

PetroNeft Resources plc

Final Results

for the year ended 31 December 2014

PetroNeft Resources plc

Final Results

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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.

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Chairman's Statement

A Transformative Year

2014 was a transformative year for our Company during which we succeeded in both solving the short-term funding constraints and securing the long-term investment requirements necessary to develop the full potential of Licence 61. On 17 April 2014, we signed a farmout deal with Oil India Limited ("OIL" or "Oil India") that accomplished both our short-term and long-term goals. Following shareholder approval at an EGM in May 2014 and subsequent Russian regulatory approval the deal was completed on 3 July 2014. The total investment by OIL will be up to US\$85 million.

The Licence 61 Farmout materially strengthened PetroNeft both financially and strategically. We believe the transformation we will undergo as a result of the Licence 61 Farmout will be for the benefit of the shareholders of the Company as a whole. The Company is now debt-free and the jointly controlled entity is undertaking a fully funded US\$45 million work programme. The Licence 61 Farmout has given us a strong industry partner seeking to build a strategic position in Russia as well as the financial resources to develop the significant potential of Licence 61.

Operations

The existing production wells at Lineynoye and Arbuzovskoye performed reasonably well during 2014 and while total production at Licence 61 declined in 2014 this was due to natural decline of existing wells and because no new wells were drilled between February 2013 and late 2014. We have had good success in maintaining production and slowing the production decline by the timely workover of wells to replace pumps and re-perforate wells where possible.

The specific geological and operations expertise we gained from Lineynoye and Arbuzovskoye will serve the Company well in the future developments at Tungolskoye and Sibkrayevskoye. Our new partner, Oil India, will also add to this expertise through targeted secondments of their experts.

2015 work programme

In late 2014 we commenced drilling of the Tungolskoye No. 5 well which was our first horizontal well. The positive result, achieved in early 2015, gave us the confidence to take a decision to develop the Tungolskoye field in 2015. We have already constructed a 25km pipeline and utility line to connect the Tungolskoye oil field to the central processing facility at Lineynoye and have commenced a drilling programme of up to 11 wells. This is an exciting programme with significant production potential and we look forward to the results during the second half of 2015.

In late May 2015 we announced the results of a delineation well at Sibkrayevskoye. The S-373 well found net pay of 11.5 metres and achieved a stabilised natural flow of 100 bopd from a cased hole test. This bodes well for a positive development decision later in 2015 once the 1,000 km of new high quality 2D seismic acquired in the northern end of Licence 61 has been interpreted.

Reserves

While the Licence 61 Farmout resulted in a reduction of the 2P reserves net to PetroNeft, the Company has had good exploration success in the past and I am confident that we can bring the Company's reserves back towards pre-farmout levels in the medium term with further appraisal and exploration wells on key fields and prospects, especially Sibkrayevskoye, Emtorskaya and Traverskaya in the coming years. Numerous unexplored structures have also been seismically defined but not yet drilled on the southern half of Licence 61.

At Licence 67 we acquired 156 km² of 3D seismic in 2014 to better define the three oil pools discovered at Cheremshanskoye and the two oil pools at Ledovoye. This data has been processed and interpreted and we are currently discussing future plans with our partner, Arawak.

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Chairman's Statement (*continued*)

Estimated Reserves in Oil Fields (net to PetroNeft)

Oil Field Name	Proved	Proved & Probable	Proved, Probable & Possible
Licence 61	1P mmbo	2P mmbo	3P mmbo
Lineynoye	4.0	14.9	19.3
Tungolskoye	1.4	9.9	12.3
Kondrashevskoye	0.9	2.5	3.1
Arbuzovskoye	0.9	3.0	3.9
Sibkrayevskoye	1.8	26.5	33.7
North Varyakhskoye	0.4	1.0	1.2
	9.4	57.8	73.5
Licence 67			
Ledovoye	1.5	14.0	17.4
Total net to PetroNeft	10.9	71.8	90.9

- Licence 61 as at 31 December 2014 (Ryder Scott report as at 1 April 2013 adjusted for production to 31 December 2014).
- Licence 61 reserves reflect just PetroNeft's 50% share of reserves.
- All oil in discovered fields is in the Upper Jurassic section.
- Reserves were determined in accordance with the Society of Petroleum Engineers ("SPE") Petroleum Resources Management System ("PRMS") rules.
- Licence 67 will be co-developed with Arawak Energy and the reserves above reflect PetroNeft's 50% share as per the most recent Ryder Scott report as at 1 January 2011.

Accounting implications of the Licence 61 Farmout

The effect of the Licence 61 Farmout was that PetroNeft became a 50% owner of WorldAce Investments Limited which is the 100% owner of Stimul-T the Russian entity that owns Licence 61 and all of the associated infrastructure. Prior to the farmout the WorldAce Group was consolidated 100% in the financials of PetroNeft Group. Once the farmout was completed the consolidation method changed to the equity method which means that just the 50% share of the profit or loss of the WorldAce Group is included in the Income Statement of PetroNeft and 50% of the share of net assets of WorldAce Group is included in the Balance Sheet of PetroNeft rather than showing the proportional share of revenue, expenditure and individual classes of assets and liabilities.

As the Licence 61 Farmout completed during the financial year the Income Statement for 2014 is effectively in transition as it reflects the revenues and expenditures of 100% of the WorldAce Group for the period up to 3 July 2014 and thereafter only shows the share of the net loss of WorldAce Group for the period between 3 July 2014 and 31 December 2014.

Structure of the transaction

The Licence 61 Farmout was effected by bringing Oil India in as a 50% shareholder in WorldAce Investments Limited. This happened through the payment of US\$35 million to WorldAce for the issue of new shares in WorldAce. Separately, PetroNeft had previously funded the WorldAce Group through a combination of granting shareholder loans to the WorldAce Group and the investment of equity in the WorldAce Group. Following restructuring of the shareholder loans in 2013, PetroNeft was owed approximately US\$80 million by the WorldAce Group. Following the payment of US\$35 million by Oil India these funds were passed on to PetroNeft by way of loan repayments meaning that PetroNeft is still owed US\$45 million by the WorldAce Group. The other element of the Licence 61 farmout is that Oil India will invest US\$45 million into WorldAce for investment in the Licence 61 work programme. Once this amount is fully invested both parties will have mirror image investments through their 50% shareholding and US\$45 million shareholder loan to WorldAce. Following that each shareholder will fund future investments in proportion to their equity.

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Chairman's Statement (*continued*)

Review of PetroNeft loss for the year

The loss for the year was US\$8,376,425 (2013: US\$11,495,885). The loss included a foreign exchange loss on intra-Group loans of US\$2.4 million and a loss on the disposal of a subsidiary of US\$5.6 million. Finance costs of US\$1.6 million relate to interest on the loans from Macquarie and Arawak for the period to 3 July 2014 when the loans were repaid in full and include a US\$0.4 million fee charged by Macquarie for extending the maturity date of their loan from 28 May 2014 to 7 July 2014.

As mentioned above, the Licence 61 Farmout was completed on 3 July 2014. For accounting purposes the results of the WorldAce Group are fully consolidated in the PetroNeft income statement up to that date. After that date PetroNeft must account for its share of the results of WorldAce Group using the equity method of accounting. Also, interest on loans to the WorldAce Group, which up to 3 July 2014 would have been eliminated on consolidation, is included as income in the PetroNeft consolidated income statement after that date.

PetroNeft Summary Financial Information	2014	2013
	US\$'000	US\$'000
<i>Continuing operations</i>		
Revenue	19,165	38,687
Cost of sales	(15,233)	(33,552)
Gross profit	3,932	5,135
Administrative expenses	(3,678)	(6,840)
Exchange loss on intra-Group loans	(2,402)	(6,190)
Operating loss	(2,148)	(7,895)
Loss on disposal of subsidiary undertaking	(5,569)	-
Share of joint venture's net loss – WorldAce Investments Limited	(304)	-
Share of joint venture's net loss – Russian BD Holdings B.V.	(294)	(235)
Finance revenue	1,551	71
Finance costs	(1,612)	(3,437)
Loss for the year for continuing operations before taxation	(8,376)	(11,496)
Income tax (expense)/credit	(408)	2,337
Loss for the year	(8,784)	(9,159)

Revenue

Revenue includes revenues from oil sales for the period to 3 July 2014 of US\$17.5 million and income as operator of both licences of US\$1.7 million.

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

In the joint venture agreements related to both Licence 61 and Licence 67, PetroNeft is designated as the operator of each Licence. This means that PetroNeft employees and management are responsible for the day to day running of both Licences. Major strategic and financial decisions relating to the Licences require unanimous approval by both shareholders in the respective joint venture agreements.

As PetroNeft management and employees are responsible for day to day matters in both Licences, PetroNeft is entitled to recover a portion of its expenses from the joint ventures. In that regard we established a management group of key Russian employees who are now employed by the PetroNeft subsidiary LLC Dolomite. Both PetroNeft and Dolomite invoice for their services to the joint ventures based on rates pre-agreed with our respective joint venture partners.

PetroNeft Resources plc

Chairman's Statement (*continued*)

Income of PetroNeft Group as Operator of Licence 61 and Licence 67 (*continued*)

In 2014 PetroNeft Group charged a total of US\$1.2 million to the joint ventures in respect of management services. PetroNeft also owns a small construction company, Granite Construction, which carries out small ad hoc construction projects such as well pads and on-site accommodation on both Licences. In 2014 Granite Construction charged the WorldAce Group US\$0.5 million in respect of these services.

Interest receivable on loans to joint ventures

During 2014 PetroNeft had interest receivable of US\$1,415,202 (2013: US\$Nil) on its loans to WorldAce Group and US\$117,120 (2013: US\$32,222) on its loans to Russian BD Holdings B.V.

Loss on disposal of subsidiary

Note 4 to the preliminary financial statements sets out the full details of the loss on disposal of subsidiary of US\$5.6 million. The loss was calculated by comparing the value of the assets that remain with PetroNeft after the transaction to the value of the assets and liabilities that were held for sale and then deducting transaction costs of US\$1.8 million and transferring the accumulated foreign exchange loss of US\$9.3 million included in the currency translation reserve relating to the WorldAce Group to the PetroNeft consolidated income statement.

Key Financial Metrics – WorldAce Group

Because of the above accounting implications it is difficult to extract meaningful metrics from the PetroNeft 2014 consolidated income statement. Therefore the metrics below are an extraction from the audited financial statements of the WorldAce Group and give an indication as to the performance of Licence 61:

	PetroNeft's	100% of WorldAce	
	50% share	12 months	12 months
	3 July - 31	ended 31	ended 31
	December	December	December
	2014	2014	2013
	US\$'000	US\$'000	US\$'000
<i>Continuing operations</i>			
Revenue	5,846	29,289	38,687
Cost of sales	(5,451)	(26,379)	(33,456)
Gross profit	395	2,910	5,231
Gross margin %	6.8%	10.0%	13.5%
Administrative expenses	(1,027)	(5,129)	(8,341)
Operating loss	(632)	(2,219)	(3,110)
Finance revenue	5	16	23
Finance costs	(877)	(1,818)	(6,945)
Loss for the period for continuing operations before taxation	(1,504)	(4,021)	(10,032)
Income tax credit/(expense)	1,200	2,400	(2,400)
Loss for the period	(304)	(1,621)	(12,432)

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Chairman's Statement (*continued*)

Net Loss – WorldAce Group

The net loss of WorldAce Group for the full year decreased to US\$1,621,345 from US\$12,432,403 in 2013. The reduction in the loss for the year before taxation can be attributed to lower interest payable on loans from shareholders in 2014 as a result of the loan restructuring that occurred at the end of 2013 in preparation for the Licence 61 Farmout. Also in 2014, included in administrative expenses, there was a foreign exchange loss of US\$1,348,387 (2013: US\$4,920,385) on US Dollar-denominated loans owed by Stimul-T, whose functional currency is the Russian Rouble. This loss arose due to the weakening of the Russian Rouble against the US Dollar in the year, however, due a restructuring of the inter-company loans on 3 July 2014 this loss only arose in the first half of 2014 as thereafter any exchange differences were taken to the currency translation reserve of WorldAce Group.

In the consolidated income statement of PetroNeft the share of the WorldAce loss for the period after completion of the farmout is US\$304,436. This is after allowing for the interest charge of US\$1,415,202 on the loans owed by WorldAce Group to PetroNeft for that period and management service charges from PetroNeft to WorldAce of US\$834,318 for the period.

Revenue, Cost of Sales and Gross Margin – WorldAce Group

Revenue from oil sales was US\$29,288,078 for the year (2013: US\$38,687,123). Cost of sales includes depreciation of US\$2,866,247 (2013: US\$5,133,256), which was lower mainly because of the weaker Rouble but also because of lower production. The gross margin fell during the year primarily due to lower oil prices in the second half but also because of lower production in the year and therefore a higher costs per barrel because of the level of fixed costs included in cost of sales. For this reason, operating costs per barrel produced (Cost of Sales excluding depreciation and Mineral Extraction Tax) rose from US\$10.86 per barrel to US\$11.67 per barrel. We would expect the gross margin to improve in future periods as our facilities and field operations are fully staffed and can handle additional production from the Arbuzovskoye and Tungolskoye oil fields under the current cost structure. We produced 728,826 barrels of oil (2013: 870,965 barrels) in the year and sold 704,189 barrels of oil (2013: 879,826 barrels) achieving an average oil price of US\$41.59 per barrel (2013: US\$43.97 per barrel). All oil was sold on the domestic market in Russia.

Finance Costs – WorldAce Group

Finance costs of US\$1,818,438 relate to interest on loans from PetroNeft and Oil India.

Taxation – WorldAce Group

The tax credit arises on the reversal of a deferred tax charge of US\$2,400,000 which arose in relation to temporary differences in Russia.

Proceeds of Licence 61 Farmout

PetroNeft received proceeds of US\$35 million from the Licence 61 Farmout. US\$26.5 million of this was used to settle all outstanding external debt to Macquarie Bank Limited and Arawak. Transaction costs amounted to approximately US\$1.8 million. US\$3 million was then invested in Licence 67 by way of a loan to Russian BD Holdings B.V. to cover the PetroNeft share of the 3D seismic programme carried out at Licence 67 in 2014.

Board Committees and Policies

On 18 June 2015 Gerard Fagan replaced Tom Hickey as Chairman of the audit committee. In addition, the Board decided to form a permanent Nominations Committee which will be chaired by Tom Hickey. David Golder, Gerard Fagan and Dennis Francis will also be members of the Nominations Committee. Also, in response to shareholder feedback in 2014, the Remuneration Committee decided that PetroNeft would no longer issue share options to Non-Executive Directors. While the Non-Executive Directors already hold some share options and will retain them, all existing share options are out of the money.

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Chairman's Statement (*continued*)

Summary

In May 2014, the shareholders overwhelmingly supported the Board's recommendations and proposed strategy for the next phase of the Company's development at the EGM to approve the Licence 61 Farmout and the requisitioned EGM. This gave us a mandate to conclude the Licence 61 Farmout with Oil India and to progress the development of Licence 61, debt-free and with a fully funded US\$45 million work programme. Since then we have commenced an ambitious programme to further develop Licence 61. With the Lineynoye, Arbuzovskoye, Tungolskoye and Sibkrayevskoye oil fields we can generate significant cash in the coming years utilising the infrastructure already in place as well as through the addition of yet to be discovered reserves from our portfolio of exploration prospects. Oil India appreciates the potential of the asset and has a long-term view with respect to Licence 61 and business development in Russia. This should enable PetroNeft to expand its reserve base both through exploration and delineation in current licence areas and through business development opportunities in Tomsk and further afield in Russia. We look forward to working with Oil India for many years to come.

2014 was a turn-around year for PetroNeft and the management team deserve credit for securing an excellent deal with Oil India, particularly given challenging wider market conditions. We are currently producing from less than 15% of our reserve base and the substantial investment in infrastructure made in recent years leaves us well placed to deliver significant and profitable growth now that we have satisfactorily resolved the funding challenges of recent years.

Annual Report and AGM

The annual report will be mailed to shareholders and published on the Company's website (www.petroneft.com) by 30 June 2015. The AGM will be held in Dublin on 18 September 2015.

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

David Golder
Non-Executive Chairman

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Consolidated Income Statement

For the year ended 31 December 2014

	Note	2014 US\$	2013 US\$
<i>Continuing operations</i>			
Revenue		19,165,456	38,687,123
Cost of sales		<u>(15,233,532)</u>	<u>(33,551,965)</u>
Gross profit		3,931,924	5,135,158
Administrative expenses		(3,677,947)	(6,839,970)
Exchange loss on intra-Group loans		<u>(2,401,138)</u>	<u>(6,189,735)</u>
Operating loss		(2,147,161)	(7,894,547)
Loss on disposal of subsidiary undertaking		(5,569,164)	-
Share of joint venture's net loss – WorldAce Investments Limited		(304,439)	-
Share of joint venture's net loss – Russian BD Holdings B.V.		(294,103)	(235,060)
Finance revenue		1,550,754	70,810
Finance costs		<u>(1,612,312)</u>	<u>(3,437,088)</u>
Loss for the year for continuing operations before taxation		(8,376,425)	(11,495,885)
Income tax (expense)/credit		(407,960)	2,337,159
Loss for the year attributable to equity holders of the Parent		<u>(8,784,385)</u>	<u>(9,158,726)</u>
Loss per share attributable to ordinary equity holders of the Parent			
Basic and diluted - US dollar cent	3	(1.27)	(1.42)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

		2014 US\$	2013 US\$
Loss for the year attributable to equity holders of the Parent		(8,784,385)	(9,158,726)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Currency translation adjustments – subsidiaries		(764,277)	(3,293,001)
Share of joint ventures' other comprehensive income – foreign exchange translation differences		(26,480,234)	(252,238)
Recycling of currency translation reserve on disposal of subsidiary	4	<u>9,337,907</u>	<u>-</u>
Total comprehensive loss for the year attributable to equity holders of the Parent		<u>(26,690,989)</u>	<u>(12,703,965)</u>

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Consolidated Balance Sheet

As at 31 December 2014

	Note	2014 US\$	2013 US\$
Assets			
Non-current Assets			
Property, plant and equipment	5	321,802	467,060
Equity-accounted investment in joint venture – WorldAce Investments Limited	6	10,865,156	-
Equity-accounted investment in joint venture – Russian BD Holdings B.V.	7	365,178	3,331,844
Financial assets – loans and receivables	8	46,398,502	-
		<u>57,950,638</u>	<u>3,798,904</u>
Current Assets			
Inventories	9	15,179	30,523
Trade and other receivables	10	5,069,944	790,864
Cash and cash equivalents	11	3,392,769	116,831
Restricted cash	11	-	2,054,947
		<u>8,477,892</u>	<u>2,993,165</u>
Assets held for sale	4	-	125,766,570
		<u>8,477,892</u>	<u>128,759,735</u>
Total Assets		<u>66,428,530</u>	<u>132,558,639</u>
Equity and Liabilities			
Capital and Reserves			
Called up share capital	14	9,429,182	8,561,499
Share premium account		140,912,898	136,762,387
Share-based payment reserve		6,763,745	6,684,820
Retained loss		(66,300,407)	(57,516,022)
Currency translation reserve		(26,676,286)	(177,021)
Other reserves		336,000	336,000
Amounts recognised in other comprehensive income and accumulated in equity relating to assets held for sale	4	-	(8,592,661)
Equity attributable to equity holders of the Parent		<u>64,465,132</u>	<u>86,059,002</u>
Non-current Liabilities			
Deferred tax liability		511,775	106,674
		<u>511,775</u>	<u>106,674</u>
Current Liabilities			
Trade and other payables	12	1,451,623	1,806,732
Interest-bearing loans and borrowings	13	-	30,000,000
		<u>1,451,623</u>	<u>31,806,732</u>
Liabilities directly associated with assets held for sale	4	-	14,586,231
		<u>1,451,623</u>	<u>46,392,963</u>
Total Liabilities		<u>1,963,398</u>	<u>46,499,637</u>
Total Equity and Liabilities		<u>66,428,530</u>	<u>132,558,639</u>

PetroNeft Resources plc

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	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 2013	8,561,499	136,762,387	6,602,045	(5,224,443)	-	(48,357,296)	98,344,192
Loss for the year	-	-	-	-	-	(9,158,726)	(9,158,726)
Currency translation adjustments - subsidiaries	-	-	-	(3,293,001)	-	-	(3,293,001)
Share of joint ventures' other comprehensive income – foreign exchange translation differences	-	-	-	(252,238)	-	-	(252,238)
Total comprehensive loss for the year	-	-	-	(3,545,239)	-	(9,158,726)	(12,703,965)
Transfer in relation to assets held for sale	-	-	-	8,592,661	(8,592,661)	-	-
Share-based payment expense	-	-	418,775	-	-	-	418,775
At 31 December 2013	8,561,499	136,762,387	7,020,820	(177,021)	(8,592,661)	(57,516,022)	86,059,002
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

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Consolidated Cash Flow Statement

For the year ended 31 December 2014

	2014 US\$	2013 US\$
Operating activities		
Loss before taxation	(8,376,425)	(11,495,885)
Adjustment to reconcile loss before tax to net cash flows		
Non-cash		
Depreciation	126,250	5,632,077
Share of loss in joint ventures	598,542	235,060
Share-based payment expense	78,925	418,775
Loss on disposal of subsidiary	4 5,569,164	-
Finance revenue	(1,550,754)	(70,810)
Finance costs	1,612,312	3,437,088
Working capital adjustments		
(Increase)/decrease in trade and other receivables	(506,502)	189,890
Decrease in inventories	44,199	661,568
(Decrease)/increase in trade and other payables	(1,028,136)	9,703,801
Income tax (paid)/ received	(5,354)	167,592
Net cash flows (used in)/received from operating activities	(3,437,779)	8,879,156
Investing activities		
Purchase of oil and gas properties	(200,669)	(4,866,256)
Purchase of property, plant and equipment	(144,137)	(83,286)
Proceeds from disposal of property, plant and equipment	-	12,268
Exploration and evaluation payments	(1,187,432)	(326,918)
Loan facilities advanced to joint venture undertakings	(3,500,000)	-
Repayment of loan facilities by joint venture undertakings	36,105,575	-
Decrease in restricted cash	2,054,947	1,945,053
Decrease in cash and cash equivalents held for sale	176,857	-
Interest received	15,310	32,819
Net cash received from/(used in) investing activities	33,320,451	(3,286,320)
Financing activities		
Proceeds from issue of share capital	5,176,548	-
Transaction costs of issue of shares	(158,354)	-
Proceeds from loan facilities	1,500,000	-
Repayment of loan facilities	(31,500,000)	(6,500,000)
Interest paid	(1,601,285)	(2,709,529)
Net cash used in financing activities	(26,583,091)	(9,209,529)
Net increase/(decrease) in cash and cash equivalents	3,299,581	(3,616,693)
Translation adjustment	(23,643)	(14,607)
Cash and cash equivalents held for sale	4 -	(191,291)
Cash and cash equivalents at the beginning of the year	116,831	3,939,422
Cash and cash equivalents at the end of the year	11 3,392,769	116,831

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Notes to the Preliminary Financial Statements

For the year ended 31 December 2014

1. Basis of Accounting and Presentation of Financial Information

While the financial information included in this announcement has been prepared in accordance with the Group's accounting policies under International Financial Reporting Standards (IFRS) as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. The Company is distributing the full financial statements that comply with IFRS on or before 30 June 2015.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2014 or 2013, but is derived from those accounts. Statutory accounts for 2013 have been delivered to the Registrar of Companies and those for 2014 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts. Both reports were unmodified, but the 2013 report did draw attention to going concern issues by way of emphasis of matter.

Adoption of new IFRS's

The Group has adopted the following new and amended IFRS and IFRIC interpretations in respect of the 2014 financial year-end:

- *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32 Financial Instruments: Presentation)*
- *Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36 Impairment of Assets)*
- *Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39 Financial Instruments: Recognition and Measurement)*
- *IFRIC 21 Levies*

The application of the above standards and interpretations did not result in material changes to the results or financial position of the Group or the Company.

2. 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.

PetroNeft Resources plc

Notes to the Preliminary Financial Statements *(continued)*

For the year ended 31 December 2014

2. Segment information *(continued)*

Assets are allocated based on where the assets are located:

	2014 US\$	2013 US\$
Non-current assets		
Russia	57,945,126	3,794,764
Ireland	5,512	4,140
	<u>57,950,638</u>	<u>3,798,904</u>

3. Loss per Ordinary Share

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

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

	2014 US\$	2013 US\$
Numerator		
Loss attributable to equity shareholders of the Parent for basic and diluted loss	<u>(8,784,385)</u>	<u>(9,158,726)</u>
	<u>(8,784,385)</u>	<u>(9,158,726)</u>
Denominator		
Weighted average number of Ordinary Shares for basic and diluted earnings per Ordinary Share	<u>694,097,759</u>	<u>644,920,275</u>
Diluted weighted average number of shares	<u>694,097,759</u>	<u>644,920,275</u>
Loss per share		
Basic and diluted - <i>US dollar cent</i>	(1.27)	(1.42)

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

- Employee Share Options – These potential Ordinary Shares are anti-dilutive for the years ended 31 December 2014 and 2013.
- Warrants – At 31 December 2014, 9,900,000 (2013: 9,400,000) Ordinary Shares are subject to warrants being exercised. These potential Ordinary Shares are anti-dilutive for the years ended 31 December 2014 and 2013.

PetroNeft Resources plc

Notes to the Preliminary Financial Statements *(continued)*

For the year ended 31 December 2014

4. Assets Held for Sale

In 2013 the Company commenced a process with Evercore Partners of London to seek a farmout partner for Licence 61. This process led to the signing of a Memorandum of Understanding with Oil India Limited (“OIL”) on 27 December 2013 in respect of the farmout of a 50% non-operated interest in Licence 61. Consequently it was deemed that the held for sale criteria under IFRS 5 were met and that the related assets and liabilities (‘the disposal group’) be classified as held for sale in the 31 December 2013 balance sheet.

Immediately before the classification as held for sale, the recoverable amount was estimated and no impairment loss was identified. As at 31 December 2013, there was no write-down as the carrying amount of the disposal group did not fall below its fair value less costs to sell.

A legally-binding contract was entered into on 17 April 2014. Under the terms of the agreement, OIL subscribed for shares in WorldAce, the holding company for Stimul-T, the entity which holds Licence 61 and all related assets and liabilities; following which, PetroNeft and Oil India both hold 50% of the voting shares of WorldAce. In addition, through the shareholders agreement, both parties will have joint control of WorldAce with PetroNeft continuing as operator (the ‘Licence 61 Farmout’). The basic terms of this agreement provide for a total investment by OIL of up to US\$85 million consisting of:

- US\$35 million upfront cash payment;
- US\$45 million of exploration and development expenditure on Licence 61;
- US\$5 million performance bonus, contingent upon average production from the Sibkrayevskoye Field reaching 7,500 bopd within the next five years.

Following shareholders’ approval at an EGM in May 2014 and Russian Regulatory approval, the transaction closed on 3 July 2014, and WorldAce Investments Limited, which was previously a 100% subsidiary of PetroNeft, became a jointly controlled entity, resulting in a loss on disposal of US\$5.6 million (after the recycling of the currency translation reserve of US\$9.3 million).

The major classes of assets and liabilities held for sale as at 3 July 2014 and 31 December 2013 were as follows:

	As at 3 July 2014 US\$	As at 31 December 2013 US\$
Assets held for sale		
Oil and gas properties	95,360,748	96,023,796
Property, plant and equipment	903,759	935,000
Exploration and evaluation assets	27,518,559	27,235,454
Inventories	1,156,906	1,215,210
Trade and other receivables	200,722	165,819
Cash and cash equivalents	14,434	191,291
	125,155,128	125,766,570
Liabilities directly associated with assets held for sale		
Trade and other payables	10,755,435	10,633,142
Deferred tax liability	2,400,000	2,400,000
Provisions	1,568,280	1,553,089
	14,723,715	14,586,231
Amounts recognised in other comprehensive income and accumulated in equity relating to assets held for sale		
Currency translation reserve	9,337,907	8,592,661
	9,337,907	8,592,661

PetroNeft Resources plc

Notes to the Preliminary Financial Statements (*continued*)

For the year ended 31 December 2014

4. Assets Held for Sale (*continued*)

Loss on disposal of subsidiary undertaking	2014 US\$
Fair value of remaining equity investment in joint venture	35,000,000
Loans and other receivables from joint venture (note 15)*	81,021,362
Value of assets retained by PetroNeft	116,021,362
Assets held for sale	(125,155,128)
Liabilities held for sale	14,723,715
Gain before transaction costs and recycling of currency translation reserve	5,589,949
Recycling of currency translation reserve on disposal of subsidiary†	(9,337,907)
Transaction costs	(1,821,206)
Loss on disposal of subsidiary undertaking	(5,569,164)

*US\$35 million of the loans receivable from the joint venture noted above were repaid to PetroNeft out of the proceeds of the new share issue by WorldAce to Oil India. A further US\$600,000 was repaid from operating cashflows in the second half of 2014.

† The recycling of the currency translation reserve of US\$9.3 million relates primarily to the realisation of the cumulative foreign currency losses relating to the retranslation of Russian Rouble denominated assets and liabilities held by Stimul-T whose functional currency is Russian Rouble. As part of the consolidation process in prior periods up to 3 July 2014 those Russian Rouble carrying amounts were converted to US Dollars, the functional currency of PetroNeft, at each period end and the unrealised gain or loss was then recognised through the statement of other comprehensive income and included in the currency translation reserve rather than the retained loss reserve. With the completion of the Licence 61 Farmout in July 2014 this accumulated loss was realised and therefore transferred to the Income Statement and included in the calculation of loss on disposal arising from the Licence 61 Farmout.

PetroNeft Resources plc

Notes to the Preliminary Financial Statements (*continued*)

For the year ended 31 December 2014

5. Property, plant and equipment

	Plant and machinery US\$
Cost	
At 1 January 2013	1,854,724
Additions	14,551
Transferred from oil and gas properties	108,427
Disposals	(39,380)
Translation adjustment	(129,353)
	<u>1,808,969</u>
Transferred to assets held for sale	(335,997)
At 1 January 2014	1,472,972
Additions	148,917
Disposals	(43,974)
Translation adjustment	(581,327)
At 31 December 2014	<u>996,588</u>
 Depreciation	
At 1 January 2013	1,082,298
Charge for the year	227,083
Transferred from oil and gas properties	52,512
Disposals	(27,112)
Translation adjustment	(81,280)
	<u>1,253,501</u>
Transferred to assets held for sale	(247,589)
At 1 January 2014	1,005,912
Charge for the period	126,250
Disposals	(43,974)
Translation adjustment	(413,402)
At 31 December 2014	<u>674,786</u>
 Net book values	
At 31 December 2014	<u><u>321,802</u></u>
 At 31 December 2013	 <u><u>467,060</u></u>

PetroNeft Resources plc

Notes to the Preliminary Financial Statements *(continued)*

For the year ended 31 December 2014

6. 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. Full details of the transaction and the accounting implications are discussed in Note 4. 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 (Note 4)	35,000,000
Elimination of unrealised profit on intra-Group transactions	(22,734)
Retained loss	(304,439)
Translation adjustment	<u>(23,807,671)</u>
At 31 December 2014	<u>10,865,156</u>

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

	Period from 3 July to 31 December 2014 US\$
<i>Continuing operations</i>	
Revenue	5,845,646
Cost of sales	<u>(5,450,642)</u>
Gross profit	395,004
Administrative expenses	<u>(1,027,260)</u>
Operating loss	(632,256)
Finance revenue	4,713
Finance costs	<u>(876,896)</u>
Loss for the period for continuing operations before taxation	(1,504,439)
Income tax credit	<u>1,200,000</u>
Loss for the period	<u>(304,439)</u>
Loss for the period	(304,439)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>	
Currency translation adjustments	<u>(23,807,671)</u>
Total comprehensive loss for the period	<u>(24,112,110)</u>

The currency translation adjustment results from the devaluation of the Russian Rouble during the year. All Russian Rouble carrying values in Stimul-T, the 100% subsidiary of WorldAce are converted to US Dollars at each period end. The resulting gain or loss is recognised through other comprehensive income and transferred to the currency translation reserve. The Russian Rouble depreciated significantly against the US Dollar during the period moving from RUB34.2:US\$1 at 3 July 2014 to RUB56.5:US\$1 at 31 December 2014.

PetroNeft Resources plc

Notes to the Preliminary Financial Statements (*continued*)

For the year ended 31 December 2014

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

	2014 US\$
Non-current Assets	
Oil and gas properties	27,860,901
Property, plant and equipment	285,775
Exploration and evaluation assets	9,600,431
	<u>37,747,107</u>
Current Assets	
Inventories	691,950
Trade and other receivables	1,633,624
Cash and cash equivalents	514,206
	<u>2,839,780</u>
Total Assets	<u><u>40,586,887</u></u>
Non-current Liabilities	
Provisions	(393,153)
Interest-bearing loans and borrowings	(32,593,955)
	<u>(32,987,108)</u>
Current Liabilities	
Trade and other payables	(1,638,815)
	<u>(1,638,815)</u>
Total Liabilities	<u><u>(34,625,923)</u></u>
Net Assets	<u><u>5,960,964</u></u>

Capital commitments

2014
US\$

Details of capital commitments at the balance sheet date are as follows:

Contracted for but not provided in the financial statements	12,839,994
Including contracted with related parties	<u>3,697,366</u>

PetroNeft Resources plc

Notes to the Preliminary Financial Statements *(continued)*

For the year ended 31 December 2014

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

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

	2014 US\$
Within one year	44,624
After one year but not more than five years	160,711
More than five years	403,104
	<u>608,439</u>

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

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

PetroNeft Resources plc has a 50% interest in Russian BD Holdings B.V., a 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 2013	3,819,142
Retained loss	(235,060)
Translation adjustment	(252,238)
At 1 January 2014	<u>3,331,844</u>
Retained loss	(294,103)
Translation adjustment	(2,672,563)
At 31 December 2014	<u><u>365,178</u></u>

PetroNeft Resources plc

Notes to the Preliminary Financial Statements *(continued)*

For the year ended 31 December 2014

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

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

	2014 US\$	2013 US\$
Revenue	-	-
Cost of sales	-	-
Gross profit	-	-
Administrative expenses	(143,643)	(114,563)
Exchange loss on intra-Group loans	-	(65,784)
Operating loss	(143,643)	(180,347)
Finance revenue	1,743	184
Finance costs	(152,203)	(45,134)
Loss for the year for continuing operations before taxation	(294,103)	(225,297)
Taxation	-	(9,763)
Loss for the year	(294,103)	(235,060)
Loss for the year		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
	(294,103)	(235,060)
Currency translation adjustments	(2,672,563)	(252,238)
Total comprehensive loss for the year	(2,966,666)	(487,298)
	2014 US\$	2013 US\$
Non-current assets	4,155,338	4,774,180
Current assets	165,716	164,066
Total assets	4,321,054	4,938,246
Non-current liabilities	(22,810)	(34,704)
Current liabilities	(3,933,066)	(1,571,698)
Total liabilities	(3,955,876)	(1,606,402)
Net Assets	365,178	3,331,844

PetroNeft Resources plc

Notes to the Preliminary Financial Statements *(continued)*

For the year ended 31 December 2014

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

Capital commitments	2014 US\$	2013 US\$
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Details of capital commitments at the balance sheet date are as follows:

Contracted for but not provided in the financial statements	-	4,935,229
Including contracted with related parties	-	204,980
	<u>-</u>	<u>204,980</u>

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

	2014 US\$	2013 US\$
Within one year	2,605	4,261
After one year but not more than five years	8,980	15,801
More than five years	29,377	51,251
	<u>40,962</u>	<u>71,313</u>

The above capital commitments in the joint venture are incurred jointly with Arawak Energy. The Group has a 50% share of these commitments.

8. Financial assets – loans and receivables

	2014 US\$	2013 US\$
Loans to WorldAce Investments Limited (Note 15)	46,398,502	-
	<u>46,398,502</u>	<u>-</u>

The Company has granted a loan facility to its joint venture undertaking WorldAce Investments Limited of up to US\$45 million. This loan facility is US\$ denominated and unsecured. Interest currently accrues on the loan at USD LIBOR plus 6.0% but the Company has agreed not to seek payment of interest until 2016 at the earliest. The loan is set to mature on 31 December 2017. As at 31 December 2014 the loan is fully drawn down.

9. Inventories

	2014 US\$	2013 US\$
Materials	15,179	30,523
	<u>15,179</u>	<u>30,523</u>

PetroNeft Resources plc

Notes to the Preliminary Financial Statements *(continued)*

For the year ended 31 December 2014

10. Trade and other receivables

	2014 US\$	2013 US\$
Other receivables	112,492	14,544
Receivable from jointly controlled entities (Note 15)	4,879,292	717,190
Receivable from related parties (Note 15)	11,858	-
Advances to contractors	1,922	-
Prepayments	64,380	59,130
	<u>5,069,944</u>	<u>790,864</u>

11. Cash and Cash Equivalents and Restricted Cash

	2014 US\$	2013 US\$
Cash at bank and in hand	3,392,769	116,831
Restricted cash	-	2,054,947
	<u>3,392,769</u>	<u>2,171,778</u>

At 31 December 2013 restricted cash amounting to US\$2,054,947 was being held in a Macquarie Debt Service Reserve Account ("DSRA"). This account was part of the security package held by Macquarie and was offsettable against the loan in the event of a default on the loan or by agreement between the parties. The related Macquarie loan was repaid in full following the Licence 61 Farmout in July 2014, and the DSRA was subsequently released. 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.

12. Trade and other payables

	2014 US\$	2013 US\$
Trade payables	306,857	740,817
Trade payables to jointly controlled entity (Note 15)	53,450	72,659
Corporation tax	60,797	63,292
Oil taxes, VAT and employee taxes	74,497	87,004
Other payables	137,475	22,745
Accruals	818,547	820,215
	<u>1,451,623</u>	<u>1,806,732</u>

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

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

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

PetroNeft Resources plc

Notes to the Preliminary Financial Statements (*continued*)

For the year ended 31 December 2014

13. Interest-bearing loans and borrowings

	Effective interest rate %	Contractual maturity date	2014 US\$	2013 US\$
Interest bearing				
<i>Current liabilities</i>				
Macquarie Bank Limited	9.81%	7 July 2014	-	15,000,000
Belgrave Naftogaz B.V.	7.38%	30 May 2015	-	15,000,000
Total current liabilities			-	30,000,000
Total loans and borrowings			-	30,000,000
Contractual undiscounted liability				
			-	30,000,000

Macquarie loan facility

The Macquarie loan was repaid in full in July 2014 following the completion of the Licence 61 Farmout.

Arawak Energy loan facility

In March 2014 Belgrave Naftogaz B.V. (an Arawak Group company) extended its loan facility to the Company by US\$1,500,000 to US\$16,500,000. The loan was subsequently repaid in full following the completion of the Licence 61 Farmout in July 2014.

14. Share capital

	2014 €	2013 €
Authorised		
1,000,000,000 (2013: 800,000,000) Ordinary Shares of €0.01 each	10,000,000	8,000,000
	<u>10,000,000</u>	<u>8,000,000</u>
Allotted, called up and fully paid equity		
At 1 January 2013	644,920,275	8,561,499
At 1 January 2014	644,920,275	8,561,499
Issued in the year	62,325,631	867,683
At 31 December 2014	707,245,906	9,429,182

The Company issued 62,325,631 new shares for consideration of US\$5.2 million in March 2014. The net proceeds of this share issue of US\$5.0 million, after transaction costs of US\$0.2 million, were used to finance expenditure on oil and gas properties, exploration and evaluation costs, debt repayment and corporate overhead.

PetroNeft Resources plc

Notes to the Preliminary Financial Statements *(continued)*

For the year ended 31 December 2014

15. Related party disclosures

Transactions with subsidiaries

Transactions between the Group and its subsidiaries, WorldAce Investments Limited, Stimul-T, Granite and Dolomite have been eliminated on consolidation. The Company had the following transactions with its subsidiaries during the years ended 31 December 2014 and 2013:

	Stimul-T US\$	Granite Construction US\$	WorldAce Investments Limited US\$
Loans			
At 1 January 2013	101,924,207	1,581,167	25,133,138
Technical and management services provided	198,750	-	41,627
Interest accrued in the year	6,767,453	105,375	-
Impairment of loans receivable and interest in the year	(46,287,424)	-	-
Repaid during the year	(5,230,000)	(650,000)	-
Translation adjustment	(1,481,277)	-	8,525
At 1 January 2014	<u>55,891,709</u>	<u>1,036,542</u>	<u>25,183,290</u>
Technical and management services provided	-	-	16,255
Advanced during the year	600,000	-	-
Interest accrued in the year	7,233	66,916	-
Loans repaid during the year	(1,075,000)	-	-
Assigned to WorldAce Investments Limited	(54,815,433)	-	54,815,433
Transferred on cessation as a subsidiary	(607,233)	-	(80,011,257)
Translation adjustment	(1,276)	-	(3,721)
At 31 December 2014	<u>-</u>	<u>1,103,458</u>	<u>-</u>
Capital contributions			
Share-based payment 2014	21,169	7,247	-
Share-based payment 2013	221,744	38,959	-

PetroNeft Resources plc

Notes to the Preliminary Financial Statements (continued)

For the year ended 31 December 2014

15. Related party disclosures (continued)

Transactions with joint ventures

PetroNeft Resources plc had the following transactions with its joint ventures during the years ended 31 December 2014 and 2013:

	Russian BD Holdings B.V. Group US\$	WorldAce Investments Limited Group US\$
Receivable by PetroNeft Group at 1 January 2013	639,251	-
Advanced during the year	15,000	-
Transactions during the year	(7,774)	-
Interest accrued in the year	32,222	-
Repaid during the year	(37,936)	-
Translation adjustment	3,767	-
At 1 January 2014	644,531	-
Transferred on subsidiary becoming a joint venture (note 4)	-	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 31 December 2014	3,882,578	47,341,766
Balance at 31 December 2013 comprised of:		
Trade and other receivables	717,190	-
Trade and other payables	(72,659)	-
	644,531	-
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

Notes to the Preliminary Financial Statements *(continued)*

For the year ended 31 December 2014

15. Related party disclosures *(continued)*

Remuneration of key management

Key management comprise the Directors of the Company, the Vice President of Business Development and Operations, the General Director and the Executive Director of the Russian subsidiary LLC Dolomite, along with both the Chief Geologist and Chief Engineer of LLC Dolomite. Their remuneration during the year was as follows:

Remuneration of key management

	2014 US\$	2013 US\$
Compensation of key management	2,068,014	1,799,937
Contributions to defined contribution pension plan	65,923	40,784
Share-based payment expense	39,981	258,258
	<u>2,173,918</u>	<u>2,098,979</u>

The total amount of unpaid fees and expenses due to Directors as at 31 December 2014 was US\$561,348 (2013: US\$400,036).

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

Transactions with TBNG Group

Vakha Sobraliev, a Director of PetroNeft, 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 2014 US\$	TBNG Group 2013 US\$
Maximum value of new contracts awarded during the year	4,494,543	-
Paid during the year for drilling and related services	6,869,038	1,527,850
Paid during the year for other services	24,523	128,416
Amount due to TBNG and related companies at year end	351,172	1,962,935
Received during the year for sundry goods and services	37,271	49,445
Amount due from TBNG and related companies at year end	<u>400,970</u>	<u>10,122</u>

Other PetroNeft Group companies provided various services to TBNG Group during 2014 amounting to US\$15,917 (2013: US\$Nil). An amount of US\$11,858 (2013: US\$Nil) is outstanding from TBNG Group at 31 December 2014.

PetroNeft Resources plc

Notes to the Preliminary Financial Statements (*continued*)

For the year ended 31 December 2014

15. Related party disclosures (*continued*)

Transactions with TBNG Group (*continued*)

The Group has an indirect 50% interest in Lineynoye which in turn is 100% owned by the jointly controlled entity Russian BD Holdings B.V. Lineynoye also entered into some transactions with TBNG and related companies as follows:

	TBNG Group 2014 US\$	TBNG Group 2013 US\$
Maximum value of new contracts awarded during the year	-	-
Paid during the year for drilling and related services	183,874	-
Paid during the year for other services	-	-
Amount due to TBNG and related companies at year end	-	-
Received during the year for sundry goods and services	-	-
Amount due from TBNG and related companies at year end	<u>4,625</u>	<u>7,968</u>

16. Approval of financial statements

The 2014 consolidated financial statements were approved, and authorised for issue, by the Board of Directors on 18 June 2015.

17. Board approval

This announcement was approved by the Board of Directors of PetroNeft Resources plc on 22 June 2015.

PetroNeft Resources plc

Glossary

1P	Proved reserves according to SPE standards.
2P	Proved and probable reserves according to SPE standards.
3P	Proved, probable and possible reserves according to SPE standards.
AGM	Annual General Meeting.
AIM	Alternative Investment Market of the London Stock Exchange.
AMI	Area of Mutual Interest.
Arawak	Arawak Energy Russia B.V.
bbl	Barrel.
Belgrave Naftogas	Belgrave Naftogas B.V., a member of the Arawak group of companies
bfpd	Barrels of fluid per day.
boe	Barrel of oil equivalent.
bopd	Barrels of oil per day.
Company	PetroNeft Resources plc.
CPF	Central Processing Facility.
CSR	Corporate and Social Responsibility.
Custody Transfer Point	Facility/location at which custody of oil transfers to another operator.
Dolomite	LLC Dolomite, a 100% subsidiary of PetroNeft registered in the Russian Federation
ESM	Enterprise Securities Market of the Irish Stock Exchange.
ESP	Electric Submersible Pump
Exploration resources	An undrilled prospect in an area of known hydrocarbons with unequivocal four-way dip closure at the reservoir horizon.
Granite Construction	LLC Granite Construction, a 100% subsidiary of PetroNeft registered in the Russian Federation
Group	The Company and its subsidiary undertakings.
HSE	Health, Safety and Environment.
IAS	International Accounting Standard.
IFRIC	IFRS Interpretations Committee.
IFRS	International Financial Reporting Standard.
km	Kilometres.
km ² / sq km	Square kilometres.
KPI	Key Performance Indicator.
Licence 61	The Exploration and Production Licence in the Tomsk Oblast, Russia owned by the joint venture company WorldAce Investments Limited. It contains seven known oil fields, Lineynoye, Tungolskoye, West Lineynoye, Arbuzovskoye, Kondrashevskoye, Sibkrayevskoye and North Varyakhskoye and 27 Prospects and Leads that are currently being explored.
Licence 61 Farmout	An agreement whereby Oil India Limited subscribed for shares in WorldAce, the holding company for Stimul-T, the entity which holds Licence 61 and all related assets and liabilities, and following, PetroNeft and Oil India Limited both hold 50% of the voting shares, and through the shareholders agreement, both parties have joint control of WorldAce with PetroNeft as operator
Licence 67	The Exploration and Production Licence in the Tomsk Oblast, Russia owned by the joint venture company Russian BD Holdings B.V. It contains two oil fields, Ledovoye and Cheremshanskoye and several potential prospects.

PetroNeft Resources plc

GLOSSARY (continued)

Lineynoye	Limited Liability Company Lineynoye, a wholly owned subsidiary of Russian BD Holdings B.V., registered in the Russian Federation.
Macquarie	Macquarie Bank Limited.
m	Metres.
mmbbls	Million barrels.
mmbo	Million barrels of oil.
Oil pay	A formation containing producible hydrocarbons.
P1	Proved reserves according to SPE standards.
P2	Probable reserves according to SPE standards.
P3	Possible reserves according to SPE standards.
PetroNeft	PetroNeft Resources plc.
Russian BD Holdings B.V.	Russian BD Holdings B.V., a company owned 50% by PetroNeft and registered in the Netherlands.
SPE	Society of Petroleum Engineers.
Spud	To commence drilling a well.
Stimul-T	Limited Liability Company Stimul-T, a wholly owned subsidiary of WorldAce, based in the Russian Federation.
TSR	Total Shareholder Return.
VAT	Value Added Tax.
WAEP	Weighted Average Exercise Price.
WorldAce	WorldAce Investments Limited, a company owned 50% by PetroNeft, registered in Cyprus.
WorldAce Group	WorldAce Investments Limited and its 100% subsidiary LLC Stimul-T