

PetroNeft Resources plc
Preliminary Statement of Results
for the year ended 31 December 2019

Final Accounts

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Annual Report and Financial Statements

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.

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Chairman's Statement

Dear Shareholders as I write to you the world and in particular the energy sector is experiencing unprecedented challenges. The rapid spread of Coronavirus at the start of 2020 has led to tragic consequences across the globe, which combined with the break-up of the OPEC+ agreement, has led to significant demand destruction while supply is rising.

However, we remain confident in the capacity of the human race to overcome the Coronavirus challenge, and of our industry to adapt and transform itself to maintain supplies to meet recovering demand over time. As a company we moved to restrict all international company travel to protect our staff who are crucial to our plans to develop the company further, as well as introducing additional procedures at our offices and field sites to ensure work could continue safely. Thankfully, we have had no direct COVID cases within our business to date.

2019 saw considerable changes for the company with the appointment of David Sturt as the new Chief Executive Officer. David had been a Non-Executive Director of the Company since 2016 and brings over 35 years of international experience in upstream oil and gas industry gained working on projects in Europe, CIS, Africa, South America, and SE Asia. As David assumed his position, Karl Johnson stepped down as the interim CEO. I would like to thank Karl for his work as interim CEO after the retirement of Dennis Francis in 2018. Karl returned to his previous role as Vice President of Operations and Company Secretary.

Change has continued as we entered 2020. Maxim Korobov, who served as a Non-Executive Director since 2016 resigned from our Board of Directors. I am deeply appreciative of all the time and effort Maxim devoted to the work of the Board. At the same time the Directors decided to appoint Daria Shaftelskaya, who is another major shareholder in our company, to join the Board and Pavel Tetyakov, who has been Vice President of Business Development since 2016, was appointed as an Executive Director. I look forward to continuing working with both Daria and Pavel in the future.

Strategy Review

While the external environment continues to be challenging, the company remains committed and focused on working towards a long-term strategy of delivering value to shareholders through rigorous cost control, optimising the allocation of its capital and increasing production where possible.

We also continue to receive interest in our assets and business from a range of industry participants, however any sales process would take significant time and thus our strategy has two strands – business and cost optimisation and focussed engagement with buyers.

These two strategies are mutually supportive, as an improvement in production and reserves will increase attractiveness and interest in our assets, leaving us more in control of the company's destiny. I am particularly pleased that we are now moving to transform Licence 67 from an exploration to a producing asset and look forward to seeing more news on this through 2020.

With the evolution of this new strategy, we have been able to stabilise the financial position of the company by extending the Petrogrand AB loan, raising a convertible loan in mid-2019 and successfully completing a share placement at the end of 2019.

The amount of the Petrogrand AB loan was increased from US\$2 million to US\$2.5 million and the redemption date was extended from 15th December 2019 to 15th December 2020. The redemption date can also now be extended at our option provided we make a repayment of 20% of the loan on or before 15th December 2020. In such circumstances the final redemption date would be the earliest of (a) 15th December 2021 or (b) the date of completion of the License 61 sale or (c) the date of completion of License 67 sale.

In June of 2019, \$1.3M was raised through the issuance of a convertible loan note with a group of 5 lenders, 3 of which are related parties. Interest on the loan is at LIBOR plus 8% and the lenders can at their discretion elect to convert up to 65% of their debt amount into Ordinary equity shares up to the date of final maturity which is 31st December 2020. If not redeemed at the final maturity date, or otherwise extended by consent of the holders the interest rate becomes LIBOR plus 11%.

Finally, there was a successful capital raise at the end of 2019. Overall, we were able to raise capital in the amount of US\$2.12 million, by the issuance 107,755,037 Ordinary Shares at £0.015 which represented a 58% premium to the previous closing price.

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Chairman's Statement (*continued*)

The placement had strong support from institutional and other investors with strong Board participation representing approximately 44% of the placing.

Outlook

During the early stages of the Covid pandemic, international travel was forbidden, field shift schedules were extended to minimize cross over of personnel, and we set about upgrading and revising our HSE protocols to meet the challenges faced by the pandemic so that when production restarted, our staff and suppliers/contractors could operate in a safer environment. Through this period, we minimized cash outgoings by working with our contractors and service providers to reschedule key payments, our staff took voluntary salary reductions in some cases with 50% reduction of the Tomsk office payroll and 30% for the field personnel payroll. With our oil offtakers we worked on a prepayment basis. We kept a minimum crew on in the fields to ensure ongoing maintenance programs could be continued. I am pleased that our operations are now back to normal and we are seeing production volumes increasing year on year with approximately 7.8% and July year on year increasing by 17%.

The outlook remains challenging due to the combination of the Coronavirus outbreak and turbulence in the oil price. These events continue to affect the market capitalization of the company and my belief is that, in common with many other small listed oil companies, there is a significant discrepancy between our stock price and the long-term value of the company's assets and reserves. We are committed to narrowing that gap and are actively examining all available options with an increasing emphasis on continuing to develop our assets cost effectively. Our workovers and water flood optimization programs have stabilized our production rate and arrested the long-term production decline from our existing fields. We continually focus on cost optimization and administrative expenses are down 47% year on year. We continue to negotiate with key contractors and suppliers in securing better pricing to boost margins per barrel. The completion of the mini oil processing unit at Licence 61 should further reduce operating costs. On Licence 67 I am particularly looking forward to seeing this asset being transformed from an exploration to a production asset in 2021 following the successful extended test of the C4 well at the Cheremshanskoye field. I am very proud of the hard work that our PetroNeft and Stimul-T personnel have put in to achieve these results, but I also believe significant further scope exists.

Licence 61 and 67 Reserves

Independent reserve consultants Ryder Scott completed an assessment of petroleum reserves on Licence 61 and 67 as at 1 January 2016. As we initiate production from Licence 67, combined with improved knowledge of our assets in Licence 61, we are aiming to generate an update third party assessment of the company's reserves in 2021.

The Ryder Scott reserves report estimates total Proved and Probable ("2P") reserves for Licence 61 at that time at 102.92 mmbbls. PetroNeft's net interest in these reserves is 50%. As shown in the table below, PetroNeft's share of the combined Licence 61 and Licence 67 reserves is 104.55 mmbbls 3P, 63.9 mmbbls 2P and 16.1 mmbbls P1 as at 1 January 2020 following adjustment of the Ryder Scott numbers for production. While we have not yet asked Ryder Scott to prepare an updated report for Licence 67 following the C-4 result we have had reserves approved by the State Reserves Committee (GKZ) for C1 + C2 reserves of 2.5 mmtons (this is approximately equal to 2P reserves of 19.26 mmbbls). The reserves approved are in the Upper Jurassic (J1) and Lower Jurassic (J14) intervals.

We have had good exploration success in the past and feel we can add further reserves with additional appraisal at Emtorskaya in the near term and Traverskaya and Tuganskaya in the medium term. In the longer term we expect to grow our reserves further with continued exploration and appraisal on our two Licence areas. Numerous prospects have been seismically defined but not yet drilled, particularly in the southern half of Licence 61.

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Chairman's Statement (continued)

Licence 61 and 67 Reserves (continued)

Ryder Scott 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 + West Lineynoye	6.5	12.4	15.4
Arbuzovskoye	1.1	3.6	4.8
Tungolskoye	0.3	2.8	3.6
Sibkrayevskoye	5.8	29.4	29.4
Kondrashevskoye	0.7	1.3	1.6
Licence 61-Total all Fields	14.6	49.9	87.15
Licence 67			
Ledovoye	1.5	14.0	17.4
Total net to PetroNeft	16.1	63.9	104.55

- Licence 61 as at 31 December 2019 (Ryder Scott report as at 1 January 2016, adjusted for 2016-2019 production).
- Reserves reflect just PetroNeft's 50% share of reserves for each licence.
- 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.

These numbers do not include 19.26 mmbbls (gross) C1+C2 reserves which were audited by GKZ (Russian State Reserves Committee) for the Cheremshanskoye field in Licence 67. Russian State C1+C2 is approximately equivalent to 2P under the PRMS classification system.

Review of PetroNeft loss for the year

The loss after taxation for the year was US\$6,042,454 (2018: US\$7,561,762). The loss included the share of joint venture's net loss in WorldAce Investments of US\$7,510,318 (2018: US\$6,339,613) which arose mainly due to the loss in margins as Revenues declined from US\$31,369,968 to US\$24,852,620 in 2019. In addition, the share of joint venture's net loss in Russian BD Holdings B.V. increased to US\$664,455 (2018: US\$508,757).

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Chairman's Statement (continued)

	2019	2018
	US\$	US\$
<i>Continuing operations</i>		
Revenue	1,443,568	1,767,074
Cost of sales	<u>(1,333,339)</u>	<u>(1,559,982)</u>
Gross profit	110,229	207,092
Administrative expenses	<u>(807,507)</u>	<u>(1,512,817)</u>
Operating loss	(697,278)	(1,305,725)
Share of joint venture's net loss - WorldAce Investments Limited	(7,510,318)	(6,339,613)
Share of joint venture's net loss - Russian BD Holdings B.V.	(664,455)	(508,757)
Finance Income	4,275,181	4,075,540
Finance costs	(369,950)	(116,825)
Impairment of financial assets - loans and receivables	<u>-</u>	<u>(3,109,501)</u>
Loss for the year for continuing operations before taxation	(4,966,820)	(7,304,881)
Income tax expense	<u>(1,075,634)</u>	<u>(256,881)</u>
Loss for the year attributable to equity holders of the Parent	<u>(6,042,454)</u>	<u>(7,561,762)</u>

Revenue

Revenue in 2019 and 2018 includes income as operator of both licences, and the revenue of PetroNeft's wholly owned subsidiary, Granite Construction, in respect of construction services provided in relation to both joint ventures.

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

PetroNeft performs the role of operator for both the licence 61 and 67 joint ventures. 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 operator, PetroNeft is entitled to charge certain administrative, management and technical costs to the joint ventures. The costs associated with this revenue are included in cost of sales.

In 2019 PetroNeft Group charged a total of US\$678,161 (2018: US\$846,859) to the joint ventures in respect of management services. PetroNeft also owns a construction company, Granite Construction, which carries out ad hoc construction projects such as well pads and on-site accommodation on both Licences as well as maintaining the winter road network each year. In 2019 Granite Construction charged the WorldAce Group US\$765,407 (2018: US\$920,215) in respect of these services.

Administrative expenditure showed a notable reduction year over year of 47%. In 2017 the Company implemented a cost cutting program across the Group and the Directors and management agreed to reduce and defer significant portions of their remuneration; as at 31 December 2019 a total of US\$1,278,068 (2018: US\$934,041) had been deferred by the Directors and senior management - see Note 15 for details (Of this, a total of \$531,268 was settled through director participation in the January 2020 equity issue).

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Chairman's Statement (continued)

Finance Income

Most of the Finance Income relates to interest receivable on loans to joint ventures. During 2019 PetroNeft recognised interest income of US\$3,802,594 (2018: US\$3,686,373) on its loans to WorldAce Group and US\$469,974 (2018: US\$387,686) on its loans to Russian BD Holdings B.V. In 2018, because of early adoption of amendments to IAS 28 in respect of Long-term Interest in Associates and Joint Ventures the Group recognised Financial asset Impairment allowance of US\$3,109,501 given the uncertainties relating to WorldAce. The Company considers no additional impairment should be provided in 2019. For more details see Note 15.

Finance Costs

Finance costs relate to interest payable on loans from Petrogrand AB and on a separate convertible loan of US\$1.3million concluded on the 24th June 2019. The convertible loan is unsecured, with a maturity date of 31st December 2020. Interest charges on the loan are LIBOR plus 8%. The loan from Petrogrand AB was increased by a further US\$500,000 and has a revised maturity date of 15th December 2020. The redemption date can also now be extended at PetroNeft's option provided the company makes a repayment of 20% of the loan on or before 15th December 2020. In such circumstances the final redemption date would be the earliest of (a) 15th December 2021 or (b) the date of completion of the License 61 sale or (c) the date of completion of License 67 sale. Petrogrand AB is also entitled to a share in the proceeds of any sale of assets.

The obligation and liability shall survive the repayment or mandatory repayment of the Petrogrand AB loan and shall continue to be secured by the floating charge over the assets of PetroNeft. The fees will be paid upon the completion of the sale of License 61 or License 67, on or before 31st December 2022.

Review of Statement of Financial Position as at 31st December 2019.

Financial assets- loans to joint ventures.

The Statement of Financial Position reports an increase in Financial Assets, loans to joint ventures of US\$2,065,912. During the year PetroNeft advanced loans totalling US\$980,500 to Russian BD Holdings B.V. Group to support the continued development of the Capex program and the operations. Interest Income from WorldAce Investment Limited of US\$3,802,594 and US\$469,974 from Russian Holdings B.V. Group was accrued but not paid. The total advances and fee income were offset by the share of losses of PetroNeft's joint venture operations WorldAce Investment Limited of US\$ 2,997,106 and Russian BD Holdings B.V. Group of US\$ 181,558. For more details see Notes 6 and 7.

Trade and Other Receivables.

There was a significant increase in Trade and Other Receivables. As at 31st December 2019, US\$ 1,136,940 (2018: US\$249,280). The primary reason for the growth in receivables was the increase in the receivable amounts owing from PetroNeft's Joint Venture businesses, which increased to US\$1,005,991, (2018: US\$170,627). Of the Joint venture trade receivable outstanding, WorldAce Investments Limited owed US\$818,010 (2018: US\$130,469) and Russian BD Holdings B.V. Group owed US\$187,981 (2018: US\$40,158). For more details see Notes 10 and 15.

Called Up Share Capital and Share Premium Account.

During 2019 a total of 13,884,594 Ordinary Shares was issued in satisfaction of Directors fees owing to two directors. Total compensation of US\$200,000 was settled by issue of shares to Dennis Francis, who had resigned as Director in December 2018. On becoming Chief Executive Officer on March 25th, 2019, PetroNeft settled outstanding Directors fees owed to David Sturt in the sum of €44,806 at a premium to par value of US\$ 0.0068. For more details see Note 12.

Interest Bearing Loans and Borrowings:

Movement in Interest Bearing Loans and Borrowings can be accounted for as follows. In March 2019, PetroNeft secured an additional loan amount of US\$500,000 from Petrogrand AB, increasing the total principal advances to US\$2.5 million. The interest on the increased loan was LIBOR plus 9%. Due for redemption on December 15th 2019, by mutual agreement between the parties it was agreed to extend out the maturity date to 15th December 2020 and on the proviso that interest accrued and not yet paid up to that time would be rolled up into a revised principal sum due of US\$2,872,148 and thereafter monthly interest accruing as and from 16th December would be paid within 7 calendar days of month end, for the prior month.

In June 2019, PetroNeft secured loans from a group of 5 lenders, 3 of which are related parties. The total of the loans provided was US\$1.3 million. A condition of the loans was that the lenders at any time may convert up to 65% of their loan advance into

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Chairman's Statement (*continued*)

ordinary equity shares of PetroNeft. The date of maturity of the loans is 31st December 2020. Interest on the loans is LIBOR plus 8%. For more details see Notes 13 and 15.

Key Financial Metrics – WorldAce Group

Because of the equity method of accounting for joint ventures that applies to PetroNeft's interest in WorldAce, listed below are the metrics which are an extraction from the audited financial statements of the WorldAce Group and give an indication as to the performance of Licence 61:

	WorldAce Group	WorldAce Group
	2019	2018
	US\$	US\$
<i>Continuing operations</i>		
Revenue	24,852,620	31,369,968
Cost of sales	(25,100,495)	(27,772,818)
Gross profit	(247,875)	3,597,150
Administrative expenses	(2,624,057)	(3,121,826)
Impairment of exploration and evaluation assets	(1,382,769)	-
Operating profit/(loss)	(4,254,701)	475,324
Write-off of oil and gas properties	-	(4,096,076)
Write-off of exploration and evaluation assets	(1,299,887)	(4,692)
Finance income	57,906	129,424
Finance costs	(9,523,954)	(9,183,206)
Loss for the year for continuing operations before taxation	(15,020,636)	(12,679,226)
Income tax expense	-	-
Loss for the year	(15,020,636)	(12,679,226)
Loss for the year	(15,020,636)	(12,679,226)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>		
Currency translation adjustments	9,026,423	(15,521,586)
Total comprehensive loss for the year	(5,994,213)	(28,200,812)
PetroNeft's Share 50%	(2,997,106)	(14,100,406)

Net Loss – WorldAce Group

PetroNeft's share of the net loss of WorldAce Group for the full year increased from to US\$6,339,613 to US\$7,510,318 in 2019. The increase in the loss for the year before taxation can be attributed to a reduction in production of 17%, coupled with a decline in the average price per barrel of 6% in 2019 versus 2018. The margin lost was somewhat mitigated by a cost reduction program resulting in Administrative expenses falling from \$3,121,826 in 2018 to \$2,624,057 in 2018. Of the US\$9,523,954 in interest payable by WorldAce, US\$9,276,617 is Joint Venture Partner Loan interest, of which US\$3,802,595 is payable to PetroNeft.

Revenue, Cost of Sales and Gross Margin – WorldAce Group

Gross Revenue from oil sales was US\$24,852,620 for the year (2018: US\$31,369,968). Cost of sales includes depreciation of US\$1,936,923 (2018: US\$2,472,676), which was lower mainly due to lower production. Part of the reason for lower production was due to extensive data acquisition which required shutting down several wells to acquire bottom hole pressure data and injection logging information. This short-term reduction should help to achieve greater results over the lifetime of the field.

The gross margin declined during the year due to lower production volumes and the average price per barrel was 6% weaker in 2019 versus 2018. Operating costs per barrel (cost of sales excluding depreciation and Mineral Extraction Tax) were higher at

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Chairman's Statement (*continued*)

US\$13.82 (2018: US\$10.68 per barrel) due to lower production. 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 Sibkrayevskoye oil field once it comes online. We produced 589,165 barrels of oil (2018: 713,603 barrels) in the year and sold 594,057 barrels of oil (2018: 706,395 barrels) achieving an average oil price of US\$41.84 per barrel (2018: US\$44.41 per barrel). All oil was sold on the domestic market in Russia.

Finance Costs – WorldAce Group

Gross Finance costs of US\$9,523,954 (2018: US\$9,183,206) mainly relates to interest on loans from PetroNeft and Oil India.

Taxation – WorldAce Group

There is no tax payable in 2019 or 2018.

Current and Future Funding of PetroNeft Group

While there were consolidated net current liabilities at the year-end of US\$4,633,370 (2018: US\$2,831,843), the Company has consistently demonstrated its ability to secure Shareholder funding and proactively work with its lenders in obtaining loan maturity extensions. In particular, the last equity funding in January 2020 demonstrated the continued support of institutional investors and the Directors. The Company continues to drive its cost cutting program across the Group and the Directors and management have agreed to reduce and defer significant portions of their remuneration. Note 15 outlines the amounts owed to the Board and management in this regard.

In January 2018, the Company agreed a secured loan facility for up to US\$2 million with Swedish company Petrogrand AB. The loan was due to mature on 31 December 2018, however, in March 2019 the Company agreed an increase in the facility by US\$500,000 to US\$2.5 million and a revised maturity date of 15th December 2020 which may be extended by mutual consent if certain milestones are met. The borrower can exercise the option to extend if the borrower pays 20% of the loan balance outstanding on or before the redemption date of 15th December 2020. The revised terms include an extension to the entitlement of the lender to a bonus on the sale of either or both Licence 61 and Licence 67 if they are sold by 31st December 2021 of \$2.5M. When this loan was extended in March 2019, this bonus entitlement period was also extended by one year to 31st December 2022.

In June 2019, the Company agreed a new convertible loan for US\$1.3 Million with a different group of investors which matures on 31st December 2020. This new loan is partially convertible into Ordinary shares of PetroNeft (up to 65% of the principal) at a price per Ordinary Share of US\$0.01547. As previously announced the Company has engaged a financial advisor with the aim to test the market for both of its licences. This process is ongoing and the level of interest and the calibre of companies in the process to date is encouraging. Over the past 2 years the asset acquisition market in Russia has seen increased activity, especially for the larger domestic companies, albeit that activity has diminished due to the onset of the Covid 19 pandemic. In the event of a possible sale, it is expected that both loan facilities would be repaid from the proceeds of sale of one of the Licences.

Summary

2019 saw the successful re-negotiation of the Petrogrand AB loan and the raising of additional capital at a 58% premium, with support from many of the board members. These events provided the company with financial stability, enabling us to engage in a program of data acquisition, interpretation, and review of all our assets combined with the continual review of our cost base across the company. We are now embarking on an exciting low CAPEX investment program which can deliver significant value particularly on Licence 67 where we are now hopeful of transforming this from an exploration to a production asset towards the end of 2020.

We will continue to test the market to see if greater value can be delivered to our shareholders through a full or partial sale. While this process has attracted interest from a range of companies and is ongoing, we will concentrate our efforts on areas where 2019's performance demonstrates the potential of the business notably, improving the performance of our assets through increased production and cash flow.

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Chairman's Statement (*continued*)

Our industry is continuing to experience unstable times, but we have valuable future development targets in both our licences with West Lineynoye, Sibkrayevskoye and Emtorskaya in Licence 61 and Cheremshanskoye and Ledovoye in Licence 67; these assets can be profitable at a wide range of oil prices.

Annual Report and AGM

The Annual Report will be mailed to shareholders and published on the Company's website (www.petroneft.com) on 29th September 2020. Dating and location of the AGM will be notified shortly.

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

David Golder

Non-Executive Chairman

Consolidated Income Statement

For the year ended 31 December 2019

	<i>Note</i>	2019 US\$	2018 US\$
<i>Continuing operations</i>			
Revenue		1,443,568	1,767,074
Cost of sales		<u>(1,333,339)</u>	<u>(1,559,982)</u>
Gross profit		110,229	207,092
Administrative expenses		<u>(807,507)</u>	<u>(1,512,817)</u>
Operating loss		(697,278)	(1,305,725)
Share of joint venture's net loss - WorldAce Investments Limited		(7,510,318)	(6,339,613)
Share of joint venture's net loss - Russian BD Holdings B.V.		(664,455)	(508,757)
Finance Income		4,275,181	4,075,540
Finance costs		(369,950)	(116,825)
Impairment of financial assets - loans and receivables		-	(3,109,501)
Loss for the year for continuing operations before taxation		(4,966,820)	(7,304,881)
Income tax expense		<u>(1,075,634)</u>	<u>(256,881)</u>
Loss for the year attributable to equity holders of the Parent		(6,042,454)	(7,561,762)
Loss per share attributable to ordinary equity holders of the Parent			
Basic - US dollar cent	4	(0.84)	(1.07)
Diluted - US dollar cent	4	(0.77)	-

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

		2019 US\$	2018 US\$
Loss for the year attributable to equity holders of the Parent		(6,042,454)	(7,561,762)
<i>Other comprehensive income maybe reclassified to profit or loss in subsequent years:</i>			
Currency translation adjustments - subsidiaries		(77,816)	102,440
Share of joint ventures' other comprehensive income - foreign exchange translation differences		<u>4,996,109</u>	<u>(8,456,256)</u>
Total comprehensive loss for the year attributable to equity holders of the Parent		(1,124,161)	(15,915,578)

Consolidated Statement of Financial Position

As at 31 December 2019

	<i>Note</i>	2019 US\$	2018 US\$
Assets			
Non-current Assets			
Property, plant, and equipment	5	28,843	38,296
Equity-accounted investment in joint ventures - WorldAce Investments Limited	6	-	-
Equity-accounted investment in joint ventures - Russian BD Holdings B.V.	7	-	-
Financial assets - loans to joint ventures	8	37,591,655	35,525,743
		<u>37,620,498</u>	<u>35,564,039</u>
Current Assets			
Inventories	9	18,965	6,547
Trade and other receivables	10	1,136,940	249,280
Cash and cash equivalents	11	345,532	801,938
		<u>1,501,437</u>	<u>1,057,765</u>
Total Assets		<u>39,121,935</u>	<u>36,621,804</u>
Equity and Liabilities			
Capital and Reserves			
Called up share capital	12	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		(97,045,707)	(91,003,253)
Currency translation reserve		(32,040,081)	(36,958,374)
Other reserves		379,923	336,000
		<u>28,683,349</u>	<u>29,512,993</u>
Non-current Liabilities			
Interest-bearing loans and borrowings		-	-
Deferred tax liability		4,303,779	3,219,203
		<u>4,303,779</u>	<u>3,219,203</u>
Current Liabilities			
Interest-bearing loans and borrowings	13	4,242,849	2,116,825
Trade and other payables	14	1,891,958	1,772,783
		<u>6,134,807</u>	<u>3,889,608</u>
Total Liabilities		<u>10,438,586</u>	<u>7,108,811</u>
Total Equity and Liabilities		<u>39,121,935</u>	<u>36,621,804</u>

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Consolidated Statement of Changes in Equity

For the year ended 31 December 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 -	-	-	-	(8,456,256)	-	(8,456,256)
Total comprehensive loss 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
Issue of Share Capital *1	156,783	93,811	-	-	-	250,594
Convertible debt option reserve *2	-	-	43,923	-	-	43,923
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 -	-	-	-	4,996,109	-	4,996,109
Total comprehensive loss for the year	-	-	-	4,918,293	(6,042,454)	(1,124,161)
At 31 December 2019	9,585,965	141,006,709	7,176,463	(32,040,081)	(97,045,707)	28,683,349

*1-During 2019 , a total of 13,884,594 ordinary shares were issued to Directors , Dennis Francis and David Sturt in satisfaction of director's fees outstanding. A total of 10,471,204 ordinary shares was issued to Dennis Francis in satisfaction of \$200,000 Director's fees owing, and a total of 3,413,390 ordinary shares was issued to David Sturt in satisfaction of Director's fees owing of €44,806. Shares were issued at a premium to par value.

*2-During 2019 a sum of \$1.3 million was raised from a group of 5 investors. An amount of \$43,923 relates to the equity component of the convertible debt proceeds.

PetroNeft Resources plc

Consolidated Cash Flow Statement

For the year ended 31 December 2019

	2019 US\$	2018 US\$
Operating activities		
Loss before taxation	(4,966,820)	(7,304,881)
Adjustment to reconcile loss before tax to net cash flows		
Non-cash		
Depreciation	23,884	38,936
Share of loss in joint ventures	8,174,773	6,848,370
Foreign Exchange Gains	(28,528)	-
Finance Income	(4,275,181)	(966,039)
Finance costs	369,950	116,825
Income tax expense	(7,493)	(30,034)
Working capital adjustments		
Decrease/(Increase) in trade and other receivables	(875,067)	276,593
Decrease/(Increase) in inventories	(11,115)	12,960
Increase in trade and other payables	73,598	192,955
Net cash flows used in operating activities	(1,521,999)	(814,315)
Investing activities		
Loan facilities advanced to joint venture undertakings	(980,500)	(392,000)
Purchase of Property, Plant and Equipment	(9,720)	-
Interest received	2,613	1,481
Net cash used in investing activities	(987,607)	(390,519)
Financing activities		
Proceeds from the issue of Share Capital	250,594	-
Proceeds from issue of Convertible debt option	43,923	-
Proceeds from loan facilities	1,756,074	2,000,000
Net cash received from financing activities	2,050,591	2,000,000
Net increase/(decrease) in cash and cash equivalents	(459,015)	795,166
Translation adjustment	2,609	-2,617
Cash and cash equivalents at the beginning of the year	801,938	9,389
Cash and cash equivalents at the end of the year	345,532	801,938

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PetroNeft Resources plc

Notes to the Financial Statements

For the year ended 31 December 2019

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 29th September 2020.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2019 or 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's annual general meeting. The auditors have made reports under Section 391 of the Irish Companies Act, 2014 in respect of 2018. Their report was unmodified but did draw attention to the material uncertainty relating to going concern. The 2019 audited financial statements will be distributed to shareholders on 29th September 2020.

Adoption of IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

A number of amendments and interpretations to IFRS principally the introduction of IFRS 16 "Leases" and IFRIC 23 "Uncertainty over Income Tax Treatments" became effective for, and have been applied in preparing, these Financial Statements. The introduction of these amendments on 1 January 2019 did not result in material changes to the results or financial position of the Group. Full details of the approach taken to the introduction of the new amendments and the impact of adoption will be provided in the full financial statements that comply with IFRS which will be distributed to shareholders on 29th September 2020.

2. Going Concern

As described in the Chairman's Statement, PetroNeft agreed an extension of the loan facility, which was due to mature on 15th December 2019 and an increase of US\$500,000 up to US\$2.5 million with Swedish company Petrogrand AB, a related party. The revised loan maturity date is 15 December 2020, and maybe extended for a further year if certain milestones are met, at the option of PetroNeft. 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. See Note 14 for details of related party transactions.

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 institutional investors and directors who supported 44% of the placing.

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%. With a rebound in oil prices, the ongoing cost saving program and the Mineral Extraction Tax percentage per barrel produced trending lower in 2019 than 2018, the Group's cashflow improved, enabling it to address payables that had been rescheduled, reverse the temporary salary reduction and engage constructively with joint venture partners, current and potential future lenders and investors to support its ongoing investment plans. The Group continuously monitors the ongoing progress and status of the pandemic to ensure it reacts quickly where required; as part of this process the frequency of Board meetings has increased

PetroNeft Resources plc

Notes to the Financial Statements

For the year ended 31 December 2019

2. Going concern (continued)

and Board members are closely involved in material cost and investment decisions as well as regular review of the Group's forecast cashflows, short term liquidity and expenditure plans

The Group has analysed its cash flow requirements through to 30th September 2021 in detail. The cash flows are highly dependent on the successful extension or re-financing of the Petrogrand AB loan, Convertible Loan and on future production rates and oil prices achieved in its joint-venture undertaking, WorldAce Investments Limited and future cash flows from LLC LIneynoye (Licence 67) once Cheremshanskoye is producing. In addition, the Group, together with its Joint Venture partner OIL India B.V is actively investigating the opportunity to secure debt in the local Russian market for Stimul-T. Currently the Group is engaging with the convertible loan holders with a view to amending the terms of the convertible and extend the redemptions date. Should the Petrogrand AB loan not be extended or 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. Note 15 outlines the amounts owed to the Board and management in this regard

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. Company has signed non-disclosure agreements and opened data rooms in relation to the potential sale or farmout of both Licence 61 and 67. However the timeframe to close such a transaction could be at least six months following binding agreement between the parties. The Board is confident that one of these options will ultimately 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 resources to continue in operational existence for the foreseeable future. The judgement is supported by;

- the strong reserve inventory and improvements in operational performance
- the existing infrastructure in place that can support production volumes up to 14,700 bopd
- a very strong investment case
- the continued support of our Joint Venture and oil marketing partners
- the continuous support of our principal shareholders, as evidenced by their support for both debt and equity issues
- the continuous support of our lenders, both convertible and conventional debt

For these reasons, they continue to adopt the going concern basis in preparing the annual report and 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 were unable to continue as a going concern.

PetroNeft Resources plc

Notes to the Financial Statements

For the year ended 31 December 2019

3. Segment information

The Group has several reporting segments which are shown below. They include segment information on allocation of assets and segment information on revenues by both location and customer.

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.

Segment Information

Assets are allocated based on where the assets are located:

	2019	2018
Non-current assets	US\$	US\$
Russia	37,620,498	35,563,553
Ireland	-	486
	<u>37,620,498</u>	<u>35,564,039</u>

Revenues are allocated on where the underlying business and assets are located.

	2019	2018
Revenue- Location	US\$	US\$
Russia	1,443,568	1,767,074
	<u>1,443,568</u>	<u>1,767,074</u>

	2019	2018
Revenue- Customer	US\$	US\$
WorldAce Investments Limited-38% (2018- 41%)	547,617	718,930
Russian BD Holdings B.V- 9% (2018-7%)	130,544	127,929
LLC Stimul T- 53% (2018-52%)	765,407	920,215
	<u>1,443,568</u>	<u>1,767,074</u>

PetroNeft Resources plc

Notes to the Financial Statements

For the year ended 31 December 2019

4. 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.

	2019	2018
	US\$	US\$
Numerator		
Loss attributable to equity shareholders of the Parent for basic loss	<u>(6,042,454)</u>	<u>(7,561,762)</u>
	(6,042,454)	(7,561,762)
Loss attributable to equity shareholders of the Parent for diluted loss	<u>(5,953,640)</u>	<u>-</u>
	(5,953,640)	-
Denominator		
Weighted average number of Ordinary Shares for basic (Note 20)	<u>716,793,942</u>	<u>707,245,906</u>
Diluted number of Ordinary shares for basic	<u>771,415,791</u>	<u>-</u>
	771,415,791	-
Loss per share:		
Basic - <i>US dollar cent</i>	(0.84)	(1.07)
Diluted - <i>US dollar cent</i>	(0.77)	-

The Company has convertible debt instruments in issue that could potentially dilute basic earnings per Ordinary Share in the future as per Notes 13. The Employee Share Options Program are not included as there are no Employee Share Options as of 31st December 2019.

PetroNeft Resources plc

Notes to the Financial Statements

For the year ended 31 December 2019

5. Property, Plant and Equipment

	Plant and machinery US\$
Cost	
At 1 January 2018	992,928
Additions	-
Disposals	(324)
Translation adjustment	(152,799)
At 1 January 2019	839,805
Additions	9,720
Disposals	(213,181)
Translation adjustment	83,857
At 31 December 2019	720,201
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	23,884
Disposals	(222,541)
Translation adjustment	88,506
At 31 December 2019	691,358
Net book values	
At 31 December 2019	28,843
At 31 December 2018	38,296

- Petrogrand AB has a floating charge over the assets of the Company.
- At 31st December 2019 and 2018, there was no Property, Plant and Equipment Capital Commitments.

PetroNeft Resources plc

Notes to the Financial Statements

For the year ended 31 December 2019

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

PetroNeft has a 50% interest in WorldAce Investments Limited (“WorldAce”), a joint venture 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)
Retained loss	(6,339,613)
Translation adjustment	(7,760,793)
Credited against loans receivable from WorldAce Investments Limited (Note 8)	14,101,580
At 1 January 2019	-
Elimination of unrealised profit on intra-Group transactions	-
Retained loss	(7,510,318)
Translation adjustment	4,513,212
Credited against loans receivable from WorldAce Investments Limited (Note 8)	2,997,106
At 31 December 2019	-

The balance sheet position of WorldAce shows net liabilities of US\$63,968,289 (2018: US\$57,974,076) following a loss in the year of US\$15,020,636 (2018: US\$12,679,226) together with a positive currency translation adjustment of US\$9,026,423 (2018: negative US\$15,521,586). PetroNeft’s 50% share is included above and results in a negative carrying value of US\$27,301,740 (2018: US\$24,304,633). 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\$27,301,740 (2018: US\$24,304,633) is deducted from other assets associated with the joint venture on the Balance Sheet which are the loans receivable from WorldAce Investments (see Note 8).

PetroNeft Resources plc

Notes to the Financial Statements

For the year ended 31 December 2019

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

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

Summarised Financial statements of equity-accounted joint venture

	2019 US\$	2018 US\$
<i>Continuing operations</i>		
Revenue	24,852,620	31,369,968
Cost of sales	(25,100,495)	(27,772,818)
Gross profit	(247,875)	3,597,150
Administrative expenses	(2,624,057)	(3,121,826)
Impairment of exploration and evaluation assets	(1,382,769)	-
Operating profit/(loss)	(4,254,701)	475,324
Write-off of oil and gas properties	-	(4,096,076)
Write-off of exploration and evaluation assets	(1,299,887)	(4,692)
Finance Income	57,906	129,424
Finance costs	(9,523,954)	(9,183,206)
Loss for the year for continuing operations before taxation	(15,020,636)	(12,679,226)
Income tax expense	-	-
Loss for the year	(15,020,636)	(12,679,226)
Loss for the year	(15,020,636)	(12,679,226)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>		
Currency translation adjustments	9,026,423	(15,521,586)
Total comprehensive loss for the year	(5,994,213)	(28,200,812)
Included in the above numbers are charges for		
Depreciation and Amortisation	1,936,923	2,472,676

Finance costs mainly relate to interest on shareholder loans from Oil India International B.V. and PetroNeft. The details of gross interest accrued on loans to PetroNeft are disclosed in Note 15 Related party disclosures.

The currency translation adjustment results from the movement 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 strengthened against the US Dollar during the year from RUB69.47:US\$1 as at 31 December 2018 to RUB61.905: US\$1 as at 31 December 2019.

PetroNeft Resources plc

Notes to the Financial Statements

For the year ended 31 December 2019

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

	2019 US\$	2018 US\$
Non-current Assets		
Oil and gas properties	78,147,884	59,573,374
Property, plant, and equipment	374,632	256,222
Exploration and evaluation assets	-	15,609,172
Assets under construction	1,468,233	1,124,614
Intangible Assets	2,178,884	
	<u>82,169,633</u>	<u>76,563,382</u>
Current Assets		
Inventories	2,390,999	1,697,552
Trade and other receivables	996,439	760,312
Cash and cash equivalents	30,895	451,692
	<u>3,418,333</u>	<u>2,909,556</u>
Total Assets	<u>85,587,966</u>	<u>79,472,938</u>
Non-current Liabilities		
Provisions	1,833,969	1,147,080
Obligations under finance lease	172,969	-
Interest-bearing loans and borrowings	140,244,130	131,364,194
	<u>142,251,068</u>	<u>132,511,274</u>
Current Liabilities		
Interest-bearing loans and borrowings	2,346,265	1,949,586
Obligations under finance lease	41,318	-
Trade and other payables	4,917,604	2,986,154
	<u>7,305,187</u>	<u>4,935,740</u>
Total Liabilities	<u>149,556,255</u>	<u>137,447,014</u>
Net Liabilities	<u>63,968,289</u>	<u>57,974,076</u>
Non -Current Financial Liabilities	<u>140,417,099</u>	<u>131,364,194</u>
Current Financial Liabilities	<u>2,387,583</u>	<u>1,949,586</u>

Interest-bearing loans and borrowings are shareholder loans from Oil India International B.V. and PetroNeft. The details of loans due to PetroNeft are disclosed in Note 8 Financial assets- loans and receivables.

Capital commitments

	2019 US\$	2018 US\$
Details of capital commitments at the balance sheet date are as follows:		
Contracted for but not provided in the financial statements	<u>Nil</u>	<u>60,710</u>

PetroNeft Resources plc

Notes to the Financial Statements

For the year ended 31 December 2019

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 joint venture 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 2018	-
Elimination of unrealised profit on intra-Group transactions	(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 B.V. (Note 8)	1,216,337
At 1 January 2019	-
Elimination of unrealised profit on intra-Group transactions	-
Retained loss	(664,455)
Translation adjustment	482,897
Credited against loans receivable from Russian BD Holdings B.V. (Note 8)	181,558
At 31 December 2019	-

The balance sheet position of Russian BD Holdings B.V. shows net liabilities of US\$4,235,793 (2018: US\$3,872,680) following a loss in the year of US\$1,328,910 (2018: US\$1,017,514) together with a positive currency translation of US\$965,794 (2018: negative US\$1,390,926). PetroNeft's 50% share is included above and results in a negative carrying value of US\$2,117,897 (2018: US\$1,936,340). 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\$2,117,897 (2018: US\$1,936,340) 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 8).

PetroNeft Resources plc

Notes to the Financial Statements

For the year ended 31 December 2019

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

Summarised Financial statements of equity-accounted joint venture

	2019 US\$	2018 US\$
Revenue	-	-
Cost of sales	-	-
Gross profit	-	-
Administrative expenses	(332,635)	(208,512)
Operating loss	(332,635)	(208,512)
Finance Income	1,280	1,040
Finance costs	(997,548)	(810,042)
Loss for the year for continuing operations before taxation	(1,328,903)	(1,017,514)
Taxation	(7)	-
Loss for the year	(1,328,910)	(1,017,514)
Loss for the year	(1,328,910)	(1,017,514)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>		
Currency translation adjustments	965,794	(1,390,926)
Total comprehensive loss for the year	(363,116)	(2,408,440)
Included in the above numbers are charges for		
Depreciation and Amortisation	6,676	-

Finance costs comprise of interest on shareholder loans from Belgrave Naftogas B.V. and PetroNeft. The details of gross interest accrued on loans to PetroNeft are disclosed in Note 8 Financial assets- loans and receivables.

PetroNeft Resources plc

Notes to the Financial Statements

For the year ended 31 December 2019

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

	2019 US\$	2018 US\$
Non-current assets	11,252,892	9,970,961
Current assets	118,311	476,186
Total assets	11,371,203	10,447,147
Non-current liabilities	14,758,627	12,787,243
Current liabilities	848,369	1,532,584
Total liabilities	15,606,996	14,319,827
Net Liabilities	4,235,793	3,872,680
Non -Current Financial Liabilities	14,745,795	12,769,162
Current Financial Liabilities	131,337	96,730

Capital commitments

	2019 US\$	2018 US\$
Details of capital commitments at the balance sheet date are as follows:		
Contracted for but not provided in the financial statements	Nil	78,406

8. Financial assets - loans and receivables

Group	2019 US\$	2018 US\$
Loans to WorldAce Investments Limited (Note 15)	62,963,635	59,161,041
Loss Allowance (Note 8)	(3,109,501)	(3,109,501)
Less: share of WorldAce Investments Limited loss (Note 6)	(27,301,740)	(24,304,633)
	32,552,394	31,746,907
Loans to Russian BD Holdings B.V. (Note 15)	7,157,158	5,715,176
Less: share of Russian BD Holdings B.V. loss (Note 7)	(2,117,897)	(1,936,340)
	5,039,261	3,778,836
	37,591,655	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 2021 at the earliest. The loan is set to mature on 31 December 2025. As at 31 December 2019 the loan was fully drawn down. The realisation of financial assets of \$32.5m in respect of WorldAce is dependent on the continued successful development of economic reserves which is subject to a number of uncertainties including the ability to raise finance, future rates of oil production and future international oil prices to continue to successfully generate revenue from the assets or the monetisation of the asset through a sale or farmout.

PetroNeft Resources plc

Notes to the Financial Statements

For the year ended 31 December 2019

8. Financial assets - loans and receivables (continued)

The loan from the Company to Russian BD Holdings B.V. is repayable on demand. Interest currently accrues on the loan at USD LIBOR plus 5.0% per annum. The group drilled the Cheremshanskoye No. 4 well in 2018 which tested oil at 450 bopd and demonstrated the potential of Licence 67.

The realisation of financial assets of US\$5 m in respect of Russian BD Holdings B.V. is ultimately dependent on the successful development of reserves as outlined above in relation to Cheremshanskoye, which is subject to a number of uncertainties including the ability to finance the well development and bringing the assets to economic maturity and profitability or the monetisation of the asset through a sale or farmout.

As previously advised to shareholders, the Company has been examining development options for Licence 67. The Company previously announced that they will be re-entering the C4 and C3 wells on the Cheremshanskoye field during 2020 with the combined aim of bringing the field into production and at the same time providing crucial reservoir performance data. This will enable the Company to optimise forward development of the field which benefits from a favourable infrastructure location, allowing low cost operations. There is a road running along the eastern edge of the field, plus powerlines running close to the western margin of the field, which should allow the Company to reduce OPEX over the longer term.

In addition, the Company is also working on plans to re-enter two wells on the Ledovoye field, also in Licence 67, during the periods 2020 and 2021. Should this be successful the Company will be looking to both book additional reserves and promptly start production from the Ledovoye field. Like the Cheremshanskoye field, Ledovoye is ideally located close to existing infrastructure, being only 60m away from a major all-weather road.

Due to the difference in carrying value caused by the application of the equity method of accounting to the Group financial statements the Company thought it was deemed prudent in 2018, to provide for an allowance for doubtful debts against the carrying value of these loans on the Company Balance Sheet in order to align the balances on the Group and Company balance sheets. It is not expected that any repayment will be received within 12 months of the balance sheet date.

9. Inventories

	2019 US\$	2018 US\$
Materials	18,965	6,547
	<u>18,965</u>	<u>6,547</u>

10. Trade and other receivables

	2019 US\$	2018 US\$
Receivable from joint ventures (Note 15)	1,005,991	170,627
Prepayments	127,815	17,883
Advances to contractors	1,353	758
Other receivables	1,781	60,012
	<u>1,136,940</u>	<u>249,280</u>

PetroNeft Resources plc

Notes to the Financial Statements

For the year ended 31 December 2019

10. Trade and other receivables (continued)

Other receivables are non-interest-bearing and are normally settled on 60-day terms. Amounts owed by subsidiary undertakings are interest-bearing. Interest is charged at 10%.

11. Cash and Cash Equivalents

Group	2019 US\$	2018 US\$
Cash at bank	<u>345,532</u>	<u>801,938</u>
	<u>345,532</u>	<u>801,938</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.

12. Share Capital	2019 €	2018 €
Authorised Share Capital		
1,000,000,000 (2018: 1,000,000,000) Ordinary Shares of €0.01 each	<u>10,000,000</u>	<u>10,000,000</u>
	<u>10,000,000</u>	<u>10,000,000</u>
	Number of Ordinary Shares	Called up share capital US\$
Allotted, called up and fully paid equity		
At 1 January 2018	<u>707,245,906</u>	<u>9,429,182</u>
At 1 January 2019	707,245,906	9,429,182
Issued during the year	<u>13,884,594</u>	<u>156,783</u>
At 31 December 2019	<u>721,130,500</u>	<u>9,585,965</u>

PetroNeft Resources plc

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13. Loans and Borrowings

Group and Company	Effective interest rate %	Contractual maturity date	2019 US\$	2018 US\$
Interest-bearing				
<i>Current liabilities</i>				
Petrogrand AB	10.59%	15-Dec-20	2,897,958	2,116,825
Natlata Partner Limited	10.14%	31-Dec-20	577,347	-
ADM Consulting	10.16%	31-Dec-20	417,051	-
Daria Shaftelskaya	10.13%	31-Dec-20	246,341	-
Michael Murphy	10.14%	31-Dec-20	52,076	-
David Sturt	10.14%	31-Dec-20	52,076	-
Total current liabilities			4,242,849	2,116,825
Total loans and borrowings			4,242,849	2,116,825
Contractual undiscounted liability			4,242,849	2,116,825
Changes in financial liabilities arising from financing activities			2019	2018
			US\$	US\$
At 1 January			2,116,825	-
Cash flows			1,799,997	2,000,000
Accrued interest			369,950	116,825
Convertible debt option reserve			(43,923)	-
At 31 December			4,242,849	2,116,825

Loan facilities.

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.

Petrogrand AB is a related party by virtue of Maxim Korobov, until 17th January 2020 a director of PetroNeft, being a significant shareholder of Petrogrand AB. For details of transactions between PetroNeft and Petrogrand AB see Note 15 Related party disclosures.

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Notes to the Financial Statements

For the year ended 31 December 2019

14. Trade and other payables

	2019	2018
	US\$	US\$
Trade payables	403,835	428,734
Trade and other payables to joint ventures (Note 15)	113,532	104,115
Corporation tax	55,232	55,016
Other taxes and social insurance costs	28,457	42,918
Accruals and other payables	<u>1,290,902</u>	<u>1,142,000</u>
	<u>1,891,958</u>	<u>1,772,783</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.

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15. Related party disclosures

PetroNeft Resources had the following transactions with its Joint Venture Partners in 2019 and 2018.

Related parties - PTR Group with JVs

Group	Russian BD Holdings BV Group US\$	WorldAce Investments Limited Group US\$
Receivable by PetroNeft Group at 1 January 2018	4,218,916	45,511,671
Advanced during the year	439,600	-
Transactions during the year	315,053	1,551,260
Interest accrued in the year	387,686	3,686,373
Payments for services made during the year	(309,505)	(1,758,280)
Share of joint venture's translation adjustment	(1,216,337)	(14,101,580)
Impairment Provision	-	(3,109,501)
Translation adjustment	(16,419)	(6,682)
At 1 January 2019	3,818,994	31,773,261
Advanced during the year	980,500	-
Transactions during the year	154,521	1,642,624
Interest accrued in the year	469,974	3,802,594
Payments for services made during the year	29,564	(947,209)
Share of joint venture's translation adjustment	(181,558)	(2,997,106)
Translation adjustment	(44,753)	(17,293)
At 31 December 2019	5,227,243	33,256,871
Balance at 31 December 2018 comprised of:		
Loans receivable (Note 8)	3,778,836	31,746,907
Trade and other receivables (Note 10)	40,158	130,469
Trade and other Payables (Note 14)	-	(104,115)
	3,818,994	31,773,261
Balance at 31 December 2019 comprised of:		
Loans receivable (Note 8)	5,039,261	32,552,394
Trade and other receivables (Note 10)	187,981	818,010
Trade and other payables (Note 14)	-	(113,532)
	5,227,242	33,256,871

PetroNeft Resources plc

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For the year ended 31 December 2019

15. Related party disclosures (continued)

Remuneration of key management

Key management comprise the Directors, the Vice Presidents of Business Development and Operations of the Company and the consulting fees paid to HGR Consulting Limited for the services of the former CFO.

Remuneration of key management	2019 US\$	2018 US\$
Compensation of key management	898,501	1,064,724
Contributions to defined contribution pension plan	45,564	48,947
Consulting fees (HGR Consulting – see below)	-	324,115
	<u>944,065</u>	<u>1,437,786</u>

The following amounts were owed to key management, former CEO Dennis Francis, former CFO Paul Dowling as at 31st December 2019 and 2018:

Remuneration, fees, and expenses due to Directors who were in office during the year	932,344	607,468
Remuneration due to other key management	233,108	133,354
Consulting fees (HGR Consulting – see below)	112,616	193,219
	<u>1,278,068</u>	<u>934,041</u>

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

Transactions with HGR Consulting Limited

Paul Dowling was retained as fulltime Secretary and Chief Financial Officer of PetroNeft until 31 January 2019. Thereafter it was agreed he would provide these services on a part time basis. These services continued to be provided through HGR Consulting Limited (“HGR”). Services provided by HGR during 2019 amounted to US\$70,576 (2018: US\$324,115). An amount of US\$112,616 was owed to HGR at 31 December 2019 (2018: US\$193,219).

Transactions with Petrogrand AB

Petrogrand AB is a related party by virtue of Maxim Korobov, a director of PetroNeft who resigned as PetroNeft’s Company Director on 17th January 2020. In 2018 the Company agreed a loan facility for up to US\$2m with Petrogrand AB. The loan facility is secured by way of a floating charge on the assets of the Company, carries an interest of US\$ LIBOR plus 9% and had an original maturity date of 31 December 2018. This loan facility was fully drawn down in 2018. In March 2019, the parties had agreed an increase in the facility by US\$500,000 and a revised maturity date of 15 December 2020. It was further agreed the revised maturity date could be extended for one year until 15th December 2021 if certain milestones are reached.

The following is the history of this transaction in:

	Petrogrand AB 2019 US\$
2018- Loan facility amount	2,000,000
2019- Loan drawdowns during the year	500,000
Interest accrued but not yet paid	397,958
Amount due to Petrogrand AB at 31 December 2019	<u>2,897,958</u>

PetroNeft Resources plc

Notes to the Financial Statements

For the year ended 31 December 2019

15. Related party disclosures (continued)

New Loan agreed in June 2019

As detailed in the Chairman's Statement the Group entered into a convertible loan facility of US\$1.3 million with a group of five investors in June 2019. Three of the five investors are related parties as follows:

Lender	Amount provided (US\$)	Interest accrued and not yet paid (US\$)	Amount due 31 December 2019 (US\$)	Relationship at time of transaction
Natlata Partners LLP.	560,000	17,347	577,347	Ultimate Beneficial owner is Maxim Korobov, former PetroNeft director
Daria Shaftelskaya	240,000	6,341	246,341	Substantial shareholder of PetroNeft and director from 17 th January 2020.
David Sturt	50,000	2,076	52,076	PetroNeft director

16. Important Events after the Balance Sheet Date

At an extraordinary general meeting held in Dublin on 7 January 2020 it was approved the Placing announced on 12 December 2019 and the issue of 107,755,037 Placing Shares at a price of £0.015 each. Gross proceeds of US\$2.12 million was raised at a premium of approximately 58% with both Institutional and other investors. The placement demonstrated significant commitment from directors, supporting 44% of the placing.

The Covid pandemic is a global crisis, and the Company was not immune from its economic impact. These Financial Statements report how all the Company's stakeholders supported the operations during these very difficult economic times.

17. Approval of financial statements

The financial statements were approved, and authorised for issue, by the Board of Directors on 25th September 2020