

PetroNeft Resources plc

**Unaudited interim condensed
consolidated financial statements**

for the 6 months ended 30 June 2020

PetroNeft Resources plc

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Forward Looking Statements

This report contains forward-looking statements. These statements relate to the Group's 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)
(Independent Non-Executive Chairman)
David Sturt (British citizen)
(Chief Executive Officer)
Pavel Tetyakov (Russian citizen- appointed 17th January 2020) *(Vice President Business Development)*
Thomas Hickey (Irish citizen)
(Independent Non-Executive Director)
Maxim Korobov (Russian citizen-resigned 17th January 2020)
(Independent Non-Executive Director)
Anthony Sacca (Australian citizen)
(Independent Non-Executive Director)
Daria Shaftelskaya (Russian citizen- appointed 17th January 2020) *(Non-Executive Director)*

Registered Office and Business Address

20 Holles Street
Dublin 2
Ireland

Secretary

Michael Power appointed 3rd May 2020
Karl Johnson resigned 3rd May 2020
Karl Johnson appointed 5th February 2019
Paul Dowling resigned 5th February 2019

Auditor

BDO
Beaux Lane House
Mercer Street Lower
Dublin 2
Ireland

Nominated Adviser, Euronext Growth Market Adviser, and Broker

Davy
49 Dawson Street
Dublin 2
Ireland

¹ Irish citizens unless otherwise stated

PetroNeft Resources plc

Group Information (*continued*)

Principal Bankers

KBC Bank Ireland

Sandwith Street
Dublin 2
Ireland

AIB Bank

1 Lower Baggot Street
Dublin 2
Ireland

Solicitors

Byrne Wallace

88 Harcourt Street
Dublin 2
Ireland

Registered Number

408101

Registrar

Computershare

Heron House
Corrig Road
Sandyford Industrial Estate
Dublin 18
Ireland

PetroNeft Resources plc

Chairman's Report (*continued*)

Chairman's Statement

Dear Shareholder,

I am pleased to report on the activities of the Group for the six months to 30th June 2020 and an update on our plans. The first six months of the year have been a busy time for the company with progress been made across the business and notable achievements that include:

- Successfully raised \$2.13M through an equity raise at a 58% premium to the market closing price.
- Completed construction of a 26 km pipeline connecting Sibkrayevskoye field to the Central Processing Unit significantly ahead of schedule and within budget, allowing year-round production from Sibkrayevskoye which commenced from the end of March 2020
- Optimisation of the water flood program at the Lineynoye field resulting in a 20% year on year increase in production (July to July).
- Successfully completed extended well test of the C-4 well producing and selling 1,200 bbls of oil at competitive rates.
- Restarted construction of mini refinery at License 61, which is now under test production.
- Daria Shaftelskaya and Pavel Tetyakov joined the board, while Maxim Korobov resigned after almost 4 years as a director

Production and Sales for the period

Our team achieved a major milestone during the period with the company producing and selling oil from Licence 67 for the first time under an extended test regime on the C-4 well at the Cheremshanskoye field. In total 1,200 barrels (gross) of oil were produced and purchased at the well head at competitive market rates of approximately \$46.5/bbl without transportation tariffs by a local refinery. We see significant potential in Licence 67 and we will see more activity on this Licence in the coming months.

Gross production at Licence 61 in the six months to 30 June 2020 averaged 1,566 bopd, which represents a decline of 9.6% year from the same period in 2019 (1,743 bopd). A significant portion of the decline was due to the company taking the decision in April to shut off approximately 1,600 bbls of production in response to adverse market conditions when the benchmark West Texas price went negative. If the company had kept producing it would have incurred a significant loss for the month. Excluding the period when significant production was shut in, the decline would have been cut in half to only 5.2% compared to the previous period.

We sold 285,020 (gross) barrels of oil in the six months to 30 June 2020 (H1 2019: 315,479 bbls) and achieved an average Russian Domestic oil price of \$42.50 (H1 2019: \$44.39). This softer oil price and reduced production led to reduced operating cash flows for the Licence 61 joint venture.

Licence 61 Gross Production	H1-2020	Q2-2020	Q1-2020	H1-2019	FY-2019
Total gross production	285,020	133,496	151,523	315,479	590,569
Gross bopd	1,566	1,467	1,665	1,743	1,618
PetroNeft 50% share bopd	783	733	833	871	809

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Chairman's Report (*continued*)

Board Changes

After four years on the board, Maxim Korobov resigned from his position as Non-Executive Director. I would like to take this opportunity to thank him for his excellent support and service throughout his time on the board. At the same time Daria Shaftelskaya and Pavel Tetyakov joined the board as Executive and Non-Executive Directors, respectively. Daria brings with her a wealth of knowledge of the Tomsk and wider Russian business environment particularly from a finance perspective. Pavel has been involved with the company since 2016 as Vice President Business Development, he brings with him a deep understanding of the Russian Upstream oil industry.

Review of PetroNeft loss for the period

The loss for the period was US\$2.720m (H1 2019: US\$2.006m). The loss includes PetroNeft's share of the losses on the joint ventures relating to Licences 61 and 67 of US\$3.41m and US\$0.34m respectively (H1 2019: US\$2.87m and US\$0.32m). The loss relating to the Licence 61 joint venture is discussed in more detail below. Finance revenue of US\$1.97m (H1 2019: US\$2.160m) 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 2020 US\$	6 months ended 30 June 2019 US\$	Year ended 31 December 2019 US\$
Continuing operations			
Revenue	1,021	831	1,443
Cost of sales	(829)	(699)	(1,333)
Gross profit	192	131	110
Administrative expenses	(403)	(405)	(808)
Operating loss	(210)	(273)	(698)
Share of joint venture's net loss – WorldAce Investments Limited	(3,411)	(2,873)	(7,510)
Share of joint venture's net loss – Russian BD Holdings B.V.	(343)	(349)	(664)
Finance revenue	1,970	2,164	4,275
Finance costs	(216)	(139)	(370)
Loss for the period for continuing operations before taxation	(2,210)	(1,470)	(4,967)
Income tax expense	(510)	(536)	(1,076)
Loss for the period	(2,720)	(2,006)	(6,043)

PetroNeft Resources plc

Chairman's Report (*continued*)

Licence 61 joint venture – WorldAce Group

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

	<i>Unaudited</i>		<i>Audited</i>
	WorldAce Group	WorldAce Group	WorldAce Group
	6 months ended 30	6 months ended	Year ended 31
	June 2020	30 June 2019	December 2019
	US\$'000	US\$'000	US\$'000
Continuing operations			
Revenue	8,043	13,478	24,853
Cost of sales	(8,987)	(13,393)	(25,100)
Gross profit	(944)	85	(247)
Administrative expenses	(1,553)	(1,042)	(2,624)
Operating loss	(2,497)	(957)	(2,871)
Impairment of exploration and evaluation assets	-	-	(1,383)
Write-off of exploration and evaluation assets	-	-	(1,300)
Finance revenue	24	32	58
Finance costs	(4,349)	(4,822)	(9,524)
Loss for the period for continuing operations before taxation	(6,822)	(5,747)	(15,020)
Income tax	-	-	-
Loss for the period for continuing operations before taxation	(6,822)	(5,747)	(15,020)
PetroNeft's 50% share	(3,411)	(2,874)	(7,510)

WorldAce Group Analysis

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended	6 months ended	Year ended 31
	30 June 2020	30 June 2019	December 2019
	US\$'000	US\$'000	US\$'000
Revenue			
Oil sales	8,043	13,402	24,712
Other sales	0	76	141
Total revenue	8,043	13,478	24,853
PetroNeft's 50% share	4,022	6,739	12,427
Cost of Sales			
Mineral Extraction Tax	4,366	8,247	15,078
Pipeline tariff	1,186	1,353	1,887
Staff costs	895	1,020	1,805
Depreciation and amortisation	704	805	1,752
Other cost of sales	1,836	1,968	4,578
Total cost of sales	8,987	13,393	25,100
PetroNeft's 50% share	4,494	6,697	12,550

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Chairman's Report (*continued*)

The detailed Income Statement and Balance Sheet of WorldAce Investments Limited is disclosed at note 10 to these condensed financial statements.

The onset of the Covid pandemic, coupled with the Saudi / Russian dispute on production quotas gave rise to lower production and oil prices in H1 2020. Accordingly, the margin in 2020 weakened as compared to the same period last year. This led to an operating loss in the L-61 joint venture of US\$2.49M compared to an operating loss in the same period last year of US\$957k.

Finance

The company places a high degree of focus on its cash flow position and financial commitments. In January, the company successfully placed 107,755,037 new Ordinary Shares at 1.5p each representing a 58% premium to the closing market price. There was a significant commitment from directors representing 44% of the placing.

The Company as reported in the 2019 Annual Financial Statements, is conscious of the maturity of both the Convertible Debt Holders and Petrogrand AB loan by the end of 2020. We are working with both groups on arrangements to extend the redemption dates on these facilities and negotiations are ongoing.

Outlook

The first half of 2020 presented many challenges to the company through the dual effects of the Covid pandemic and turmoil in the world's energy markets. We have however been seeing increased stability through the third quarter and are optimistic that this will continue through the end of 2020 and into 2021.

With the success of the C-4 extended well test combined with stabilising production at Licence 61, we believe the company is well positioned to benefit from a future improvement in the market. We are particularly looking forward to an active winter work program at the end of this year and in to 2021.

At Licence 67, the successful C-4 extended test enables the well to be placed on year round production from the start of 2021. While certain infrastructure investments will be required to ensure this is possible, we are confident that the major part of these costs will be covered by the loan agreement which is being finalised with the Alexandrovskoye refinery. It is pleasing to see that our confidence in the potential of this asset is matched by the purchaser of the oil produced during the winter 2020 extended test. We are currently working on options to be able to continue the well re entry program at the Ledovoye field and hope to be able to provide an update shortly..

On Licence 61, as our production has stabilised, we anticipate significantly improved economics arising from our recently completed mini refinery which has already produced over 100 tons of good quality fuel as part of the testing programme. We are confident that as well as meeting our own internal fuel requirements we are confident that as well as meeting our own needs, we will be able to sell excess stock thereby generating an important new revenue stream. In addition we are continuing to focus on optimising existing production from improving water floods which has worked so well at the Lineynoye field. We are now looking forward to continuing these field optimisation programs with the current focus on the Arbuzovskoye field.

We believe that the continued and sustained improvement in our operational and financial performance demonstrated during the period will enhance our ability to generate value for our shareholders whether it be through a full or partial sale or continued development of the assets.

Whilst the company faces many challenges, our team has demonstrated considerable creativity, innovation and focus during the period, and continues to generate deeper technical and operational insights which will enable us to undertake future investments with confidence. We continue to work on building a strong platform for a value growth proposition which ultimately benefits our shareholders.

David Golder
Non-Executive Chairman

PetroNeft Resources plc

Interim Condensed Consolidated Income Statement

For the 6 months ended 30 June 2020

		Unaudited		Audited
		6 months ended 30 June 2020	6 months ended 30 June 2019	Year ended 31 December 2019
	Note	US\$	US\$	US\$
Continuing operations				
Revenue	5	1,020,871	830,613	1,443,568
Cost of sales		(828,556)	(699,297)	(1,333,339)
Gross profit		192,315	131,316	110,229
Administrative expenses		(402,749)	(404,759)	(807,507)
Operating loss		(210,434)	(273,443)	(697,278)
Share of joint venture's net loss - WorldAce Investments Limited	10	(3,410,682)	(2,873,286)	(7,510,318)
Share of joint venture's net loss - Russian BD Holdings B.V.	11	(342,869)	(349,384)	(664,455)
Finance revenue	6	1,970,358	2,164,301	4,275,181
Finance costs	7	(215,672)	(138,560)	(369,950)
Loss for the period for continuing operations before taxation		(2,209,479)	(1,470,372)	(4,966,820)
Income tax expense	8	(510,991)	(536,461)	(1,075,634)
Loss for the period attributable to equity holders of the Parent		(2,720,470)	(2,006,833)	(6,042,454)
Loss per share attributable to ordinary equity holders of the Parent				
Basic - US dollar cent		(0.33)	(0.28)	(0.84)
Diluted- US dollar cent		(0.31)	-	(0.77)

Interim Condensed Consolidated Statement of Comprehensive Income

For the 6 months ended 30 June 2020

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2020 US\$	6 months ended 30 June 2019 US\$	Year ended 31 December 2019 US\$
Loss for the period attributable to equity holders of the Parent	(2,720,470)	(2,006,833)	(6,042,454)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Currency translation adjustments - subsidiaries	(59,032)	(63,916)	(77,816)
Share of joint ventures' other comprehensive income - foreign exchange translation differences	(5,401,254)	4,226,227	4,996,109
Total comprehensive loss for the period attributable to equity holders of the Parent	(8,180,755)	2,155,478	(1,124,161)

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Interim Condensed Consolidated Income Statement

For the 6 months ended 30 June 2020

		<i>Unaudited</i>	<i>Audited</i>
		30 June 2020	31 December 2019
	<i>Note</i>	US\$	US\$
Assets			
Non-current Assets			
Property, plant and equipment	9	12,993	28,843
Equity-accounted investment in joint ventures - WorldAce Investments Limited	10	-	-
Equity-accounted investment in joint ventures - Russian BD Holdings B.V.	11	-	-
Financial assets - loans and receivables	12	31,113,206	37,591,655
		31,126,199	37,620,498
Current Assets			
Inventories	13	26,821	18,965
Trade and other receivables	14	1,405,249	1,136,940
Cash and cash equivalents	15	512,521	345,532
		1,944,591	1,501,437
Total Assets		33,070,790	39,121,935
Equity and Liabilities			
Capital and Reserves			
Called up share capital	16	10,897,003	9,585,965
Share premium account		142,017,084	141,006,709
Share-based payments reserve		6,796,540	6,796,540
Retained loss		(99,766,177)	(97,045,707)
Currency translation reserve		(37,500,367)	(32,040,081)
Other reserves		379,923	379,923
Equity attributable to equity holders of the Parent		22,824,007	28,683,349
Non-current Liabilities			
Deferred tax liability		4,814,770	4,303,779
		4,814,770	4,303,779
Current Liabilities			
Interest-bearing loans and borrowings	17	4,288,584	4,242,849
Trade and other payables	18	1,143,429	1,891,958
		5,432,013	6,134,807
Total Liabilities		10,246,783	10,438,586
Total Equity and Liabilities		33,070,790	39,121,935

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For the 6 months ended 30 June 2020

	Called up share capital US\$	Share premium account US\$	Share- based payment and other reserves US\$	Currency translation reserve US\$	Retained loss US\$	Total US\$
At 1 January 2019	9,429,182	140,912,898	7,132,540	(36,958,374)	(91,003,253)	29,512,993
Loss for the year	-	-	-	-	(6,042,454)	(6,042,454)
Currency translation adjustments - subsidiaries	-	-	-	(77,816)	-	(77,816)
Share of joint ventures' other comprehensive income - foreign exchange translation differences	-	-	-	4,996,109	-	4,996,109
Total Comprehensive Loss for the year	-	-	-	4,918,293	(6,042,454)	(1,124,161)
Convertible debt option	-	-	43,923	-	-	43,923
Total comprehensive loss for the year	156,783	93,811	-	-	-	250,594
At 31 December 2019	9,585,965	141,006,709	7,176,463	(32,040,081)	(97,045,707)	28,683,349
At 1 January 2020	9,585,965	141,006,709	7,176,463	(32,040,081)	(97,045,707)	28,683,349
Loss for the period	-	-	-	-	(2,720,470)	(2,720,470)
Currency translation adjustments - subsidiaries	-	-	-	(59,032)	-	(59,032)
Share of joint ventures' other comprehensive income - foreign exchange translation differences	-	-	-	(5,401,254)	-	(5,401,254)
Total comprehensive loss for the period	-	-	-	(5,460,286)	(2,720,470)	(8,180,755)
New share capital subscribed	1,311,038	1,010,375	-	-	-	2,321,413
At 30 June 2020	10,897,003	142,017,084	7,176,463	(37,500,367)	(99,766,177)	22,824,007

PetroNeft Resources plc

Interim Condensed Consolidated Cash Flow Statement

For the 6 months ended 30 June 2020

		<i>Unaudited</i>		<i>Audited</i>
		6 months ended 30 June 2020 US\$	6 months ended 30 June 2019 US\$	Year ended 31 December 2020 US\$
Operating activities				
Loss before taxation		(2,209,479)	(1,470,372)	(4,966,820)
Adjustment to reconcile loss before tax to net cash flows				
Non-cash				
Depreciation		14,016	11,858	23,884
Share of loss in joint ventures		3,753,731	3,222,670	8,174,773
Foreign Exchange Gains		(18,338)	-	(28,528)
Finance revenue	6	(1,970,358)	(2,164,301)	(4,275,181)
Finance costs	7	215,672	138,560	369,950
Income tax expense		-	-	(7,493)
Working capital adjustments				
(Increase)/decrease in trade and other receivables		(268,309)	(195,657)	(875,067)
(Increase)/decrease in inventories		(7,856)	(6,376)	(11,115)
Increase/(decrease) in trade and other payables		(748,529)	132,755	73,598
Income tax paid		-	(13,847)	-
Net cash flows used in operating activities		(1,239,450)	(344,710)	(1,521,999)
Investing activities				
Purchase of property, plant, and equipment		-	-	(9,720)
Loan facilities advanced to joint venture undertakings		(912,367)	(765,000)	(980,500)
Interest received		113	2,022	2,613
Net cash (used in)/received from investing activities		(912,254)	(762,978)	(987,607)
Financing activities				
Proceeds from the issue of Share Capital		2,321,413	-	250,594
Proceeds from the issue of Convertible debt option		-	-	43,923
Proceeds from loan facilities		-	500,000	1,756,074
Net cash received from financing activities		2,321,413	500,000	2,050,591
Net increase/(decrease) in cash and cash equivalents		169,709	(607,688)	(459,015)
Translation adjustment		(2,720)	251	2,609
Cash and cash equivalents at the beginning of the period		345,532	801,938	801,938
Cash and cash equivalents at the end of the period	15	512,521	194,501	345,532

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2020

1. Corporate Information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2020 were authorised for issue in accordance with a resolution of the Directors on 28 October 2020.

PetroNeft Resources plc ('PetroNeft', 'the Company', or together with its subsidiaries and joint ventures, 'the Group') is a public limited company incorporated in the Republic of Ireland with a company registration number 408101. The Company is listed on the Alternative Investment Market ('AIM') of the London Stock Exchange and the Enterprise Securities Market ('ESM') of the Irish Stock Exchange. The address of the registered office and the business address in Ireland is 20 Holles Street, Dublin 2. The Company is domiciled in the Republic of Ireland.

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

2. Going Concern

In March 2019 PetroNeft agreed an extension of an existing loan facility and an increase by US\$500,000 up to US\$2.5 million with Swedish company Petrogrand AB, a related party. The loan matures on 15 December 2020, and maybe extended for a further year if certain milestones are met. The loan is secured by way of a floating charge on the assets of PetroNeft. The original loan facility was used for general corporate purposes and to finance the drilling programme in 2018. The increase is being used for general corporate purposes. This loan facility has provided time and space for a more long-term financing solution to be put in place. In June 2019, the Company agreed another loan facility with a group of five investors for US\$1.3 million. This loan matures on 31 December 2020, or such later date as may be agreed, and a portion (up to 65% of the principal) may be repaid via conversion to Ordinary shares of the Company at the option of the lenders at a conversion price of US\$0.015477 per share. Three of the five investors are related parties.

In January 2020, the Company completed a successful share issue with both Institutional and other investors. Gross proceeds of US\$2.12 million was raised at £0.015 per share at a premium of approximately 58%. The money raised will primarily be used to fund the 2020 capital investment program and demonstrated significant commitment from directors, supporting 44% of the placing.

The Group has analysed its cash flow requirements through to 30 June 2021 in detail. The cash flows are highly dependent on the successful re-financing of the Petrogrand loan and on future production rates and oil prices achieved in its joint-venture undertaking, WorldAce Investments Limited. Should the Petrogrand loan not be re-financed the Group will need additional funding to continue as a going concern.

The Group has put in place cost saving measures and the Board and management have agreed to reduce and defer significant portions of their remuneration.

In 2018 the Company, in conjunction with its joint venture partners engaged financial advisers to evaluate the disposal of License 61 and/or License 67. While there remains significant uncertainty that any transaction will be completed, the Company has seen interest from a range of well-financed industry players. The result of the C-4 well which was drilled during 2018 has generated additional interest. The Company has signed non-disclosure agreements and opened data rooms in relation to the potential sale or farmout of both Licence 61 and 67. As there are delaying factors, including regulatory factors, which have been adversely impacted by the effects of the Covid 19 pandemic, around transferring licences and in a share for share type transaction, the timeframe to close such a successful transaction could be at least six months following binding agreement between the parties. The Board is confident that one of these options will bring a solution.

The above circumstances represent material uncertainties that may cast significant doubt upon the Group and the Company's ability to continue as a going concern. Nevertheless, after making enquiries, and considering the uncertainties described above, the Directors are confident that the Group and the Company will have adequate

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2020

2. Going Concern (continued)

resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

3. Accounting Policies

3.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2020 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 2019 which are available on the Group's website – www.petroneft.com.

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

3.2 Significant Accounting Policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

4. Segment information

At present the Group has an operating segment, which is oil exploration and production through its joint venture undertakings.

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

5. Revenue

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2020 US\$	6 months ended 30 June 2019 US\$	Year ended 31 December 2019 US\$
Revenue			
Management Services	514,873	316,001	678,161
Construction Services	505,998	514,612	765,407
	<u>1,020,871</u>	<u>830,613</u>	<u>1,443,568</u>

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Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2020

6. Finance revenue	Unaudited		Audited
	6 months ended 30 June 2020 US\$	6 months ended 30 June 2019 US\$	Year ended 31 December 2019 US\$
Bank interest receivable	113	2,022	2,613
Interest receivable on loans to Joint Ventures	1,970,245	2,162,279	4,272,568
	<u>1,970,358</u>	<u>2,164,301</u>	<u>4,275,181</u>
7. Finance costs	Unaudited		Audited
	6 months ended 30 June 2020 US\$	6 months ended 30 June 2019 US\$	Year ended 31 December 2019 US\$
Interest on loans	215,672	138,560	369,950
	<u>215,672</u>	<u>138,560</u>	<u>369,950</u>
8. Income tax	Unaudited		Audited
	6 months ended 30 June 2020 US\$	6 months ended 30 June 2019 US\$	Year ended 31 December 2019 US\$
Current income tax			
Current income tax charge	-	(14,043)	12,523
Total current income tax	<u>-</u>	<u>(14,043)</u>	<u>12,523</u>
Deferred tax			
Relating to origination and reversal of temporary differences	510,991	550,504	1,068,118
Total deferred tax	<u>510,991</u>	<u>550,504</u>	<u>1,068,118</u>
Income tax expense reported in the Consolidated Income Statement	<u>510,991</u>	<u>536,461</u>	<u>1,075,634</u>

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Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2020

9. Property, Plant and Equipment

Group	Plant and machinery US\$
Cost	
At 1 January 2019	839,805
Additions	9,720
Disposals	(213,181)
Translation adjustment	83,857
At 1 January 2020	720,201
Translation adjustment	(73,800)
At 30 June 2020	646,401
Depreciation	
At 1 January 2019	801,509
Charge for the period	23,884
Disposals	(222,541)
Translation adjustment	88,506
At 1 January 2020	691,358
Charge for the period	14,016
Translation adjustment	(71,966)
At 30 June 2020	633,408
Net book values	
At 30 June 2020	12,993
At 31 December 2019	28,843

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

PetroNeft Resources plc has a 50% interest in WorldAce Investments Limited, a jointly controlled entity which holds 100% of LLC Stimul-T, an entity involved in oil and gas exploration and the registered holder of Licence 61. The interest in this joint venture is accounted for using the equity accounting method. WorldAce Investments Limited is incorporated in Cyprus and carries out its activities, through LLC Stimul-T, in Russia.

	Share of net assets US\$
At 1 January 2019	-
Share of net loss of joint venture for the year	(7,510,318)
Translation adjustment	4,513,212
Credited against loans receivable from WorldAce Investments Limited	2,997,106
At 1 January 2020	-
Share of net loss of joint venture for the period	(3,410,862)
Translation adjustment	(4,530,187)
Credited against loans receivable from WorldAce Investments Limited	7,941,049
At 30 June 2020	-

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2020

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

The balance sheet position of WorldAce Investments Limited shows net liabilities of US\$79,850,387 following a loss in the period of US\$6,821,723 together with a negative currency translation adjustment of US\$9,060,374. PetroNeft's 50% share is included above and results in a negative carrying value of US\$35,242,789. Therefore, the share of net assets is reduced to Nil and, in accordance with IAS 28 *Investments in Associates and Joint Ventures*, the amount of US\$35,242,789 is deducted from other assets associated with the joint venture on the Balance Sheet which are the loans receivable from WorldAce Investments (see Note 12).

Additional financial information in respect of the WorldAce Group joint venture entity is disclosed below:

	WorldAce Group		
	Unaudited		Audited
	6 months ended 30 June 2020 US\$	6 months ended 30 June 2019 US\$	Year ended 31 December 2019 US\$
Continuing operations			
Revenue	8,043,072	13,477,670	24,852,620
Cost of sales	(8,986,646)	(13,392,614)	(25,100,495)
Gross profit	(943,574)	85,056	(247,875)
Administrative expenses	(1,552,739)	(1,041,850)	(2,624,057)
Operating loss	(2,496,313)	(956,794)	(2,871,932)
Impairment of exploration and evaluation assets	-	-	(1,382,769)
Write-off of exploration and evaluation assets	-	-	(1,299,887)
Finance revenue	23,633	31,614	57,906
Finance costs	(4,349,043)	(4,821,418)	(9,523,954)
Loss for the period for continuing operations before taxation	(6,821,723)	(5,746,598)	(15,020,636)
Income tax expense	-	-	-
Loss for the period	(6,821,723)	(5,746,598)	(15,020,636)
Loss for the period	(6,821,723)	(5,746,598)	(15,020,636)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Currency translation adjustments	(9,060,374)	7,610,436	9,026,423
Total comprehensive loss for the period	(15,882,097)	1,863,838	(5,994,213)

Finance costs mainly relate to interest on shareholder loans from Oil India International B.V. and PetroNeft.

The currency translation adjustment results from the revaluation of the Russian Rouble during the period. All Russian Rouble carrying values in Stimul-T, the 100% subsidiary of WorldAce are converted to US Dollars at each period end. The resulting gain or loss is recognised through other comprehensive income and transferred to the currency translation reserve. The Russian Rouble weakened against the US Dollar during the period from RUB61.905:US\$1 at 31 December 2019 to RUB69.314:US\$1 at 30 June 2020.

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2020

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

	WorldAce Group	
	<i>Unaudited</i>	<i>Audited</i>
	30 June 2020	31 December 2019
	US\$	US\$
Non-current Assets		
Oil and gas properties	68,730,300	78,147,884
Property, plant, and equipment	312,977	374,632
Exploration and evaluation assets	-	-
Assets under construction	1,548,866	1,468,233
Intangible Assets	1,954,601	2,178,884
	72,546,744	82,169,633
Current Assets		
Inventories	2,004,890	2,390,999
Trade and other receivables	849,637	996,439
Cash and cash equivalents	29,316	30,895
	2,883,843	3,418,333
Total Assets	75,430,587	85,587,966
Non-current Liabilities		
Provisions	(1,735,020)	(1,833,969)
Obligations under finance lease	(108,298)	(172,969)
Interest-bearing loans and borrowings	(144,467,409)	(140,244,130)
	(146,310,727)	(142,251,068)
Current Liabilities		
Interest-bearing loans and borrowings	(2,346,265)	(2,346,265)
Obligations under finance lease	(41,318)	(41,318)
Trade and other payables	(6,582,664)	(4,917,604)
	(8,970,247)	(7,305,187)
Total Liabilities	(155,280,974)	(149,556,255)
Net Liabilities	(79,850,387)	(63,968,289)

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2020

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

PetroNeft Resources plc has a 50% interest in Russian BD Holdings B.V., a jointly controlled entity which holds 100% of LLC Lineynoye, an entity involved in oil and gas exploration and the registered holder of Licence 67. The interest in this joint venture is accounted for using the equity accounting method. Russian BD Holdings B.V. is incorporated in the Netherlands and carries out its activities, through LLC Lineynoye, in Russia.

	Share of net assets US\$
At 1 January 2019	-
Share of net loss of joint venture for the year	(664,455)
Translation adjustment	482,987
Credited against loans receivable from Russian BD Holdings BV	181,558
At 1 January 2020	-
Share of net loss of joint venture for the period	(342,869)
Translation adjustment	(871,067)
Credited against loans receivable from Russian BD Holdings BV	1,213,936
At 30 June 2020	-

The balance sheet position of Russian BD Holdings B.V. shows net liabilities of US\$6,056,239 following a loss in the period of US\$685,738 together with a negative currency translation adjustment of US\$842,030. PetroNeft's 50% share is included above and results in a negative carrying value of US\$1,742,133. Therefore, the share of net assets is reduced to Nil and, in accordance with IAS 28 *Investments in Associates and Joint Ventures*, the amount of US\$3,331,833 is deducted from other assets associated with the joint venture on the Balance Sheet which are the loans receivable from Russian BD Holdings B.V. (Note 12).

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2020

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

Additional financial information in respect of Russian BD Holdings B.V. financial statements is disclosed below:

	Russian BD Holdings B.V.		
	Unaudited		Audited
	6 months ended 30 June 2020 US\$	6 months ended 30 June 2019 US\$	Year ended 31 December 2019 US\$
Revenue	-	-	-
Cost of sales	-	-	-
Gross profit	-	-	-
Administrative expenses	(195,726)	(202,924)	(332,635)
Operating loss	(195,726)	(202,924)	(332,635)
Finance revenue	304	580	1,280
Finance costs	(490,721)	(496,020)	(997,548)
Loss for the period for continuing operations before taxation	(686,143)	(698,364)	(1,328,903)
Taxation	405	406	(7)
Loss for the period	(685,738)	(697,958)	(1,328,910)
Loss for the period	(685,738)	(697,958)	(1,328,910)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Currency translation adjustments	(1,742,133)	842,030	965,794
Total comprehensive loss for the period	(2,427,871)	144,072	(363,116)

Finance costs comprise of interest on shareholder loans from Belgrave Naftogas B.V. and PetroNeft.

	Unaudited	Audited
	30 June 2020 US\$	31 December 2019 US\$
Non-current assets	10,579,945	11,252,892
Current assets	275,232	118,311
Total assets	10,855,277	11,371,203
Non-current liabilities	(16,172,676)	(14,758,627)
Current liabilities	(738,840)	(848,369)
Total liabilities	(16,911,516)	(15,606,996)
Net Liabilities	(6,056,239)	(4,235,793)

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2020

12. Financial assets - loans and receivables

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2020	31 December 2019
	US\$	US\$
Loans to WorldAce Investments Limited	64,684,292	62,963,635
Loss allowance	(3,109,501)	(3,109,501)
Less: share of WorldAce Investments Limited loss (Note 10)	(35,242,789)	(27,301,740)
	26,332,003	32,552,394
Loans to Russian BD Holdings B.V.	8,113,036	7,157,158
Less: share of Russian BD Holdings B.V. loss (Note 11)	(3,331,833)	(2,117,897)
	4,781,203	5,039,261
	31,113,206	37,591,655

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 2021 at the earliest. The loan is set to mature on 31 December 2025. As at 30 June 2020 the loan was fully drawn down. The loan from the Company to Russian BD Holdings is repayable on demand. Interest currently accrues on the loan at LIBOR plus 5.0% per annum.

13. Inventories

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2020	31 December 2019
	US\$	US\$
Materials	26,821	18,965
	26,821	18,965

14. Trade and other receivables

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2020	31 December 2019
	US\$	US\$
Other receivables	17,933	1,781
Receivable from jointly controlled entity	1,322,352	1,005,991
Advances to contractors	318	1,353
Prepayments	64,646	127,815
	1,405,249	1,136,940

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 2020

15. Cash and Cash Equivalents

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2020	31 December 2019
	US\$	US\$
Cash at bank and in hand	<u>512,521</u>	<u>345,532</u>
	<u>512,521</u>	<u>345,532</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.

16. Share Capital - Group and Company

Allotted, called up and fully paid equity	Number of Ordinary Shares	Called up share capital US\$
At 1 January 2019	707,245,906	9,429,182
At 1 January 2020	721,130,500	9,585,965
New share capital subscribed	<u>118,226,241</u>	<u>1,311,038</u>
At 30 June 2020	<u>839,356,741</u>	<u>10,897,003</u>

In January 2020 as part of a fund-raising initiative, a total of 107,755,500 Ordinary Shares were issued. Details were provided to shareholders in a regulatory news announcement on 8 January 2020.

In May 2020, the Company issued 10,571,204 Ordinary Shares in settlement of liabilities to Dennis Francis. Details were provided to shareholders in a regulatory news announcement on 16 May 2020.

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2020

17. Loans and Borrowings

Group and Company	Effective interest rate %	Contractual maturity date	Unaudited 30 June 2020 US\$	Audited 31 December 2019 US\$
Interest-bearing				
<i>Current liabilities</i>				
Petrogrand AB	10.59%	15-Dec-20	2,907,535	2,897,958
Natlata Partner Limited	10.14%	31-Dec-20	591,913	577,347
ADM Consulting	10.16%	31-Dec-20	429,819	417,051
Daria Shaftelskaya	10.13%	31-Dec-20	252,029	246,341
Michael Murphy	10.14%	31-Dec-20	53,644	52,076
David Sturt	10.14%	31-Dec-20	53,644	52,076
Total current liabilities			4,288,584	4,242,849
Total loans and borrowings			4,288,584	4,242,849
 Contractual undiscounted liability				
			4,288,584	4,242,849
 Changes in financial liabilities arising from financing activities				
			Unaudited 30 June 2020 US\$	Audited 31 December 2019 US\$
At 1 January			4,242,849	2,116,825
Cash flows			-	1,799,997
Accrued interest (Note 9)			45,735	369,950
Convertible debt option reserve				(43,923)
At 31 December			4,288,584	4,242,849

Loan facilities.

During 2019, PetroNeft has entered a convertible loan facility of US\$1.3 million with a group of five lenders. The convertible loan, which remains unsecured, matures on 31st December 2020 or on the sale of either Licence 61 or Licence 67. The loan facility will be used for general corporate and ongoing operational purposes and carries an interest rate of USD LIBOR plus 8%. Lenders can elect at any time to convert up to 65% of the outstanding loan to shares at a conversion price of US\$0.01547 (1.547 cent).

In 2018 the Company obtained a US\$2m secured loan facility from Petrogrand AB. The security attaches to any of the assets of PetroNeft Resources plc. An asset being defined as any present or future assets, revenues, and rights of every description. The security is for any obligation for the repayment of monies owed to Petrogrand AB, be it present, or future, actual or contingent. This loan facility was fully drawn down in 2018 and carries an interest rate of US\$ LIBOR plus 9%. In March 2019, the parties agreed a further increase in the facility by US\$500,000 and it was agreed that the maturity date would be extended for one year until 15th December 2020, which can be further extended if PetroNeft on or before 15th December 2020, makes a payment of 20% of the loan balance outstanding at that time.

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2020

18. Trade and other payables

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2020	31 December 2019
	US\$	US\$
Trade payables	228,695	403,835
Trade payables to jointly controlled entity	76,000	113,532
Corporation tax	55,232	55,232
Other taxes and social welfare costs	(22,274)	28,457
Accruals and other payables	805,776	1,290,902
	1,143,429	1,891,958

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.

19. Important Events after the Balance Sheet Date

In early 2020, the emergence of the Covid-19 pandemic required the company to make several adjustments to operating procedures, investment decisions and staff HSE protocols to protect its employees, joint venture partners and contractors. Production continued with a reduced level of essential field staff, home working was instituted where practicable, staff voluntarily took pay cuts and the Group actively worked with its suppliers and service providers in rescheduling payments to retain maximum financial flexibility. When the restrictions were partially lifted, the Group resumed full scale production in May, and in the months of June through August saw encouraging production volume increases. Year on year increases from August to July was 7.8% and July 2020 production versus the same period in 2019 increased by 17%.

On September 21st last it was announced following a successful completion of the C4 extended well test at the Cheremshanskoye field on Licence 67 earlier this year, a non-binding Heads of Terms Agreement has been executed between the owner and operator of Licence 67, LLC Lineynoye (50% owned by PetroNeft Resources) and AOR for a financing arrangement ("Facility") to finance the cost of constructing an all-season road to connect the C4 well with the local year-round road network up to a maximum of \$1 million. The financing will be repaid in tranches with produced oil at market rates. The Heads of Terms agreement commits parties to negotiate and enter into a binding Agreement within a 30-day period. The facility will cover the entire anticipated cost of road construction.

AOR is a company located at Alexandrovskoye town in the north-western part of the Tomsk region located 230km from the Cheremshanskoye oil field. In 2020 AOR purchased all the oil produced from the C4 well during the recent extended well test at well head at competitive market rates.

20. Board approval

This announcement was approved by the Board of Directors of PetroNeft Resources plc on 28 October 2020.