**PetroNeft Resources plc**

**Unaudited interim condensed consolidated financial statements**

*for the 6 months ended 30 June 2019*

**PetroNeft Resources plc**

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***Forward Looking Statements***

This report contains forward-looking statements. These statements relate to the Group's future prospects, developments and business strategies. Forward-looking statements are identified by their use of terms and phrases such as 'believe', 'could', 'envisage', 'potential', 'estimate', 'expect', 'may', 'will' or the negative of those, variations or comparable expressions, including references to assumptions.

The forward-looking statements in this report are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements. These forward-looking statements speak only as at the date of these financial statements.

# PetroNeft Resources plc

## Group Information

| | |
|---|---|
| **Directors** [1] | David Golder (U.S. citizen)<br>*(Non-Executive Chairman)*<br>David Sturt (British citizen)<br>*(Chief Executive Officer)*<br>Thomas Hickey (Irish citizen)<br>*(Non-Executive Director)*<br>Maxim Korobov (Russian citizen)<br>*(Non-Executive Director)*<br>Anthony Sacca (Australian citizen)<br>*(Non-Executive Director)* |
| **Registered Office and Business Address** | 20 Holles Street<br>Dublin 2<br>Ireland |
| **Secretary** | Karl Johnson |
| **Auditor** | **Deloitte Ireland LLP**<br>Chartered Accountants<br>Earlsfort Terrace<br>Dublin 2<br>Ireland |
| **Nominated Adviser, Euronext Growth Market Adviser, and Broker** | **Davy**<br>49 Dawson Street<br>Dublin 2<br>Ireland |

[1] *Irish citizens unless otherwise stated*

# PetroNeft Resources plc

## Group Information *(continued)*

| | | |
|---|---|---|
| **Principal Bankers** | **KBC Bank Ireland**<br>Sandwith Street<br>Dublin 2<br>Ireland | **AIB Bank**<br>1 Lower Baggot Street<br>Dublin 2<br>Ireland |
| **Solicitors** | **Byrne Wallace**<br>88 Harcourt Street<br>Dublin 2<br>Ireland | |
| **Registered Number** | 408101 | |
| **Registrar** | **Computershare**<br>Heron House<br>Corrig Road<br>Sandyford Industrial Estate<br>Dublin 18<br>Ireland | |

# PetroNeft Resources plc

## Chairman's Statement

**Dear Shareholder,**

I am pleased to report on the activities of the Group for the six months to 30th June 2019 and at the same time provide an update on our plans for the future. The first six months of the year have been a busy time for the company with the following achievements:

- Achieved approval from GKZ (Russian State Reserves Board) for 19.26Mbbls of C1 + C2 reserves as a result of the drilling of the C-4 well on the Cheremshanskoye field in 2018. This is a key milestone as it enables the company to start looking at development options for the field.

- Upgraded the technical/operational function of the company bringing in people from the region who have experience with other operators successfully developing similar assets.

- Rigorous data collection across our producing assets; this has involved re-interpreting all seismic data, collecting pressure and injectivity measurements at key wells. The company is using this improved understanding to plan a production optimisation program to start this coming winter.

- Successfully re-negotiated the terms of the Petrogrand loan extending the repayment term by almost a year and increasing the facility to $2.5M.

- Succeeded in strengthening the company's balance sheet by placing $1.3M in a convertible loan with a combination of new and existing investors.

- Focus on cost optimisation; we have closed the Houston office, downsized the Dublin office, sold off peripheral assets and reduced staff numbers in the Tomsk office.

- Appointment of David Sturt as the new CEO from 24th March.

**Achieving value for Shareholders**

The Company in conjunction with its 50/50 joint venture partners (Oil India on Licence 61 and Arawak Energy on Licence 67), engaged a financial advisor in 2018 with the aim being to test the market for the possible disposal of either or both of our assets. Whilst we remain encouraged by the interest we are seeing, however we recognize that the process is taking time.

As this process has continued, we have been working on a twin track strategy to see how we may improve both production and reserves at low cost to increase shareholder value. These approaches are mutually supportive as improvement in production and or reserves, is likely to increase attractiveness and interest in our assets in any sale process.

Throughout this process the company has and will continue to keep a tight control on costs to ensure that we are using our limited resources in the optimum way.

As part of our cost cutting measures we have also had to take the difficult decision of ending our relationship with our joint broker Canaccord Genuity Limited. We have worked together for many years and they have always provided a valuable service, particularly within the London market, however in the short term we have to deploy our capital into operations.

**Finance**

As detailed in the 2018 Annual Report the Company's finances continue to require close attention. The US$2m Petrogrand loan agreed in January 2018 matured on 31 December 2018. The company was able to agree an extension to 15th December 2019 and simultaneously negotiate an increase in the facility to $2.5m.. This loan was fully drawn at 30th June.

In addition to the Petrogrand facility, the company successfully placed a $1.3M convertible loan facility with a small group of existing and new investors. The terms of the facility are an interest rate of 8% above LIBOR with repayment due by 31st December 2020. Up to 65% of the loan amount can be converted into shares in the company at an equivalent price of US$0.01547 (1.547 cents). The borrower can elect to convert at any time up to 31st December 2020 or on the sale of one or both licences.

## Chairman's Statement *(continued)*

**Outlook**

Since his appointment in March, David Sturt has brought a new rigour and energy to the process of reviewing and challenging all elements of our strategies, successfully raised capital to stabilise the financial outlook of the business and set cost effective and value-orientated plans in place for each of our key assets for next winter and beyond. The CEO statement which follows will provide in-depth overview of his initiatives and their early results.

Whilst the company faces many challenges, we are working on building a strong platform for growth in value to shareholders.

David Golder
Non-Executive Chairman

## PetroNeft Resources plc

### Chief Executive Officers Report

To support our twin track strategy, we have conducted a thorough technical/operational review of our assets with the aim of identifying potential areas for further development, we are pleased to provide the following update:

- Production from licence 61 is currently averaging 1,550 bopd and is relatively stable taking into account natural decline combined with an ongoing data collection program required for licence compliance and to improve our understanding of the fields.

- Extensive review of our producing fields has highlighted the opportunity to optimize water injection and potentially reduce produced water from key wells. This review has so far included seismic re-interpretation, measuring water injectivity on our water injection wells, carrying out tracer surveys, and down hole pressure readings. Based on the results of this work, a well intervention program is being developed.

- Potential development opportunities have been identified at the Lineynoye field through a horizontal development drilling program targeting the western part of the field where production since 2012 has remained stable.

- Opportunity to optimize development drilling on the Sibkrayevskoye field by firstly utilizing 3D seismic to target future locations for horizontal wells.

- De risk the highly attractive Emtorskaya prospect (Ryder Scott estimate 75 mmbls 2P reserves) through combination of well re-entry and 3D seismic programs.

- Activity on licence 67 has been quiet since the successful drilling of the C-4 well in 2018. We are now looking at ways to initiate production on this licence through a well reentry program on both the Cheremshanskoye and Ledovoye fields.

- Reducing costs across the company is of major importance. In the field we continue to look for ways to further optimize costs and are currently working on projects such as construction of a mini refinery to significantly reduce the need to purchase fuel for power generation.

**Production and Sales for the period**

Gross production at Licence 61 in the six months to 30 June 2019 averaged 1,755 bopd, which represents a smaller than anticipated production decline from the same period in 2018 (2,135 bopd). We sold 315,358 (gross) barrels of oil in the six months to 30 June 2019 (H1 2018: 382,656 bbls) and achieved an average Russian Domestic oil price of $42.50 (H1 2018: $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** | **H1-2019** | **Q2-2019** | **Q1-2019** | **H1-2018** | **FY-2018** |
|---|---|---|---|---|---|
| Total gross production | 317,620 | 147,186 | 170,434 | 386,482 | 713,603 |
| Gross bopd | 1,755 | 1,617 | 1,894 | 2,135 | 1,955 |
| **PetroNeft 50% share bopd** | **877** | **809** | **947** | **1,068** | **978** |

## PetroNeft Resources plc

## Chief Executive Officers Report *(continued)*

### Review of PetroNeft loss for the period

The loss for the period was US$2.0m (H1 2018: US$1.2m). The loss includes PetroNeft's share of the losses on the joint ventures relating to Licences 61 and 67 of US$2.9m and US$0.35m respectively (H1 2018: US$1.9m and US$0.2m). The loss relating to the Licence 61 joint venture is discussed in more detail below. Finance revenue of US$2.2m (H1 2018: US$2.0m) relates primarily to interest receivable on loans to the joint ventures.

| **PetroNeft Key Financial Metrics** | ***Unaudited*** | | ***Audited*** |
|---|---|---|---|
| | **6 months ended 30 June 2019** | **6 months ended 30 June 2018** | **Year ended 31 December 2018** |
| | **US$** | **US$** | **US$** |
| ***Continuing operations*** | | | |
| **Revenue** | 831 | 1,093 | 1,767 |
| Cost of sales | (383) | (881) | (1,560) |
| **Gross profit** | **448** | **212** | **207** |
| Administrative expenses | (775) | (612) | (1,390) |
| Exchange gain on intra-Group loans | 55 | (57) | (123) |
| **Operating loss** | **(272)** | **(457)** | **(1,306)** |
| Share of joint venture's net loss – WorldAce Investments Limited | (2,873) | (1,920) | (6,340) |
| Share of joint venture's net loss – Russian BD Holdings B.V. | (349) | (231) | (509) |
| Finance revenue | 2,164 | 1,973 | 967 |
| Finance costs | (139) | (48) | (117) |
| **Loss for the period for continuing operations before taxation** | **(1,469)** | **(683)** | **(7,305)** |
| Income tax expense | (536) | (510) | (257) |
| **Loss for the period** | **(2,005)** | **(1,193)** | **(7,562)** |

## Chief Executive Officers 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:

| | *Unaudited* | | *Audited* |
|---|---|---|---|
| | WorldAce Group | WorldAce Group | WorldAce Group |
| | 6 months ended 30 June 2019 | 6 months ended 30 June 2018 | Year ended 31 December 2018 |
| | US$'000 | US$'000 | US$'000 |
| ***Continuing operations*** | | | |
| **Revenue** | 13,478 | 17,090 | 31,370 |
| Cost of sales | (13,393) | (15,078) | (27,773) |
| **Gross profit** | **85** | **2,012** | **3,597** |
| Administrative expenses | (1,042) | (1,432) | (3,122) |
| **Operating loss** | **(957)** | **580** | **475** |
| Loss on disposal of oil and gas properties | - | - | (4,096) |
| Write-off of exploration and evaluation assets | - | - | (5) |
| Finance revenue | 32 | 48 | 129 |
| Finance costs | (4,821) | (4,467) | (9,183) |
| **Loss for the period for continuing operations before taxation** | **(5,746)** | **(3,839)** | **(12,680)** |
| Income tax | - | - | - |
| **Loss for the period for continuing operations before taxation** | **(5,746)** | **(3,839)** | **(12,680)** |
| **PetroNeft's 50% share** | **(2,873)** | **(1,920)** | **(6,340)** |

| **WorldAce Group Analysis** | *Unaudited* | | *Audited* |
|---|---|---|---|
| | 6 months ended 30 June 2019 | 6 months ended 30 June 2018 | Year ended 31 December 2018 |
| | US$'000 | US$'000 | US$'000 |
| **Revenue** | | | |
| Oil sales | 13,402 | 16,987 | 31,182 |
| Other sales | 76 | 103 | 188 |
| **Total revenue** | **13,478** | **17,090** | **31,370** |
| **PetroNeft's 50% share** | **6,739** | **8,545** | **15,685** |
| | | | |
| **Cost of Sales** | | | |
| Mineral Extraction Tax | 8,247 | 9,491 | 17,775 |
| Pipeline tariff | 1,353 | 1,602 | 3,020 |
| Staff costs | 1,020 | 1,014 | 1,805 |
| Depreciation and amortisation | 805 | 1,451 | 2,457 |
| Other cost of sales | 1,968 | 1,520 | 2,716 |
| **Total cost of sales** | **13,393** | **15,078** | **27,773** |
| **PetroNeft's 50% share** | **6,697** | **7,539** | **13,887** |

## Chief Executive Officers Report *(continued)*

The detailed Income Statement and Balance Sheet of WorldAce Investments Limited is disclosed at note 10 to these condensed financial statements. Lower production and oil prices in H1 2019 have weakened the margin in 2019 as compared to the same period last year. This led to an operating loss in the L-61 joint venture of US$957k compared to an operating profit in the same period last year of US$580k.

David Sturt
Chief Executive Officer

# PetroNeft Resources plc

## Interim Condensed Consolidated Income Statement

*For the 6 months ended 30 June 2019*

| *Continuing operations* | *Note* | ***Unaudited*** 6 months ended 30 June 2019 US$ | 6 months ended 30 June 2018 US$ | ***Audited*** Year ended 31 December 2018 US$ |
|---|---|---|---|---|
| **Revenue** | *5* | 830,613 | 1,092,673 | 1,767,074 |
| Cost of sales | | (383,296) | (880,771) | 1,559,982 |
| **Gross profit** | | **447,317** | **211,902** | **207,092** |
| Administrative expenses | | (775,302) | (612,369) | 1,389,582 |
| Exchange gain/(loss) on intra-Group loans | | 54,542 | (56,726) | 123,235 |
| **Operating loss** | | **(273,443)** | **(457,193)** | **(1,305,725)** |
| Share of joint venture's net loss - WorldAce Investments Limited | *10* | (2,873,286) | (1,919,878) | (6,339,613) |
| Share of joint venture's net loss - Russian BD Holdings B.V. | *11* | (349,384) | (230,178) | (508,757) |
| Finance revenue | *6* | 2,164,301 | 1,972,866 | 966,039 |
| Finance costs | *7* | (138,560) | (48,256) | (116,825) |
| **Loss for the period for continuing operations before taxation** | | **(1,470,372)** | **(682,639)** | **(7,304,881)** |
| Income tax expense | | (536,461) | (510,381) | (256,881) |
| **Loss for the period attributable to equity holders of the Parent** | | **(2,006,833)** | **(1,193,020)** | **(7,561,762)** |
| **Loss per share attributable to ordinary equity holders of the Parent** | | | | |
| Basic and diluted - *US dollar cent* | | **(0.28)** | **(0.17)** | **(1.07)** |

## Interim Condensed Consolidated Statement of Comprehensive Income

*For the 6 months ended 30 June 2019*

| | ***Unaudited*** 6 months ended 30 June 2019 US$ | 6 months ended 30 June 2018 US$ | ***Audited*** Year ended 31 December 2018 US$ |
|---|---|---|---|
| **Loss for the period attributable to equity holders of the Parent** | **(2,006,833)** | **(1,193,020)** | **(7,561,762)** |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | |
| Currency translation adjustments - subsidiaries | (63,916) | 46,256 | 102,440 |
| Share of joint ventures' other comprehensive income - foreign exchange translation differences | 4,226,227 | (4,030,342) | (8,456,256) |
| **Total comprehensive loss for the period attributable to equity holders of the Parent** | **2,155,478** | **(5,177,106)** | **(15,915,578)** |

# PetroNeft Resources plc

## Interim Condensed Consolidated Balance Sheet
*As at 30 June 2019*

| | Note | *Unaudited* 30 June 2019 US$ | *Audited* 31 December 2018 US$ |
|---|---|---|---|
| **Assets** | | | |
| **Non-current Assets** | | | |
| Property, plant and equipment | *9* | 31,242 | 38,296 |
| 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* | 39,170,077 | 35,525,743 |
| | | **39,201,319** | **35,564,039** |
| **Current Assets** | | | |
| Inventories | *13* | 12,924 | 6,547 |
| Trade and other receivables | *14* | 721,352 | 249,280 |
| Cash and cash equivalents | *15* | 194,501 | 801,938 |
| | | **928,777** | **1,057,765** |
| **Total Assets** | | **40,130,096** | **36,621,804** |
| **Equity and Liabilities** | | | |
| **Capital and Reserves** | | | |
| Called up share capital | *16* | 9,585,965 | 9,429,182 |
| Share premium account | | 141,006,709 | 140,912,898 |
| Share-based payments reserve | | 6,796,540 | 6,796,540 |
| Retained loss | | (93,010,086) | (91,003,253) |
| Currency translation reserve | | (32,796,063) | (36,958,374) |
| Other reserves | | 336,000 | 336,000 |
| Equity attributable to equity holders of the Parent | | **31,919,065** | **29,512,993** |
| **Non-current Liabilities** | | | |
| Deferred tax liability | | 3,769,707 | 3,219,203 |
| | | **3,769,707** | **3,219,203** |
| **Current Liabilities** | | | |
| Interest-bearing loans and borrowings | *17* | 2,755,384 | 2,116,825 |
| Trade and other payables | *18* | 1,685,940 | 1,772,783 |
| | | **4,441,324** | **3,889,608** |
| **Total Liabilities** | | **8,211,031** | **7,108,811** |
| **Total Equity and Liabilities** | | **40,130,096** | **36,621,804** |

## PetroNeft Resources plc

### Interim Condensed Consolidated Statement of Changes in Equity

*For the 6 months ended 30 June 2019*

| | 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 2018** | **9,429,182** | **140,912,898** | **7,132,540** | **(28,604,558)** | **(83,441,491)** | **45,428,571** |
| Loss for the year | - | - | - | - | (7,561,762) | (7,561,762) |
| Currency translation adjustments - subsidiaries | - | - | - | 102,440 | - | 102,440 |
| Share of joint ventures' other comprehensive income - foreign exchange translation differences | - | - | - | (8,456,256) | - | (8,456,256) |
| Total comprehensive profit for the year | - | - | - | (8,353,816) | (7,561,762) | (15,915,578) |
| **At 31 December 2018** | **9,429,182** | **140,912,898** | **7,132,540** | **(36,958,374)** | **(91,003,253)** | **29,512,993** |
| | | | | | | |
| **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 period | - | - | - | - | (2,006,833) | (2,006,833) |
| Currency translation adjustments - subsidiaries | - | - | - | (63,916) | - | (63,916) |
| Share of joint ventures' other comprehensive income - foreign exchange translation differences | - | - | - | 4,226,227 | - | 4,226,227 |
| **Total comprehensive loss for the period** | - | - | - | 4,153,370 | (2,006,833) | 2,154,478 |
| New share capital subscribed | 156,783 | 93,811 | | | | 250,594 |
| **At 30 June 2019** | **9,585,965** | **141,006,709** | **7,132,540** | **(32,796,063)** | **(93,010,086)** | **31,919,065** |

## PetroNeft Resources plc

### Interim Condensed Consolidated Cash Flow Statement
*For the 6 months ended 30 June 2019*

| | | *Unaudited* | | *Audited* |
|---|---|---|---|---|
| | | 6 months ended 30 June 2019 | 6 months ended 30 June 2018 | Year ended 31 December 2017 |
| | | US$ | US$ | US$ |
| **Operating activities** | | | | |
| Loss before taxation | | **(1,470,372)** | **(682,639)** | **(7,304,881)** |
| **Adjustment to reconcile loss before tax to net cash flows** | | | | |
| ***Non-cash*** | | | | |
| Depreciation | | 11,858 | 25,745 | 38,936 |
| Share of loss in joint ventures | | 3,222,670 | 2,150,056 | 6,848,370 |
| Finance revenue | *6* | (2,164,301) | (1,972,866) | (966,039) |
| Finance costs | *7* | 138,560 | 48,256 | 116,825 |
| ***Working capital adjustments*** | | | | |
| (Increase)/decrease in trade and other receivables | | (195,657) | 103,454 | 276,593 |
| (Increase)/decrease in inventories | | (6,376) | (78,204) | 12,960 |
| Increase/(decrease) in trade and other payables | | 132,755 | (140,482) | 192,955 |
| Income tax paid | | (13,847) | (29,953) | (30,034) |
| **Net cash flows used in operating activities** | | **(344,710)** | **(576,633)** | **(814,315)** |
| **Investing activities** | | | | |
| Purchase of property, plant and equipment | | - | | |
| Loan facilities advanced to joint venture undertakings | | (765,000) | (392,000) | (392,000) |
| Interest received | | 2,022 | 685 | 1,481 |
| **Net cash (used in)/received from investing activities** | | **(762,978)** | **(391,315)** | **(390,519)** |
| **Financing activities** | | | | |
| Proceeds from loan facilities | | 500,000 | **1,000,000** | **2,000,000** |
| **Net cash received from financing activities** | | **500,000** | **1,000,000** | **2,000,000** |
| Net increase/(decrease) in cash and cash equivalents | | **(607,688)** | **32,052** | **795,166** |
| Translation adjustment | | 251 | (1,063) | (2,617) |
| Cash and cash equivalents at the beginning of the period | | 801,938 | 9,389 | 9,389 |
| **Cash and cash equivalents at the end of the period** | *15* | **194,501** | **40,378** | **801,938** |

## Notes to the Interim Condensed Consolidated Financial Statements

*For the 6 months ended 30 June 2019*

### 1. Corporate Information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2019 were authorised for issue in accordance with a resolution of the Directors on 27 September 2019.

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

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

### 2. Going Concern

As described in the 2018 Annual Report PetroNeft agreed a US$2 million loan facility with Swedish Company Petrogrand AB. The loan was initially repayable on 31 December 2018. The Company successfully managed to negotiate an extension to the loan term to 15th December 2019 and at the same time the facility was increased to $2.5M. This money has been used to finance ongoing operations including the drilling of the C4 well. The successful C-4 well has broadened the options available to the Company in this regard.

The Group has analysed its cash flow requirements through to 31 December 2019 in detail. The cash flow includes estimates for a number of key variables including, the timing of cash flows of expenditure and management of working capital, including significant deferral and reduction in remuneration of Directors and key management which has been in place since October 2017. The Directors believe that the Group's cash flow forecasts represent the best estimate of the actual cash flows over the forecast period at the date of approval of the financial statements. The cash flow is stress tested to assess the adverse effect arising from reasonable changes in circumstance. The cash flow projections for the period to 31 December 2019 indicate that, provided the Petrogrand loan is re-financed or extended before the maturity date and the deferral and reduction of remuneration of Directors and key management continues the Company will have sufficient cash resources to meet its obligations as they fall due.

The Company's obligation to amend, extend or otherwise re-finance the Petrogrand loan prior to the maturity date on 15th December 2019 represents a material uncertainty that may cast significant doubt upon the Group and the Company's ability to continue as a going concern. Nevertheless, after making enquiries, and considering the uncertainty described above, the Directors are confident that the Group and the Company will have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing these accounts.

Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group or Company was unable to continue as a going concern.

### 3. Accounting Policies

#### 3.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2019 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 2018 which are available on the Group's website – www.petroneft.com.

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

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

*For the 6 months ended 30 June 2019*

### 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 2018.

### 4. Segment information

At present the Group has one reportable operating segment, which is oil exploration and production through its joint venture undertakings. As a result, there are no further disclosures required in respect of the Group's reporting segment.

The risk and returns of the Group's operations are primarily determined by the nature of the activities that the Group engages in, rather than the geographical location of these operations. This is reflected by the Group's organisational structure and the Group's internal financial reporting systems.

Management monitors and evaluates the operating results for the purpose of making decisions consistently with how it determines operating profit or loss in the consolidated financial statements.

***Geographical segments***

Although the joint venture undertakings WorldAce Investments Limited and Russian BD Holdings B.V. are domiciled in Cyprus and the Netherlands, the underlying businesses and assets are in Russia. Substantially all of the Group's sales and capital expenditures are in Russia.

### 5. Revenue

| | *Unaudited* | | *Audited* |
|---|---|---|---|
| | **6 months ended 30 June 2019** | **6 months ended 30 June 2018** | **Year ended 31 December 2018** |
| | **US$** | **US$** | **US$** |
| **Revenue** | | | |
| Management Services | 316,001 | 431,619 | 846,860 |
| Construction Services | 514,612 | 661,054 | 920,214 |
| | **830,613** | **1,092,673** | **1,767,074** |

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

*For the 6 months ended 30 June 2019*

### 6. Finance revenue

| | *Unaudited* | | *Audited* |
|---|---|---|---|
| | **6 months ended 30 June 2019** | **6 months ended 30 June 2018** | **Year ended 31 December 2018** |
| | **US$** | **US$** | **US$** |
| Bank interest receivable | 2,022 | 685 | 1,481 |
| Interest receivable on loans to Joint Ventures | 2,162,279 | 1,972,181 | 964,558 |
| | **2,164,301** | **1,972,866** | **966,039** |

### 7. Finance costs

| | *Unaudited* | | *Audited* |
|---|---|---|---|
| | **6 months ended 30 June 2019** | **6 months ended 30 June 2018** | **Year ended 31 December 2018** |
| | **US$** | **US$** | **US$** |
| Interest on loans | 138,560 | 48,256 | 116,825 |
| | **138,560** | **48,256** | 116,825 |

### 8. Income tax

| | *Unaudited* | | *Audited* |
|---|---|---|---|
| | **6 months ended 30 June 2019** | **6 months ended 30 June 2018** | **Year ended 31 December 2018** |
| | **US$** | **US$** | **US$** |
| **Current income tax** | | | |
| Current income tax charge | (14,043) | 15,425 | 12,523 |
| **Total current income tax** | **(14,043)** | **15,425** | **12,523** |
| **Deferred tax** | | | |
| Relating to origination and reversal of temporary differences | 550,504 | 494,956 | 244,358 |
| **Total deferred tax** | **550,504** | **494,956** | **244,358** |
| Income tax expense reported in the Consolidated Income Statement | **536,461** | **510,381** | **256,881** |

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

*For the 6 months ended 30 June 2019*

### 9. Property, Plant and Equipment

| | Plant and machinery US$ |
|---|---|
| ***Cost*** | |
| At 1 January 2018 | 992,928 |
| Disposals | (324) |
| Translation adjustment | (152,799) |
| **At 1 January 2019** | **839,805** |
| **Additions** | - |
| **Translation adjustment** | 77,951 |
| **At 30 June 2019** | **917,756** |
| | |
| ***Depreciation*** | |
| At 1 January 2018 | 904,726 |
| Charge for the year | 38,936 |
| Disposals | (324) |
| Translation adjustment | (141,829) |
| **At 1 January 2019** | **801,509** |
| **Charge for the year** | 11,858 |
| **Translation adjustment** | 73,147 |
| **At 30 June 2019** | **886,514** |
| | |
| ***Net book values*** | |
| **At 30 June 2019** | **31,242** |
| At 31 December 2018 | 38,296 |

### 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 2018 | - |
| Elimination of unrealised profit on intra-Group transactions | (1,174) |
| Share of net loss of joint venture for the year | (6,339,613) |
| Translation adjustment | (7,760,793) |
| Credited against loans receivable from WorldAce Investments Limited | 14,101,580 |
| **At 1 January 2019** | - |
| **Share of net loss of joint venture for the period** | **(2,873,286)** |
| **Translation adjustment** | **3,805,212** |
| **Debited against loans receivable from WorldAce Investments Limited** | **(931,926)** |
| **At 30 June 2019** | - |

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

*For the 6 months ended 30 June 2019*

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

The balance sheet position of WorldAce Investments Limited shows net liabilities of US$56,110,244 following a loss in the period of US$5,746,601 together with a positive currency translation adjustment of US$7,610,436. PetroNeft's 50% share is included above and results in a negative carrying value of US$23,372,709. 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$23,372,709 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 PetroNeft's 50% interest in the equity-accounted joint venture entity is disclosed below:***

| | 50% Share of WorldAce Group | | |
|---|---|---|---|
| | *Unaudited* | | *Audited* |
| | 6 months ended 30 June 2019 US$ | 6 months ended 30 June 2018 US$ | Year ended 31 December 2018 US$ |
| *Continuing operations* | | | |
| **Revenue** | 6,738,835 | 8,545,032 | 15,684,984 |
| Cost of sales | (6,696,307) | (7,539,017) | (13,886,409) |
| **Gross profit** | **42,528** | **1,006,015** | **1,798,575** |
| Administrative expenses | (520,925) | (716,069) | (1,560,913) |
| **Operating loss** | **(478,397)** | **289,946** | **237,662** |
| Loss on disposal of oil and gas properties | - | - | (2,048,038) |
| Write-off of exploration and evaluation assets | - | - | (2,346) |
| Finance revenue | 15,807 | 23,921 | 64,712 |
| Finance costs | (2,410,709) | (2,233,745) | (4,591,603) |
| **Loss for the period for continuing operations before taxation** | **(2,873,299)** | **(1,919,878)** | **(6,339,613)** |
| Income tax expense | - | - | - |
| **Loss for the period** | **(2,873,299)** | **(1,919,878)** | **(6,339,613)** |
| | | | |
| **Loss for the period** | (2,873,299) | (1,919,878) | (6,339,613) |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | |
| Currency translation adjustments | 3,805,218 | (3,706,547) | (7,760,793) |
| **Total comprehensive loss for the period** | **931,919** | **(5,626,425)** | **(14,100,406)** |

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 strengthened against the US Dollar during the period from RUB69.5:US$1 at 31 December 2018 to RUB63.1:US$1 at 30 June 2019.

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

*For the 6 months ended 30 June 2019*

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

| | 50% Share of WorldAce Group | |
|---|---|---|
| | *Unaudited* | *Audited* |
| | **30 June 2019** | **31 December 2018** |
| | **US$** | **US$** |
| **Non-current Assets** | | |
| Oil and gas properties | 32,447,658 | 29,786,687 |
| Property, plant and equipment | 108,879 | 128,111 |
| Exploration and evaluation assets | 8,605,042 | 7,804,586 |
| Assets under construction | 627,739 | 562,307 |
| | **41,789,318** | **38,281,691** |
| **Current Assets** | | |
| Inventories | 1,505,594 | 848,776 |
| Trade and other receivables | 511,791 | 380,156 |
| Cash and cash equivalents | 26,329 | 225,846 |
| | **2,043,714** | **1,454,778** |
| **Total Assets** | **43,833,032** | **39,736,469** |
| **Non-current Liabilities** | | |
| Provisions | (681,592) | (573,540) |
| Interest-bearing loans and borrowings | (67,978,353) | (65,682,097) |
| | **(68,659,945)** | **(66,255,637)** |
| **Current Liabilities** | | |
| Interest-bearing loans and borrowings | (1,041,048) | (974,793) |
| Trade and other payables | (2,187,161) | (1,493,077) |
| | **(3,228,209)** | **(2,467,870)** |
| **Total Liabilities** | **(71,888,154)** | **(68,723,507)** |
| **Net Liabilities** | **(28,055,122)** | **(28,987,038)** |

Interest-bearing loans and borrowings are shareholder loans from Oil India International B.V. and PetroNeft.

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

*For the 6 months ended 30 June 2019*

### 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 2018 | - |
| | (12,117) |
| Share of net loss of joint venture for the year | (508,757) |
| Translation adjustment | (695,463) |
| Credited against loans receivable from Russian BD Holdings BV | 1,216,337 |
| **At 1 January 2019** | **-** |
| **Share of net loss of joint venture for the period** | **(349,384)** |
| **Translation adjustment** | **421,015** |
| **Debited against loans receivable from Russian BD Holdings BV** | **(71,631)** |
| **At 30 June 2019** | **-** |

The balance sheet position of Russian BD Holdings B.V. shows net liabilities of US$3,711,198 following a loss in the period of US$697,960 together with a positive currency translation adjustment of US$842,030. PetroNeft's 50% share is included above and results in a negative carrying value of US$1,864,711. Therefore, the share of net assets is reduced to Nil and, in accordance with IAS 28 *Investments in Associates and Joint Ventures*, the amount of US$1,864,711 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).

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

*For the 6 months ended 30 June 2019*

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

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

| | 50% Share of Russian BD Holdings B.V. | | |
|---|---|---|---|
| | *Unaudited* | | *Audited* |
| | **6 months ended 30 June 2019 US$** | **6 months ended 30 June 2018 US$** | **Year ended 31 December 2018 US$** |
| Revenue | - | - | - |
| Cost of sales | - | - | - |
| **Gross profit** | **-** | **-** | **-** |
| Administrative expenses | (101,462) | (42,993) | (104,256) |
| **Operating loss** | **(101,462)** | **(42,993)** | **(104,256)** |
| Finance revenue | 290 | 360 | 520 |
| Finance costs | (248,010) | (187,545) | (405,021) |
| **Loss for the period for continuing operations before taxation** | **(349,182)** | **(230,178)** | **(508,757)** |
| Taxation | 203 | - | - |
| **Loss for the period** | **(348,979)** | **(230,178)** | **(508,757)** |
| **Loss for the period** | **(348,979)** | **(230,178)** | **(508,757)** |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | |
| Currency translation adjustments | 421,015 | 109,246 | (695,463) |
| **Total comprehensive loss for the period** | **72,036** | **(120,932)** | **(1,204,220)** |

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

| | *Unaudited* | *Audited* |
|---|---|---|
| | **30 June 2019 US$** | **31 December 2018 US$** |
| Non-current assets | 5,506,962 | 4,993,522 |
| Current assets | 65,450 | 238,093 |
| **Total assets** | **5,572,412** | **5,231,615** |
| Non-current liabilities | (6,885,117) | (6,393,622) |
| Current liabilities | (542,894) | (762,216) |
| **Total liabilities** | **(7,428,011)** | **(7,155,838)** |
| **Net Liabilities** | **(1,855,599)** | **(1,924,223)** |

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

*For the 6 months ended 30 June 2019*

### 12. Financial assets - loans and receivables

| | *Unaudited* | *Audited* |
|---|---|---|
| | **30 June 2019** | **31 December 2018** |
| | **US$** | **US$** |
| Loans to WorldAce Investments Limited | 61,101,145 | 59,161,041 |
| Loss allowance | (3,109,501) | (3,109,501) |
| Less: share of WorldAce Investments Limited loss (Note 10) | (23,372,709) | (24,304,633) |
| | **34,618,935** | **31,746,907** |
| Loans to Russian BD Holdings B.V. | 6,418,862 | 5,715,176 |
| Less: share of Russian BD Holdings B.V. loss (Note 11) | (1,864,711) | (1,936,340) |
| | **4,554,151** | **3,778,836** |
| | **39,173,086** | **35,525,743** |

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 2020 at the earliest. The loan is set to mature on 31 December 2025. As at 30 June 2019 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

| | *Unaudited* | *Audited* |
|---|---|---|
| | **30 June 2019** | **31 December 2018** |
| | **US$** | **US$** |
| Materials | 12,924 | 6,547 |
| | **12,924** | **6,547** |

### 14. Trade and other receivables

| | *Unaudited* | *Audited* |
|---|---|---|
| | **30 June 2019** | **31 December 2018** |
| | **US$** | **US$** |
| Other receivables | 26,697 | 60,012 |
| Receivable from jointly controlled entity | 632,509 | 170,627 |
| Advances to contractors | 2,215 | 758 |
| Prepayments | 59,931 | 17,883 |
| | **721,352** | **249,280** |

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

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

*For the 6 months ended 30 June 2019*

### 15. Cash and Cash Equivalents

| | *Unaudited* | *Audited* |
|---|---|---|
| | **30 June 2019** | **31 December 2018** |
| | **US$** | **US$** |
| Cash at bank and in hand | 194,501 | 801,938 |
| | **194,501** | **801,938** |

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 2018 | 707,245,906 | 9,429,182 |
| **At 1 January 2019** | **707,245,906** | **9,429,182** |
| New share capital subscribed | **13,884,594** | **156,783** |
| **At 30 June 2019** | **721,130,500** | **9,585,965** |

In April 2019 the Company issued 13,884,594 Ordinary Shares in settlement of liabilities to David Sturt and Dennis Francis. Details were provided to shareholders in a regulatory news announcement on 16 April 2019.

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

*For the 6 months ended 30 June 2019*

### 17. Loans and Borrowings

| Group and Company | Effective interest rate % | Contractual maturity date | *Unaudited* 30 June 2019 US$ | *Audited* 31 December 2018 US$ |
|---|---|---|---|---|
| **Interest-bearing** | | | | |
| *Current liabilities* | | | | |
| Petrogrand AB | 11.56% | 15-Dec-19 | 2,755,384 | 2,116,825 |
| **Total current liabilities** | | | 2,755,384 | 2,116,825 |
| **Total loans and borrowings** | | | **2,755,384** | **2,116,825** |
| Contractual undiscounted liability | | | **2,755,384** | **2,116,825** |

**Changes in financial liabilities arising from financing activities:**

| | *Unaudited* 6 months ended 30 June 2018 US$ | *Unaudited* 6 months ended 30 June 2018 US$ | *Audited* Year ended 31 December 2018 US$ |
|---|---|---|---|
| **At 1 January** | **2,116,825** | - | - |
| Cash flows - loan drawdowns | 500,000 | 1,000,000 | 2,000,000 |
| Interest accrued but not yet paid | 138,559 | 48,256 | 116,825 |
| **At period end** | **2,755,384** | **1,048,256** | **2,116,825** |

Petrogrand AB is a related party of the Company because Pavel Tetyakov, VP of Business Development of PetroNeft, is CEO of Petrogrand AB, Swedish company. In addition, Maxim Korobov, a significant shareholder and Non-Executive Director of Petroneft is also a major shareholder of Petrogrand AB.

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

*For the 6 months ended 30 June 2019*

### 18. Trade and other payables

| | *Unaudited* | *Audited* |
|---|---|---|
| | **30 June 2019** | **31 December 2018** |
| | **US$** | **US$** |
| Trade payables | 403,887 | 428,734 |
| Trade payables to jointly controlled entity | 143,404 | 104,115 |
| Corporation tax | 55,212 | 55,016 |
| Other taxes and social welfare costs | 48,663 | 42,918 |
| Accruals and other payables | 1,034,774 | 1,142,000 |
| | **1,685,940** | **1,772,783** |

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

There were no important events since the balance sheet date.

### 20. Board approval

This announcement was approved by the Board of Directors of PetroNeft Resources plc on 27 September 2019.