

PetroNeft Resources plc

**Unaudited interim condensed
consolidated financial statements**

for the 6 months ended 30 June 2015

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 ¹

David Golder (U.S. citizen)
(Non-Executive Chairman)
Dennis Francis (U.S. citizen)
(Chief Executive Officer)
Paul Dowling
(Chief Financial Officer)
David Sanders (U.S. citizen)
(General Legal Counsel)
Gerard Fagan
(Non-Executive Director)
Thomas Hickey
(Non-Executive Director)
Vakha Sobraliev (Russian citizen) *Retired 18 September 2015*
(Non-Executive Director)

Registered Office and Business Address

20 Holles Street
Dublin 2
Ireland

Secretary

David Sanders

Auditor

Ernst & Young
Chartered Accountants
Harcourt Centre
Harcourt Street
Dublin 2
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Nominated and ESM Adviser

Davy
49 Dawson Street
Dublin 2
Ireland

¹ Irish citizens unless otherwise stated

PetroNeft Resources plc

Group Information (*continued*)

Joint Brokers

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Ireland

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Principal Bankers

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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 2015 and provide an update on recent progress. 2015 has been a busy year to date with significant work undertaken at Licence 61, together with our 50% co-venturer Oil India Limited, including the drilling of new production wells at Tungolskoye, construction of tie-in infrastructure, acquisition of new seismic data and the drilling of a key delineation well at Sibkrayevskoye. Current gross production at Licence 61 is approximately 2,700 bopd, an increase of 46% in the year to date.

Production and Sales

Gross production at Licence 61 in the six months to 30 June 2015 averaged 1,744 bopd, a 19% decrease compared to the same period in 2014 (2,163 bopd). The decrease was as a result of natural decline and the fact that the new production wells at Tungolskoye and West Lineynoye did not come online until Q3 2015. We sold 329,733 (gross) barrels of oil in the six months to 30 June 2015 (H1 2013: 391,379 bbls) and achieved an average oil price of \$29.87 (H1 2014: \$44.79). The fall in price is reflective of the challenges being faced across the oil and gas industry.

Gross production at Licence 61 has grown by 46% in the year to date and is currently approximately 2,700 bopd. Most of the production growth in 2015 came from the T-503 and T-502 wells at Tungolskoye which came online in July and September 2015 respectively.

Tungolskoye

Early in 2015 we successfully completed the Tungolskoye No. 5 (T-5) well which demonstrated the higher levels of productivity that can be achieved in horizontal wells and gave us the data required to sanction the development of the Tungolskoye oil field.

While the T-5 well achieved high initial oil flow rates it subsequently demonstrated a high water cut. Further examination indicated that the water was likely coming from a transition zone below the main producing horizon where the horizontal segment of the well had been targeted. We determined that this risk could be substantially mitigated by focussing future horizontal wells primarily on the J1-1 horizon.

The development of Tungolskoye entailed the construction of a 25 km pipeline and utility line to connect back to the Central Processing Facility ("CPF") at Lineynoye. Drilling of new wells commenced in May 2015 using SGK Drilling, a subsidiary of Eurasia Drilling, Russia's largest drilling company. The rig used was a production drilling rig fitted with a top drive unit that enables faster and more efficient drilling of long-reach horizontal segments.

We have drilled two horizontal and three vertical wells at Tungolskoye up to 28 September 2015 and anticipate two more horizontal wells and one vertical well to be completed by the end of the year. The T-503 and T-502 wells both had horizontal segments of approximately 1,000 metres and both achieved net pay of about 65% in the horizontal segment. The horizontal segment of both wells was drilled in the J1-1 horizon only, building on the lessons learned from the T-5 well. The average flow rates for the first 14 days post clean-up were 499 bopd and 481 bopd respectively with a water cut of less than 10% on both wells. The three vertical wells drilled to date (T-51B, T-508 and T-507) were to provide stratigraphic confirmation prior to drilling the next horizontal well and, in the case of T-51B, will be used as a water source well, and water injection wells in the case of the remaining vertical wells. The T-501 horizontal well is currently being drilled and we hope to bring it on production in late October.

Arbuzovskoye

In the early part of 2015 we completed a five well production drilling programme at Arbuzovskoye. The most important result was the A-103 vertical well which was drilled as far south as possible from Pad 1. The aim of this well was to enhance our understanding of the southern portion of Arbuzovskoye before committing to the construction of a second pad there.

The well came in 15 metres high to prognosis and produced an initial rate of 125 bopd. This result, combined with some new 2D seismic data acquired in 2015, has given us the confidence to plan for a second pad at Arbuzovskoye which will likely see the drilling of two to three horizontal wells in 2016. The pad is currently under construction. Given the thicker pays and better quality reservoir rock that we have seen at Arbuzovskoye as compared to Tungolskoye and the lessons learned from the horizontal drilling at Tungolskoye, we are targeting superior results at the south Arbuzovskoye pad in 2016.

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Chairman's Statement (*continued*)

Sibkrayevskoye

In the first half of 2015, we drilled the S-373 delineation well at Sibkrayevskoye. The well confirmed over ten metres of net oil pay and achieved a stabilised natural flow of 100 bopd from a cased hole test. We expect to bring this well into production for the winter of 2015/16.

We also acquired 1,000 km of high resolution 2D seismic data in the northern portion of Licence 61. The primary focus of the seismic was at Sibkrayevskoye and Emtorskaya as well as some other smaller leads and prospects in the area. The acquisition of data was completed in April 2015 and the data is currently being processed and interpreted. All previous seismic data and exploration well logs will also be re-processed and interpreted in order to have a single consistent database of the seismic and well data. While the interpretation process is not yet complete, initial results indicate that the Sibkrayevskoye oil field is considerably larger than previously mapped and the Emtorskaya prospect is also larger and better defined than previously mapped.

The S-373 result combined with the new seismic should lead to a significant reserve upgrade at year-end.

West Lineynoye

In July 2015 we announced the result of the L-10 horizontal well at West Lineynoye. The well was drilled close to the L-8 well which has been producing for several years. As the well was drilled with an exploration drilling rig with no top drive it was only possible to drill a horizontal segment of about 265 metres. Of this 55 metres was classified as productive net pay and the average flow rate for the first 14 days post clean-up was 189 bopd. We had hoped to achieve a rate closer to 300 bopd but have learned lessons from the drilling of this and the T-5 well with exploration rigs that should enable us to drill longer horizontal segments in future, thereby achieving higher flow rates.

Review of PetroNeft loss for the period

The loss for the period was US\$1.4m (2014: US\$2.7m). The loss includes PetroNeft's share of the losses on the joint ventures relating to Licences 61 and 67 of US\$1.8m and US\$0.2m respectively. The loss relating to the Licence 61 joint venture is discussed in more detail below. Finance revenue of US\$1.5m 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 2015 US\$ '000	6 months ended 30 June 2014 US\$ '000	Year ended 31 December 2014 US\$ '000
<i>Continuing operations</i>			
Revenue	1,220	17,528	19,165
Cost of sales	(1,206)	(13,384)	(15,233)
Gross profit	14	4,144	3,932
Administrative expenses	(572)	(3,122)	(3,678)
Exchange gain/(loss) on intra-Group loans	17	(2,061)	(2,402)
Operating loss	(541)	(1,039)	(2,148)
Loss on disposal of subsidiary undertaking	-	-	(5,569)
Share of joint venture's net loss – WorldAce Investments Limited	(1,829)	-	(304)
Share of joint venture's net loss – Russian BD Holdings B.V.	(157)	(121)	(294)
Finance revenue	1,504	27	1,551
Finance costs	-	(1,576)	(1,612)
Loss for the period for continuing operations before taxation	(1,023)	(2,709)	(8,376)
Income tax expense	(393)	(20)	(408)
Loss for the period	(1,416)	(2,729)	(8,784)

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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 50% share 6 months ended 30 June 2015 US\$'000	100% of WorldAce	
		6 months ended 30 June 2015 US\$'000	12 months ended 31 December 2014 US\$'000
<i>Continuing operations</i>			
Revenue	4,925	9,849	29,289
Cost of sales	(4,767)	(9,533)	(26,379)
Gross profit	158	316	2,910
Gross margin %	3.21%	3.21%	9.93%
Administrative expenses	(831)	(1,661)	(5,129)
Operating loss	(673)	(1,345)	(2,219)
Finance revenue	6	12	16
Finance costs	(1,162)	(2,324)	(1,818)
Loss for the period for continuing operations before taxation	(1,829)	(3,657)	(4,021)
Income tax credit	-	-	2,400
Loss for the period	(1,829)	(3,657)	(1,621)

WorldAce Analysis

	100% of WorldAce	
	6 months ended 30 June 2015 US\$'000	12 months ended 31 December 2014 US\$'000
Revenue		
Oil Sales	9,817	29,179
Other sales	32	110
Total revenue	9,849	29,289
Cost of Sales		
Mineral Extraction Tax	4,990	14,975
Pipeline tariff	1,270	2,399
Staff costs	915	2,114
Depreciation and amortisation	1,034	2,897
Other cost of sales	1,324	3,994
Total cost of sales	9,533	26,379

The detailed Income Statement and Balance Sheet of WorldAce Investments Limited is disclosed at note 7 to these condensed financial statements. Lower production and much lower oil prices have reduced the margin from 9.9% in 2014 to 3.2% in H1 2015. With the higher production being achieved in the second half of 2015 we should be able to improve the margin as many

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Chairman's Statement (*continued*)

of our production costs are fixed. Against the backdrop of continued lower oil prices we are concentrating on trying to reduce costs and focus efforts and capital on areas that can provide additional near term production and operating cash flows for the Licence 61 joint venture.

As at 30 June 2015 WorldAce had cash at bank of US\$2.5 million and had drawn-down US\$41.5 million of the US\$45 million Oil India investment. It is expected that the entire US\$45 million will be drawn by the end of 2015. Based on current forecasts it should be possible to fund the development of south Arbuzovskoye from 2016 operating cash flows but additional funding would be required to advance other projects, such as Sibkrayevskoye, in 2016. The final work programme and budget for 2016 will be agreed with Oil India before the end of 2015.

Licence 67

During the first quarter of 2015, we agreed an exploration programme for Licence 67 for the next five years with the Russian authorities, the first significant expenditure required will be in 2017. We view Licence 67 as having considerable longer term potential and we are also discussing forward plans with our joint venture partner Belgrave Naftogas (Arawak Energy).

Director retirement

On 18 September 2015 Non-Executive Director, Vakha Sobraliev, retired from the Board of PetroNeft in order to concentrate on his other business interests. Mr. Sobraliev had been a director since November 2005 and introduced Licence 61 to the Company at its formation in 2005. He was also key to the establishment of the Company's operations and experienced team in Tomsk. On behalf of the Company and its shareholders I would like to place on record our appreciation for Vakha's service and advice over the years and in particular for his contribution to the original setup of operations in Tomsk. We wish him every success in the future.

Outlook

Whilst we have had an exceptionally busy year so far, with good success in growing production and our understanding of the Licence, market conditions are very challenging and there is little sign of improvement in oil prices in the near term. We still expect further growth in production this year from the remaining wells to be drilled at Tungolskoye and next year from the addition of new wells at south Arbuzovskoye. Our focus is on growing production, managing costs and positioning the Company for any improvement in the market conditions. We look forward to updating shareholders of our results over the coming year.

David Golder
Non-Executive Chairman

28 September 2015

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Interim Condensed Consolidated Income Statement

For the 6 months ended 30 June 2015

	Note	Unaudited		Audited
		6 months ended 30 June 2015 US\$	6 months ended 30 June 2014 US\$	Year ended 31 December 2014 US\$
<i>Continuing operations</i>				
Revenue		1,220,323	17,527,910	19,165,456
Cost of sales		(1,205,656)	(13,383,948)	(15,233,532)
Gross profit		14,667	4,143,962	3,931,924
Administrative expenses		(572,017)	(3,122,218)	(3,677,947)
Exchange gain/ (loss) on intra-Group loans		16,401	(2,060,685)	(2,401,138)
Operating loss		(540,949)	(1,038,941)	(2,147,161)
Loss on disposal of subsidiary undertaking		-	-	(5,569,164)
Share of joint venture's net loss - WorldAce Investments Limited	7	(1,828,719)	-	(304,439)
Share of joint venture's net loss - Russian BD Holdings B.V.	8	(157,470)	(121,442)	(294,103)
Finance revenue	4	1,504,174	27,071	1,550,754
Finance costs		-	(1,575,918)	(1,612,312)
Loss for the period for continuing operations before taxation		(1,022,964)	(2,709,230)	(8,376,425)
Income tax expense	5	(392,701)	(19,564)	(407,960)
Loss for the period attributable to equity holders of the Parent		(1,415,665)	(2,728,794)	(8,784,385)
Loss per share attributable to ordinary equity holders of the Parent				
Basic and diluted - <i>US dollar cent</i>		(0.20)	(0.39)	(1.27)

Interim Condensed Consolidated Statement of Comprehensive Income

For the 6 months ended 30 June 2015

	Unaudited		Audited
	6 months ended 30 June 2015 US\$	6 months ended 30 June 2014 US\$	Year ended 31 December 2014 US\$
Loss for the period attributable to equity holders of the Parent	(1,415,665)	(2,728,794)	(8,784,385)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Currency translation adjustments - subsidiaries	19,683	(1,151,236)	(764,277)
Share of joint ventures' other comprehensive income - foreign exchange translation differences	909,754	(94,778)	(26,480,234)
Recycling of currency translation reserve on disposal of subsidiary	-	-	9,337,907
Total comprehensive loss for the period attributable to equity holders of the Parent	(486,228)	(3,974,808)	(26,690,989)

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Interim Condensed Consolidated Balance Sheet

As at 30 June 2015

		<i>Unaudited</i>	<i>Audited</i>
		30 June 2015	31 December
	<i>Note</i>	US\$	2014 US\$
Assets			
Non-current Assets			
Property, plant and equipment	6	284,217	321,802
Equity-accounted investment in joint ventures - WorldAce Investments Limited	7	9,849,169	10,865,156
Equity-accounted investment in joint ventures - Russian BD Holdings B.V.	8	279,713	365,178
Financial assets - loans and receivables	9	47,795,776	46,398,502
		58,208,875	57,950,638
Current Assets			
Inventories	10	51,644	15,179
Trade and other receivables	11	5,039,796	5,069,944
Cash and cash equivalents	12	2,557,595	3,392,769
		7,649,035	8,477,892
Total Assets		65,857,910	66,428,530
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		6,779,991	6,763,745
Retained loss		(67,716,072)	(66,300,407)
Currency translation reserve		(25,746,849)	(26,676,286)
Other reserves		336,000	336,000
Equity attributable to equity holders of the Parent		63,995,150	64,465,132
Non-current Liabilities			
Deferred tax liability		894,615	511,775
		894,615	511,775
Current Liabilities			
Trade and other payables	13	968,145	1,451,623
		968,145	1,451,623
Total Liabilities		1,862,760	1,963,398
Total Equity and Liabilities		65,857,910	66,428,530

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Interim Condensed Consolidated Statement of Changes in Equity

For the 6 months ended 30 June 2015

	Called up share capital US\$	Share premium account US\$	Share-based payment and other reserves US\$	Currency translation reserve US\$	Currency translation reserve relating to assets held for sale US\$	Retained loss US\$	Total US\$
At 1 January 2014	8,561,499	136,762,387	7,020,820	(177,021)	(8,592,661)	(57,516,022)	86,059,002
Loss for the year	-	-	-	-	-	(8,784,385)	(8,784,385)
Currency translation adjustments - subsidiaries	-	-	-	(19,031)	(745,246)	-	(764,277)
Share of joint ventures' other comprehensive income - foreign exchange translation differences	-	-	-	(26,480,234)	-	-	(26,480,234)
Recycling of currency translation reserve on disposal of subsidiary	-	-	-	-	9,337,907	-	9,337,907
Total comprehensive loss for the year	-	-	-	(26,499,265)	8,592,661	(8,784,385)	(26,690,989)
New share capital subscribed	867,683	4,308,865	-	-	-	-	5,176,548
Transaction costs on issue of share capital	-	(158,354)	-	-	-	-	(158,354)
Share-based payment expense	-	-	78,925	-	-	-	78,925
At 31 December 2014	9,429,182	140,912,898	7,099,745	(26,676,286)	-	(66,300,407)	64,465,132
At 1 January 2015	9,429,182	140,912,898	7,099,745	(26,676,286)	-	(66,300,407)	64,465,132
Loss for the period	-	-	-	-	-	(1,415,665)	(1,415,665)
Currency translation adjustments - subsidiaries	-	-	-	19,683	-	-	19,683
Share of joint ventures' other comprehensive income - foreign exchange translation differences	-	-	-	909,754	-	-	909,754
Total comprehensive loss for the period	-	-	-	929,437	-	(1,415,665)	(486,228)
Share-based payment expense	-	-	16,246	-	-	-	16,246
At 30 June 2015	9,429,182	140,912,898	7,115,991	(25,746,849)	-	(67,716,072)	63,995,150

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Interim Condensed Consolidated Cash Flow Statement

For the 6 months ended 30 June 2015

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2015 US\$	6 months ended 30 June 2014 US\$	Year ended 31 December 2014 US\$
Operating activities			
Loss before taxation	(1,022,964)	(2,709,230)	(8,376,425)
Adjustment to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation	54,575	77,076	126,250
Share of loss in joint ventures	1,986,189	121,442	598,542
Share-based payment expense/(credit)	16,246	(11,861)	78,925
Loss on disposal of subsidiary	-	-	5,569,164
Finance revenue	4 (1,504,174)	(27,071)	(1,550,754)
Finance costs	-	1,575,918	1,612,312
Working capital adjustments			
Decrease/(increase) in trade and other receivables	156,081	(64,690)	(506,502)
(Increase)/decrease in inventories	(36,465)	70,347	44,199
(Decrease)/increase in trade and other payables	(458,992)	1,093,363	(1,028,136)
Income tax paid	(9,861)	-	(5,354)
Net cash flows (used in)/received from operating activities	(819,365)	125,294	(3,437,779)
Investing activities			
Purchase of oil and gas properties	-	5,406	(200,669)
Advance payments to contractors	-	(36,434)	-
Purchase of property, plant and equipment	(13,312)	31,452	(144,137)
Exploration and evaluation payments	-	(1,189,207)	(1,187,432)
Loan facilities advanced	-	-	(3,500,000)
Return of loan facilities	-	-	36,105,575
Decrease in restricted cash	-	(1,945,053)	2,054,947
Decrease in cash and cash equivalents held for sale	-	-	176,857
Interest received	5,984	7,770	15,310
Net cash (used in)/received from investing activities	(7,328)	(3,126,066)	33,320,451
Financing activities			
Proceeds from issue of share capital	-	5,176,548	5,176,548
Transaction costs of issue of shares	-	(158,354)	(158,354)
Proceeds from loan facilities	-	1,500,000	1,500,000
Repayment of loan facilities	-	(2,600,000)	(31,500,000)
Interest paid	-	(1,116,384)	(1,601,285)
Net cash received from/(used in) financing activities	-	2,801,810	(26,583,091)
Net (decrease)/increase in cash and cash equivalents	(826,693)	(198,961)	3,299,581
Translation adjustment	(8,481)	(11,804)	(23,643)
Cash and cash equivalents held for sale	-	(14,434)	-
Cash and cash equivalents at the beginning of the year	3,392,769	308,122	116,831
Cash and cash equivalents at the end of the year	12 2,557,595	82,923	3,392,769

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements

For the 6 months ended 30 June 2015

1. Corporate Information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2015 were authorised for issue in accordance with a resolution of the Directors on 28 September 2014.

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. Accounting Policies

2.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2015 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 2014 which are available on the Group's website – www.petroneft.com.

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

2.2 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 2014.

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Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2015

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.

Assets are allocated based on where the assets are located:

	<u>Unaudited</u>	<u>Audited</u>
	30 June 2015	31 December 2014
	US\$	US\$
Non-current assets		
Russia	58,204,501	57,945,126
Ireland	4,374	5,512
	<u>58,208,875</u>	<u>57,950,638</u>

4. Finance revenue

	<u>Unaudited</u>		<u>Audited</u>
	6 months ended 30 June 2015	6 months ended 30 June 2014	Year ended 31 December 2014
	US\$	US\$	US\$
Bank interest receivable	5,984	7,772	15,310
Interest receivable on loans to joint ventures	1,498,190	16,177	1,532,322
Unwinding of discount on deposit paid for pipeline usage	-	3,122	3,122
	<u>1,504,174</u>	<u>27,071</u>	<u>1,550,754</u>

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Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2015

5. Income tax

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2015 US\$	6 months ended 30 June 2014 US\$	Year ended 31 December 2014 US\$
Current income tax			
Current income tax charge	9,047	1,008	2,859
Total current income tax	9,047	1,008	2,859
Deferred tax			
Relating to origination and reversal of temporary differences	383,654	18,556	405,101
Total deferred tax	383,654	18,556	405,101
Income tax expense reported in the Interim Consolidated Income Statement	392,701	19,564	407,960

6. Property, Plant and Equipment

	Plant and machinery US\$
Cost	
At 1 January 2014	1,472,972
Additions	148,917
Disposals	(43,974)
Translation adjustment	(581,327)
At 1 January 2015	996,588
Additions	13,312
Translation adjustment	16,657
At 30 June 2015	1,026,557
Depreciation	
At 1 January 2014	1,005,912
Charge for the year	126,250
Disposals	(43,974)
Translation adjustment	(413,402)
At 1 January 2015	674,786
Charge for the period	54,575
Translation adjustment	12,979
At 30 June 2015	742,340
Net book values	
At 30 June 2015	284,217
At 31 December 2014	321,802

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2015

7. 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 became a joint venture with effect from 3 July 2014. 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 2014	-
Subsidiary becoming a joint venture	35,000,000
Elimination of unrealised profit on intra-Group transactions	(22,734)
Retained loss	(304,439)
Translation adjustment	(23,807,671)
At 1 January 2015	10,865,156
Elimination of unrealised profit on intra-Group transactions	(25,017)
Retained loss	(1,828,719)
Translation adjustment	837,749
At 30 June 2015	9,849,169

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

	<i>Unaudited</i> 6 months ended 30 June 2015 US\$	<i>Audited</i> Year ended 31 December 2014 US\$
<i>Continuing operations</i>		
Revenue	4,924,336	5,845,646
Cost of sales	(4,766,524)	(5,450,642)
Gross profit	157,812	395,004
Administrative expenses	(830,570)	(1,027,260)
Operating loss	(672,758)	(632,256)
Finance revenue	5,834	4,713
Finance costs	(1,161,795)	(876,896)
Loss for the period for continuing operations before taxation	(1,828,719)	(1,504,439)
Income tax credit	-	1,200,000
Loss for the period	(1,828,719)	(304,439)
Loss for the period	(1,828,719)	(304,439)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Currency translation adjustments	837,749	(23,807,671)
Total comprehensive loss for the period	(990,970)	(24,112,110)

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2015

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

The currency translation adjustment results from the change in 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 significantly against the US Dollar during the second half of 2014 moving from RUB34.2:US\$1 at 3 July 2014 to RUB56.5:US\$1 at 31 December 2014 leading to a currency translation adjustment of US\$23.8m in 2014.

	<i>Unaudited</i>	<i>Audited</i>
	PTR Share 50%	PTR Share 50%
	30 June 2015	31 December 2014
	US\$	US\$
Non-current Assets		
Oil and gas properties	35,794,218	27,860,901
Property, plant and equipment	284,707	285,775
Exploration and evaluation assets	8,298,601	9,600,431
Assets under construction	5,906,066	-
	50,283,592	37,747,107
Current Assets		
Inventories	664,170	691,950
Trade and other receivables	1,406,978	1,633,624
Cash and cash equivalents	1,250,696	514,206
	3,321,844	2,839,780
Total Assets	53,605,436	40,586,887
Non-current Liabilities		
Provisions	(444,251)	(393,153)
Interest-bearing loans and borrowings	(45,230,269)	(32,593,955)
	(45,674,520)	(32,987,108)
Current Liabilities		
Trade and other payables	(2,960,922)	(1,638,815)
	(2,960,922)	(1,638,815)
Total Liabilities	(48,635,442)	(34,625,923)
Net Assets	4,969,994	5,960,964

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2015

8. 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 in Russia.

	Share of net assets US\$
At 1 January 2014	3,331,844
Retained loss	(294,103)
Translation adjustment	(2,672,563)
At 1 January 2015	365,178
Retained loss	(157,470)
Translation adjustment	72,005
At 30 June 2015	279,713

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2015

8. 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 2015 US\$	6 months ended 30 June 2014 US\$	Year ended 31 December 2014 US\$
Revenue	-	-	-
Cost of sales	-	-	-
Gross profit	-	-	-
Administrative expenses	(58,858)	(78,188)	(143,643)
Exchange gain on intra-Group loans	-	961	-
Operating loss	(58,858)	(77,227)	(143,643)
Finance revenue	274	522	1,743
Finance costs	(98,886)	(44,737)	(152,203)
Loss for the period for continuing operations before taxation	(157,470)	(121,442)	(294,103)
Taxation	-	-	-
Loss for the period	(157,470)	(121,442)	(294,103)
Loss for the period	(157,470)	(121,442)	(294,103)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Currency translation adjustments	72,005	(94,778)	(2,672,563)
Total comprehensive loss for the period	(85,465)	(216,220)	(2,966,666)
		<i>Unaudited</i>	<i>Audited</i>
		30 June 2015	31 December 2014
		US\$	US\$
Non-current assets		4,256,359	4,155,338
Current assets		105,821	165,716
Total assets		4,362,180	4,321,054
Non-current liabilities		(23,282)	(22,810)
Current liabilities		(4,059,185)	(3,933,066)
Total liabilities		(4,082,467)	(3,955,876)
Net Assets		279,713	365,178

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2015

9. Financial assets - loans and receivables

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2015	31 December 2014
	US\$	US\$
Loans to WorldAce Investments Limited	47,795,776	46,398,502
	47,795,776	46,398,502

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 2016 at the earliest. The loan is set to mature on 31 December 2017. As at 31 December 2014 the loan was fully drawn down.

10. Inventories

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2015	31 December 2014
	US\$	US\$
Materials	51,644	15,179
	51,644	15,179

11. Trade and other receivables

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2015	31 December 2014
	US\$	US\$
Other receivables	128,581	112,492
Receivable from jointly controlled entity (Note 14)	4,875,840	4,879,292
Receivable from related parties	-	11,858
Advances to contractors	8,827	1,922
Prepayments	26,548	64,380
	5,039,796	5,069,944

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 2015

12. Cash and Cash Equivalents and Restricted Cash Group

	<u>Unaudited</u>	<u>Audited</u>
	30 June 2015	31 December 2014
	US\$	US\$
Cash at bank and in hand	2,557,595	3,392,769
	<u>2,557,595</u>	<u>3,392,769</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.

13. Trade and other payables

	<u>Unaudited</u>	<u>Audited</u>
	30 June 2015	31 December 2014
	US\$	US\$
Trade payables	138,863	306,857
Trade payables to jointly controlled entity (Note 14)	217,306	53,450
Corporation tax	62,269	60,797
Oil taxes, VAT and employee taxes	69,061	74,497
Other payables	226,767	137,475
Accruals	253,879	818,547
	<u>968,145</u>	<u>1,451,623</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 Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2015

14. 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 2015 and year ended 31 December 2014:

Group	Russian BD Holdings BV Group US\$	WorldAce Investments Limited Group US\$
Receivable by PetroNeft Group at 1 January 2014	644,531	-
Transferred on subsidiary becoming a joint venture	-	81,021,362
Advanced during the year	3,500,000	-
Transactions during the year	330,967	1,574,116
Interest accrued in the year	117,120	1,415,202
Loans repaid during the year	(475,000)	(35,630,575)
Payments for services made during the year	(206,290)	(968,140)
Translation adjustment	(28,750)	(70,199)
At 1 January 2015	3,882,578	47,341,766
Transactions during the period	91,868	1,452,138
Interest accrued in the period	100,916	1,397,274
Payments for services made during the period	(18,563)	(1,829,360)
Translation adjustment	(6,497)	42,190
At 30 June 2015	4,050,302	48,404,008
Balance at 31 December 2014 comprised of:		
Loan facility advanced	-	46,398,502
Trade and other receivables	3,882,578	996,714
Trade and other payables	-	(53,450)
	3,882,578	47,341,766
Balance at 30 June 2015 comprised of:		
Loan facility advanced	-	47,795,776
Trade and other receivables	4,050,302	825,538
Trade and other payables	-	(217,306)
	4,050,302	48,404,008

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2015

14. Related party disclosures (continued)

Transactions with TBNG Group

Vakha Sobraliev, a Director of PetroNeft up to 18 September 2015, is the principal of LLC Tomskburneftegaz ("TBNG") which has drilled production and exploration wells for the WorldAce Group (100% subsidiary of PetroNeft Group until 3 July 2014, and 50% joint venture afterwards). Various contracts for drilling have been awarded to TBNG in recent years. All drilling contracts with TBNG are "turnkey" contracts whereby TBNG assumes substantially all liabilities in relation to the health and safety, environmental and other risks associated with drilling operation. As part of this relationship PetroNeft Group companies also occasionally sell sundry goods and services to TBNG. Other companies related to TBNG also provide some services to the Group such as transportation, power management and repairs.

The following is a summary of the transactions between the WorldAce Group and the TBNG Group:

	TBNG Group	TBNG Group
	30 June	31
	2015	December
	US\$	2014
		US\$
Maximum value of new contracts awarded during the period	1,778,324	4,494,543
Paid during the period for drilling and related services	4,327,332	6,869,038
Paid during the period for other services	2,023	24,523
Amount due to TBNG and related companies at period end	113,512	351,172
Received during the period for sundry goods and services	53,874	37,271
Amount due from TBNG and related companies at period end	44,389	400,970

There were no significant transactions between other PetroNeft Group companies and TBNG Group in the six months ended 30 June 2015.