Holdings B.V.	
	Unaudited	Audited
	30 June 2018 US\$	31 December 2017 US\$
Non-current assets	4,499,340	4,370,482
Current assets	100,837	12,048
<b>Total assets</b>	<b>4,600,177</b>	<b>4,382,530</b>
Non-current liabilities	(5,539,618)	(4,981,608)
Current liabilities	(334,535)	(120,925)
<b>Total liabilities</b>	<b>(5,874,153)</b>	<b>(5,102,533)</b>
<b>Net Liabilities</b>	<b>(1,273,976)</b>	<b>(720,003)</b>

# PetroNeft Resources plc

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2018

### 11. Financial assets - loans and receivables

Group	<i>Unaudited</i>	<i>Audited</i>
	30 June 2018	31 December 2017
	US\$	US\$
Loans to WorldAce Investments Limited (Note 17)	57,262,240	55,474,668
Less: share of WorldAce Investments Limited loss (Note 9)	<u>(15,829,478)</u>	<u>(10,203,053)</u>
	<b>41,432,762</b>	<b>45,271,615</b>
Loans to Russian BD Holdings B.V. (Note 17)	5,464,499	4,887,890
Less: share of Russian BD Holdings B.V. loss (Note 10)	<u>(1,273,976)</u>	<u>(720,003)</u>
	<b>4,190,523</b>	<b>4,167,887</b>
	<b>45,623,285</b>	<b>49,439,502</b>

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 2019 at the earliest. The loan is set to mature on 31 December 2025. As at 30 June 2018 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.

### 12. Inventories

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2018	31 December 2017
	US\$	US\$
Materials	<u>100,112</u>	<u>21,908</u>
	<b>100,112</b>	<b>21,908</b>

### 13. Trade and other receivables

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2018	31 December 2017
	US\$	US\$
Other receivables	50,664	21,039
Receivable from jointly controlled entity (Note 17)	387,302	503,527
Advances to contractors	2,218	1,676
Prepayments	<u>39,727</u>	<u>61,359</u>
	<b>479,911</b>	<b>587,601</b>

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 2018

### 14. Cash and Cash Equivalents

Group	<u>Unaudited</u>	<u>Audited</u>
	30 June 2018	31 December 2017
	US\$	US\$
Cash at bank and in hand	40,378	9,389
	<u>40,378</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.

### 15. Loans and Borrowings

Group and Company	Effective interest rate %	Contractual maturity date	<u>Unaudited</u>	<u>Audited</u>
			30 June 2018 US\$	31 December 2017 US\$
<b>Interest-bearing</b>				
<i>Current liabilities</i>				
Petrogrand AB	11.34%	31-Dec-18	1,048,256	-
<b>Total current liabilities</b>			<u>1,048,256</u>	-
<b>Total loans and borrowings</b>			<u>1,048,256</u>	-
Contractual undiscounted liability			1,048,256	-

Changes in financial liabilities arising from financing activities:

	<u>Unaudited</u>
	6 months ended 30 June 2018 US\$
<b>At 1 January 2018</b>	-
Cash flows - loan drawdowns	1,000,000
Interest accrued but not yet paid	48,256
<b>At 30 June 2018</b>	<u>1,048,256</u>

# PetroNeft Resources plc

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2018

### 16. Trade and other payables

	<i>Unaudited</i>	<i>Audited</i>
	<b>30 June 2018</b>	<b>31 December 2017</b>
	<b>US\$</b>	<b>US\$</b>
Trade payables	324,851	570,476
Trade payables to jointly controlled entity (Note 17)	30,466	212,442
Trade payables to related parties (Note 17)	88,847	-
Corporation tax	54,993	54,898
Other taxes and social welfare costs	94,230	83,305
Accruals and other payables	923,295	795,293
	<b>1,516,682</b>	<b>1,716,414</b>

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 2018

### 17. 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 2018 and year ended 31 December 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
<b>At 1 January 2018</b>	<b>4,218,916</b>	<b>45,511,671</b>
<b>Advanced during the period</b>	<b>392,000</b>	<b>-</b>
<b>Transactions during the period</b>	<b>158,368</b>	<b>986,837</b>
<b>Interest accrued in the period</b>	<b>184,609</b>	<b>1,787,572</b>
<b>Payment for services made during the period</b>	<b>(1,229)</b>	<b>(1,058,051)</b>
<b>Share of joint venture's translation adjustment</b>	<b>(553,973)</b>	<b>(5,626,425)</b>
<b>Translation adjustment</b>	<b>(7,661)</b>	<b>(12,513)</b>
<b>At 30 June 2018</b>	<b>4,391,030</b>	<b>41,589,091</b>
<b>Balance at 31 December 2017 comprised of:</b>		
Loans receivable	4,167,887	45,271,615
Trade and other receivables	51,029	452,498
Trade Payables	-	(212,442)
	<b>4,218,916</b>	<b>45,511,671</b>
<b>Balance at 30 June 2018 comprised of:</b>		
Loans receivable	4,190,523	41,432,762
Trade and other receivables	200,507	186,795
Trade and other payables	-	(30,466)
	<b>4,391,030</b>	<b>41,589,091</b>



# PetroNeft Resources plc

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2018

### 17. 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:

<b>Remuneration of key management</b>	<b>Unaudited</b>	<b>Audited</b>
	<b>6 months ended 30 June 2018</b>	<b>Year ended 31 December 2017</b>
	<b>US\$</b>	<b>US\$</b>
Compensation of key management	484,183	1,103,224
Contributions to defined contribution pension plan	26,346	52,693
Consulting fees (HGR Consulting – see below)	163,171	304,556
	<b>673,700</b>	<b>1,460,473</b>

#### The following amounts were owed to key management at 30 June 2018 and 31 December 2017

	<b>Unaudited</b>	<b>Audited</b>
	<b>30 June 2018</b>	<b>31 December 2017</b>
	<b>US\$</b>	<b>US\$</b>
Remuneration, fees and expenses due to Directors	533,235	424,564
Remuneration due to other key management	226,996	122,946
Amounts due to HGR Consulting (see below)	158,437	276,570
	<b>918,668</b>	<b>824,080</b>

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, provides his services through HGR Consulting Limited (“HGR”).

# PetroNeft Resources plc

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2018

### 17. Related party disclosures (continued)

#### Transactions with Petrogrand AB

Pavel Tetyakov, VP of Business Development of PetroNeft, is CEO of Petrogrand AB, Swedish company. In addition, Maxim Korobov, a significant shareholder and Non-Executive Director of Petroneft is also a major shareholder of Petrogrand AB. PetroNeft received a loan from Petrogrand AB in 2018. PetroNeft Group has also purchased construction materials from Petrogrand AB.

The following is a summary of the transactions:

	<b>Petrogrand AB</b>
	<b>US\$</b>
Payable by PetroNeft Group at 1 January 2018	-
Advanced during the period	1,000,000
Transactions during the period (purchase of materials)	97,458
Interest accrued in the period	48,256
Payments for goods made during the period	-
Translation adjustment	<u>(8,611)</u>
<b>Payable by PetroNeft Group at 30 June 2018</b>	<b><u><u>1,137,103</u></u></b>
<b>Balance at 30 June 2018 comprised of:</b>	
Loans payable	1,048,256
Trade and other payables	<u>88,847</u>
	<b><u><u>1,137,103</u></u></b>