

**PetroNeft Resources plc**  
**Preliminary Statement of Results**  
*for the year ended 31 December 2017*

# PetroNeft Resources plc

## Final Results

### Table of Contents

Chairman’s Statement .....	2
Consolidated Income Statement .....	8
Consolidated Statement of Comprehensive Income .....	8
Consolidated Balance Sheet .....	9
Consolidated Statement of Changes in Equity .....	10
Consolidated Cash Flow Statement .....	11
Notes to the Preliminary Financial Statements .....	12

#### ***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

## 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. In 2017 we also saw continuing challenges for the industry in what remains an uncertain environment, with further volatility both geopolitically and in terms of 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

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. Thanks to the operational experience gained 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, 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 assess 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.

### 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. Since this appointment, we have been very active in pursuing opportunities since then and are 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.

# PetroNeft Resources plc

## Chairman's Statement (*continued*)

### Reserves

The table below contains the details of the Ryder Scott report as at 1 January 2016 as adjusted for 2016 and 2017 production. The report, which is available on [www.petroneft.com](http://www.petroneft.com), 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.

### Ryder Scott Estimated Reserves in Oil Fields (net to PetroNeft)

Oil Field Name	Proved	Proved & Probable	Proved, Probable & Possible
<b>Licence 61</b>	<b>1P mmbo</b>	<b>2P mmbo</b>	<b>3P mmbo</b>
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
	<b>15.3</b>	<b>50.6</b>	<b>56.0</b>
<b>Licence 67</b>			
Ledovoye	1.5	14.0	17.4
<b>Total net to PetroNeft</b>	<b>16.8</b>	<b>64.6</b>	<b>73.4</b>

- 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.

### 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.

### 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 Resources plc

## Chairman's Statement (*continued*)

### PetroNeft Key Financial Metrics

	2017 US\$'000	2016 US\$'000
<b>Continuing operations</b>		
Revenue	1,713	2,280
Cost of sales	(1,550)	(2,038)
<b>Gross profit</b>	<b>163</b>	<b>242</b>
Administrative expenses	(1,403)	(2,155)
Exchange gain on intra-Group loans	52	77
<b>Operating loss</b>	<b>(1,188)</b>	<b>(1,836)</b>
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
<b>Loss for the year for continuing operations before taxation</b>	<b>(2,345)</b>	<b>(4,597)</b>
Income tax expense	(894)	(830)
<b>Loss for the year</b>	<b>(3,239)</b>	<b>(5,427)</b>

### 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 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 14 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.

## PetroNeft Resources plc

### Chairman's Statement (*continued*)

#### 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
<b>Continuing operations</b>		
Revenue	27,637	23,208
Cost of sales	(25,273)	(22,399)
<b>Gross profit</b>	<b>2,364</b>	<b>809</b>
Administrative expenses	(3,093)	(3,229)
<b>Operating loss</b>	<b>(729)</b>	<b>(2,420)</b>
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)
<b>Loss for the year for continuing operations before taxation</b>	<b>(8,572)</b>	<b>(11,442)</b>
Income tax	-	-
<b>Loss for the year</b>	<b>(8,572)</b>	<b>(11,442)</b>
<b>PetroNeft's 50% share</b>	<b>(4,286)</b>	<b>(5,721)</b>

#### 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.

# PetroNeft Resources plc

## Chairman's Statement (*continued*)

### 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 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.

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.

### 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.

### Outlook

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.

# **PetroNeft Resources plc**

## **Chairman's Statement (*continued*)**

### **Annual Report**

The annual report will be mailed to shareholders and published on the Company's website ([www.petroneft.com](http://www.petroneft.com)) on 29 June 2018.

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



# PetroNeft Resources plc

## Consolidated Income Statement

For the year ended 31 December 2017

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

## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

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

**PetroNeft Resources plc**  
**Consolidated Balance Sheet**  
*As at 31 December 2017*

	<i>Note</i>	<b>2017</b> <b>US\$</b>	<b>2016</b> <b>US\$</b>
<b>Assets</b>			
<b>Non-current Assets</b>			
Property, plant and equipment	<b>5</b>	88,202	143,466
Equity-accounted investment in joint ventures - WorldAce Investments Limited	<b>6</b>	-	-
Equity-accounted investment in joint ventures - Russian BD Holdings B.V.	<b>7</b>	-	-
Financial assets - loans and receivables	<b>8</b>	49,439,502	47,713,421
		<u>49,527,704</u>	<u>47,856,887</u>
<b>Current Assets</b>			
Inventories	<b>9</b>	21,908	28,973
Trade and other receivables	<b>10</b>	587,601	1,143,904
Cash and cash equivalents	<b>11</b>	9,389	319,618
		<u>618,898</u>	<u>1,492,495</u>
<b>Total Assets</b>		<u><b>50,146,602</b></u>	<u><b>49,349,382</b></u>
<b>Equity and Liabilities</b>			
<b>Capital and Reserves</b>			
Called up share capital	<b>12</b>	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		<u>45,428,571</u>	<u>46,153,760</u>
<b>Non-current Liabilities</b>			
Deferred tax liability		3,001,617	2,113,541
		<u>3,001,617</u>	<u>2,113,541</u>
<b>Current Liabilities</b>			
Trade and other payables	<b>13</b>	1,716,414	1,082,081
		<u>1,716,414</u>	<u>1,082,081</u>
<b>Total Liabilities</b>		<u><b>4,718,031</b></u>	<u><b>3,195,622</b></u>
<b>Total Equity and Liabilities</b>		<u><b>50,146,602</b></u>	<u><b>49,349,382</b></u>

## PetroNeft Resources plc

### 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\$
<b>At 1 January 2016</b>	<b>9,429,182</b>	<b>140,912,898</b>	<b>7,132,540</b>	<b>(38,885,148)</b>	<b>(74,774,790)</b>	<b>43,814,682</b>
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
<b>At 31 December 2016</b>	<b>9,429,182</b>	<b>140,912,898</b>	<b>7,132,540</b>	<b>(31,118,410)</b>	<b>(80,202,450)</b>	<b>46,153,760</b>
<b>At 1 January 2017</b>	<b>9,429,182</b>	<b>140,912,898</b>	<b>7,132,540</b>	<b>(31,118,410)</b>	<b>(80,202,450)</b>	<b>46,153,760</b>
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
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,513,852</b>	<b>(3,239,041)</b>	<b>(725,189)</b>
<b>At 31 December 2017</b>	<b>9,429,182</b>	<b>140,912,898</b>	<b>7,132,540</b>	<b>(28,604,558)</b>	<b>(83,441,491)</b>	<b>45,428,571</b>

# PetroNeft Resources plc

## Consolidated Cash Flow Statement

For the year ended 31 December 2017

	2017	2016
	US\$	US\$
<b>Operating activities</b>		
Loss before taxation	(2,345,371)	(4,597,419)
<b>Adjustment to reconcile loss before tax to net cash flows</b>		
<b>Non-cash</b>		
Depreciation	62,748	68,568
Share of loss in joint ventures	4,667,487	6,009,430
Finance revenue	(3,510,435)	(3,247,876)
<b>Working capital adjustments</b>		
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)
<b>Net cash flows used in operating activities</b>	<u>(277,917)</u>	<u>(957,647)</u>
<b>Investing activities</b>		
Loan facilities advanced to joint venture undertakings	(40,000)	(10,000)
Interest received	823	2,449
<b>Net cash used in investing activities</b>	<u>(39,177)</u>	<u>(7,551)</u>
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	<u>319,618</u>	<u>1,284,212</u>
<b>Cash and cash equivalents at the end of the year</b>	<b>11</b> <u><u>9,389</u></u>	<u><u>319,618</u></u>

## Notes to the Preliminary Financial Statements

For the year ended 31 December 2017

### 1. Basis of Accounting and Presentation of Financial Information

While the financial information included in this announcement has been prepared in accordance with the Group's accounting policies under International Financial Reporting Standards ("IFRS") as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. The Company is distributing the full financial statements that comply with IFRS on 29 June 2018.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2017 or 2016 but is derived from those accounts. Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered following the Company's annual general meeting. The auditors have made reports under Section 391 of the Irish Companies Act, 2014 in respect of those accounts. Both reports were unmodified but did draw attention to the material uncertainty relating to going concern.

#### ***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 application of these amendments did not result in material changes to the results or financial position of the Group or the Company.

### 2. Going Concern

As described in the Chairman's Statement on page 6 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 14 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.

# PetroNeft Resources plc

## Notes to the Preliminary Financial Statements

For the year ended 31 December 2017

### 3. 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\$
<b>Non-current assets</b>		
Russia	49,526,318	47,854,604
Ireland	1,386	2,283
	<u>49,527,704</u>	<u>47,856,887</u>

### 4. Loss per Ordinary Share

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

	2017 US\$	2016 US\$
<b>Numerator</b>		
Loss attributable to equity shareholders of the Parent for basic and diluted loss	<u>(3,239,041)</u>	<u>(5,427,660)</u>
	<u>(3,239,041)</u>	<u>(5,427,660)</u>
<b>Denominator</b>		
Weighted average number of Ordinary Shares for basic and diluted earnings per Ordinary Share	<u>707,245,906</u>	<u>707,245,906</u>
<b>Diluted weighted average number of shares</b>	<u>707,245,906</u>	<u>707,245,906</u>
<b>Loss per share:</b>		
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 – These potential Ordinary Shares are anti-dilutive for the years ended 31 December 2017 and 2016.

# PetroNeft Resources plc

## Notes to the Preliminary Financial Statements

For the year ended 31 December 2017

### 5. Property, Plant and Equipment

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

# PetroNeft Resources plc

## Notes to the Preliminary Financial Statements

For the year ended 31 December 2017

### 6. 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	<u>(1,270,032)</u>
<b>At 1 January 2017</b>	<b>-</b>
<b>Elimination of unrealised loss on intra-Group transactions</b>	<b>(27,336)</b>
<b>Retained loss</b>	<b>(4,285,833)</b>
<b>Translation adjustment</b>	<b>2,356,702</b>
<b>Credited against loans receivable from WorldAce Investments Limited</b>	<b><u>1,956,467</u></b>
<b>At 31 December 2017</b>	<b><u>-</u></b>

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 8).



# PetroNeft Resources plc

## Notes to the Preliminary Financial Statements

For the year ended 31 December 2017

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

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

	50% Share of WorldAce Group	
	2017 US\$	2016 US\$
<i>Continuing operations</i>		
<b>Revenue</b>	13,818,415	11,604,182
Cost of sales	(12,636,469)	(11,199,845)
<b>Gross profit</b>	<b>1,181,946</b>	<b>404,337</b>
Administrative expenses	(1,546,643)	(1,614,435)
<b>Operating loss</b>	<b>(364,697)</b>	<b>(1,210,098)</b>
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)
<b>Loss for the year for continuing operations before taxation</b>	<b>(4,285,833)</b>	<b>(5,721,232)</b>
Income tax expense	-	-
<b>Loss for the year</b>	<b>(4,285,833)</b>	<b>(5,721,232)</b>
<b>Loss for the year</b>	(4,285,833)	(5,721,232)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>		
Currency translation adjustments	2,356,702	7,149,140
<b>Total comprehensive (loss)/profit for the year</b>	<b>(1,929,131)</b>	<b>1,427,908</b>

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 14 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.

# PetroNeft Resources plc

## Notes to the Preliminary Financial Statements

For the year ended 31 December 2017

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

	50% Share of WorldAce Group	
	2017 US\$	2016 US\$
<b>Non-current Assets</b>		
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
	<b>49,642,917</b>	<b>46,634,162</b>
<b>Current Assets</b>		
Inventories	605,240	536,685
Trade and other receivables	282,925	176,318
Cash and cash equivalents	68,613	40,415
	<b>956,778</b>	<b>753,418</b>
<b>Total Assets</b>	<b>50,599,695</b>	<b>47,387,580</b>
<b>Non-current Liabilities</b>		
Provisions	(658,513)	(433,573)
Interest-bearing loans and borrowings	(61,435,277)	(56,686,519)
	<b>(62,093,790)</b>	<b>(57,120,092)</b>
<b>Current Liabilities</b>		
Interest-bearing loans and borrowings	(715,405)	-
Trade and other payables	(2,677,132)	(3,224,989)
	<b>(3,392,537)</b>	<b>(3,224,989)</b>
<b>Total Liabilities</b>	<b>(65,486,327)</b>	<b>(60,345,081)</b>
<b>Net Liabilities</b>	<b>(14,886,632)</b>	<b>(12,957,501)</b>

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 14 Related party disclosures.

### Capital commitments

	2017 US\$	2016 US\$
<b>Details of capital commitments at the balance sheet date are as follows:</b>		
Contracted for but not provided in the financial statements	466,114	1,080,620

# PetroNeft Resources plc

## Notes to the Preliminary Financial Statements

For the year ended 31 December 2017

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

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

	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
	<u>731,469</u>	<u>691,096</u>

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

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

PetroNeft Resources plc has a 50% interest in Russian BD Holdings B.V., a 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	<u>(304,102)</u>
<b>At 1 January 2017</b>	<b>-</b>
<b>Retained loss</b>	<b>(381,654)</b>
<b>Translation adjustment</b>	<b>194,339</b>
<b>Credited against loans receivable from Russian BD Holdings BV</b>	<b><u>187,315</u></b>
<b>At 31 December 2017</b>	<b><u>-</u></b>

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 8).

# PetroNeft Resources plc

## Notes to the Preliminary Financial Statements

For the year ended 31 December 2017

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

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

	50% Share of Russian BD Holdings B.V. Group	
	2017	2016
	US\$	US\$
Revenue	-	-
Cost of sales	-	-
<b>Gross profit</b>	-	-
Administrative expenses	(94,626)	(66,718)
<b>Operating loss</b>	<b>(94,626)</b>	<b>(66,718)</b>
Finance revenue	259	294
Finance costs	(287,287)	(239,079)
<b>Loss for the year for continuing operations before taxation</b>	<b>(381,654)</b>	<b>(305,503)</b>
Taxation	-	17,305
<b>Loss for the year</b>	<b>(381,654)</b>	<b>(288,198)</b>
<b>Loss for the year</b>	<b>(381,654)</b>	<b>(288,198)</b>
<i>Other comprehensive income to be reclassified to profit or loss in subsequent years:</i>		
Currency translation adjustments	194,339	592,300
<b>Total comprehensive (loss)/ profit for the year</b>	<b>(187,315)</b>	<b>304,102</b>

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 14 Related party disclosures.

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

# PetroNeft Resources plc

## Notes to the Preliminary Financial Statements

For the year ended 31 December 2017

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

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
	<u>37,385</u>	<u>36,173</u>

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

### 8. Financial assets - loans and receivables

	2017 US\$	2016 US\$
Loans to WorldAce Investments Limited	55,474,668	52,235,829
Less: share of WorldAce Investments Limited loss (Note 6)	<u>(10,203,053)</u>	<u>(8,246,586)</u>
	<u>45,271,615</u>	<u>43,989,243</u>
Loans to Russian BD Holdings B.V.	4,887,890	4,256,866
Less: share of Russian BD Holdings B.V. loss (Note 7)	<u>(720,003)</u>	<u>(532,688)</u>
	<u>4,167,887</u>	<u>3,724,178</u>
	<u>49,439,502</u>	<u>47,713,421</u>

The Company has granted a loan facility to its joint venture undertaking WorldAce Investments Limited of up to US\$45 million. This loan facility is US\$ denominated and unsecured. Interest currently accrues on the loan at USD LIBOR plus 6.0% but the Company has agreed not to seek payment of interest until 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 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 realisation of financial assets of \$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 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 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. 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.

# PetroNeft Resources plc

## Notes to the Preliminary Financial Statements

For the year ended 31 December 2017

### 9. Inventories

	2017 US\$	2016 US\$
Materials	21,908	28,973
	<u>21,908</u>	<u>28,973</u>

### 10. Trade and other receivables

	2017 US\$	2016 US\$
Other receivables	21,039	155,651
Receivable from joint ventures (Note 14)	503,527	920,390
Advances to contractors	1,676	8,047
Prepayments	61,359	59,816
	<u>587,601</u>	<u>1,143,904</u>

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

Amounts owed by subsidiary undertakings are interest-bearing. Interest is charged at 10%.

### 11. Cash and Cash Equivalents

	2017 US\$	2016 US\$
Cash at bank	9,389	319,618
	<u>9,389</u>	<u>319,618</u>

Bank deposits earn interest at floating rates based on daily deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

### 12. Share capital - Group and Company

	2017 €	2016 €
<b>Authorised</b>		
1,000,000,000 (2016: 1,000,000,000) Ordinary Shares of €0.01 each	<u>10,000,000</u>	<u>10,000,000</u>
	<u>10,000,000</u>	<u>10,000,000</u>
	<b>Number of Ordinary Shares</b>	<b>Called up share capital US\$</b>
<b>Allotted, called up and fully paid equity</b>		
At 1 January 2016	<u>707,245,906</u>	<u>9,429,182</u>
<b>At 1 January 2017</b>	<u>707,245,906</u>	<u>9,429,182</u>
<b>At 31 December 2017</b>	<u>707,245,906</u>	<u>9,429,182</u>

# PetroNeft Resources plc

## Notes to the Preliminary Financial Statements

For the year ended 31 December 2017

### 13. Trade and other payables

	2017	2016
	US\$	US\$
Trade payables	570,476	337,208
Trade payables to joint ventures (Note 14)	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
	<u>1,716,414</u>	<u>1,082,081</u>

The Directors consider that the carrying amount of trade and other payables approximates their fair value. Trade and other payables are non-interest-bearing and are normally settled on 60-day terms. Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

### 14. Related party disclosures

#### Transactions with joint ventures

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

	Russian BD Holdings BV Group	WorldAce Investments Limited Group
	US\$	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
<b>At 1 January 2017</b>	<b>4,080,882</b>	<b>44,444,591</b>
<b>Advanced during the year</b>	<b>360,251</b>	<b>-</b>
<b>Transactions during the year</b>	<b>142,086</b>	<b>1,798,417</b>
<b>Interest accrued in the year</b>	<b>270,773</b>	<b>3,238,839</b>
<b>Payment for services made during the year</b>	<b>(480,723)</b>	<b>(2,019,374)</b>
<b>Share of joint venture's translation adjustment</b>	<b>(187,315)</b>	<b>(1,956,467)</b>
<b>Translation adjustment</b>	<b>32,962</b>	<b>5,665</b>
<b>At 31 December 2017</b>	<b><u>4,218,916</u></b>	<b><u>45,511,671</u></b>
<b>Balance at 31 December 2016 comprised of:</b>		
Loans receivable (Note 8)	3,724,178	43,989,243
Trade and other receivables	356,704	563,686
Trade Payables	-	(108,338)
	<u>4,080,882</u>	<u>44,444,591</u>
<b>Balance at 31 December 2017 comprised of:</b>		
Loans receivable (Note 8)	4,167,887	45,271,615
Trade and other receivables	51,029	452,498
Trade and other payables	-	(212,442)
	<u>4,218,916</u>	<u>45,511,671</u>

# PetroNeft Resources plc

## Notes to the Preliminary Financial Statements

For the year ended 31 December 2017

### 14. 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
	<u>1,460,473</u>	<u>2,191,669</u>

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
	<u>824,080</u>	<u>185,052</u>

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).

### 15. 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.

### 16. Board approval

This announcement was approved by the Board of Directors of PetroNeft Resources plc on 25 June 2018.