PetroNeft Resources plc

Annual Report
Годовой Отчет

2017

In this year's report:

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 is an international oil and gas exploration and production company, focused on Russia. The company's shares are listed on the London AIM and Dublin ESM markets.

Operational Highlights

2,237 BOPD
2,237 bopd average gross production at Licence 61 in 2017.

S-375s
The S-375s well at Sibkrayevskoye produced about 150 bopd on test with an electric submersible pump.

50%
50% interest in Licence 61 and Licence 67.

64 MMBBLS
64 mmbbls 2P reserves net to PetroNeft at 31 December 2017.

Financial Highlights

US$1.7M
PetroNeft revenue US$1.7 million.

35% Decrease
35% decrease in administrative expenditure

US$49M
US$49m Loans receivable from joint ventures.

US$98M
Total investment by Oil India in Licence 61 Farmout to end 2017 is US$98 million.

US$2m Debt
US$2 million debt facility agreed with Petrogrand AB in January 2018.

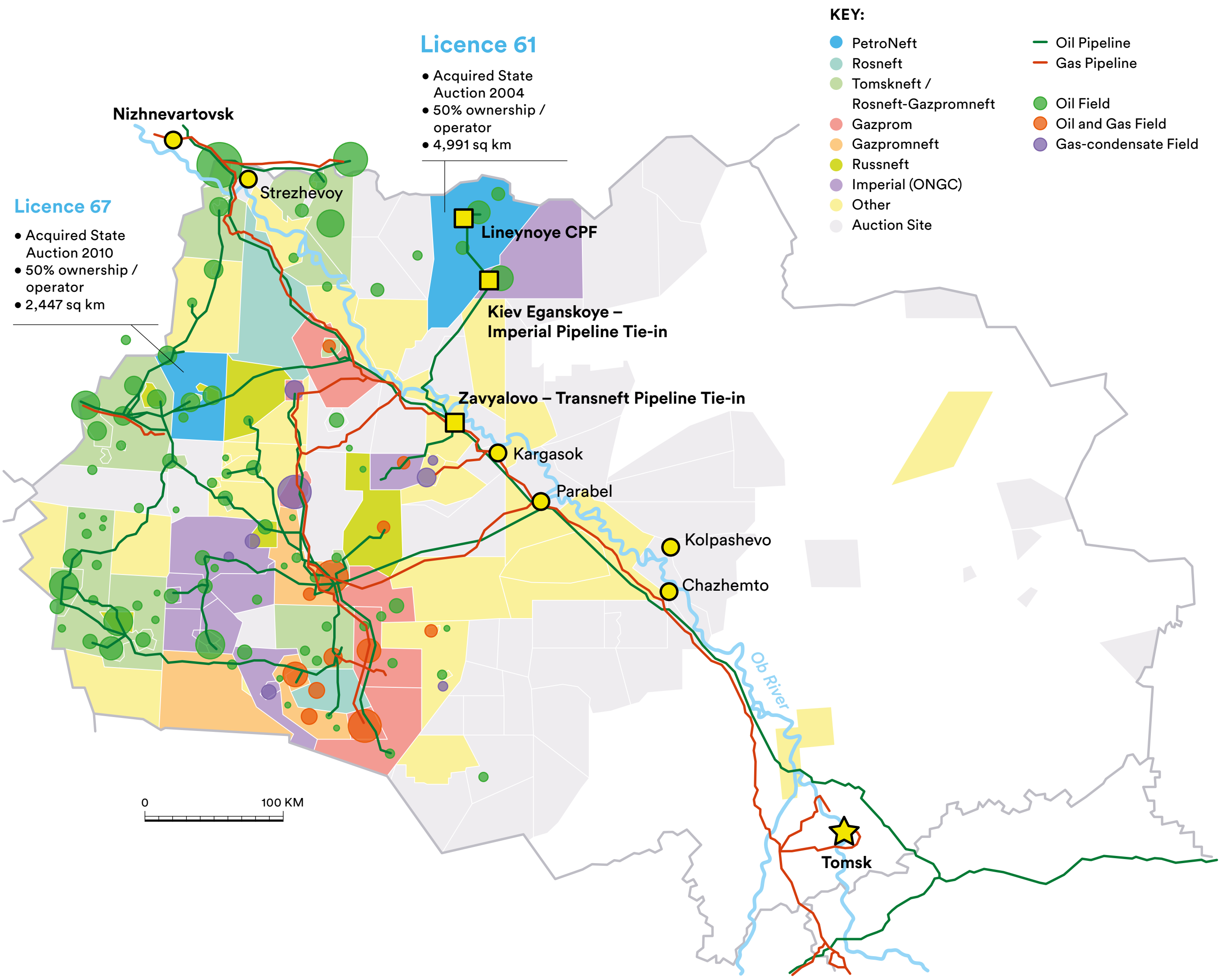
Chief Executive Officer's Report
pages 14–17

Financial Review
pages 18–21

Producing oil from a solid asset base

Our Assets

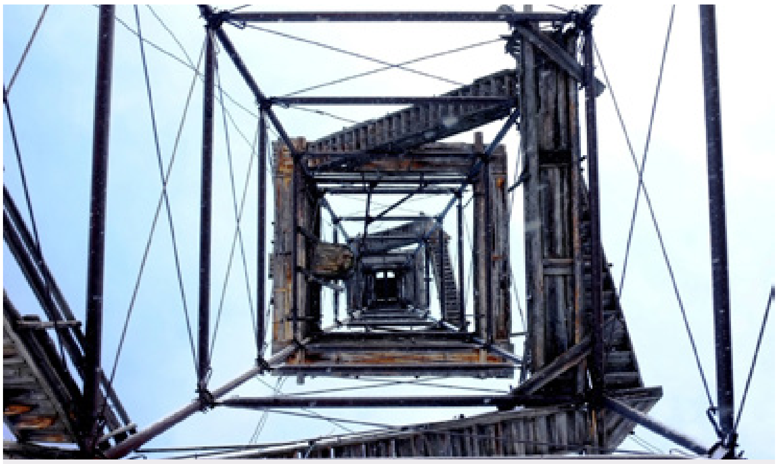
The main assets of the Company are a 50% operating interest in a 4,991 km² oil and gas licence (Licence 61) in the Tomsk Oblast in Russia and a 50% operating interest in a 2,447 km² oil and gas licence (Licence 67) also located in the Tomsk Oblast. Both licences are located in the prolific Western Siberian Oil and Gas Basin.



Licence 61

Licence 61 contains seven known oil fields: Lineynoye, Arbuzovskoye, Tungolskoye, Sibkrayevskoye, West Lineynoye, Kondrashevskoye and North Varyakhskoye and over 25 exploration prospects and leads.

More information: Pages 04 – 07



Licence 67

Licence 67 contains the Cheremshanskoye and Ledovoye oil fields and numerous prospects and leads.

More information: Page 08

History and Business Strategy

The Group has its origins in PetroNeft LLC, a Texas-based company, which was established in 2003 as an oil and gas investment and consultancy company focused principally on the Russian market.

In May 2005, PetroNeft LLC acquired a Russian company, Stimul-T, which had acquired a 100% interest in Licence 61 following a competitive auction process in the November 2004 Tomsk Licence Auction. PetroNeft Resources plc was incorporated on 15 September 2005 and was admitted to the London AIM and Dublin ESM Markets in September 2006.

The Group's strategy is to develop an oil exploration, development and production business in Russia, using the combined skills, experience and resources of the Group's Directors and employees.

In the short-term this is to be achieved through a focus on growth of production and cash flows at Licence 61 and a rigorous appraisal and exploration programme on Licences 61 and 67, by seeking to bring the existing discoveries into production as rapidly as possible and by exploiting the additional opportunities already identified and summarised in the Ryder Scott Report.

In addition to operations on Licences 61 and 67, the Company continues to evaluate new projects for acquisition. In 2014 PetroNeft signed a Farmout deal with Oil India Limited to farmout a 50% non-operating interest in Licence 61. PetroNeft remains the operator of Licence 61.

Licence 61

As well as seven discovered oil fields in Licence 61 there are over 24 additional prospects and leads to be explored.

Exploration Potential

Oil Fields

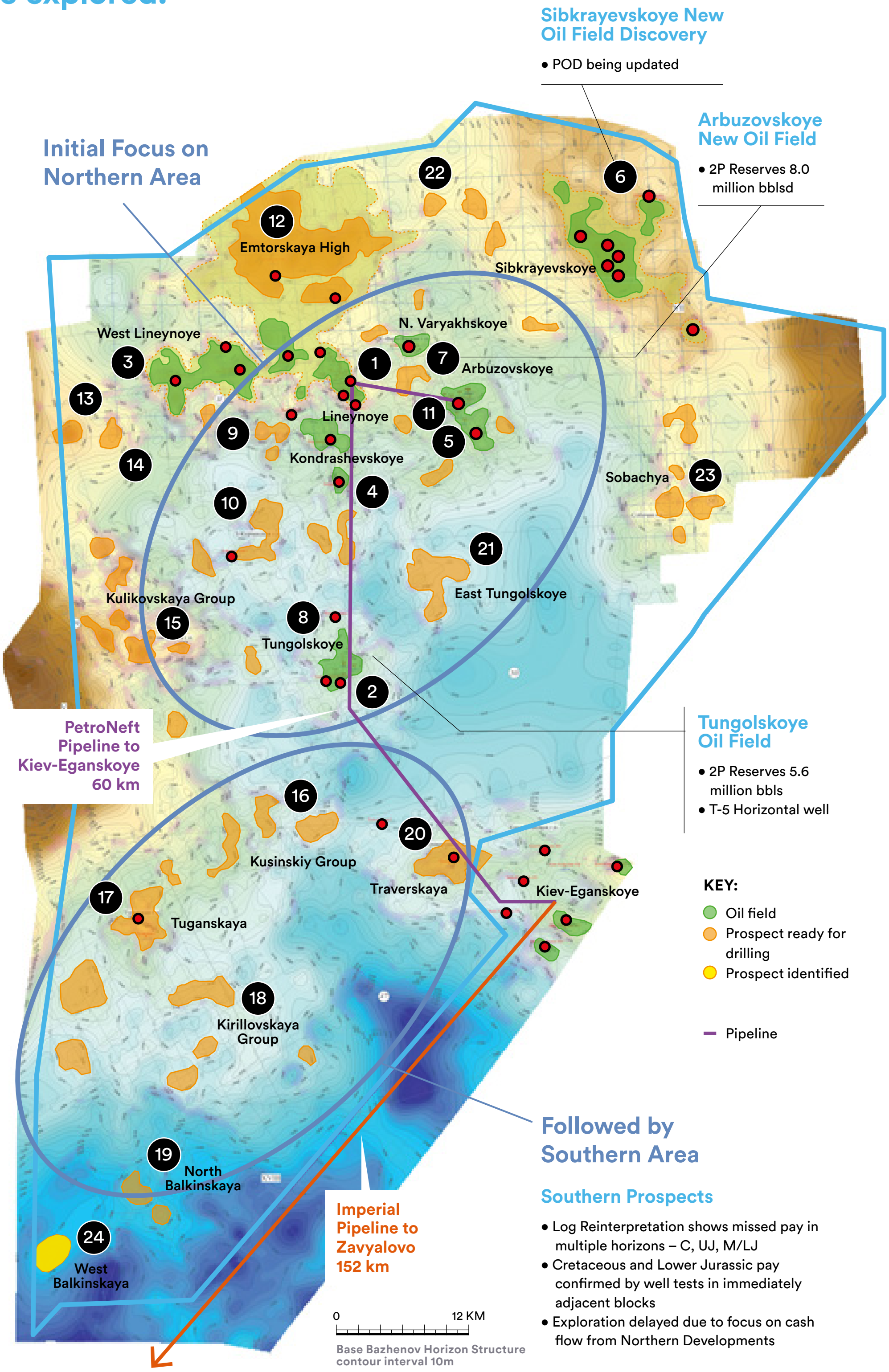
1 Lineynoye Oil Field
2 Tungolskoye Oil Field
3 West Lineynoye Oil Field
4 Kondrashevskoye Oil Field
5 Arbuzovskoye Oil Field
6 Sibkrayevskoye Oil Field
7 North Varyakhskoye Oil Field

Prospects

8 Tungolskoye West Lobe and North (2)
9 Lineynoye Lower
10 West Korchegskaya
11 Upper Varyakhskaya
12 Emtorskaya (East & Crown)
13 Sigayevskaya
14 Sigayevskaya East
15 Kulikovskaya Group (2)
16 Kusinskiy Group (2)
17 Tuganskaya Group (3)
18 Kirillovskaya (4)
19 North Balkinskaya
20 Traverskaya
21 Tungolskoye East

Potential Prospects (Leads)

22 Emtorskaya North
23 Sobachya
24 West Balkinskaya



Southern Prospects

- Log Reinterpretation shows missed pay in multiple horizons – C, UJ, M/LJ
- Cretaceous and Lower Jurassic pay confirmed by well tests in immediately adjacent blocks
- Exploration delayed due to focus on cash flow from Northern Developments

Development Highlights

2010/11: Lineynoye

- Construction of 60 km oil pipeline to KE
- Processing/storage facilities completed and expanded to ±14,800 bpd
- Drilled 9 oil wells Pad 1, 12 wells Pad 2
- Hydraulic fracked wells on both pads
- Commenced production in August, 2010

2012/13: Arbuzovskoye and W Lineynoye

- Construction of 10 km pipeline completed
- New production wells at Pad 1 – 6 wells drilled
- Drilled Lineynoye No. 9 obligation well

2014/15: Arbuzovskoye and Tungolskoye

- Arbuzovskoye Pad 1 – 5 wells
- Tungolskoye (T-5) Delineation well
- Tungolskoye Pad 1 – 4 horiz and 4 vertical wells
- Sibkrayevskoye (S-373) Delineation well
- Lineynoye No. 10 horiz well
- Additional seismic data at Sibkrayevskoye, other

2016/17: South Arbuzovskoye and Sibkrayevskoye

- Arbuzovskoye Pad 2 – 2 horiz and 2 vertical wells
- Sibkrayevskoye (S-374) Delineation well
- S-375/S-375s Delineation well

50% Joint Venture with Oil India Limited

ऑयल इंडिया लिमिटेड
Oil India Limited

In April 2014 PetroNeft signed a deal with Oil India Limited ('OIL' or 'Oil India') to farmout a 50% non-operating interest in Licence 61. The basic terms of this agreement were as follows:

- Total investment by OIL of up to US$85 million consisting of:
  - US$35 million upfront cash payment;
  - US$45 million of exploration and development expenditure on Licence 61;
  - US$5 million performance bonus, contingent upon average production from the Sibkrayevskoye Field reaching 7,500 bopd within the next five years.
- PetroNeft to remain operator of Licence 61, but OIL will have the right to second certain technical experts into PetroNeft's Tomsk team.

Under the terms of the agreement, OIL subscribed for shares in WorldAce, the holding company for Stimul-T, the entity which holds Licence 61 and all related assets and liabilities; following which, PetroNeft and Oil India Limited will both hold 50% of the voting shares of WorldAce.

In addition, through the shareholders agreement, both parties will have joint control of WorldAce with PetroNeft continuing as operator. OIL also has the right to become the Operator of the Licence should there be a substantial change in the management team of PetroNeft within the first three years.

Additional Financing from Oil India

In March 2016 PetroNeft reached agreement with Oil India for a loan to the joint venture company, WorldAce Investments Limited for the 2016 work programme requirement of US$10 million. The loan was conditional on the current management team remaining in place.

The 2016 work programme included the development of the southern lobe of the Arbuzovskoye oil field in 2016 along with the S-374 appraisal well at the Sibkrayevskoye oil field.

In 2017 Oil India agreed to provide a similar shareholder loan to WorldAce in the amount of US$4 million to fund the 2017 work programme which primarily relates to the drilling of the S-375 delineation well at the Sibkrayevskoye oil field.

Due to better than expected operating cashflows only US$3.2 million needed to be drawn on this facility.

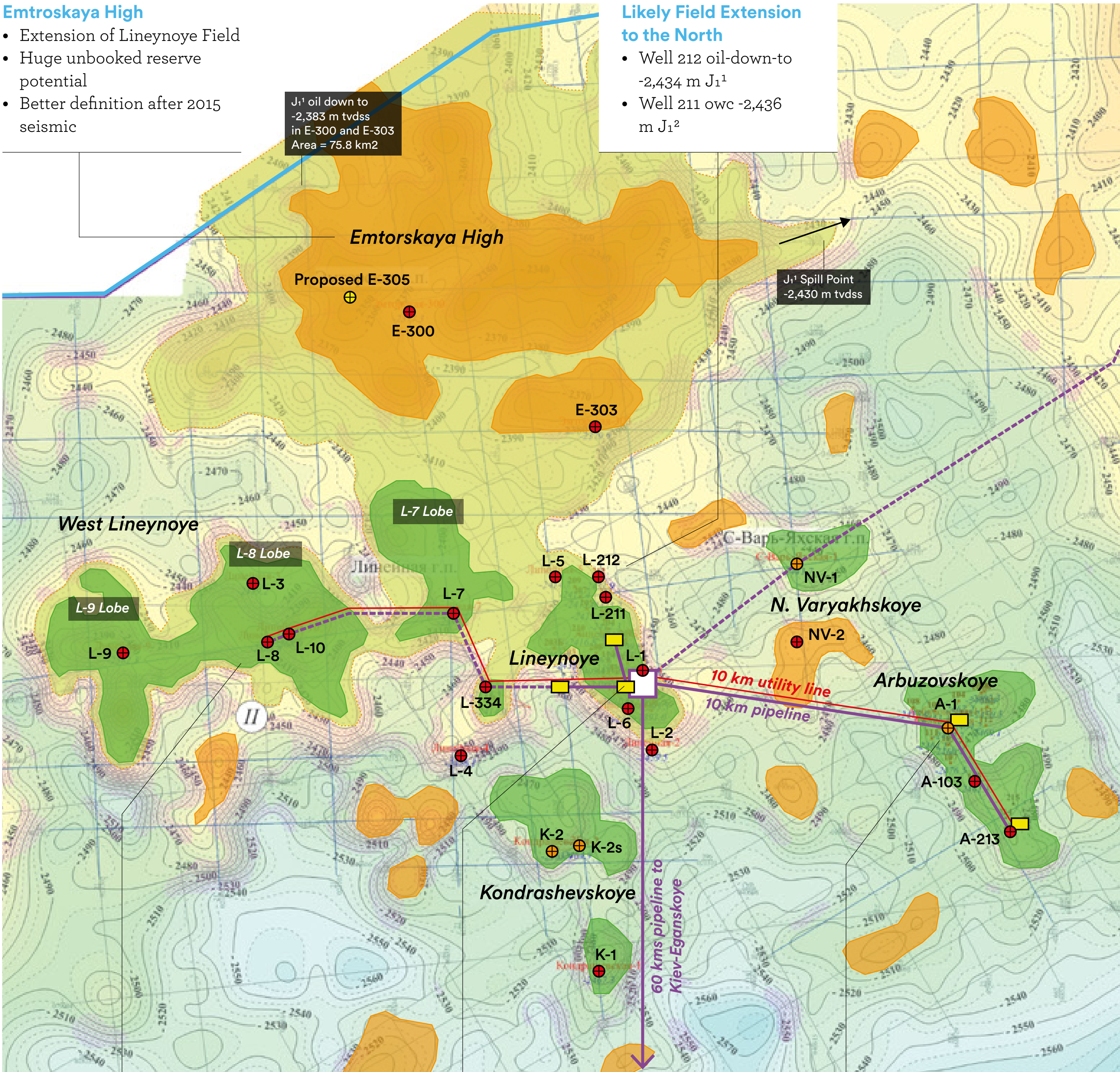
About Oil India Limited

Oil India Limited (BSE: 533106, NSE: OIL) is one of the largest national oil and gas companies in India as measured by total proved plus probable oil and natural gas reserves and production. It is engaged in the business of exploration for oil and gas, production of crude oil, natural gas and LPG and transportation of crude oil, natural gas and petroleum products. OIL has over 50 E&P blocks in India and an International presence spanning Bangladesh, Gabon, Libya, Mozambique, Nigeria, USA, Venezuela and Yemen. For further detail please refer to *www.oil-india.com*

Licence 61
Northern Developments 2017

Emtroskaya High
- Extension of Lineynoye Field
- Huge unbooked reserve potential
- Better definition after 2015 seismic

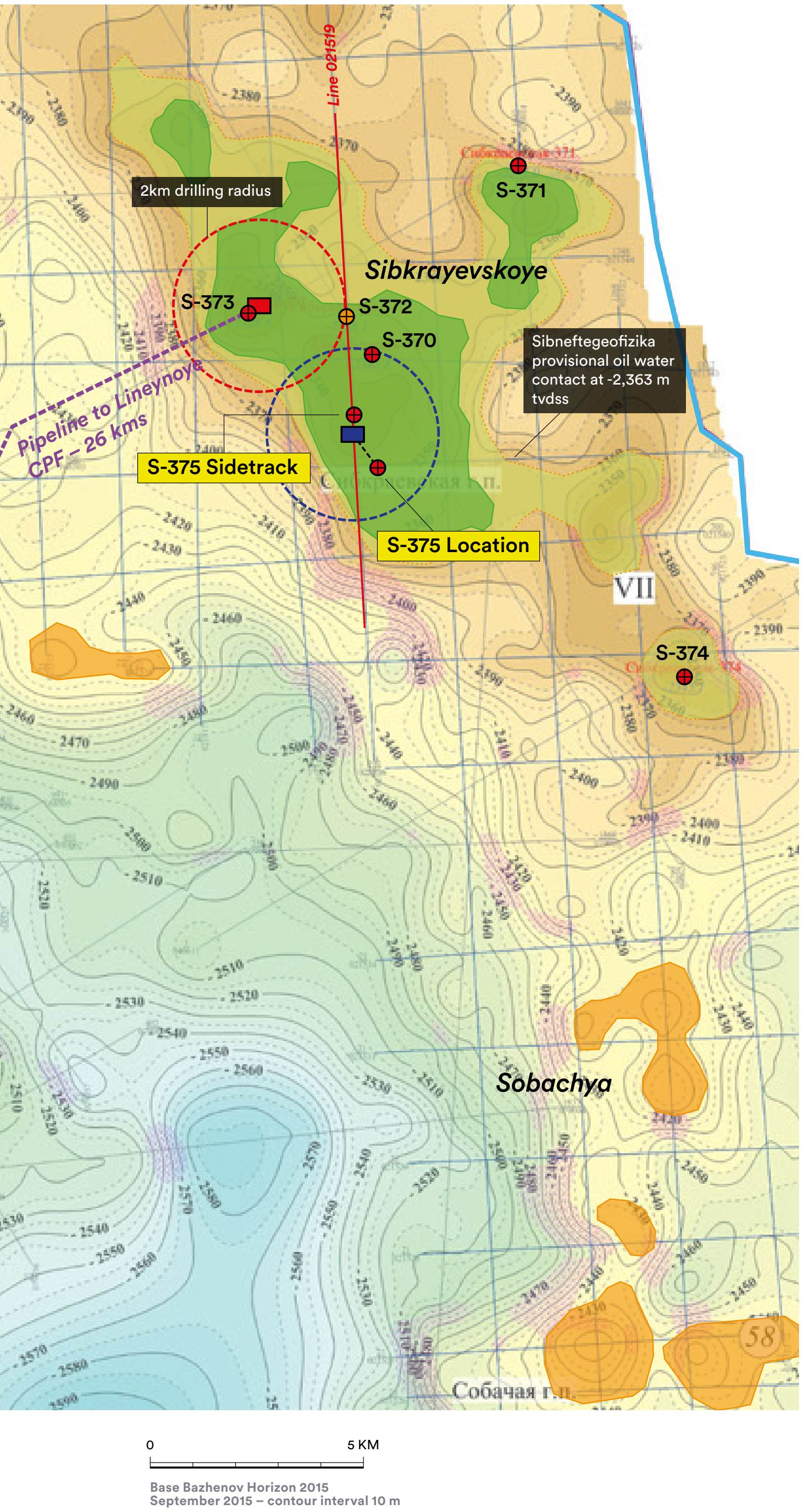
Likely Field Extension to the North
- Well 212 oil-down-to -2,434 m J_1^1
- Well 211 owc -2,436 m J_1^2



West Lineynoye
- Utility and temporary pipeline to Lineynoye
- Good production with minimal decline since 2015
- Economics of developing L-8 Lobe with 4 Hz wells very attractive
- Targets about 10 million bbls

Lineynoye Central Processing Facility
- Design Capacity – 14,800 bfpd
- Storage Capacity – 37,740 bbls
- Export Pipeline Capacity – 20,000 bopd

Arbuzovskoye
- Pad 2 (South) development
- 2 Hz and 2 Vertical wells – very efficient development
- 2 Hz wells had over 800 and 650 bopd initial production
- Same initial production from Pad 2 as Pad 1 (North) at half the cost



Sibkrayevskoye Development

Major discovery

Three wells drilled in prior years

- Wells S-370 & S-371 drilled in early 1970s
- PetroNeft drilled well S-372 in 2011 parallel to S-370. Confirmed 12.3 m missed pay, 170 bopd open hole test, 37^{0} API
- RS 2P reserves 53 million bbls (2013)

2015 Work Activities

- Well S-373 – Net pay 11.5 m - 97 bopd natural flow, equates to over 200 bopd with ESP
- Additional 2D Seismic acquisition in Q1 2015
- Significant increase in size of structure and C3 resources (> 100 million bbls potential)

2016 Work Activities

- Well S-373 – long term production test Q1 – stable flow at 200 bopd on ESP
- Drilled unsuccessful well S-374 – 10 km step-out to determine full potential of field – poor reservoir development
- Engineering Studies for Development
- Development Decision deferred to drill S-375

2017 Work Activities

- Well S-373 – long term production test Q1 – stable flow at 200 bopd on ESP
- Drilled wells S-375 and S-375s – mixed results
- Further testing in winter 2017/18

S-375/S-375s Well Results

- 4.8 m of net pay in thin sandstones
- Defined oil-down-to at -2,357 m tvdss
- Sidetrack from surface casing
- 14.8 m of net pay – thickest to date
- Peak rate 210 bopd on ESP on 8 mm choke
- Sustained rate of 150 bopd on a 4 mm choke

Sibkrayevskoye Development Concept

- Initial 2 pads highlighted in red/blue
- Reserves at pads 1 & 2 ~ originally estimated at about 20 million bbls each
- Pad 2 currently being updated
- View to optimize

Licence 67

In 2011/2012 two wells were drilled, one at the Cheremshanskaya prospect and a second at the Ledovoye oil field. 3D Seismic was acquired in 2014.

These wells resulted in the discovery of a new oil field at Cheremshanskoye (December 2011) and the confirmation of the Upper Jurassic J1-3 oil pool at Ledovoye field with a potential new oil pool discovery in the lower Cretaceous (February 2012).

Cheremshanskoye

The Cheremshanskaya No. 3 well discovered three separate oil pools and established the Cheremshanskoye oil field. These intervals were the J14, the J1-3 and the J1-1 + Bazhenov and there were successful flow tests from each interval. The area of the field is very large encompassing almost 40 km² and further delineation and pilot testing will be required to assess the true size of the field and ultimate development plan.

There are large producing fields nearby with similar characteristics and the strong indications are that Cheremshanskoye will prove to be a substantial discovery upon further delineation.

Ledovoye

The Ledovaya No. 2a well was spudded in December 2011 in order to target oil in both the Lower Cretaceous and Upper Jurassic intervals with oil discovered in both zones. The well achieved stabilised natural oil flow of 52 bopd from the Upper Jurassic interval and the core and log data also indicate that the well has discovered a new oil pool in the secondary objective Lower Cretaceous interval containing 4.5 m of potential oil pay. The Lower Cretaceous zone will eventually need to be flow tested behind casing for confirmation. We are pleased with the result given that the same interval is productive at the neighbouring Stolbovoye field which is located 24 km to the south of Ledovoye.

2014 3D Seismic

In the first half of 2014 PITC Geophysical Company acquired 156 km² of 3D seismic data across the Ledovoye and Cheremshanskoye oil fields. This is high quality data that has helped to better define the structure and potential of the two fields. In October 2014, we received the next 5 year exploration extension for the Licence. In 2018 we plan to drill the C-4 well on the Cheremshanskoye oil field targeting about 75 million bbls gross Russian C3 reserves.

Drilled Structures

1 Cheremshanskoye Oil Field
2 Ledovoye Oil Field
3 Sklonovaya
4 North Pionerskaya
5 Bolotninskaya

Identified Prospects and Leads

6 Levo-Ilyakskaya
7 Syglynigaiskaya
8 Grushevaya
9 Grushevaya Stratigraphic Trap
10 Malostolbovaya
11 Nizhenolomovaya Terrasa Gp.
12 Baikalskaya
13 Malocheremshanskaya
14 East Chermshanskaya
15 East Ledovoye

Major Activities

2010 – Acquired block in State Auction

- Reprocessed and reinterpreted 2,447 km2 of vintage seismic data and 21 wells located in and adjacent to the Licence area
- Identified potential oil fields at Ledovoye and Cheremshanskoye that were not properly tested

2011 – Drilled confirmatory discovery wells

- Ledovoye No. 2a
- Cheremshanskoye No.3

2014 – Acquired 3D Seismic data

- Ledovoye - 61.68 sq km
- Cheremshanskoye - 95.16 sq km
- Acquisition – PITC Geofizika
- Processing and Interpretation – Tomsk Geophysical Company (TGK)
- Final Report – December 2014

2015 – 5 year Exploration Licence Extension

2018 – C-4 Delineation Well

Ledovoye Oil Field

Log re-evaluation confirms oil in L-2 and L-5 wells:

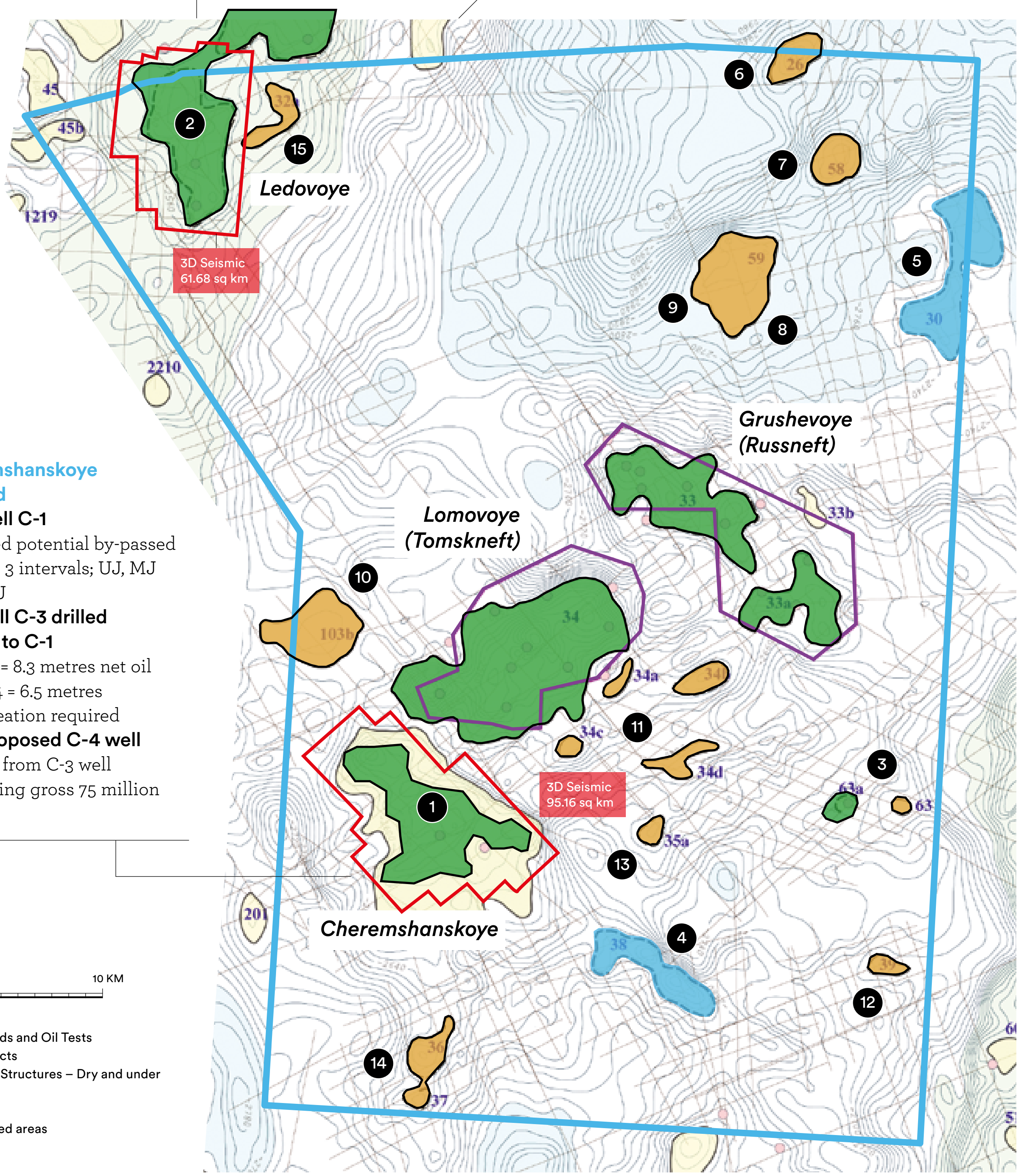
- LC = 4.5 – 10.9 metres
- UJ J1 = 4.9 – 11.8 metres
- Just UJ 2P Reserves booked at net 14 million bbls

2011/2012 well L-2a drilled parallel to L-2

- LC = 4.5 + metres
- UJ J1 = 4.4 metres
- More work required

MOL Group Licence 55

- Recent discovery on Verkhne-
- Laryegan structure located just east of North Ledovoye field – extends into Licence 67



Cheremshanskoye Oil Field

1962 well C-1

- showed potential by-passed pay in 3 intervals; UJ, MJ and LJ

2011 well C-3 drilled parallel to C-1

- UJ J1 = 8.3 metres net oil
- LJ J14 = 6.5 metres
- Delineation required

2018 proposed C-4 well

- updip from C-3 well
- targeting gross 75 million bbls

0 10 KM

- Oil Fields and Oil Tests
- Prospects
- Drilled Structures – Dry and under review

Excluded areas

Our Reserves

2P Reserves

Licences 61 and 67

- 2P reserves are as estimated by Ryder Scott, Petroleum Consultants, and conform to the definitions approved by the Society of Petroleum Engineers ('SPE') Petroleum Resources Management System ('PRMS') rules.
- Ryder Scott reserves for Licence 61 were updated as at 1 January 2016.
- Ryder Scott reserves for Licence 67 were updated as at 1 January 2011.

Licence 61

29.4	Sibkrayevskoye
12.7	Lineynoye
4.0	Arbuzovskoye
2.8	Tungolskoye
1.3	Kondrashevskoye
0.4	North Varyakhskoye
50.6	

Licence 67

14.0	Ledovoye

2P Total
64.6 MMBBLS

3P Reserves and Exploration Resources (P4)

Licences 61 and 67

- 3P reserves are as estimated by Ryder Scott, Petroleum Consultants, and conform to the definitions approved by the Society of Petroleum Engineers ('SPE') Petroleum Resources Management System ('PRMS') rules.
- All Exploration Resources (P4) are based on structures with unequivocal four-way dip closure at the reservoir horizon as identified by 2D seismic data.

Licence 61

172.8	Upper Jurassic
78.1	Lower Cretaceous
31.5	Lower to Middle Jurassic
282.4	

Licence 67

72.6	Upper Jurassic
37.4	Lower to Middle Jurassic
110.4	

3P/P4 Total
392.4 MMBBLS


КЛИНЦЫ
25т
50

Chairman's Statement

2017 was an important year for our Company particularly at Licence 61 where, with our partner Oil India, we drilled an additional delineation well at Sibkrayevskoye. The work programme saw a mix of results, as described in detail in the Chief Executive Officer's Report which follows. In 2017 we also saw continuing challenges for the industry in what remains an uncertain environment, with further volatility geopolitically and in the oil price internationally. Our production for the year was ahead of expectations and we have implemented a range of cost cutting measures including salary deferrals and reductions by the Board and senior management.

Operations

The existing production wells at Lineynoye and Arbuzovskoye generally performed well during 2017 but continued their expected natural decline. No new development wells were drilled in 2017, however the two horizontal wells drilled at South Arbuzovskoye in 2016 continued to perform above expectations. Thanks to the experience from these wells and long term stable production from West Lineynoye, we re-evaluated the West Lineynoye L-8 Lobe development and have designed a low risk development option utilising horizontal development wells and with very good economics. This development targets about 10 million barrels of oil and utilises existing infrastructure.

In October 2017 we announced the results of the additional delineation well at Sibkrayevskoye. The S-375 well was a 2 km step out from previous wells. The initial borehole encountered a thin pay interval so the well was side-tracked to the north where it encountered 14.8 m of net oil pay, the thickest found in the field to date. The development plan for the field is currently being updated and revised, however we are potentially looking at a phase one development option with two initial development pads targeting about 40 million barrels of oil.

2018 work programme

Following the mixed results of the S-375 well in 2017 and in view of unstable oil prices in the near term, it was decided to defer the first development pad at the Sibkrayevskoye oil field in order to further evaluate the S-375 well results and optimal development options. This review is underway and our next development decision will reflect learnings from previous drilling when assessing the merits of both the Sibkrayevskoye and West Lineynoye L-8 Lobe developments.

In Licence 67 we plan to drill the Cheremshanskoye No. 4 well in 2018. We feel the well has great potential as it will test multiple targets up-dip from prior wells on the structure that have already tested oil in the same intervals. This is also the first well to be drilled by the Company based on the modern 3D seismic data acquired in 2014. We are targeting about 75 million barrels of Russian gross C3 reserves.

In Licence 67 we plan to drill the Cheremshanskoye No. 4 well in 2018. We feel the well has great potential as it will test multiple targets up-dip from prior wells on the structure that have already tested oil in the same intervals.

Reserves

The Chief Executive Officer's Report contains the details of the Ryder Scott report as at 1 January 2016 as adjusted for 2016 and 2017 production. The report demonstrates the large potential of the Sibkrayevskoye oil field and the potential upside that could be achieved from prospects such as Emtorskaya, which lies north of Lineynoye.

Business Development

The principal near-term objective of the Group is the development of the northern oil fields on Licence 61 together with our partner Oil India, and leveraging the infrastructure already in place. However, we have not lost sight of our longer-term objective of securing assets outside our current licences to provide growth for the future. In that regard, Pavel Tetyakov joined the Company in 2016 and is responsible for new business development in Russia. We have been very active in pursuing opportunities since then and are very far advanced on one particular transaction with due diligence and legal agreements well advanced. We expect to be in a position to announce a firm deal in Q3-2018.

Engagement with Natlata

Following the agreement entered into with our largest shareholder, Natlata Partners Limited ("Natlata") in April 2016, I am pleased to report that the new Board has continued to work well together in 2017/18 and our relationship with Natlata will continue to benefit the Company in future.

Senior Management

In January 2018 Alexey Balyasnikov, the General Director of all our Russian entities retired from the Group, having been with us since 2005. I would like to place on record my deep appreciation and that of the Board for Alexey's service and counsel over the years and I wish him well in his retirement.

Summary

2017 was a mixed year for PetroNeft with positives and negatives coming from the work programme. The lessons learned from the horizontal wells drilled in 2015 and 2016 have been used to re-evaluate the development of the West Lineynoye L-8 Lobe leading to a low risk, low cost development option with very good economics. The mixed results of the S-375 well at Sibkrayevskoye has led to another delay in commencement of production there pending further review of the well results and development options which is underway.

Cash-flow from operations at Licence 61 has been higher than forecast so far in 2018 due to the continued strong performance of the horizontal wells at South Arbuzovskoye, the recent very positive improvement in oil prices and significant reduction we have achieved in operating expenses and overhead costs. We will do everything possible to continue this positive trend as we go forward.

We look forward to drilling the high potential Cheremshanskoye No. 4 well in Licence 67 in 2018; this well could significantly influence the future of the Company. The drilling rig and necessary materials to drill the well have already been mobilized to location on winter roads and we plan to drill the well this summer.

Our industry is continuing to experience unstable times but we have future development targets such as the West Lineynoye L-8 Lobe and Sibkrayevskoye that will be profitable even at reduced oil prices.

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

David Golder
Non-Executive Chairman

Chief Executive Officer's Report

Gross production at Licence 61 in 2017 was 816,476 barrels of oil or an average of 2,237 bopd. No new production wells were drilled during the year and this represents a decline of 17% from 2016 production of 990,931 barrels (2,707 bopd average). The two horizontal wells drilled at South Arbuzovskoye in 2016 are experiencing natural decline but continue to perform above expectations. The Sibkrayevskoye development remains under evaluation because of mixed results of the S-375 delineation well drilled in 2017.

The development of the L-8 Lobe at West Lineynoye is under detailed consideration based on steady production from existing wells and the performance of the South Arbuzovskoye horizontal wells.

Licence 61 – Arbuzovskoye

The southern part of the Arbuzovskoye field (Pad 2) was brought into production in 2016. The development consisted of two horizontal wells with about 1,000 m horizontal sections and two vertical wells. The design was based on our experience with the horizontal wells drilled at Tungolskoye. The initial flow rates on the two horizontal wells were over 800 bopd and 650 bopd and today they are making around 500 bopd and 250 bopd which is better than forecast. It is important to note that the initial flow rates and declines for the Pad 2 wells are better than that for the northern part of the field (Pad 1) which comprised 11 vertical wells and cost about twice as much to develop. The use of a mix of vertical and strategically placed horizontal wells is now a proven as a more efficient way to develop similar fields in the future.

Licence 61 – Lineynoye and West Lineynoye Development

The wells at Lineynoye have continued to perform well during 2017, although they are showing natural production decline. Our team in Tomsk, including our in-house workover crew, have worked effectively to keep wells online and to intervene where necessary to optimise well performance.

At West Lineynoye we have been producing from two vertical wells and one horizontal well since 2015 with minimal decline in production and no water cut. Based on the experience gained at Tungolskoye and at Arbuzovskoye Pad 2 where we have similar pays in the J1-1 reservoir interval we feel we can get much better wells at West Lineynoye. We are currently re-evaluating the development of the L-8 Lobe of the field utilising four horizontal wells with up to 1,000 m horizontal sections. As we have existing infrastructure which ties the L-8 Lobe to the Central Processing Unit, the economics of the development look very good. This development would target about 10 million barrels of 2P reserves.

Today based on the experience gained at Tungolskoye and at Arbuzovskoye Pad 2 where we have similar pays in the J1-1 reservoir interval we feel we can get much better wells at West Lineynoye.

Licence 61 – Sibkrayevskoye

In 2015 we drilled the S-373 delineation well and carried out a major 2D seismic programme across the northern portion of Licence 61 including Sibkrayevskoye. In Q1 2016, Q1 2017 and Q1 2018 the S-373 well was put on winter test production and averaged about 200 bopd during the periods. This well, along with the previous wells, S-372 and S-370, formed the basis for the initial development of Sibkrayevskoye (Pad 1) which was initially planned for 2017 but has now been deferred pending further review of the S-374 and S-375 well results drilled in 2016 and 2017 respectively.

In 2017, we took a conservative approach and drilled the S-375 well about 2 km south of the initial core wells. The objective of the well was to determine the sand distribution and confirm the oil water contact at the southern edge of the northern lobe of the field. The well was drilled as a deviated well from the Pad 2 surface position to a targeted location 1.5 km to the south. The wireline logs indicated there is about 4.8 m of oil pay in the well with the top of the Jurassic J1 interval located at -2,346 m tvdss, which was on prognosis, and the oil-down-to confirmed at -2,357 m tvdss.

The well was then sidetracked (S-375s) from the surface casing to a location about 400 m north of the Pad 2 surface position. The log and core evaluation of the primary Jurassic J1 reservoir indicated about 14.8 m of net oil pay. This pay is thicker than encountered in other wells drilled at the northern part of Sibkrayevskoye, which typically had about 10 m of net oil pay.

The cased-hole step testing of the S-375s well was completed in October 2017. During the final five days of ESP production the well produced about 150 bopd. The well was then suspended due to lack of storage capacity at site. The S-375s and S-373 wells are being produced on long term test during the winter season of 2017/2018 with the oil being trucked about 26 kms to the Lineynoye central processing facility by winter road. The reserve estimate and Development Plan for the field will be updated with the S-374 and S-375s drilling and testing results in the coming months. This data will help to shape our future plans for Sibkrayevskoye.

Licence 61 – Emtorskaya

Emtorskaya is a very large prospect interpreted to be the northern extension of the Lineynoye oil field. Two wells (E-300 and E-303) drilled on the structure in Soviet times have been reinterpreted and confirm oil in the J1-1 interval and potential oil in the J1-2 interval. The structural crest of Emtorskaya is about 60 m high to the Lineynoye crest. The reserves associated with this prospect could be very large. Ryder Scott estimates the P3 reserves just up dip from the existing wells at 64 million barrels and Sibneftegeofizika estimates the Russian C3 reserves for the same area at over 100 million barrels. The recent work done at West Lineynoye L-8 Lobe shows that Emtorskaya can be very economic with minimal net pay projections and further de-risks this important prospect.

Chief Executive Officer's Report
(continued)

Licence 67 – Cheremshanskoye

In the winter of 2013/2014, we acquired 156 km² of 3D seismic data over the Cheremshanskoye and Ledovoye oil fields. This is high quality data that has helped to better define the structure and potential of the two fields.

In 2018 we plan to drill the Cheremshanskoye No. 4 (C-4) delineation well. The C-4 well is designed to further delineate and de-risk the Cheremshanskoye field in advance of field development. Three prior wells have been drilled on the field, most recently in 2011 by PetroNeft, and oil has been identified and tested in 4 different intervals in the field: the Lower Jurassic J-14 and J-13 intervals and the Upper Jurassic J1-1 and J1-3 intervals. These initial wells were drilled without the benefit of modern 3D seismic data which was acquired in 2014. The C-4 well is designed to test a large portion of the field which is structurally higher than the previous wells based on this recently acquired 3D seismic data.

The primary reservoir target is the J1-3 interval which is approximately 10 m in thickness throughout the region and is the primary reservoir at the adjacent producing Lomovoye field operated by TomskNeft. The J1-3 interval tested 240 bopd of light oil (40°API) on natural flow in the adjacent Lomovoye No. 208 well.

The secondary reservoir target is the J14 interval which had a natural flow of 33 bopd of light oil (49°API) from 6.5 m of net pay in the 2011 Cheremshanskoye No. 3 well. The current Russian State (GKZ) registered reserves for this interval are about 16 million bbls gross recoverable C1+C2 reserves.

Tomsk Geophysical Company estimates the Russian C3 gross reserves for all 4 intervals at about 75 million bbls recoverable for the field, based on the 3D seismic and log evaluation of the existing wells.

Based on the results of a competitive tender the drilling contract was awarded to SSK Drilling, a large drilling contractor with operations throughout Russia. The drilling rig and necessary supplies have been mobilised to the site this winter while winter roads were in place and the well will be drilled this summer. The well is being drilled under the joint venture agreement with our partner for Licence 67, Arawak Energy, on a 50:50 basis. PetroNeft's proportion of the well costs will be funded from existing resources.

Reserves

Independent reserve consultants Ryder Scott completed an assessment of petroleum reserves on Licence 61 as at 1 January 2016. The total Proved and Probable ("2P") reserves for the licence stood at 103 mmbbls. PetroNeft's net interest in these reserves is 50%. As shown in the table on page 17, PetroNeft's share of the combined Licence 61 and Licence 67 reserves is 64.6 mmbbls 2P and 16.5 mmbbls P1 as at 1 January 2018 following adjustment of the Ryder Scott numbers for production.

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

Conclusion

In 2016 we applied the experience gained in horizontal drilling at Tungolskoye in 2015 to the new horizontal wells at South Arbuzovskoye and achieved very good initial results. These two horizontal wells continue to perform better than initial expectations throughout 2017 and to date in 2018.

Based on the steady production data from 3 wells at West Lineynoye and the experience gained from the horizontal wells results at South Arbuzovskoye, we are re-evaluating the West Lineynoye L-8 Lobe development and are confident that the field can be developed in a low risk, very economical way utilising horizontal wells and the existing infrastructure. This development would target about 10 million barrels of gross 2P reserves.

In 2017 we had another setback at Sibkrayevskoye with the mixed results of the S-375 well. Even with this mixed result, Sibkrayevskoye is the largest field found in the Tomsk region in recent years and represents

We have had good exploration success in the past and feel we can add reserves with additional appraisal at Cheremshanskoye, Emtorskaya and Traverskaya in the medium term.

a core asset in the future of the company. We are currently evaluating a phase one development for the field that would include two initial development pads. This initial phase would target about 40 million barrels of gross 2P reserves and requires investment in infrastructure to develop the field and transport the oil to Lineynoye.

In addition to Sibkrayevskoye and the West Lineynoye L-8 Project which are under study and consideration, we view the Emtorskaya Prospect as a very low risk appraisal opportunity in Licence 61.

In Licence 67 we look forward to drilling the Cheremshanskoye No. 4 well targeting about 75 million barrels of Russian gross C3 reserves. The well has great potential as it will test multiple targets up-dip from nearby wells on the structure that have already tested oil in the same intervals and utilising the modern 3D seismic data acquired in 2014.

In Licence 61 we have an excellent partner in Oil India and who are assisting in these challenging times for our industry. We also have an excellent partner in Licence 67 in Arawak Energy who appreciate the technical potential of the Licence.

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	6.8	12.7	15.7
Tungolskoye	0.3	2.8	3.6
Kondrashevskoye	0.7	1.3	1.6
Arbuzovskoye	1.4	4.0	5.2
Sibkrayevskoye	5.9	29.4	29.4
North Varyakhskoye	0.2	0.4	0.5
	15.3	**50.6**	**56.0**
Licence 67			
Ledovoye	1.5	14.0	17.4
Total net to PetroNeft	**16.8**	**64.6**	**73.4**

- Licence 61 as at 31 December 2017 (Ryder Scott report as at 1 January 2016, adjusted for 2016 and 2017 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.

Dennis Francis
Chief Executive Officer

Financial Review

2017 was a challenging one from a finance point of view with the continued volatility encountered in the commodity and currency markets. Oil India agreed to provide funding for the drilling of a well at Sibkrayevskoye by way of an unsecured US$4 million shareholder loan to the WorldAce Group, however only US$3.2 million needed to be drawn as the remainder was funded from operating cashflows within the WorldAce Group.

Review of PetroNeft loss for the year

The loss after taxation for the year was US$3,239,041 (2016: US$5,427,660). The loss included a foreign exchange gain on intra-group loans of US$52,093 (2016: US$77,458), the share of joint venture's net loss in WorldAce Investments of US$4,285,833 (2016: US$5,721,232) and the share of joint venture's net loss in Russian BD Holdings B.V. of US$381,654 (2016: US$288,198).

PetroNeft Key Financial Metrics

	2017 US$'000	2016 US$'000
Continuing operations		
Revenue	**1,713**	**2,280**
Cost of sales	(1,550)	(2,038)
Gross profit	**163**	**242**
Administrative expenses	(1,403)	(2,155)
Exchange gain on intra-Group loans	52	77
Operating loss	**(1,188)**	**(1,836)**
Share of joint venture's net loss – WorldAce Investments Limited	(4,286)	(5,721)
Share of joint venture's net loss – Russian BD Holdings B.V.	(382)	(288)
Finance revenue	3,511	3,248
Loss for the year for continuing operations before taxation	**(2,345)**	**(4,597)**
Income tax expense	(894)	(830)
Loss for the year	**(3,239)**	**(5,427)**

Administrative expenditure was reduced by 35% in the year.

Revenue

Revenue in 2017 and 2016 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

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

As PetroNeft management and employees are responsible for day to day matters in both Licences, PetroNeft is entitled to recover a portion of its expenses from the joint ventures. The costs associated with this revenue are included in cost of sales.

In 2017 PetroNeft Group charged a total of US$0.85 million (2016: US$1.46 million) to the joint ventures in respect of management services. PetroNeft also owns a small construction company, Granite Construction, which carries out small ad hoc construction projects such as well pads and on-site accommodation on both Licences as well as maintaining the winter road network each year. In 2017 Granite Construction charged the WorldAce Group US$0.86 million (2016: US$0.81 million) in respect of these services.

Administrative expenditure was reduced by 35% in the year . The Company implemented a cost cutting program across the Group and the Directors and management have agreed to reduce and defer significant portions of their remuneration in order to assist the Company. A total of US$824,080 has been deferred by the Directors and senior management in order to assist the Company - see Note 24 for details.

Finance Revenue

Most of the finance revenue relates to interest receivable on loans to joint ventures. During 2017 PetroNeft had interest receivable of US$3,238,839 (2016: US$3,011,025) on its loans to WorldAce Group and US$270,773 (2016: US$234,402) on its loans to Russian BD Holdings B.V.

Key Financial Metrics – WorldAce Group

Because of the equity method of consolidation that applies to PetroNeft's interest in WorldAce, it is difficult to extract meaningful metrics from the PetroNeft consolidated income statement. Therefore, the metrics below are an extraction from the audited financial statements of the WorldAce Group and give an indication as to the performance of Licence 61:

	WorldAce Group 2017 US$'000	WorldAce Group 2016 US$'000
Continuing operations		
Revenue	**27,637**	**23,208**
Cost of sales	(25,273)	(22,399)
Gross profit	**2,364**	**809**
Administrative expenses	(3,093)	(3,229)
Operating loss	**(729)**	**(2,420)**
Loss on disposal of oil and gas properties	–	(876)
Write-off of exploration and evaluation assets	(26)	(1,420)
Finance revenue	66	19
Finance costs	(7,883)	(6,745)
Loss for the year for continuing operations before taxation	**(8,572)**	**(11,442)**
Income tax	–	–
Loss for the year	**(8,572)**	**(11,442)**
PetroNeft's 50% share	**(4,286)**	**(5,721)**

Net Loss – WorldAce Group

PetroNeft's share of the net loss of WorldAce Group for the full year decreased to US$4.3 million from US$5.7 million in 2016. The decrease in the loss for the year before taxation can be attributed to an improved oil price and lower costs. Of the US$7.7 million in interest payable by WorldAce, US$3.2 million is payable to PetroNeft.

Revenue, Cost of Sales and Gross Margin – WorldAce Group

Gross Revenue from oil sales was US$27.6 million for the year (2016: US$23.2 million). Cost of sales includes depreciation of US$2.6 million (2016: US$3.3 million), which was lower mainly due to lower production. The gross margin improved during the year due to improved oil prices. Operating costs per barrel (cost of sales excluding depreciation and Mineral Extraction Tax) were higher at US$10.36 (2016: US$8.82 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 816,476 barrels of oil (2016: 990,931 barrels) in the year and sold 822,388 barrels of oil (2016: 985,824 barrels) achieving an average oil price of US$35 per barrel (2016: US$24 per barrel). All oil was sold on the domestic market in Russia.

Finance Costs – WorldAce Group

Gross Finance costs of US$7.9 million (2016: US$6.7 million) mainly relates to interest on loans from PetroNeft and Oil India.

Taxation – WorldAce Group

There is no tax payable in 2017 or 2016.

Current and Future Funding of PetroNeft Group

In previous Annual Reports we outlined that PetroNeft expected to start receiving interest due on its shareholder loans to WorldAce in the second half of 2017 once the development of the Sibkrayeskoye oil field in Licence 61 was up and running. The S-374 appraisal well drilled in 2016 at the Sibkrayevskoye oil field, to assess the true extent of the field 10km to the south of existing wells, did not encounter commercial hydrocarbons. The result of this well has led to the postponement of the commencement of the development of the Sibkrayevskoye oil field. As a consequence of this, the date by which PetroNeft expects

Financial Review
(continued)

to start receiving interest due on its shareholder loans to WorldAce has been delayed until 2019 at the earliest from the previously guided estimate of late 2017.

The success of the S-375 well in 2017 has led to a period of extended testing at Sibkrayevskoye and in 2018 we will refine and re-evaluate the development program.

While there were consolidated net current liabilities at the year-end of US$1.1m (2016: net current assets of US$410k), the Company has implemented a cost cutting program across the Group and the Directors and management have agreed to reduce and defer significant portions of their remuneration in order to assist the Company. Note 24 outlines the amounts owed to the Board and management in this regard. Cashflow from operations within the WorldAce Group in 2018 to date is significantly ahead of forecast due to higher than expected production, much improved oil prices and the benefit of the cost cutting programme.

In January 2018 we agreed a secured loan facility for up to US$2 million with Swedish company Petrogrand AB ("Petrogrand"). The loan matures on 31 December 2018. The loan facility will be used for general corporate purposes and to finance the drilling programme in 2018. This loan facility will provide time and space for a more long-term financing solution to be put in place. This loan facility is secured and Petrogrand AB have a floating charge over the assets of the Group.

The Company is in advanced discussions on a transaction that would refinance the US$2 million loan and provide additional financing with basic terms agreed and due diligence and legal documentation well advanced. We expect to conclude this transaction in Q3 2018. The Company is also pursuing other options such as the sale or farmout of Licence 67.

The Directors are satisfied that the options being pursued are progressing well and are highly confident the funding gap can be solved.

The ability to re-finance the Petrogrand loan represents a material uncertainty that may cast significant doubt upon the Group's and the Company's ability to continue as a going concern as described in Note 2 to the Consolidated Financial Statements.

Financial Risk Management

The Board sets the treasury policies and objectives of the Group, which include controls over the procedures used to manage financial risk. The Group's activities expose the Group to a variety of financial risks including foreign currency, commodity price, credit, liquidity and interest rate risks. These financial risks are managed by the Group under policies approved by the Board. Details of the Group's financial risk management policies are set out in detail in Note 21 to the financial statements.

Principal risks and uncertainties

The principal risks and uncertainties affecting the Group and the actions taken by the Group to mitigate these risks and uncertainties are:

Risk Category / Risk Issue	Mitigation
Country Risks	
Geopolitical	Sanctions to date relating to the Ukraine situation are at a very high level concentrating on Government officials and very high net worth individuals. It is not currently expected that international sanctions will affect Group operations.
Political – federal risks	Fields/acquisitions below 500 million boe are not considered strategic to the Russian state.
	State is encouraging small operators.
Political – local risks	Tomsk Oblast administration is very supportive of development.
	Local management are well respected in region.
Ownership of assets	Licences were acquired at government auctions. Work programme for Licence 61 is complete. Work programme for Licence 67 is not onerous.
	25-year licence term can be automatically extended based on approved production plan.
Changes in tax structure	Fiscal system is stable – recent and proposed changes largely benefit upstream oil and gas companies.
	Proactive lobbying effort made in area of tax legislation.
Technical Risks	
Exploration risk	Proven oil and gas basin with multiple plays.
	Good quality 2D & 3D seismic.
	Knowledgeable exploration team with proven track record in region.
Drilling risk	Relatively shallow wells with proven technology.
	Good rig availability.
	Experienced operations team.
	Can avoid drilling wells low on structure that risk poor results.
Production/ Completion risk	Routine completion practices including fracture stimulation.
	Reserves high-graded; extensive reservoir simulation and reservoir management will be undertaken.
	Performance of similar fields in region.
Reserve risk	SPE and Russian reserves updated and in substantive alignment.

Risk Category / Risk Issue	Mitigation
Financial Risks	
Availability of finance	Strong reserve base and key infrastructure already in place makes good investment case.
Oil price	Robust project sanction economics – conservative base case assumptions. Russian tax system means economics are less sensitive to changes in oil price.
Industry cost inflation	Rigorous contracting procedures with competitive tendering. Also the relationship of the US Dollar:Russian Rouble exchange rate to the oil price provides a natural balance between costs and income.
Uninsured events	Comprehensive insurance programme in place.
Other Risks	
HSE incidents	HSE standards set and monitored regularly across the Group.
Export quota	Equal access to export quotas available for all oil producers using Transneft.
	Conservative assumption in economics – domestic net back price now largely in alignment with export net back.
Third party pipeline access	25-year transportation agreement in place for Licence 61, several options available for ultimate development of Licence 67.
Transneft pipeline access	Available capacity and access confirmed.
	East Siberia-Pacific Ocean ("ESPO") pipeline allows export of oil to Pacific market.

The success of the S-375 well in 2017 has led to a period of extended testing at Sibkrayevskoye and in 2018 we will refine an re-evaluate the development program.

Investor Relations

During 2017, the CEO and CFO held regular meetings with analysts and institutional investors. The target for 2018 is to continue our programme of meetings and specifically to remind investors of the existing and potential future value of the asset portfolio.

Significant Shareholders

So far as the Directors are aware, the names of the persons other than the Directors who, directly or indirectly, are interested in 3% or more of the Issued Share Capital at 20 June 2018 are as follows:

Name of shareholder	Ordinary Shares	Percentage
Natlata Partners Limited	208,429,458	29.47%
Daria Shaftelskaya	78,079,986	11.04%
Mr. Duming Zhai	37,000,000	5.23%
Ali Sobraliev	23,014,273	3.25%
J&E Davy	53,203,708	7.52%

Paul Dowling
Chief Financial Officer

Health, Safety and Environmental Report

The Group is fully committed to high standards of Health, Safety and Environmental ("HSE") management and being socially responsible within the communities where we work. There are inherent risks in the oil and gas industry and these are managed through policies and practices, which stress the need for individual and collective responsibility within our staff structure and with contractors that operate for the Group.

Alexander Frenovsky, the General Director of Stimul-T, has primary responsibility for all aspects of HSE management. As well as reporting directly to Group CEO, Dennis Francis, he also attends important Board meetings to report to the full Board on HSE issues. There were no lost time incidents in 2017 or 2016.

Health and Safety Management

The Group has a dedicated Labour Safety and Industrial Security Department in Tomsk. The role of the department is to minimise the risks to employees and contractors from the day-to-day operation of our business, to train all staff in safety awareness and to prepare contingency plans to minimise the potential impact of any unplanned incidents or events. For that purpose we:

- Control compliance of all employee operations with labour safety requirements and ensure that employees of the Group and employees of contractors are adequately trained in the use of relevant equipment.
- Have a medical facility and appropriate medical personnel at our central Lineynoye base to deal with any issues arising and provide necessary healthcare.
- Monitor all contracts the Group enters into in order to ensure that contractors are informed of the labour safety policies of the Group.
- Carry out regular site inspections to ensure full compliance.
- Develop and deliver labour safety and industrial security training to Group employees.
- Maintain an Emergency Response Plan for the facilities of the Group.
- Develop and get approved by state authorities:
  - Regulation for control of industrial safety compliance at hazardous facilities.
  - Regulation for accident investigation at hazardous industrial facilities of the Group.
- Maintain a prevention programme for tick-borne encephalitis, a disease common in the West Siberian environment.

Emergency Preparedness Training

In March 2017, we held a joint training exercise with the Ministry of Emergency Situations to test our oil spill contingency plan. The scheduled training plan involved a scenario where there was an oil spill at Lineynoye Pad 1 facilities and tested the responsiveness of the Group's staff and of local emergency services in containing and eliminating the spill. The exercise was successful and, while there were some minor recommendations at the end of the exercise, the local and federal authorities were satisfied that the Group is well prepared for such an emergency. Similar joint exercises had been carried out in 2013 and 2015. As well as these major exercises involving external authorities there is an internal programme of regular drills and exercises.

Environmental Impact Management

The Board recognises that the Group's activities can have a significant impact on the environment. As part of its responsibilities under Russian law, an environmental assessment of Licence 61 was carried out before any drilling work commenced in 2007. This was to establish the state of the environment within Licence 61 in advance of any major works. A similar base-line assessment at Licence 67 was also completed before drilling works commenced.

The Group has a dedicated full-time Environmental Engineer on site in our Tomsk office. Her responsibilities include:

- Monitoring of exploration and production activities.
- Monitoring activities of sub-contractors.
- Maintaining compliance with various environmental laws and regulations.

In 2017 the main activities from an environmental perspective were:

- Environmental, air, water and subsoil monitoring at Lineynoye, Arbuzovskoye and Tungolskoye oil fields.
- Planning and approvals for 2017 and 2018 drilling programmes.
- Recultivation at Arbuzovskoye Oil field.
- Engineering and survey works, including environmental relating to planned facilities construction at Sibkrayevskoye and West Lineynoye oil fields.

This included the use of an independent company to supervise the work of both our own staff and the staff of contractors working at our sites.

Gas Utilisation

The initial facilities design at Lineynoye emphasised the installation of gas piston power generators to utilise associated gas from the oil production to generate electricity for the camp, facilities and field needs, and thereby minimise the flaring of associated gas. This has been very successful and has led to our operations being amongst the top three in the region in terms of percentage of gas utilisation. We continue to work towards a goal of 95% gas utilisation and are currently studying various options including mixing associated gas with water for use in our water flood operations thereby re-injecting the gas back to the formation it came from and installing a gas condensate recovery unit. In addition, in 2015 we installed two gas turbine generators that can utilise a higher percentage of the low pressure gas that is currently being flared.

Compliance and Inspections

The Group reports on its HSE activities to various statutory authorities in Russia on a quarterly and annual basis and is also subject to regular inspections by various bodies. A number of routine joint inspections relating to compliance with the various health, safety and environmental obligations took place in 2017 and 2016 and no significant issues arose from these inspections.

Board of Directors

David Golder
(Non-Executive Chairman)(Age 70)

Mr. Golder has been Non-Executive Chairman of the Company since 2005. He is also Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees. He has over 40 years' experience in the petroleum industry and was formerly Senior Vice President of Marathon Oil Company ("Marathon"), retiring in 2003. From June 1996 to 1999, Mr. Golder was seconded from Marathon to Sakhalin Energy Investment Company where he was Executive Vice President – Upstream. Located in Moscow, he managed all upstream activities which focused on the oil development and company infrastructure aspects of the Sakhalin II Project onshore and offshore Sakhalin Island. Mr. Golder is a member of the Society of Petroleum Engineers. He has a BSc degree in Petroleum & Natural Gas Engineering from Pennsylvania State University and has completed the Program for Management Development at Harvard University.

Dennis Francis
(Chief Executive Officer and Executive Director) (Age 69)

Mr. Francis has been Chief Executive Officer and an Executive Director of the Company since its formation in 2005. He has over 40 years' experience in the petroleum industry and was with Marathon for 30 years. From 1990, Mr. Francis was the USSR/FSU task force manager, responsible for developing new opportunities for Marathon in Russia. Marathon and its partners ultimately won the first Russian competitive tender, which was to develop the Sakhalin II Project offshore Sakhalin Island. Mr. Francis was instrumental in the formation of Sakhalin Energy Investment Company and was a director in that company. He is a member of the American Association of Petroleum Geologists and Society of Exploration Geophysicists. He has a BSc degree in geophysical engineering and an MSc degree in geology, both from the Colorado School of Mines. He has also completed the Program for Management Development at Harvard University.

Thomas Hickey
(Non-Executive Director) (Age 49)

Mr. Hickey has been a Non-Executive Director of the Company since 2005. He is Chairman of the Audit and Nomination Committees and a member of the Remuneration Committee. Tom was previously Chief Financial Officer at Petroceltic International Plc. Prior to that he was an Executive Director and Chief Financial Officer of Tullow Oil plc, from 2000 to 2008. During this time, Tullow grew via a number of significant acquisitions including the US$570 million acquisition of Energy Africa in 2004 and the US$1.1 billion acquisition of Hardman Resources in 2006. Prior to joining Tullow, Tom was an Associate Director of ABN AMRO Corporate Finance (Ireland) Limited. Tom is a Fellow of the Institute of Chartered Accountants in Ireland.

Maxim Korobov
(Non-Executive Director) (Age 60)

Mr. Korobov was appointed a Non-Executive Director of the Company in April 2016. He is a Russian businessman with over 20 years of experience in the oil & gas sector and the ultimate beneficial owner of Natlata Partners Limited, a significant shareholder of PetroNeft.

Anthony Sacca
(Non-Executive Director) (Age 46)

Mr. Sacca was appointed a Non-Executive Director of the Company in April 2016. He is a member of the Audit Committee. He is principal of Karri Tree executive coaching. Anthony was previously the Chief Financial Officer of Rolf Group of Companies, one of Russia's largest independent automotive distributor/retailers. Prior to that he was a Partner with PwC in Moscow. In addition to coaching, Anthony sits on the advisory board of Emex Group. His role on these businesses ranges from business decision making to the implementation or improvement of corporate governance practices. Anthony is a Fellow of the Institute of Chartered Accountants in Australia. He holds a Bachelor of Business and Administration (Distinction) from Curtin University of Technology Perth, Australia. He is a member of the Russian Independent Directors Association and is a Fellow Chartered Director with the Institute of Directors in the United Kingdom. In addition to his business, Anthony is a lecturer on business ethics, as part of the Masters in Finance programme at the New Economic School in Moscow.

David Sturt
(Non-Executive Director) (Age 56)

Mr. Sturt was appointed a Non-Executive Director of the Company in April 2016. He is a member of the Remuneration and Nomination Committees. David has over 29 years of international experience in the oil and gas industry gained working on projects in Europe, CIS, Africa and SE Asia. Since 2012 David has been a Senior Vice President with Azimuth Limited, and is a founding shareholder of VTX, which is an oil and gas production company with assets in Indiana and Illinois formed after the sale of VistaTex. He is currently a Non-Executive director of Petrosibir AB a Swedish company with oil and gas interests in Russia. During 2011-2012, David served as a Deputy Board Chairman and Head of Upstream for Ukrnafta. David was one of the founding shareholders of VistaTex, a gas producing company with assets onshore US, recently acquired by Dome Energy. David holds a BSc honours degree in Earth Sciences from Kingston Polytechnic University, an MSc degree in Exploration and Geophysics from Leeds University, and a postgraduate diploma in business administration from Herriot Watt University.

Directors' Report
for the year ended 31 December 2017

The Directors present herewith their Annual Report and the audited financial statements of PetroNeft Resources plc ("PetroNeft", "the Company", or together with its subsidiaries and joint ventures, "the Group") for the year ended 31 December 2017.

Principal Activity
The principal activities of the Group are that of oil and gas exploration, development and production through its holdings in two joint venture undertakings. The Group was established to acquire and develop oil and gas exploration, development and production interests in Russia and other countries of the former Soviet Union. A detailed business review is included in the Chairman's Statement, Chief Executive Officer's Report and in the Financial Review.

Results and Dividends
The loss for the year before tax amounted to US$2,345,371 (2016: US$4,597,419). After a tax charge of US$893,670 (2016: US$830,241) the loss for the year amounted to US$3,239,041 (2016: US$5,427,660). The Directors do not recommend payment of a final dividend and no interim dividend was paid.

Review of the Development and Performance of the Business
In compliance with the requirements of the Companies Act 2014, a fair review of the performance and development of the Group's business during the year, its position at the year-end and its future prospects is contained in the Chairman's Statement on pages 12 to 13, the Chief Executive Officer's Report on pages 14 to 17 and the Financial Review on pages 18 to 21. The key financial metrics used by management are set out in the Financial Review on page 18.

Corporate Governance
The Company is not subject to the UK Corporate Governance Code applicable to companies with full listings on the Dublin and London Stock Exchanges. The Company has adopted and intends, in so far as is practicable and desirable, given the size and nature of the business and the constitution of the Board, to comply with the new 2018 QCA Corporate Governance Code (the "QCA Code") as published by the Quoted Companies Alliance (the "QCA"). PetroNeft is a member of the Quoted Companies Alliance.

The QCA Code was devised, in consultation with a number of significant institutional small company investors, as an alternative corporate governance code applicable to Small and Mid-Size Quoted Companies. An alternative code was proposed because the QCA considered the UK Corporate Governance Code to be inappropriate to many Small and Mid-Size Quoted Companies.

The QCA Code states that "Good corporate governance inspires trust between a public company and its shareholders; it creates value by reducing the risks that a company faces as it seeks to create growth in long term shareholder value. Without trust, there will be no appetite from shareholders to invest further or remain shareholders. In reducing the risks, so the cost of capital is reduced." The guidelines set out a code of best practice for Small And Mid-Size Quoted Companies. Those guidelines require, among other things, that:

a) certain matters be specifically reserved for the Board's decision;
b) the Board should be supplied in a timely manner with information (including regular management financial information) in a form and of a quality appropriate to enable it to discharge its duties;
c) the Board should, at least annually, conduct a review of the effectiveness of the Company's system of internal controls and should report to shareholders that they have done so;
d) the roles of Chairman and Chief Executive should not be exercised by the same individual or there should be a clear explanation of how other Board procedures provide protection against the risks of concentration of power within the Company;
e) the Company should have at least two independent Non-Executive Directors on the Board and the Board should not be dominated by one person or group of people;
f) all Directors should be submitted for re-election at regular intervals subject to continued satisfactory performance;
g) the Board should establish audit, remuneration and nomination committees; and
h) there should be a dialogue with shareholders based on a mutual understanding of objectives.

PetroNeft satisfies all of these requirements. Major corporate decisions of the Group are subject to Board approval. The Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. These matters include approval of the Group's general commercial strategy, financial statements, Board membership, significant acquisitions and disposals, major capital expenditures, overall corporate governance and risk management and treasury policies. The Company holds regular Board meetings throughout the year.

In accordance with the QCA Code, the Board has established Audit, Remuneration and Nomination Committees, as described below, and utilises other committees as necessary in order to ensure effective governance.

Audit Committee

The members of the Audit Committee are Thomas Hickey (Chairman), David Golder and Anthony Sacca. The Audit Committee's responsibilities include, among other things, reviewing interim and year-end financial statements and preliminary announcement, accounting principles, policies and practices, internal controls and overseeing the relationship with the external auditor including reviewing the results of their audit. During the year the Committee took the decision to put the Group audit out to tender as Ernst & Young had been the auditors for ten years and while there is no obligation to change auditors it is good practice to go out to tender every ten years. Following the tender process Deloitte were appointed as Group auditors. The Board would like to thank Ernst & Young for their advice and assistance during their tenure as auditors.

Remuneration Committee

The members of the Remuneration Committee are David Golder (Chairman), Thomas Hickey and David Sturt. The Remuneration Committee's responsibilities include, among other things, determining the policy and elements of remuneration for Executive Directors, provided however, that no Director shall be directly involved in any decisions as to their own remuneration.

Nomination Committee

The members of the Nomination Committee comprise Thomas Hickey (Chairman), David Golder and David Sturt.

The percentage of Non-Executive Directors on the Board is above the recommended 50%. The Group has adopted a model code for Directors' dealings that is appropriate for an AIM company. The Group complies with Rule 21 of the AIM Rules relating to Directors' dealings and will take all reasonable steps to ensure compliance by the Directors and the Group's applicable employees and their relative associates.

Governance of Joint Ventures

Under the joint venture agreements in respect of Licence 61 and Licence 67 both partners are entitled to appoint two board representatives to the joint venture companies, WorldAce Investments Limited and Russian BD Holdings B.V. PetroNeft has appointed Paul Dowling to the Board of both companies, positions for which he receives no additional remuneration, along with local independent directors in Cyprus and Netherlands respectively. These companies are managed and controlled in Cyprus and the Netherlands through regular Board meetings. The independent local directors appointed by PetroNeft are Mr. Themis Themistocleous and Ms. Suzanne Röell in respect of WorldAce and Russian BD Holdings B.V. respectively.

Shareholder Communication

Shareholder communication is given high priority by the Group and there are regular meetings between senior executives, institutional shareholders, analysts and brokers. These meetings, which are governed by procedures designed to ensure that price sensitive information is not divulged, are designed to facilitate a two-way dialogue based upon the mutual understanding of objectives. The Annual General Meeting ("AGM") affords individual shareholders the opportunity to question the Chairman and the Board and their participation is welcomed. Shareholders are also welcome to telephone or email the Company at any time.

The Chairmen of the Audit Committee, Remuneration Committee and Nomination Committee are available at the AGM to answer questions. In addition, major shareholders can meet with the Chairman of the Board or any Executive and Non-Executive Directors on request.

The Board is kept appraised of the views of shareholders, and the market in general, through feedback from the meetings programme. Analysts' reports on the Company are also circulated to the Board on a regular basis. The Group's website, www.petroneft.com, is also a key communication tool with all shareholders. News releases are made available on the website immediately after release to the Stock Exchange. Investor presentations, reserve reports and other materials are also available on the website.

Internal Control

The Directors have overall responsibility for the Group's system of internal control and have delegated responsibility for the implementation of this system to executive management. This system is reviewed annually and includes financial controls that enable the Board to meet its responsibilities for the integrity and accuracy of the Group's accounting records.

The Group's system of internal financial control provides reasonable, though not absolute, assurance that assets are safeguarded, transactions authorised and recorded properly, and that material errors or irregularities are either prevented or detected within a timely period.

Directors

The present Directors are listed on page 76. There have been no changes to the composition of the Board to date since 1 January 2017.

In accordance with Article 89 of the Articles of Association, Dennis Francis and Anthony Sacca retire by rotation and, being eligible, offer themselves for re-election.

Directors' Report
for the year ended 31 December 2017 (continued)

Directors, Company Secretary and their Interests

The Directors and Company Secretary who held office at 31 December 2017 had no interest, other than those shown below, in the Ordinary Shares of the Company. All interests shown below are beneficial interests.

	Ordinary Shares As at 20 June 2018	Ordinary Shares As at 31 December 2017	Ordinary Shares As at 1 January 2017
Directors			
David Golder	3,165,458	3,165,458	3,165,458
Dennis Francis	25,890,416	25,890,416	25,890,416
Maxim Korobov*	208,429,458	208,429,458	208,429,458
Thomas Hickey	2,226,283	2,226,283	2,226,283
Company Secretary			
Paul Dowling	731,583	731,583	731,583

* Shares held via Natlata Partners Limited.

In addition to the above, the Directors who held office at 31 December 2017 held the following share options:

Director	Options held as at 1 January 2017	Granted in year	Exercised in year	Lapsed in year	Options held as at 31 December 2017	Exercise price
David Golder	250,000	–	–	(120,000)	130,000	£0.065
Dennis Francis	805,000	–	–	(330,000)	475,000	£0.065
Thomas Hickey	210,000	–	–	(100,000)	110,000	£0.065

Details of the terms and conditions of the option scheme are included in Note 25 of the financial statements.

Principal Risks and Uncertainties

The Group has a risk management structure in place which is designed to identify, manage and mitigate business risks. Risk assessment and evaluation is an essential part of the Group's internal control system.

Details of the principal risks and uncertainties affecting the Group, as required to be disclosed in accordance with the Companies Act 2014, are listed on pages 20 to 21.

Going Concern

The appropriateness of continuing to prepare the financial statements on a going concern basis is discussed in detail in the Finance Review on pages 19 and 20 in the paragraphs related to the "Current and future funding of PetroNeft" and in Note 2 to the financial statements on page 43.

The circumstances outlined in the Finance Review and Note 2 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 in the Finance Review and Note 2, 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 the annual report and accounts.

Accordingly, the 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.

Remuneration Committee Report

The Group's policy on senior executive remuneration is designed to attract and retain people of the highest calibre who can bring their experience and independent views to the policy, strategic decisions and governance of the Group.

In setting remuneration levels, the Remuneration Committee takes into consideration the remuneration practices of other companies of similar size and scope. A key philosophy is that staff must be properly rewarded and motivated to perform in the best interests of the shareholders. Bonuses for Executive Directors are based on performance targets which include elements relating to shareholder return and individual performance.

The share option scheme is designed to incentivise performance and loyalty of Directors and key employees. Options vest when certain operational and total shareholder return targets are met. Share option holdings of the Directors are disclosed above.

Directors' Remuneration

Director	2017 Fees, Emoluments & Compensation	2017 Pension	2017 Total	2016 Fees, Emoluments & Compensation	2016 Pension	2016 Total
Executive directors						
Dennis Francis	399,505	29,963	429,468	399,505	29,963	429,468
Paul Dowling*	–	–	–	463,539	8,466	472,005
David Sanders*	–	–	–	351,359	1,399	352,758
	399,505	29,963	429,468	1,214,403	39,828	1,254,231
Non-executive directors						
David Golder	57,903	–	57,903	71,280	–	71,280
Thomas Hickey	36,907	–	36,907	44,164	–	44,164
Anthony Sacca	36,907	–	36,907	30,031	–	30,031
David Sturt	36,907	–	36,907	30,031	–	30,031
Maxim Korobov	36,907	–	36,907	30,031	–	30,031
Gerard Fagan*	–	–	–	22,811	–	22,811
	205,531	–	205,531	228,348	–	228,348
Total Directors' remuneration	**605,036**	**29,963**	**634,999**	**1,442,751**	**39,828**	**1,482,579**

* Paul Dowling, David Sanders and Gerard Fagan left the Board of PetroNeft on 24 April 2016.

As detailed in Note 24 included in the above are unpaid fees and remuneration due to Directors as at 31 December 2017 of US$424,564 (2016: US$54,021).

Your attention is drawn to the details of the share options held by the Directors as set out in the Report of the Directors on page 28.

Political Donations

The Company did not make any political donations during the year.

Important Events after the Balance Sheet Date

In January 2018 we agreed a secured loan facility for up to US$2 million with Swedish company Petrogrand AB ("Petrogrand"). The loan matures on 31 December 2018. The loan facility will be used for general corporate purposes and to finance the drilling programme in 2018. This loan facility will provide time and space for a more long-term financing solution to be put in place. Petrogrand is a related party by virtue of Maxim Korobov, a director of PetroNeft, being a significant shareholder of Petrogrand.

Accounting Records

The measures taken by the Directors to ensure compliance with the requirements of Sections 281 to 285, Companies Act 2014, regarding accounting records are the implementation of necessary policies and procedures for recording transactions, the employment of competent accounting personnel with appropriate expertise and the provision of adequate resources to the financial function. The accounting records of the Company are maintained at 20 Holles Street, Dublin 2, Ireland.

Directors' Compliance Statement

It is the policy of the Company to comply with its relevant obligations (as defined in the Companies Act 2014). The Directors have drawn up a compliance policy statement (as defined in section 225(3)(a) of the Companies Act 2014) and arrangements and structures are in place that are, in the Directors' opinion, designed to secure material compliance with the Company's relevant obligations. The Directors confirm that these arrangements and structures were reviewed during the financial year. As required by Section 225(2) of the Companies Act 2014, the Directors acknowledge that they are responsible for the Company's compliance with the relevant obligations. In discharging their responsibilities under Section 225, the Directors relied on the advice both of persons employed by the Company and of persons retained by the Company under contract, who they believe have the requisite knowledge and experience to advise the Company on compliance with its relevant obligations.

Directors' Responsibilities Statement in Respect of the Financial Statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Irish company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have

Directors' Report
for the year ended 31 December 2017 (continued)

elected to prepare the financial statements in accordance with IFRSs as adopted by the European Union. Under company law the Directors must not approve financial statements unless they are satisfied they give a true and fair view of the assets, liabilities and financial position of the Group and Parent Company as at the end of the financial year, and the profit or loss for the Group for the financial year, and otherwise comply with the Companies Act 2014.

In preparing these financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for ensuring that the Company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the Company, enable at any time the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy, enable them to ensure that the financial statements and Directors' Report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Disclosure of information to auditors
So far as each of the Directors in office at the date of approval of the financial statements is aware:
- There is no relevant audit information of which the Company's auditors are unaware; and
- The Directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 330 of the Companies Act 2014.

Auditors
In 2017 PetroNeft held a competitive tender process for the appointment of auditors for the 2017 financial period onwards. Following that process, Ernst & Young Chartered Accountants resigned as auditors and the Board appointed Deloitte as new auditors to PetroNeft Group. Deloitte Ireland LLP continue in office in accordance with the provisions of Section 383 (2) of the Companies Act 2014.

Approved by the Board on 25 June 2018

David Golder
Director

Dennis Francis
Director

Independent Auditor's Report
to the Members of PetroNeft Resources plc

Opinion on the financial statements of PetroNeft Resources plc

In our opinion the Group and Parent Company's financial statements:
- **give a true and fair view of the assets, liabilities and financial position of the Group and Parent Company as at 31 December 2017 and of the loss of the Group and Parent Company for the financial year then ended; and**
- **have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.**

The financial statements we have audited comprise:

The Group financial statements:
- The consolidated income statement;
- The consolidated statement of comprehensive income;
- The consolidated balance sheet;
- The consolidated statement of changes in equity;
- The consolidated cash flow statement; and
- The related notes 1 to 27, including a summary of significant accounting policies as set out in note 3.

The Parent Company financial statements:
- The parent company balance sheet;
- The parent company statement of changes in equity;
- The parent company cash flow statement; and
- The related notes 1 to 27, including a summary of significant accounting policies as set out in note 3.

The financial reporting framework that has been applied in the preparation of the group financial statements is the Companies Act 2014 and International Financial Reporting Standards (IFRS) as adopted by the European Union (IFRSs as adopted by the EU) ("relevant financial reporting framework").

The financial reporting framework that has been applied in the preparation of the parent company financial statements is the Companies Act 2014 and IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 2014 ("relevant financial reporting framework").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority, as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern

We draw attention to Note 2 in the financial statements concerning the Group and Parent Company's ability to continue as a going concern. The Group incurred a loss of US$3.2 million for the financial year ended 31 December 2017, had total assets of US$50.2 million and net current liabilities of US$1.1 million. The Group's total assets of US$50.2 million includes US$49.4 million in respect of financial assets – loans and receivables due from joint ventures. The Group is dependent on the performance of its subsidiaries and joint ventures. The Group and Parent Company have two joint ventures that are loss making.

Independent Auditor's Report
to the Members of PetroNeft Resources plc (continued)

The Parent Company incurred a loss of US$14.3 million for the financial year ended 31 December 2017, had total assets of US$50.9 million and net current liabilities of US$0.25 million. The Parent Company's total assets of US$50.9 million includes US$49.4 million in respect of financial assets – loans and receivables due from joint ventures and US$0.3 million in respect of financial assets – investments in joint ventures and subsidiaries.

In response to this, we:
- obtained an understanding of the Group's and Parent Company's controls over the development and approval of the projections and assumptions used in the cash flow forecasts to support the going concern assumption and assessed the design and implementation of these controls;
- tested the key assumptions used in the cash flow forecasts by agreement to historical run rates, expenditure commitments and other supporting documentation;
- performed sensitivity analysis on the cash flow forecasts to assess the amount of headroom;
- reviewed the terms of loan facility received subsequent to the financial year-end;
- tested the clerical accuracy of the cash flow forecast model; and
- assessed the adequacy of the disclosures in the financial statements.

As stated in Note 2, these events and conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Recoverability of financial assets and loans advanced to joint venture undertakings; and • Going concern (see material uncertainty relating to going concern section)
Materiality	The materiality that we used for the Group financial statements was US$595,000, which was determined based on approximately 1.3% of shareholders' equity. The materiality that we used for the Parent Company financial statements was US$476,000, which was determined based on approximately 1.3% of shareholders' equity.
Scoping	Our Group audit was scoped by obtaining an understanding of the Group and its environment and assessing the risks of material misstatement at the Group level. We also considered the quantum of financial statement balances and individual financial transactions of a significant nature. We assessed the Group to consist of three significant components being PetroNeft Resources PLC (Parent Company), LLC Granite Construction (subsidiary) and WorldAce Investments Limited (joint venture). We performed a full scope audit on these components.
Significant changes in our approach	No significant changes in our approach.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty relating to Going Concern section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Key audit matter title: Recoverability of financial assets and loans advanced to joint venture undertakings

Key audit matter description	As described in the significant accounting policies 3.5, the Parent Company held investments in joint ventures and subsidiaries of US$NIL (2016: US$4.9 million) and US$0.3 million (2016: US$0.3 million) respectively. The Group and Parent Company held loans receivable from joint ventures of US$49.4 million (2016: Group: US$47.7 million, Parent Company: US$56.5million) at the balance sheet date. The realisation of investments in joint ventures and subsidiaries and amounts due from joint ventures is dependent on the successful development of economic reserves and revenue growth from the Licences 61 and 67, held by joint ventures. Licence 61, held by WorldAce Investments Limited, is dependent on the future exploration and development of the licence, including the reserves at the Sibkrayevskoye field. Licence 67, held by Russian BD Holdings B.V. is dependent on the successful drilling of a new well in 2018, and subsequent development or sale of the Licence. There is a risk that the recoverability of financial assets and loans advanced to joint venture undertakings is not realisable and a provision should be recorded in the financial statements. As such, we have identified this as a key audit matter.
How the scope of our audit responded to the key audit matter	We carried out the following procedures: • We evaluated the design and implementation of key controls identified in the impairment process; • We reviewed the carrying value of the investments for impairment indicators; • Where there were indications of impairment, we reviewed and challenged management's impairment models of the joint ventures including the key assumptions (oil reserves, discount rate, oil production rates, oil price and foreign exchange rates etc.) underpinning the models. • We assessed the adequacy of the disclosures in the financial statements.
Key observations	As noted above the realisation of investments and the recoverability of amounts due from joint ventures is dependent on the Group and Parent Company continuing as a going concern and the continued successful development of economic reserves on the Licence 61 and on the successful drilling in Licence 67 and subsequent sale, which are subject to a number of uncertainties, including the raising of additional finance, which is subject to a number of uncertainties. The financial statements do not include any adjustments relating to this uncertainty and the ultimate outcome cannot, at present, be determined. Our opinion is not modified in respect of this matter and we are satisfied that the disclosures are reasonable and proportionate to this uncertainty.

Our application of materiality

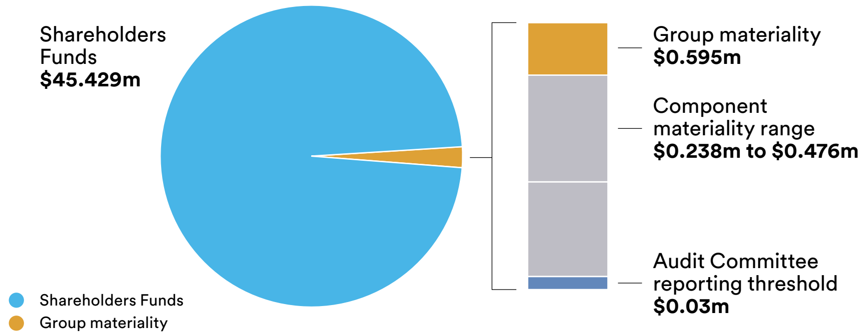
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	$595,000	$476,000
Basis for determining materiality	Materiality was determined based on approximately 1.3% of shareholders equity.	Materiality was determined based on approximately 1.3% of shareholders equity.
Rationale for the benchmark applied	We have used one benchmark to determine our materiality, which we believe cover key metrics of the Group, which are used by stakeholders. Given that the Group's main activity is the holding of investments in joint ventures that are currently engaged in both production and exploration activities and are loss making we have calculated materiality based on shareholders' funds (1.3%). We believe that using a materiality based on this benchmark reflects critical underlying measures of the Group given these are the critical elements of the business.	

Independent Auditor's Report
to the Members of PetroNeft Resources plc (continued)

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $30,000 for the group and $23,800 for the Parent Company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.



An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment and assessing the risks of material misstatement at the Group level. We also considered the quantum of financial statement balances and individual financial transactions of a significant nature.

Based on this assessment, we assessed the Group to consist of three significant components being PetroNeft Resources plc (Parent Company), LLC Granite Construction (subsidiary) and WorldAce Investments Limited (joint venture). We performed a full scope audit on these components covering 100% of revenue, 100% of profit before tax and 99% of net assets. In addition, we have performed analytical procedures on all non-significant components. The work performed by component audit teams was directed by the Group audit team and performed to component materiality levels applicable to each component which were lower than Group materiality.

At the Parent Company level we also tested the consolidation process to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements for the year ended 31 December 2017, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (Ireland), the auditor exercises professional judgment and maintains professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the entity's (or where relevant, the consolidated) financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Group to express an opinion on the Group financial statements. The Group auditor is responsible for the direction, supervision and performance of the Group audit. The Group auditor remains solely responsible for the audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2014

Based on the work undertaken in the course of the audit, we report that:

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit;
- In our opinion the accounting records of the Parent Company were sufficient to permit the financial statements to be readily and properly audited;
- The Parent Company balance sheet is in agreement with the accounting records; and
- In our opinion the information given in the Directors' Report is consistent with the financial statements and the Directors' Report has been prepared in accordance with the Companies Act 2014.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Group and Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Ciarán O'Brien
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2
Ireland

Date: 25 June 2018

Consolidated Income Statement

For the year ended 31 December 2017

	Note	2017 US$	2016 US$
Continuing operations			
Revenue	5	1,712,574	2,279,585
Cost of sales		(1,550,119)	(2,038,209)
Gross profit		**162,455**	**241,376**
Administrative expenses		(1,402,867)	(2,154,699)
Exchange gain on intra-Group loans		52,093	77,458
Operating loss	7	**(1,188,319)**	**(1,835,865)**
Share of joint venture's net loss - WorldAce Investments Limited	12	(4,285,833)	(5,721,232)
Share of joint venture's net loss - Russian BD Holdings B.V.	13	(381,654)	(288,198)
Finance revenue	8	3,510,435	3,247,876
Loss for the year for continuing operations before taxation		**(2,345,371)**	**(4,597,419)**
Income tax expense	9	(893,670)	(830,241)
Loss for the year attributable to equity holders of the Parent		**(3,239,041)**	**(5,427,660)**
Loss per share attributable to ordinary equity holders of the Parent			
Basic and diluted – *US dollar cent*	10	**(0.46)**	**(0.77)**

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	2017 US$	2016 US$
Loss for the year attributable to equity holders of the Parent	**(3,239,041)**	**(5,427,660)**
Other comprehensive income to be reclassified to profit or loss in subsequent years:		
Currency translation adjustments – subsidiaries	(37,190)	25,298
Share of joint ventures' other comprehensive income – foreign exchange translation differences	2,551,042	7,741,440
Total comprehensive (loss)/profit for the year attributable to equity holders of the Parent	**(725,189)**	**2,339,078**

Consolidated Balance Sheet

As at 31 December 2017

	Note	2017 US$	2016 US$
Assets			
Non-current Assets			
Property, plant and equipment	11	88,202	143,466
Equity-accounted investment in joint ventures - WorldAce Investments Limited	12	–	–
Equity-accounted investment in joint ventures - Russian BD Holdings B.V.	13	–	–
Financial assets - loans and receivables	15	49,439,502	47,713,421
		49,527,704	**47,856,887**
Current Assets			
Inventories	16	21,908	28,973
Trade and other receivables	17	587,601	1,143,904
Cash and cash equivalents	18	9,389	319,618
		618,898	**1,492,495**
Total Assets		**50,146,602**	**49,349,382**
Equity and Liabilities			
Capital and Reserves			
Called up share capital	19	9,429,182	9,429,182
Share premium account		140,912,898	140,912,898
Share-based payments reserve		6,796,540	6,796,540
Retained loss		(83,441,491)	(80,202,450)
Currency translation reserve		(28,604,558)	(31,118,410)
Other reserves		336,000	336,000
Equity attributable to equity holders of the Parent		**45,428,571**	**46,153,760**
Non-current Liabilities			
Deferred tax liability	9	3,001,617	2,113,541
		3,001,617	**2,113,541**
Current Liabilities			
Trade and other payables	20	1,716,414	1,082,081
		1,716,414	**1,082,081**
Total Liabilities		**4,718,031**	**3,195,622**
Total Equity and Liabilities		**50,146,602**	**49,349,382**

Approved by the Board on 25 June 2018.

David Golder

Director

Dennis Francis

Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	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 2016	**9,429,182**	**140,912,898**	**7,132,540**	**(38,885,148)**	**(74,774,790)**	**43,814,682**
Loss for the year	–	–	–	–	(5,427,660)	(5,427,660)
Currency translation adjustments – subsidiaries	–	–	–	25,298	–	25,298
Share of joint ventures' other comprehensive income – foreign exchange translation differences	–	–	–	7,741,440	–	7,741,440
Total comprehensive profit for the year	–	–	–	7,766,738	(5,427,660)	2,339,078
At 31 December 2016	**9,429,182**	**140,912,898**	**7,132,540**	**(31,118,410)**	**(80,202,450)**	**46,153,760**
At 1 January 2017	**9,429,182**	**140,912,898**	**7,132,540**	**(31,118,410)**	**(80,202,450)**	**46,153,760**
Loss for the year	–	–	–	–	(3,239,041)	(3,239,041)
Currency translation adjustments – subsidiaries	–	–	–	(37,190)	–	(37,190)
Share of joint ventures' other comprehensive income – foreign exchange translation differences	–	–	–	2,551,042	–	2,551,042
Total comprehensive loss for the year	**–**	**–**	**–**	**2,513,852**	**(3,239,041)**	**(725,189)**
At 31 December 2017	**9,429,182**	**140,912,898**	**7,132,540**	**(28,604,558)**	**(83,441,491)**	**45,428,571**

Consolidated Cash Flow Statement

For the year ended 31 December 2017

	Note	2017 US$	2016 US$
Operating activities			
Loss before taxation		**(2,345,371)**	**(4,597,419)**
Adjustment to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation		62,748	68,568
Share of loss in joint ventures		4,667,487	6,009,430
Finance revenue	8	(3,510,435)	(3,247,876)
Working capital adjustments			
Decrease in trade and other receivables		294,434	860,444
Decrease in inventories		7,066	25,330
Increase/(decrease) in trade and other payables		555,937	(59,474)
Income tax paid		(9,783)	(16,650)
Net cash flows used in operating activities		**(277,917)**	**(957,647)**
Investing activities			
Loan facilities advanced to joint venture undertakings		(40,000)	(10,000)
Interest received		823	2,449
Net cash used in investing activities		**(39,177)**	**(7,551)**
Net decrease in cash and cash equivalents		**(317,094)**	**(965,198)**
Translation adjustment		6,865	604
Cash and cash equivalents at the beginning of the year		319,618	1,284,212
Cash and cash equivalents at the end of the year	18	**9,389**	**319,618**

Company Balance Sheet

As at 31 December 2017

	Note	2017 US$	2016 US$
Non-current Assets			
Property, plant and equipment	11	1,386	2,283
Financial assets – investments in joint ventures and subsidiaries	14	293,714	5,152,529
Financial assets – loans and receivables	15	49,439,502	56,492,695
		49,734,602	**61,647,507**
Current Assets			
Trade and other receivables	17	1,110,630	1,830,334
Cash and cash equivalents	18	9,306	297,247
		1,119,936	**2,127,581**
Total Assets		**50,854,538**	**63,775,088**
Equity and Liabilities			
Capital and Reserves			
Called up share capital	19	9,429,182	9,429,182
Share premium account		140,912,898	140,912,898
Share-based payment reserve		6,796,540	6,796,540
Retained loss		(110,995,698)	(96,676,960)
Other reserves		336,000	336,000
Equity attributable to equity holders of the parent		**46,478,922**	**60,797,660**
Non-current Liabilities			
Deferred tax liability	9	3,001,617	2,113,541
		3,001,617	**2,113,541**
Current Liabilities			
Trade and other payables	20	1,373,999	863,887
		1,373,999	**863,887**
Total Liabilities		**4,375,616**	**2,977,428**
Total Equity and Liabilities		**50,854,538**	**63,775,088**

The Company reported a loss for the financial year ended 31 December 2017 of US$14.3 million (2016: US$34.5 million).

Approved by the Board on 25 June 2018

David Golder

Director

Dennis Francis

Director

Company Statement of Changes in Equity

For the year ended 31 December 2017

	Share capital US$	Share premium US$	Share-based payment and other reserves US$	Retained loss US$	Total US$
At 1 January 2016	**9,429,182**	**140,912,898**	**7,132,540**	**(62,137,203)**	**95,337,417**
Loss for the year	–	–	–	(34,539,757)	(34,539,757)
Total comprehensive loss for the year	–	–	–	(34,539,757)	(34,539,757)
At 31 December 2016	**9,429,182**	**140,912,898**	**7,132,540**	**(96,676,960)**	**60,797,660**
At 1 January 2017	**9,429,182**	**140,912,898**	**7,132,540**	**(96,676,960)**	**60,797,660**
Loss for the year	–	–	–	(14,318,738)	(14,318,738)
Total comprehensive loss for the year	–	–	–	(14,318,738)	(14,318,738)
At 31 December 2017	**9,429,182**	**140,912,898**	**7,132,540**	**(110,995,698)**	**46,478,922**

Company Cash Flow Statement

For the year ended 31 December 2017

	Note	2017 US$	2016 US$
Operating Activities			
Loss before taxation		**(13,434,172)**	**(33,712,055)**
Adjustments to reconcile profit/(loss) before tax to net cash flows			
Non-cash			
Depreciation of property, plant and equipment		897	1,197
Impairment of financial assets – investments in joint ventures and subsidiaries		4,858,815	35,047,370
Allowance for doubtful debts on financial assets – loans and receivables		10,923,056	-
Finance revenue		(3,540,251)	(3,310,811)
Working capital adjustments			
Decrease in trade and other receivables		304,326	679,181
Increase in trade and other payables		424,160	101,933
Income tax paid		(930)	(3,876)
Net cash flows used in operating activities		**(464,099)**	**(1,197,061)**
Investing activities			
Loan facilities advances		(40,000)	(10,000)
Return of loan facilities		210,000	225,000
Interest received		315	2,159
Net cash received from investing activities		**170,315**	**217,159**
Net decrease in cash and cash equivalents		(293,784)	(979,902)
Translation adjustment		5,843	(2,503)
Cash and cash equivalents at the beginning of the year		297,247	1,279,652
Cash and cash equivalents at the end of the year	18	**9,306**	**297,247**

Notes to the Financial Statements

For the year ended 31 December 2017

1. General information on the Company and the Group

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 Investments 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, which are unchanged from last year, are oil and gas exploration, development and production.

2. Going Concern

As described in the Financial Review on page 18 PetroNeft agreed a loan facility for up to US$2 million with Swedish company Petrogrand AB ("Petrogrand"). The loan matures on 31 December 2018 and is secured by way of a floating charge on the assets of PetroNeft. The loan facility will be used for general corporate purposes and to finance the drilling programme in 2018. This loan facility will provide time and space for a more long-term financing solution to be put in place.

The Group has analysed its cash flow requirements through to 30 June 2019 in detail. The cash flows are highly dependent on the successful re-financing of the Petrogrand loan and on future production rates and oil prices achieved in its joint-venture undertaking, WorldAce Investments Limited. Should the loan not be re-financed or should production or oil price be lower than expected the Group may need additional funding in order to continue as a going concern. The Group has put in place cost saving measures and the Board and management have agreed to reduce and defer significant portions of their remuneration in order to assist the Company. Note 24 outlines the amounts owed to the Board and management in this regard.

The Company is currently in confidential advanced and detailed discussions in order to provide a longer-term financing solution that will allow for the repayment of the loan from Petrogrand in advance of the maturity date. Heads of terms have been agreed and due diligence and legal documentation is well advanced. The Company expects to make a firm announcement in Q3 2018. The Company is also considering the potential sale or farmout of Licence 67 and the drilling of the C-4 well is a key part of this process. The Company has signed non-disclosure agreements and opened data rooms in relation to the potential sale or farmout of Licence 67. As there are delaying factors, including regulatory requirements, around transferring licences and in a share for share type transaction, the timeframe to close such a successful transaction could be at least six months following binding agreement between the parties. The Board is confident that one of these options will bring a solution.

The above circumstances represent material uncertainties that may cast significant doubt upon the Group and the Company's ability to continue as a going concern. Nevertheless, after making enquiries, and considering the uncertainties described above, the Directors are confident that the Group and the Company will have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

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 financial statements have been prepared on a historical cost basis. The financial statements are presented in US Dollars ('US$').

The accounting policies set out below have been applied consistently by all the Group's subsidiaries and joint ventures to all periods presented in these consolidated financial statements.

Statement of Compliance

The consolidated and standalone financial statements of PetroNeft Resources plc and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

3.2 Basis of Consolidation

The consolidated financial statements comprise the financial statements of PetroNeft Resources plc and its subsidiaries as at 31 December each year.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when the Company has power over the investee, is exposed or has rights to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company. All intra-Group balances, income and expenses and unrealised gains and losses resulting from intra-Group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

Notes to the Financial Statements

For the year ended 31 December 2017
(continued)

3. Accounting policies (continued)

- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interest.
- Derecognises the cumulative translation differences recognised in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

The Group has an interest in two joint venture undertakings, WorldAce Investments Limited and Russian BD Holdings B.V. A joint venture ('JV') is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investments in its joint ventures are accounted for using the equity method. Under the equity method, an investment in the joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Consolidated income statement reflects Group's share of the results of operations of joint venture. Any change in other comprehensive income of the investee is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interest that, in substance, form part of the Group's net investment in joint venture), the Group discontinues recognising its share of further losses. The financial statements of the joint ventures are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

The Group, acting as the operator of the JVs, receives reimbursement of direct costs recharged to its joint ventures, such recharges represent reimbursements of costs that the operator incurred as an agent for the joint ventures. When the Group charges a management fee to cover other general costs incurred in carrying out the activities on behalf of the joint venture, it is not acting as an agent.

3.3 Business Combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

3.4 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Group's consolidated financial statements in compliance with IFRS as adopted by the European Union ("EU") requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the end of the reporting year and the amounts of revenues and expenses recognised during the reporting period. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of the future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that require an adjustment to the carrying amount of the asset or liability affected in future periods.

(a) Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have a significant effect on amounts recognised in the consolidated financial statements.

Going concern – Note 2

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have

3. Accounting policies (continued)

adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in Note 2 on page 43.

Loans and receivables from joint ventures – Notes 12, 13 and 15
During the year share of losses and currency translation adjustments in the joint ventures exceeded the carrying value of equity-accounted investment in joint ventures. It was judged that the loans receivable from the joint ventures were part of the overall investment in the joint ventures, and therefore, under IAS 28, any excess loss should be credited against the carrying value of the receivable from the joint venture company in accordance with IAS 28.

(b) Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Income tax
Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Impairment of non-financial assets
The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. When value-in-use or fair-value-less-costs-of-disposal calculations are undertaken, management must estimate the future expected cash flows from the asset or cash-generating unit and determine a suitable discount rate in order to calculate the present value of those cash flows.

It is reasonably possible that the oil price assumption may change, which may then impact the estimated life of a field and may then require a material adjustment to the carrying value of the assets. The Group continuously monitors internal and external indicators of possible/potential impairment relating to its tangible and intangible assets.

Impairment of financial assets – Note 14
Investments in joint ventures and subsidiaries in the Parent Company balance sheet are stated at cost and are reviewed for impairment if there are indications that the carrying value may not be recoverable in the parent company balance sheet.

3.5 Summary of Significant Accounting Policies

(a) Foreign currencies

The consolidated financial statements are presented in US Dollars, which is the Group's presentational currency. The US Dollar is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Company's Russian subsidiaries' functional currency is the Russian Rouble. Transactions in foreign currencies are initially recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment.

Non-monetary items are translated using the exchange rates ruling as at the date of the initial transaction.

The assets and liabilities of foreign operations are translated into US Dollars at the rate of exchange ruling at the balance sheet date and their Income Statements are translated at monthly average exchange rates. The exchange differences arising on the translation are taken directly to equity.

The relevant average and closing exchange rates for 2017 and 2016 were:

	2017		2016	
US$1 =	Closing	Average	Closing	Average
Russian Rouble	57.860	58.335	61.000	66.930
Euro	0.8338	0.8789	0.9487	0.9034
British Pound	0.7398	0.7728	0.8122	0.7403

(b) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation, and for qualifying assets, relevant borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Depreciation
Property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives at the following annual rates:

Notes to the Financial Statements

For the year ended 31 December 2017
(continued)

3. Accounting policies (continued)

- Buildings and leasehold improvements – 3% to 7% or remaining term of the lease.
- Plant and machinery – 10% to 35%.
- Motor vehicles – 14% to 35%.

(c) Impairment of property, plant and equipment

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss.

The recoverable amount is determined as the higher of the fair-value-less-costs–of-disposal for the asset and the asset's value-in-use. If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the Consolidated Income Statement so as to reduce the carrying amount in the Consolidated Balance Sheet to its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale of the asset in an orderly transaction between market participants at the measurement date. Direct costs of selling the asset are deducted. Fair value for oil and gas assets is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal, using assumptions that a market participant could take into account. These cash flows are discounted by an appropriate discount rate to arrive at a net present value ("NPV") of the asset.

Value-in-use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value-in-use is determined by applying assumptions specific to the Group's continued use and cannot take into account future development. These assumptions are different to those used in calculating fair value and consequently the value-in-use calculation is likely to give a different result to a fair value calculation.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(d) Cash and cash equivalents

Cash and cash equivalents on the balance sheet comprise cash at bank and short-term deposits with an original maturity of three months or less.

(e) Financial assets

Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") are classified as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

The Group does not have held-to-maturity investments or available-for-sale financial assets or financial assets at fair value through profit or loss.

In the Company's financial statements investments in joint ventures and subsidiaries are accounted for at cost. Investments carried at cost are measured at the lower of their carrying amount and fair value less costs of disposal. Investments are reviewed for impairment if there are indications that the carrying value may not be recoverable in the parent company balance sheet

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurements, loans and receivables are carried at amortised cost using the effective interest rate method ('EIR') less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance revenue in the Consolidated Income Statement. The losses arising from impairment are recognised in the Consolidated Income Statement in finance costs.

The Group assesses at each year-end whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the Consolidated Income Statement. The same policy applies in respect of the Company financial statements.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the Consolidated Income Statement.

In relation to trade receivables, an allowance for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written-off when they are assessed as uncollectible.

3. Accounting policies (continued)

(f) Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

The Group's financial liabilities include trade and other payables.

Trade Payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Non-current liabilities

Non-current liabilities represent amounts that are due more than twelve months from the reporting date.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Consolidated Income Statement.

Compound Instruments

IAS 32 Financial Instruments: Presentation requires the issuer of a financial instrument to classify the instrument, or its component parts, on initial recognition, as a financial liability, financial asset or equity instrument in accordance with the substance of the contractual arrangement. When the initial carrying value of a financial instrument is allocated to its liability and equity components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied by the market to instruments of comparable credit status and providing substantially the same cash flows on the same terms, but without the equity component. Thereafter, it is measured at amortised cost until extinguished on conversion or redemption. The remainder of the proceeds on issue is allocated to the equity component and included in other reserves. The carrying amount of the equity component is not remeasured in subsequent years.

(g) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: valuation techniques for which the lowest level of inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: valuation techniques for which the lowest level of inputs that have a significant effect on the recorded fair value are not based on observable market data.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition. Net realisable value represents the estimated selling price in the normal course of business less estimated costs of completion and estimated costs necessary to make the sale.

(i) Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when

Notes to the Financial Statements

For the year ended 31 December 2017
(continued)

3. Accounting policies (continued)

the recognition of interest would be immaterial. Loans to and receivables from joint ventures represent funding by the company for which repayment is neither planned nor likely to occur in the foreseeable future. These are treated as part of the Company's net investment in the joint ventures.

(j) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Consolidated Income Statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognised but are disclosed where an inflow of economic benefits is probable.

(k) Share capital

Ordinary shares are classified as equity. Costs of share issues are deducted from equity.

(l) Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised except:

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised outside of profit and loss is recognised outside profit and loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(m) Revenue recognition

Revenue from the sale of crude oil is recognised when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs when product is physically transferred into a pipe or other delivery mechanism. Revenue from management services provided to joint venture undertakings is recognised in accordance with agreements with our joint venture partners. Revenue from construction services is recognised in accordance with agreed work completion schedules.

All revenue is stated after deducting sales taxes, excise duties and similar levies.

(n) Share-based payment

Employees (including senior executives) and Directors of the Group may receive fees and remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

3. Accounting policies (continued)

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, the unidentified goods or services received (or to be received) are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services received at the grant date. This is then capitalised or expensed as appropriate.

Equity-settled transactions
The cost of equity-settled transactions is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in Note 25.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.
Where the terms of an equity-settled transaction are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the awards are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Where appropriate, the dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

(o) Operating leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, or whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the Consolidated Income Statement on a straight-line basis over the lease term.

(p) Finance revenue and finance cost
For all financial instruments measured at amortised cost, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance revenue in the income statement.

(q) Pension costs
Pension benefits are funded over the employees' period of service by way of contributions to a defined contribution scheme. Contributions are charged to the Consolidated Income Statement in the year to which they relate.

3.6 Changes in Accounting Policy and Disclosures

Adoption of IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations
A number of amendments to existing IFRS (principally related to clarifications and refinements of definitions) became effective for, and have been applied in preparing, these Financial Statements. The Company is in the process of evaluating the effect that the adoption of the new standards will have on the financial statements of the Company, and it does not intend to early adopt any of them. The Company expects that the most significant impact will result from the below new standards that have been issued but are not yet effective:

IFRS and IFRIC interpretations being adopted in subsequent years
IFRS 15 Revenue from Contracts with Customers will replace IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The new standard is applicable from 1 January 2018. IFRS 15 provides a new five step model to be applied to revenue arising from contracts with customers. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue and may impact the timing and amount of revenue recognised from contracts with customers. The Group's implementation of IFRS 15 from 1 January 2018 has no significant impact on the measurement and recognition of Group's revenue.

Notes to the Financial Statements
For the year ended 31 December 2017
(continued)

3. Accounting policies (continued)

IFRS 9 Financial Instruments reflects the final phase of the IASB's work on the replacement of IAS 39 Financial Instruments: Recognition and Measurement and applies to the classification and measurement of financial assets and liabilities as defined in IAS 39, impairment, and the application of hedge accounting. IFRS 9 is effective from 1 January 2018. It is expected that the Group's implementation of IFRS 9 from 1 January 2018 will have no significant impact on the measurement and recognition of Group's financial assets and liabilities.

IFRS 16 "Leases" specifies how an IFRS reporter entity will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 Leases will be effective for and will be adopted by the Group for the 2019 financial year beginning 1 January 2019.

The Group expects to adopt the modified retrospective approach to transition permitted by the standard in which the cumulative effect of initially applying the standard is recognised in opening retained earnings at the date of initial application.

The Group is currently assessing the impact of IFRS 16. Information on the Group's leases currently classified as operating leases is provided in note 23.

There are no other IFRS or IFRIC interpretations that are effective subsequent to the 2017 financial year-end that would have a material impact on the results or financial position of the Group or the Company.

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.

Assets are allocated based on where the assets are located:

	2017 US$	2016 US$
Non-current assets		
Russia	49,526,318	47,854,604
Ireland	1,386	2,283
	49,527,704	**47,856,887**

5. Revenue

	2017 US$	2016 US$
Revenue		
Management Services	848,230	1,465,105
Construction Services	864,344	814,480
	1,712,574	**2,279,585**

Most of the revenue from management and construction services relate to services provided to the joint venture undertakings which PetroNeft Group have interests in.

6. Employees

Number of employees

Group

The average number of employees (including Directors) during the year was:

	2017 Number	2016 Number
Directors	6	6
Senior Management	2	3
Professional Staff	5	6
Construction crew employees	36	35
	49	**50**

Company

The average number of employees (including Directors) during the year was:

	2017 Number	2016 Number
Directors	6	6
Senior Management	2	2
Professional Staff	1	1
	9	**9**

Employment costs (including Directors)

Group

	2017 US$	2016 US$
Wages and salaries	1,697,063	2,495,310
Social insurance costs	183,238	244,350
Contributions to defined contribution pension plan	78,050	68,405
	1,958,351	**2,808,065**

No employment costs were capitalised during 2017 or 2016.

Notes to the Financial Statements
For the year ended 31 December 2017
(continued)

6. Employees (continued)

Company

	2017 US$	2016 US$
Wages and salaries	1,188,185	1,976,953
Social insurance costs	40,521	99,606
Contributions to defined contribution pension plan	78,050	68,405
	1,306,756	**2,144,964**

No employment costs were capitalised during 2017 or 2016.

Directors' emoluments

Group and company

	2017 US$	2016 US$
Remuneration and other emoluments – Executive Directors	399,505	1,214,403
Remuneration and other emoluments – non-Executive Directors	205,531	228,348
Contributions to defined contribution pension plan	29,963	39,828
	634,999	**1,482,579**

Pension contributions to directors during the year relate to 1 director (2016: 3 directors).

Your attention is drawn to the details of the share options received by the Directors as set out in the Report of Directors.

The aggregate amount of any compensation paid to directors or former directors in respect of retirement, loss of office or other termination payments in the financial year was US$Nil (2016: US$661,633). An amount of US$199,752 (2016: US$426,803) relating to Executive Directors' salaries was re-charged to WorldAce Investments Limited. An amount of US$59,926 (2016: US$59,926) relating to Executive Directors' salaries was re-charged to Russian BD Holdings B.V.

7. Operating loss

Operating loss is stated after charging/(crediting):

	Note	2017 US$	2016 US$
Included in cost of sales			
Operating lease rentals – equipment		64,071	102,326
Foreign exchange loss on intra-Group loans		(52,093)	(77,458)
Included in administrative expenses			
Other foreign exchange gains		13,971	(5,946)
Operating lease rentals – land and buildings		38,596	36,804
Depreciation of property, plant and equipment			
Included in cost of sales		61,851	67,371
Included in administrative expenses		897	1,197
	11	**62,748**	**68,568**
Auditors' remuneration – Group			
– audit of group financial statements		65,849	79,920
– other assurance services		–	–
– tax advisory services		–	–
– other non-audit services		–	–
		65,849	**79,920**
Auditors' remuneration – Company			
-audit of entity financial statements		16,500	20,000
-audit of group financial statements		49,349	59,920
-other assurance services		–	–
-tax advisory services		–	–
-other non-audit services		–	–
		65,849	**79,920**

8. Finance revenue

	2017 US$	2016 US$
Bank interest receivable	823	2,449
Interest receivable on loans to Joint Ventures	3,509,612	3,245,427
	3,510,435	**3,247,876**

Notes to the Financial Statements

For the year ended 31 December 2017
(continued)

9. Income tax

	2017 US$	2016 US$
Current income tax		
Current income tax charge	9,182	3,078
Total current income tax	**9,182**	**3,078**
Deferred tax		
Relating to origination and reversal of temporary differences	884,488	827,163
Total deferred tax	**884,488**	**827,163**
Income tax expense reported in the Consolidated Income Statement	**893,670**	**830,241**
Loss before income tax	**(2,345,371)**	**(4,597,419)**
Accounting loss multiplied by Irish standard rate of tax of 12.5%	(293,171)	(574,677)
Non-deductible expenses	9,977	15,453
Effect of higher tax rates on investment income	442,531	413,851
Tax deductible timing differences	1,087	19,397
Share of joint ventures' net loss	583,436	751,179
Other	2,942	21,788
Profits taxable at higher rates	6,939	39,908
Taxable losses not utilised	149,182	246,937
Utilisation of previously unrecognised tax losses	(9,253)	(103,595)
Total tax expense reported in the Consolidated Income Statement	**893,670**	**830,241**

Deferred tax
Group and Company

	2017 US$	2016 US$
Deferred income tax liability		
At 1 January	2,113,541	1,286,378
Expense for the year recognised in the income statement	884,488	827,163
Translation adjustment	3,588	-
At 31 December	**3,001,617**	**2,113,541**

Deferred tax at 31 December relates to the following:

	2017 US$	2016 US$
Deferred income tax liability		
Accrued interest income on intra-Group loans	3,001,617	2,113,541
	3,001,617	**2,113,541**

Factors that may affect future tax charges

The tax charge in future years will be affected by changes to the rates of Irish Corporation Tax. There is no current expectation that the tax rate of 12.5% in Ireland will change in the foreseeable future.

10. Loss per Ordinary Share

Basic loss per Ordinary Share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the Parent by the weighted average number of Ordinary Shares outstanding during the year. Basic and diluted earnings per Ordinary Share are the same as the potential Ordinary Shares are anti-dilutive.

	2017 US$	2016 US$
Numerator		
Loss attributable to equity shareholders of the Parent for basic and diluted loss	(3,239,041)	(5,427,660)
	(3,239,041)	**(5,427,660)**
Denominator		
Weighted average number of Ordinary Shares for basic and diluted earnings per Ordinary Share	707,245,906	707,245,906
Diluted weighted average number of shares	**707,245,906**	**707,245,906**
Loss per share:		
Basic and diluted - US dollar cent	**(0.46)**	**(0.77)**

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

Employee Share Options – Refer to Note 25 for the total number of shares related to the outstanding options that could potentially dilute basic earnings per share in the future. These potential Ordinary Shares are anti-dilutive for the years ended 31 December 2017 and 2016.

Notes to the Financial Statements

For the year ended 31 December 2017
(continued)

11. Property, Plant and Equipment

Group

	Plant and machinery US$
Cost	
At 1 January 2016	800,400
Translation adjustment	145,468
At 1 January 2017	**945,868**
Translation adjustment	47,060
At 31 December 2017	**992,928**
Depreciation	
At 1 January 2016	618,697
Charge for the year	68,568
Translation adjustment	115,137
At 1 January 2017	**802,402**
Charge for the year	62,748
Translation adjustment	39,576
At 31 December 2017	**904,726**
Carrying amount	
At 31 December 2017	**88,202**
At 31 December 2016	143,466

Company

	Plant and machinery US$
Cost	
At 1 January 2016	32,066
At 1 January 2017	32,066
At 31 December 2017	**32,066**
Depreciation	
At 1 January 2016	28,586
Charge for the year	1,197
At 1 January 2017	**29,783**
Charge for the year	897
At 31 December 2017	**30,680**
Carrying amount	
At 31 December 2017	**1,386**
At 31 December 2016	2,283

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

PetroNeft Resources plc has a 50% interest in WorldAce Investments Limited, 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 2016	–
Elimination of unrealised profit on intra-Group transactions	(157,876)
Retained loss	(5,721,232)
Translation adjustment	7,149,140
Debited to loans receivable from WorldAce Investments Limited	(1,270,032)
At 1 January 2017	**–**
Elimination of unrealised loss on intra-Group transactions	(27,336)
Retained loss	(4,285,833)
Translation adjustment	2,356,702
Credited against loans receivable from WorldAce Investments Limited	1,956,467
At 31 December 2017	**–**

The balance sheet position of WorldAce Investments Limited shows net liabilities of US$29,773,264 (2016: US$25,915,002) following a loss in the year of US$8,571,665 (2016: US$11,442,464) together with a positive currency translation adjustment of US$4,713,403 (2016: US$14,298,281). PetroNeft's 50% share is included above and results in a negative carrying value of US$10,203,053 (2016: US$8,246,586). 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$10,203,053 (2016: US$8,246,586) is deducted from other assets associated with the joint venture on the Balance Sheet which are the loans receivable from WorldAce Investments (see Note 15).

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	
	2017 US$	2016 US$
Continuing operations		
Revenue	13,818,415	11,604,182
Cost of sales	(12,636,469)	(11,199,845)
Gross profit	**1,181,946**	**404,337**
Administrative expenses	(1,546,643)	(1,614,435)
Operating loss	**(364,697)**	**(1,210,098)**
Write-off of oil and gas properties	–	(438,034)
Write-off of exploration and evaluation assets	(13,051)	(710,047)
Finance revenue	33,176	9,421
Finance costs	(3,941,261)	(3,372,474)
Loss for the year for continuing operations before taxation	**(4,285,833)**	**(5,721,232)**
Income tax expense	–	–
Loss for the year	**(4,285,833)**	**(5,721,232)**
Other comprehensive income to be reclassified to profit or loss in subsequent years:		
Currency translation adjustments	2,356,702	7,149,140
Total comprehensive (loss)/profit for the year	**(1,929,131)**	**1,427,908**

Notes to the Financial Statements

For the year ended 31 December 2017
(continued)

12. Equity-accounted Investment in Joint Venture – WorldAce Investments Limited (cont.)

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 24 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 appreciated against the US Dollar during the year from RUB60.9:US$1 at 31 December 2016 to RUB57.7:US$1 at 31 December 2017.

	50% Share of WorldAce Group	
	2017 US$	2016 US$
Non-current Assets		
Oil and gas properties	39,312,150	37,945,273
Property, plant and equipment	184,027	199,338
Exploration and evaluation assets	9,321,748	7,556,920
Assets under construction	824,992	932,631
	49,642,917	**46,634,162**
Current Assets		
Inventories	605,240	536,685
Trade and other receivables	282,925	176,318
Cash and cash equivalents	68,613	40,415
	956,778	**753,418**
Total Assets	**50,599,695**	**47,387,580**
Non-current Liabilities		
Provisions	(658,513)	(433,573)
Interest-bearing loans and borrowings	(61,435,277)	(56,686,519)
	(62,093,790)	**(57,120,092)**
Current Liabilities		
Interest-bearing loans and borrowings	(715,405)	–
Trade and other payables	(2,677,132)	(3,224,989)
	(3,392,537)	**(3,224,989)**
Total Liabilities	**(65,486,327)**	**(60,345,081)**
Net Liabilities	**(14,886,632)**	**(12,957,501)**

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 24 Related party disclosures.

Capital commitments

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

	2017 US$	2016 US$
Contracted for but not provided in the financial statements	466,114	1,080,620

12. Equity-accounted Investment in Joint Venture – WorldAce Investments Limited (cont.)

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

	2017 US$	2016 US$
Within one year	65,570	57,039
After one year but not more than five years	244,391	219,319
More than five years	421,508	414,738
	731,469	**691,096**

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

13. 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 2016	-
Retained loss	(288,198)
Translation adjustment	592,300
Debited against loans receivable from Russian BD Holdings BV (Note 15)	(304,102)
At 1 January 2017	**-**
Retained loss	(381,654)
Translation adjustment	194,339
Credited against loans receivable from Russian BD Holdings BV (Note 15)	187,315
At 31 December 2017	**-**

The balance sheet position of Russian BD Holdings B.V. shows net liabilities of US$1,440,006 (2016: US$1,065,376) following a loss in the year of US$763,308 (2016: US$576,396) together with a positive currency translation of US$388,678 (2016: US$1,184,600). PetroNeft's 50% share is included above and results in a negative carrying value of US$720,003 (2016: US$532,688). 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$720,003 (2016: US$532,688) 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 15).

Notes to the Financial Statements
For the year ended 31 December 2017
(continued)

13. Equity-accounted Investment in Joint Venture - Russian BD Holdings B.V. (cont.)

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. Group	
	2017 US$	2016 US$
Revenue	–	–
Cost of sales	–	–
Gross profit	**–**	**–**
Administrative expenses	(94,626)	(66,718)
Operating loss	**(94,626)**	**(66,718)**
Finance revenue	259	294
Finance costs	(287,287)	(239,079)
Loss for the year for continuing operations before taxation	**(381,654)**	**(305,503)**
Taxation	–	17,305
Loss for the year	**(381,654)**	**(288,198)**
Other comprehensive income to be reclassified to profit or loss in subsequent years:		
Currency translation adjustments	194,339	592,300
Total comprehensive (loss)/ profit for the year	**(187,315)**	**304,102**

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 24 Related party disclosures.

	50% Share of Russian BD Holdings B.V. Group	
	2017 US$	2016 US$
Non-current assets	4,370,482	4,069,104
Current assets	12,048	198,788
Total assets	**4,382,530**	**4,267,892**
Non-current liabilities	(4,981,608)	(4,512,667)
Current liabilities	(120,925)	(287,913)
Total liabilities	**(5,102,533)**	**(4,800,580)**
Net Liabilities	**(720,003)**	**(532,688)**

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

	2017 US$	2016 US$
Within one year	2,194	2,524
After one year but not more than five years	8,775	7,898
More than five years	26,416	25,751
	37,385	**36,173**

There were no capital commitments as at 31 December 2017 or 31 December 2016.

14. Financial assets – investments in joint ventures and subsidiaries

Company

	Investment in joint ventures US$	Investment in Subsidiaries US$	Total US$
Cost			
At 1 January 2016	39,906,185	293,714	40,199,899
Impairment (WorldAce)	(35,047,370)	–	(35,047,370)
At 1 January 2017	**4,858,815**	**293,714**	**5,152,529**
Impairment (Russian BD Holdings)	(4,858,815)	–	(4,858,815)
At 31 December 2017	**–**	**293,714**	**293,714**
Carrying amount			
At 31 December 2017	**–**	**293,714**	**293,714**
At 31 December 2016	4,858,815	293,714	5,152,529

Due to the net liability position of Russian BD Holdings as discussed in Note 12 above the Board has taken the view that it was prudent to impair the carrying value of the investment in Russian BD Holdings to Nil.

During 2016 due to the net liability position of WorldAce as discussed in Note 12 above and the deferral of the commencement of the Sibkrayevskoye development the Board took the view that it was prudent to impair the carrying value of the investment in WorldAce Investments Limited to Nil.

Details of the Company's holding in direct and indirect subsidiaries at 31 December 2017 are as follows:

Name of subsidiary	Registered office	Proportion of ownership interest	Proportion of voting power held	Principal activity
LLC Granite Construction	147 Prospekt Lenina, Tomsk 634009, Russia	100%	100%	Construction
LLC Dolomite	147 Prospekt Lenina, Tomsk 634009, Russia	100%	100%	Oil and gas exploration

Details of the Group's interest in joint ventures at 31 December 2017 are as follows:

Name of entity	Registered office	Proportion of ownership interest	Proportion of voting power held	Principal activity
WorldAce Investments Limited	3 Themistocles Street, Nicosia, Cypru	50%	50%	Holding company
LLC Stimul-T	147 Prospekt Lenina, Tomsk 634009, Russia	50%	50%	Oil and gas exploration
Russian BD Holdings B.V.	Prins Bernhardplein 200, 1097 JB, Amsterdam, the Netherlands	50%	50%	Holding company
LLC Lineynoye	147 Prospekt Lenina, Tomsk 634009, Russia	50%	50%	Oil and gas exploration

Oil India International B.V. owns the other 50% of WorldAce Investments Limited and Belgrave Naftogas B.V. (an Arawak Energy group company) owns the other 50% of Russian BD Holdings B.V.

Notes to the Financial Statements
For the year ended 31 December 2017
(continued)

15. Financial assets – loans and receivables

Group

	2017 US$	2016 US$
Loans to WorldAce Investments Limited (Note 24)	55,474,668	52,235,829
Less: share of WorldAce Investments Limited loss (Note 12)	(10,203,053)	(8,246,586)
	45,271,615	**43,989,243**
Loans to Russian BD Holdings B.V. (Note 24)	4,887,890	4,256,866
Less: share of Russian BD Holdings B.V. loss (Note 13)	(720,003)	(532,688)
	4,167,887	**3,724,178**
	49,439,502	**47,713,421**

Company

	2017 US$	2016 US$
Loans to WorldAce Investments Limited (Note 24)	55,474,668	52,235,829
Loans to Russian BD Holdings B.V. (Note 24)	4,887,890	4,256,866
Allowance for doubtful debts	(10,923,056)	-
	49,439,502	**56,492,695**

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 2019 at the earliest. The loan is set to mature on 31 December 2025. As at 31 December 2017 the loan was fully drawn down. The realisation of financial assets of US$45.2m in respect of WorldAce is dependent on the continued successful development of economic reserves which is subject to a number of uncertainties including future rates of oil production and the ability to raise finance to continue to successfully generate revenue from the assets.

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 plan to drill the Cheremshanskoye No. 4 well in 2018. The board believe the well has great potential as it will test multiple targets up-dip from prior wells on the structure that have already tested oil in the same intervals.

The realisation of financial assets of US$4.2m 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.

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 prudent 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.

16. Inventories

	2017 US$	2016 US$
Materials	21,908	28,973
	21,908	**28,973**

17. Trade and other receivables

Group

	2017 US$	2016 US$
Other receivables	21,039	155,651
Receivable from joint ventures (Note 24)	503,527	920,390
Advances to contractors	1,676	8,047
Prepayments	61,359	59,816
	587,601	**1,143,904**

Company

	2017 US$	2016 US$
Amounts owed by subsidiary undertakings (Note 24)	870,373	1,008,598
Amounts owed by other related companies (Note 24)	164,810	622,883
VAT Receivable	14,088	139,037
Prepayments	61,359	59,816
	1,110,630	**1,830,334**

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%.

18. Cash and Cash Equivalents

Group

	2017 US$	2016 US$
Cash at bank	9,389	319,618
	9,389	**319,618**

Company

	2017 US$	2016 US$
Cash at bank	9,306	297,247
	9,306	**297,247**

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.

Notes to the Financial Statements

For the year ended 31 December 2017
(continued)

19. Share capital – Group and Company

Authorised

	2017 €	2016 €
1,000,000,000 (2016: 1,000,000,000) Ordinary Shares of €0.01 each	10,000,000	10,000,000
	10,000,000	**10,000,000**

Allotted, called up and fully paid equity

	Number of Ordinary Shares	Called up share capital US$
At 1 January 2016	707,245,906	9,429,182
At 1 January 2017	707,245,906	9,429,182
At 31 December 2017	**707,245,906**	**9,429,182**

20. Trade and other payables

Group

	2017 US$	2016 US$
Trade payables	570,476	337,208
Trade payables to joint ventures (Note 24)	212,442	108,338
Corporation tax	54,898	55,750
Other taxes and social insurance costs	83,305	278,983
Accruals and other payables	795,293	301,802
	1,716,414	**1,082,081**

Company

	2017 US$	2016 US$
Trade payables	570,326	330,540
Corporation tax	54,898	55,750
Other taxes and social insurance costs	16,675	222,818
Accruals and other payables	732,100	254,779
	1,373,999	**863,887**

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.

21. Financial risk management objectives and policies

The Group and Company's principal financial instruments comprise cash and cash equivalents and loans to joint venture undertakings. The main purpose of these financial instruments is to provide finance for the Group and Company's operations. The Group has various other financial assets and liabilities such as receivables and trade payables, which arise directly from its operations.

The Group also considers the use of derivative transactions, primarily forward currency contracts. The purpose is to manage the currency risks arising from the Group and Company's operations and its sources of finance. There are no contracts outstanding for Group or Company as at 31 December 2017 and 2016.

It is the Group and Company's policy that no trading in derivatives be undertaken.

The main risks arising from the Group and Company's financial instruments are commodity price risk, foreign currency risk, credit risk, liquidity risk, interest rate risk and capital risk. The Board reviews and agrees policies for managing each of these risks which are summarised below.

Commodity price risk

The Group is exposed to the risk of fluctuations in prevailing market commodity prices on the oil produced by its joint venture interests. To date the Group and its joint ventures have sold all of their oil on the domestic market in Russia. There are no banks providing hedging or derivative type contracts for oil sold on the domestic market so it is not possible to mitigate risks in this way. The high taxes on oil produced in Russia are based on prevailing international oil prices and therefore operate as a natural hedge to a fall in oil prices. At 31 December 2017 and 2016, the Group and the Company had no outstanding commodity contracts.

Foreign currency risk

The Group and the Company undertake certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts where appropriate.

At 31 December 2017 and 2016, the Group and the Company had no outstanding forward exchange contracts.

The Group's and the Company's principal currency exposures arise in the currencies of Russian Rouble, Euro, UK Sterling and US Dollar. The Group has an exposure to US Dollars because the functional currency of its Russian subsidiaries is Russian Roubles. A change in the US Dollar:Russian Rouble exchange rate will therefore result in a foreign exchange gain or loss on the US Dollar denominated balances in these subsidiaries. The Group and the Company have an exposure to Russian Rouble, Euro and UK Sterling because the Company has trade and other receivables and payables denominated in these currencies. In addition, the Group has an exposure to Russian Rouble as currency translation of the foreign subsidiaries and joint ventures affects the Group's net equity.

Foreign currency sensitivity analysis

In accordance with IFRS 7, the impact of foreign currencies is determined based on the balances of financial assets and liabilities at 31 December 2017. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and largely results from payables and receivables and adjusts their translation at the year-end for a 5% change in foreign currency rates.

If the US Dollar had gained/lost 5% against all currencies significant to the Group and Company at 31 December, the impact on loss and equity for the Group and the Company is shown below.

Notes to the Financial Statements

For the year ended 31 December 2017
(continued)

21. Financial risk management objectives and policies (continued)

Group

	Change in USD/RUB	Effect on loss before tax US$	Effect on pre-tax equity US$	Change in USD/EUR	Effect on loss before tax US$	Effect on pre-tax equity US$	Change in USD/GBP	Effect on loss before tax US$	Effect on pre-tax equity US$
2017	5%	33,921	-33,921	5%	-34,240	34,240	5%	-4,614	4,614
2017	-5%	-37,491	37,491	-5%	59,290	-59,290	-5%	5,100	-5,100
2016	5%	50,430	-50,430	5%	-458	458	5%	-5,077	5,077
2016	-5%	-50,430	50,430	-5%	506	-506	-5%	5,611	-5,611

Company

	Change in USD/RUB	Effect on profit before tax US$	Effect on pre-tax equity US$	Change in USD/EUR	Effect on profit before tax US$	Effect on pre-tax equity US$	Change in USD/GBP	Effect on profit before tax US$	Effect on pre-tax equity US$
2017	5%	-33,921	-33,921	5%	34,240	34,240	5%	4,614	4,614
2017	-5%	37,491	37,491	-5%	-59,290	-59,290	-5%	-5,100	-5,100
2016	5%	-	-	5%	458	458	5%	5,077	5,077
2016	-5%	-	-	-5%	-506	-506	-5%	-5,611	-5,611

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group and Company's financial assets comprise receivables (Note 17) and cash and cash equivalents (Note 18). The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The Group and Company's exposure to credit risk arise from default of its counterparty, with a maximum exposure equal to the carrying amount of cash and cash equivalents in its consolidated balance sheet. As the Group or the Company does not have any significant receivables outstanding from third parties, this risk is limited. Recoverability of amounts due from joint venture companies are dependent on the success of the joint ventures.

The Group and the Company do not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics with the exception of the loans receivable from its two joint ventures. The Group and the Company define counterparties as having similar characteristics if they are connected entities.

Liquidity risk management

Liquidity risk is the risk that the Group and the Company will encounter difficulties in meeting obligations associated with their financial liabilities. Ultimate responsibility for liquidity risk management rests with the Board of Directors, who manage liquidity risk and short, medium and long-term funding and liquidity management requirements by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Cash forecasts are regularly produced to identify the liquidity requirements of the Group and the Company. To date, the Group and the Company have relied on shareholder funding, loan facilities and normal trade credit to finance its operations. The Group and Company's financial liabilities as at 31 December 2017 and 2016 are all payable on demand. The Group and the Company expect to meet its other obligations from operating cash flows.

The expected maturity of the Group and Company's third party financial assets (excluding prepayments) as at 31 December 2017 and 2016 was less than one month. The expected maturity of the Group and Company's related party financial assets as at 31 December 2017 and 2016 is in excess of one year.

The Group and the Company further mitigate liquidity risk by maintaining an insurance programme to minimise exposure to insurable losses.

21. Financial risk management objectives and policies (continued)

The Group and the Company had no derivative financial instruments as at 31 December 2017 and 2016.

The tables below show the projected contractual undiscounted total cash outflows arising from the Group's and Company's trade and other payables. These projections are based on the foreign exchange rates applying on 31 December 2017 (2016: 31 December 2016):

Group

	Within 1 year US$	Between 1 and 2 years US$	Between 2 to 5 years US$	After 5 years US$	Total US$
Year ended 31 December 2017					
Trade and other payables	1,578,211	–	–	–	1,578,211
	1,578,211	**–**	**–**	**–**	**1,578,211**
Year ended 31 December 2016					
Trade and other payables	747,348	–	–	–	747,348
	747,348	**–**	**–**	**–**	**747,348**

Company

	Within 1 year US$	Between 1 and 2 years US$	Between 2 to 5 years US$	After 5 years US$	Total US$
Year ended 31 December 2017					
Trade and other payables	1,302,426	–	–	–	1,302,426
	1,302,426	**–**	**–**	**–**	**1,302,426**
Year ended 31 December 2016					
Trade and other payables	585,319	–	–	–	585,319
	585,319	**–**	**–**	**–**	**585,319**

Interest rate risk

The Group and Company's exposure to the risk of changes in market interest rates relates primarily to the Group and Company's loans to joint ventures which are tied to the LIBOR interest rate and their holdings of cash and short-term deposits which are on variable rates ranging from 0.1% to 0.5%.

Financial instrument	Fixed %	Variable %
Interest-bearing loans to joint ventures	5.0% to 6.0%	US$ LIBOR

The effect of a rise of 1% in the LIBOR interest rate (e.g. from 1.3% to 2.3%) receivable on loans to joint ventures would be to increase Group loss before tax by US$68,348 and Company profit before tax by US$493,565.

It is the Group and Company's policy, as part of its disciplined management of the budgetary process, to place surplus funds on short-term deposit in order to maximise interest earned.

Notes to the Financial Statements

For the year ended 31 December 2017
(continued)

21. Financial risk management objectives and policies (continued)

Capital risk management

The Group and the Company manage capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group and the Company manage their capital structure and adjust it in light of changes in economic conditions. To maintain or adjust its capital structure, the Group and the Company may issue new shares or raise debt. No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 2016. The capital structure of the Group and the Company consists of equity attributable to equity holders of the Parent, comprising issued capital, reserves and retained losses as disclosed in the Consolidated Statement of Changes in Equity. There is no external debt.

Fair values

The carrying amount of the Company's financial assets and the Group and Company's financial liabilities is a reasonable approximation of the fair value. The carrying amount of the Group's financial assets is lower than the estimated fair value because of the adjustment required in accordance with IAS 28 arising primarily from the currency translation adjustments in the joint venture companies that exceeded the carrying value of the equity accounted investment in joint venture. See notes 12 and 13. The carrying value of the loans to WorldAce in the Group and Company is US$45.3 million, which approximates the fair value. The fair value of the loans is evaluated using a discounted cashflow model (using a pre-tax Weighted Average Cost of Capital of 15.8%), based upon level 3 inputs.

The fair value of the Group's financial liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale.

Hedging

At the year ended 31 December 2017 and 2016, the Group had no outstanding contracts designated as hedges.

Offsetting of financial assets and liabilities

No financial assets and liabilities were offset in the balance sheet as at 31 December 2017 and 2016.

22. Loss of Parent Undertaking

The Company is availing of the exemption set out in section 304 of the Companies Act 2014 from presenting its individual Income Statement to the Annual General Meeting and from filing it with the Registrar of Companies. The amount of the loss dealt with in the Parent undertaking for the year was US$14,318,738 (2016: US$34,539,757), which included impairment of investments in joint ventures of US$4,858,815 (2016: US$35,047,370) (Note 14) and allowance for doubtful debts on loans and receivables from joint ventures of US$10,923,056 (2016: US$NIL) (Note 15).

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

	2017 US$	2016 US$
Land and buildings		
Within one year	28,509	5,983
After one year but not more than five years	6,369	–
More than five years	–	–
	34,878	**5,983**

There were no capital commitments as at 31 December 2017 or 31 December 2016.

24. Related party disclosures

Transactions with subsidiaries

Transactions between the Group and its subsidiaries, Granite and Dolomite have been eliminated on consolidation. The Company had the following transactions with its subsidiaries during the years ended 31 December 2017 and 2016:

Company

	Granite Construction US$
Loans	
At 1 January 2016	1,170,375
Interest accrued in the year	63,224
Loans repaid during the year	(225,000)
At 1 January 2017 (Note 17)	**1,008,599**
Interest accrued in the year	30,325
Loans repaid during the year	(210,000)
Translation adjustment	41,449
At 31 December 2017 (Note 17)	**870,373**

Notes to the Financial Statements
For the year ended 31 December 2017
(continued)

24. Related party disclosures (continued)

Transactions with joint ventures

PetroNeft Resources plc had the following transactions with its joint ventures during the years ended 31 December 2017 and 2016:

Group

	Russian BD Holdings BV Group US$	WorldAce Investments Limited Group US$
Receivable by PetroNeft Group at 1 January 2016	3,389,708	40,883,592
Advanced during the year	10,000	–
Transactions during the year	159,260	2,622,188
Interest accrued in the year	234,402	3,011,025
Payments for services made during the year	(10,821)	(3,426,007)
Share of joint venture's translation adjustment	304,102	1,270,032
Translation adjustment	(5,769)	83,761
At 1 January 2017	**4,080,882**	**44,444,591**
Advanced during the year	360,251	–
Transactions during the year	142,086	1,798,417
Interest accrued in the year	270,773	3,238,839
Payment for services made during the year	(480,723)	(2,019,374)
Share of joint venture's translation adjustment	(187,315)	(1,956,467)
Translation adjustment	32,962	5,665
At 31 December 2017	**4,218,916**	**45,511,671**
Balance at 31 December 2016 comprised of:		
Loans receivable (Note 15)	3,724,178	43,989,243
Trade and other receivables	356,704	563,686
Trade Payables	–	(108,338)
	4,080,882	**44,444,591**
Balance at 31 December 2017 comprised of:		
Loans receivable (Note 15)	4,167,887	45,271,615
Trade and other receivables	51,029	452,498
Trade and other payables	–	(212,442)
	4,218,916	**45,511,671**

24. Related party disclosures (continued)

Company

	Russian BD Holdings BV Group US$	WorldAce Investments Limited Group US$
At 1 January 2016	4,202,436	50,327,085
Advanced during the year	10,000	–
Transactions during the year	140,409	1,243,187
Interest accrued in the year	234,402	3,011,025
Payments for services made during the year	–	(2,040,000)
Translation adjustment	(12,486)	(480)
At 1 January 2017	**4,574,761**	**52,540,817**
Advanced during the year	360,251	–
Transactions during the year	133,034	716,451
Interest accrued in the year	270,773	3,238,839
Payments for services made during the year	(480,251)	(859,713)
Translation adjustment	30,578	1,828
At 31 December 2017	**4,889,146**	**55,638,222**
Balance at 31 December 2016 comprised of:		
Loans receivable (Note 15)	4,256,866	52,235,829
Trade and other receivables	317,895	304,988
	4,574,761	**52,540,817**
Balance at 31 December 2017 comprised of:		
Loans receivable (Note 15)	4,887,890	55,474,668
Trade and other receivables	1,256	163,554
	4,889,146	**55,638,222**

Notes to the Financial Statements
For the year ended 31 December 2017
(continued)

24. 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 CFO. Their remuneration and fees during the year were as follows:

Remuneration of key management

	2017 US$	2016 US$
Compensation of key management	1,103,224	1,923,326
Contributions to defined contribution pension plan	52,693	69,308
Consulting fees (HGR Consulting – see below)	304,556	199,035
	1,460,473	**2,191,669**
The following amounts, which are included in the above, were owed to key management at 31 December 2017 and 2016		
Remuneration, fees and expenses due to Directors	424,564	54,021
Remuneration due to other key management	122,946	15,000
Consulting fees (HGR Consulting – see below)	276,570	116,031
	824,080	**185,052**

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

Transactions with HGR Consulting Limited

Paul Dowling, Secretary and Chief Financial Officer of PetroNeft, provides his services through HGR Consulting Limited ("HGR") from May 2016. Services provided by HGR during 2017 amounted to US$304,556 (2016: US$199,035). An amount of US$276,570 was owed to HGR at 31 December 2017 (2016: US$116,031).

25. Share-based payment

Share options

The expense recognised for employee services during the year is US$NIL (2016: US$NIL). The Group share-based payment plan is described below. There was no cancellation or modification to the plan during 2017 and 2016.

Under the Group share option plan, employees of the Group can receive conditional awards of share options depending on their performance, seniority and length of service. The options typically vest in tranches and are subject to the achievement of vesting conditions related to drilling, production and shareholder return. The maximum term for options is seven years. There are no cash settlement alternatives.

25. Share-based payment (continued)

Movement in the year

The fair value of the options is estimated at the grant date using an option pricing model considering the terms and conditions upon which the instruments were granted. The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the year.

	2017 Number	2017 WAEP	2016 Number	2016 WAEP
Outstanding as at 1 January	8,815,000	£0.3012	13,842,500	£0.28
Granted during the year	–	–	–	–
Forfeited during the year	(80,000)	£0.2509	(2,622,500)	£0.2869
Expired during the year	(3,475,000)	£0.66	(2,405,000)	£0.1925
Outstanding at 31 December	**5,260,000**	**£0.065**	**8,815,000**	**£0.3012**
Exercisable at 31 December	**–**	**–**	**–**	**–**

The exercise price for options outstanding at the year-end is £0.065 (2016: £0.065 to £0.66).

The weighted average remaining contractual life for the share options outstanding as at 31 December 2017 was 1.91 years (2016: 2.13 years).

No options were granted in 2017 or 2016.

The weighted average share price of forfeited options in 2017 was £0.2509 (2016: £0.2869).

The weighted average share price of expired options in 2017 was £0.66 (2016: £0.1925).

As no options were issued in 2017 or 2016, no valuation was carried out in 2017 or 2016.

Warrants

There were no warrants issued in 2017 or 2016.

26. Important Events after the Balance Sheet Date

In January 2018 we agreed a secured loan facility for up to US$2 million with Swedish company Petrogrand AB ("Petrogrand"). The loan matures on 31 December 2018. The loan facility will be used for general corporate purposes and to finance the drilling programme in 2018. This loan facility will provide time and space for a more long-term financing solution to be put in place.

27. Approval of financial statements

The financial statements were approved, and authorised for issue, by the Board of Directors on 25 June 2018.

Glossary

1P	Proved reserves according to SPE standards.
2P	Proved and probable reserves according to SPE standards.
3P	Proved, probable and possible reserves according to SPE standards.
AGM	Annual General Meeting.
AIM	Alternative Investment Market of the London Stock Exchange.
Arawak	Arawak Energy Russia B.V.
bbl	Barrel.
Belgrave Naftogas	Belgrave Naftogas B.V., a member of the Arawak group of companies
bfpd	Barrels of fluid per day.
boe	Barrel of oil equivalent.
bopd	Barrels of oil per day.
Company	PetroNeft Resources plc.
CPF	Central Processing Facility.
CSR	Corporate and Social Responsibility.
Custody Transfer Point	Facility/location at which custody of oil transfers to another operator.
Dolomite	LLC Dolomite, a 100% subsidiary of PetroNeft registered in the Russian Federation
DST	Drill stem test.
ESM	Enterprise Securities Market of the Irish Stock Exchange.
ESP	Electric Submersible Pump
Exploration resources	An undrilled prospect in an area of known hydrocarbons with unequivocal four-way dip closure at the reservoir horizon.
Granite Construction	LLC Granite Construction, a 100% subsidiary of PetroNeft registered in the Russian Federation
Group	The Company and its joint ventures and subsidiary undertakings.
HSE	Health, Safety and Environment.
IAS	International Accounting Standard.
IFRIC	IFRS Interpretations Committee.
IFRS	International Financial Reporting Standard.
km	Kilometres.
km2/ sq km	Square kilometres.
KPI	Key Performance Indicator.
Licence 61	The Exploration and Production Licence in the Tomsk Oblast, Russia owned by the joint venture company WorldAce Investments Limited. It contains seven known oil fields, Lineynoye, Tungolskoye, West Lineynoye, Arbuzovskoye, Kondrashevskoye, Sibkrayevskoye and North Varyakhskoye and 27 Prospects and Leads that are currently being explored.

GLOSSARY (continued)	
Licence 61 Farmout	An agreement whereby Oil India Limited subscribed for shares in WorldAce, the holding company for Stimul-T, the entity which holds Licence 61 and all related assets and liabilities, and following, PetroNeft and Oil India Limited both hold 50% of the voting shares, and through the shareholders agreement, both parties have joint control of WorldAce with PetroNeft as operator.
Licence 67	The Exploration and Production Licence in the Tomsk Oblast, Russia owned by the joint venture company Russian BD Holdings B.V. It contains two oil fields, Ledovoye and Cheremshanskoye and several potential prospects.
Lineynoye	Limited Liability Company Lineynoye, a wholly owned subsidiary of Russian BD Holdings B.V., registered in the Russian Federation.
m	Metres.
mmbbls	Million barrels.
mmbo	Million barrels of oil.
Natlata	Natlata Partners Limited, a significant shareholder of PetroNeft.
Oil pay	A formation containing producible hydrocarbons.
P1	Proved reserves according to SPE standards.
P2	Probable reserves according to SPE standards.
P3	Possible reserves according to SPE standards.
PetroNeft	PetroNeft Resources plc.
POD	Plan of Development.
Russian BD Holdings B.V.	Russian BD Holdings B.V., a company owned 50% by PetroNeft and registered in the Netherlands.
SPE	Society of Petroleum Engineers.
Spud	To commence drilling a well.
Stimul-T	Limited Liability Company Stimul-T, a wholly owned subsidiary of WorldAce, based in the Russian Federation.
TSR	Total Shareholder Return.
VAT	Value Added Tax.
WAEP	Weighted Average Exercise Price.
WorldAce	WorldAce Investments Limited, a company owned 50% by PetroNeft, registered in Cyprus.
WorldAce Group	WorldAce Investments Limited and its 100% subsidiary LLC Stimul-T

Group Information

Directors	**David Golder** (U.S. citizen) *(Non-Executive Chairman)*
	Dennis Francis (U.S. citizen) *(Chief Executive Officer)*
	Thomas Hickey (Irish citizen) *(Non-Executive Director)*
	Maxim Korobov (Russian citizen) *(Non-Executive Director)*
	Anthony Sacca (Australian citizen) *(Non-Executive Director)*
	David Sturt (British citizen) *(Non-Executive Director)*

Registered Office and Business Address	20 Holles Street Dublin 2 Ireland

Secretary	**Paul Dowling**

Auditor	**Deloitte Ireland LLP** Chartered Accountants Earlsfort Terrace Dublin 2 Ireland

Nominated Adviser and ESM Adviser	**Davy** 49 Dawson Street Dublin 2 Ireland

Joint Brokers	**Davy** 49 Dawson Street Dublin 2 Ireland	**Canaccord Genuity** 88 Wood Street London EC2V 7QR United Kingdom

Principal Bankers	**KBC Bank Ireland** Sandwith Street Dublin 2 Ireland	**AIB Bank** 1 Lower Baggot Street Dublin 2 Ireland

Solicitors	**Byrne Wallace** 88 Harcourt Street Dublin 2 Ireland

Registered Number	408101

Registrar	**Computershare** Heron House Corrig Road Sandyford Industrial Estate Dublin 18 Ireland

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