

PetroNeft Resources plc

**Unaudited interim condensed
consolidated financial statements**

for the 6 months ended 30 June 2016

PetroNeft Resources plc

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Forward Looking Statements

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

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

PetroNeft Resources plc

Group Information

Directors ¹

David Golder (U.S. citizen)
(Non-Executive Chairman)
Dennis Francis (U.S. citizen)
(Chief Executive Officer)
Thomas Hickey
(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

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Dublin 2
Ireland

Secretary

Paul Dowling

Auditor

Ernst & Young
Chartered Accountants
Harcourt Centre
Harcourt Street
Dublin 2
Ireland

Nominated Adviser and ESM Adviser

Davy
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¹ Irish citizens unless otherwise stated

PetroNeft Resources plc

Group Information (*continued*)

Joint Brokers

Davy
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Ireland

Canaccord Genuity
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London
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United Kingdom

Principal Bankers

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Sandwith Street
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Solicitors

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PetroNeft Resources plc

Chairman's Statement

Dear Shareholder,

I am pleased to report on the activities of the Group for the six months to 30 June 2016 and provide an update on recent progress. 2016 has been a busy year with a significant work programme undertaken at Licence 61, together with our 50% partner Oil India. The 2016 campaign delivered considerable production growth from new wells at South Arbuzovskoye but some disappointment with the result of a delineation well at the Sibkrayevskoye oil field.

Production and Sales

Gross production at Licence 61 in the six months to 30 June 2016 averaged 2,366 bopd, a 36% increase compared to the same period in 2015 (1,744 bopd). We sold 421,714 (gross) barrels of oil in the six months to 30 June 2016 (H1 2015: 329,733 bbls) and achieved an average Russian Domestic oil price of \$20.56 (H1 2015: \$29.87). The fall in price is reflective of the continuing challenges being faced across the oil and gas industry.

Licence 61 Gross Production	H1 2016	Q2-2016	Q1-2016	H1 2015
Total gross production	430,693	223,877	206,816	315,664
Gross bopd	2,366	2,460	2,272	1,744
PetroNeft 50% share bopd	1,183	1,230	1,136	872

Gross production at Licence 61 has grown by 39% in the year to date and is currently approximately 3,200 bopd. This growth came from the new wells at South Arbuzovskoye which came online in June and July 2016. Production is shown quarterly above and we intend to publish quarterly production statements from October 2016 onwards. The actual production for Q3-2016 will be announced in October 2016.

South Arbuzovskoye

The main drilling programme in 2016 was focussed on the southern lobe of Arbuzovskoye. In 2015 we had drilled the A-103 well from Pad 1 in the northern end and acquired some additional 2D seismic on the southern end. Both the well and the seismic gave us confidence in the potential of the southern lobe. The lessons learned from the horizontal drilling at Tungolskoye in 2015 also proved valuable in setting out the drilling programme in South Arbuzovskoye.

We drilled two vertical and two horizontal wells. Our pre-drill estimates were to achieve initial production of 125 bopd from the vertical wells and 600 bopd from the horizontal wells. The results far exceeded these estimates with the vertical wells (A213 & A-216) coming in at over 350 bopd and 175 bopd respectively and the horizontal wells (A-214 & A-215) coming in at over 800 bopd and 650 bopd respectively. With the exception of the A-216 well, the new wells at South Arbuzovskoye continue to perform ahead of expectations. The water cut at A-216 has risen higher than expected and we are examining ways to solve this issue.

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. Between late January and April 2016 the S-373 well was put on production and averaged 200 bopd during the period. This well, along with the previous wells, S-372 and S-370, forms the basis for the initial development of Sibkrayevskoye at Pad 1 which is planned for 2017. We are currently arranging the necessary studies, permits and approvals to sanction Pad 1 development of Sibkrayevskoye later this year.

In 2016 we sought to ascertain the full potential of Sibkrayevskoye through the drilling of a 10 km step out well, S-374. The well was drilled in July and August 2016 but unfortunately did not encounter commercial oil and was plugged and abandoned. The result, while disappointing, should not affect the current 2P reserve significantly or impact our decision regarding the development of Pad 1 at Sibkrayevskoye which is 10 km to the north.

PetroNeft Resources plc

Chairman's Statement (*continued*)

Review of PetroNeft loss for the period

The loss for the period was US\$2.3m (2014: US\$1.4m). The loss includes PetroNeft's share of the losses on the joint ventures relating to Licences 61 and 67 of US\$2.4m and US\$0.2m respectively (H1 2015: US\$1.8m and US\$0.2m). The loss relating to the Licence 61 joint venture is discussed in more detail below. Finance revenue of US\$1.6m (H1 2015: US\$1.5m) relates primarily to interest receivable on loans to the joint ventures.

PetroNeft Key Financial Metrics

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2016 US\$	6 months ended 30 June 2015 US\$	Year ended 31 December 2015 US\$
Continuing operations			
Revenue	1,362	1,220	2,398
Cost of sales	(1,235)	(1,206)	(2,371)
Gross profit	127	14	27
Administrative expenses	(1,073)	(572)	(1,380)
Exchange gain/(loss) on intra-Group loans	(23)	17	(284)
Operating loss	(923)	(541)	(1,637)
Share of joint venture's net loss – WorldAce Investments Limited	(2,408)	(1,829)	(8,765)
Share of joint venture's net loss – Russian BD Holdings B.V.	(173)	(157)	(315)
Finance revenue	1,596	1,504	3,042
Loss for the period for continuing operations before taxation	(1,908)	(1,023)	(7,675)
Income tax expense	(410)	(393)	(799)
Loss for the period for continuing operations before taxation	(2,318)	(1,416)	(8,474)

PetroNeft Resources plc

Chairman's Statement (*continued*)

Licence 61 joint venture – WorldAce Group

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

	PetroNeft's 50% share 6 months ended 30 June 2016 US\$'000	PetroNeft's 50% share 6 months ended 30 June 2015 US\$'000	PetroNeft's 50% share year ended 31 December 2015 US\$'000
Continuing operations			
Revenue	4,339	4,925	10,300
Cost of sales	(4,259)	(4,767)	(10,436)
Gross profit	80	158	(136)
Administrative expenses	(917)	(831)	(1,519)
Impairment of oil and gas properties	-	-	(4,550)
Operating loss	(837)	(673)	(6,205)
Finance revenue	4	6	12
Finance costs	(1,575)	(1,162)	(2,572)
Loss for the period for continuing operations before taxation	(2,408)	(1,829)	(8,765)
Income tax credit	-	-	-
Loss for the period for continuing operations before taxation	(2,408)	(1,829)	(8,765)
WorldAce Analysis			
	6 months ended 30 June 2016 US\$'000	50% of WorldAce 6 months ended 30 June 2015 US\$'000	12 months ended 31 December 2015
Revenue			
Oil sales	4,335	4,908	10,276
Other sales	4	16	24
Total revenue	4,339	4,924	10,300
Cost of Sales			
Mineral Extraction Tax	2,047	2,495	4,922
Pipeline tariff	820	635	1,493
Staff costs	402	458	840
Depreciation and amortisation	600	517	1,472
Other cost of sales	390	662	1,708
Total cost of sales	4,259	4,767	10,435

The detailed Income Statement and Balance Sheet of WorldAce Investments Limited is disclosed at note 7 to these condensed financial statements. Very low oil prices in late 2015 and the first quarter of 2016 have significantly reduced the margin. With the higher production and improved pricing being achieved in the second half of 2016 we should be able to improve the margin as many of our production costs are fixed.

PetroNeft Resources plc

Chairman's Statement (*continued*)

In March 2016 Oil India agreed to provide 100% of the funding required to carry out the agreed work programmes at Licence 61 in 2016 and 2017. This work programme is expected to require gross funding of at least US\$35 million, US\$10m in 2016 and US\$25m in 2017. The funding is to be provided by way of unsecured loans to the joint venture company WorldAce Investments Limited. The loan agreement for the 2016 requirement of US\$10m was executed in March 2016 and the funding fully drawn by July 2016. It is expected that the loan agreement for the 2017 requirement will be executed on substantially similar terms in late 2016.

Licence 67

During 2015, we agreed an exploration programme for Licence 67 for the five years to 2020 with the Russian authorities; based on this, the first significant expenditure required will be in 2017 but we expect to be able to defer this expenditure to at least 2018. We view Licence 67 as having considerable long term potential and we are discussing forward plans with our joint venture partner Belgrave Naftogas (Arawak Energy).

Board Changes

As discussed in the Annual Report, in April 2016 Maxim Korobov, Anthony Sacca and David Sturt joined the Board as non-executive Directors. David Sanders, Gerry Fagan and Paul Dowling left the Board, however Mr. Dowling remains as CFO of the Company and is Company Secretary.

Business development

In May 2016 Pavel Tetyakov joined the Company as Vice President of Business Development to help bring a renewed focus on Business Development and we are actively pursuing a number of exciting options in this regard.

Outlook

We have had a busy year so far, with good success in growing production and our longer term development and exploration plans for our portfolio, however market conditions remain challenging and there are few signs of sustained improvement in oil prices in the near term. We are now focussed on commencing the development of our largest field, Sibkrayevskoye in 2017 which, with the expected Oil India loan agreement to be signed, the Company is fully financed for. Our focus continues to be on growing production, managing costs and positioning the Company for any improvement in market conditions, while we are also investigating opportunities to benefit from current conditions by growing the company through acquisitions or business combinations focussed on producing assets in Russia. We look forward to updating shareholders of our results over the remainder of 2016.

David Golder
Non-Executive Chairman

PetroNeft Resources plc

Interim Condensed Consolidated Income Statement

For the 6 months ended 30 June 2016

	Note	Unaudited		Audited
		6 months ended 30 June 2016 US\$	6 months ended 30 June 2015 US\$	Year ended 31 December 2015 US\$
<i>Continuing operations</i>				
Revenue		1,362,158	1,220,323	2,398,314
Cost of sales		(1,234,712)	(1,205,656)	(2,370,949)
Gross profit		127,446	14,667	27,365
Administrative expenses		(1,073,237)	(572,017)	(1,379,506)
Exchange loss on intra-Group loans		22,522	16,401	(284,449)
Operating loss		(923,268)	(540,949)	(1,636,590)
Share of joint venture's net loss - WorldAce Investments Limited	7	(2,407,781)	(1,828,719)	(8,765,055)
Share of joint venture's net loss - Russian BD Holdings B.V.	8	(172,677)	(157,470)	(314,859)
Finance revenue	4	1,595,944	1,504,174	3,041,587
Loss for the period for continuing operations before taxation		(1,907,782)	(1,022,964)	(7,674,917)
Income tax expense	5	(409,925)	(392,701)	(799,466)
Loss for the period attributable to equity holders of the Parent		(2,317,707)	(1,415,665)	(8,474,383)
Loss per share attributable to ordinary equity holders of the Parent				
Basic and diluted - US dollar cent		(0.33)	(0.20)	(1.20)

Interim Condensed Consolidated Statement of Comprehensive Income

For the 6 months ended 30 June 2016

	Unaudited		Audited
	6 months ended 30 June 2016 US\$	6 months ended 30 June 2015 US\$	Year ended 31 December 2015 US\$
Loss for the period attributable to equity holders of the Parent	(2,246,207)	(1,415,665)	(8,474,383)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Currency translation adjustments - subsidiaries	61,935	19,683	265,640
Share of joint ventures' other comprehensive income - foreign exchange translation differences	5,467,539	909,754	(12,474,502)
Total comprehensive profit/(loss) for the period attributable to equity holders of the Parent	3,211,767	(486,228)	(20,683,245)

PetroNeft Resources plc

Interim Condensed Consolidated Balance Sheet

As at 30 June 2016

		<i>Unaudited</i>	<i>Audited</i>
		30 June 2016	31 December 2015
	<i>Note</i>	US\$	US\$
Assets			
Non-current Assets			
Property, plant and equipment	6	167,922	181,703
Equity-accounted investment in joint ventures - WorldAce Investments Limited	7	-	-
Equity-accounted investment in joint ventures - Russian BD Holdings B.V.	8	-	-
Financial assets - loans and receivables	9	47,214,376	42,883,861
		47,382,298	43,065,564
Current Assets			
Inventories	10	29,676	54,302
Trade and other receivables	11	2,314,336	1,842,128
Cash and cash equivalents	12	382,546	1,284,212
		2,726,558	3,180,642
Total Assets		50,108,856	46,246,206
Equity and Liabilities			
Capital and Reserves			
Called up share capital		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		(77,092,497)	(74,774,790)
Currency translation reserve		(33,355,674)	(38,885,148)
Other reserves		336,000	336,000
Equity attributable to equity holders of the Parent		47,026,449	43,814,682
Non-current Liabilities			
Deferred tax liability		1,693,335	1,286,378
		1,693,335	1,286,378
Current Liabilities			
Trade and other payables	13	1,389,072	1,145,146
		1,389,072	1,145,146
Total Liabilities		3,082,407	2,431,524
Total Equity and Liabilities		50,108,856	46,246,206

PetroNeft Resources plc

Interim Condensed Consolidated Statement of Changes in Equity

For the 6 months ended 30 June 2016

	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 2015	9,429,182	140,912,898	7,099,745	(26,676,286)	(66,300,407)	64,465,132
Loss for the year	-	-	-	-	(8,474,383)	(8,474,383)
Currency translation adjustments - subsidiaries	-	-	-	265,640	-	265,640
Share of joint ventures' other comprehensive income - foreign exchange translation differences	-	-	-	(12,474,502)	-	(12,474,502)
Total comprehensive loss for the year	-	-	-	(12,208,862)	(8,474,383)	(20,683,245)
Share-based payment expense	-	-	32,795	-	-	32,795
At 31 December 2015	9,429,182	140,912,898	7,132,540	(38,885,148)	(74,774,790)	43,814,682
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 period	-	-	-	-	(2,317,707)	(2,317,707)
Currency translation adjustments - subsidiaries	-	-	-	(61,935)	-	(61,935)
Share of joint ventures' other comprehensive income - foreign exchange translation differences	-	-	-	5,467,539	-	5,467,539
Total comprehensive profit for the period	-	-	-	5,529,474	(2,317,707)	3,211,767
At 30 June 2016	9,429,182	140,912,898	7,132,540	(33,355,674)	(77,092,497)	47,026,449

PetroNeft Resources plc

Interim Condensed Consolidated Cash Flow Statement

For the 6 months ended 30 June 2016

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2016 US\$	6 months ended 30 June 2015 US\$	Year ended 31 December 2015 US\$
Operating activities			
Loss before taxation	(1,907,782)	(1,022,964)	(7,674,917)
Adjustment to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation	36,970	54,575	97,673
Share of loss in joint ventures	2,580,458	1,986,189	9,079,914
Share-based payment expense	-	16,246	32,795
Finance revenue	4 (1,595,944)	(1,504,174)	(3,041,587)
Working capital adjustments			
(Increase)/decrease in trade and other receivables	(322,891)	156,081	(548,351)
Decrease/(increase) in inventories	24,626	(36,465)	(39,122)
Increase/(decrease) in trade and other payables	292,234	(458,992)	31,428
Income tax paid	(12,771)	(9,861)	(25,832)
Net cash flows used in operating activities	(905,100)	(819,365)	(2,087,999)
Investing activities			
Purchase of property, plant and equipment	-	(13,312)	(19,059)
Interest received	1,480	5,984	10,095
Net cash received from/(used in) investing activities	1,480	(7,328)	(8,964)
Net decrease in cash and cash equivalents	(903,620)	(826,693)	(2,096,963)
Translation adjustment	1,954	(8,481)	(11,594)
Cash and cash equivalents at the beginning of the period	1,284,212	3,392,769	3,392,769
Cash and cash equivalents at the end of the period	12 382,546	2,557,595	1,284,212

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements

For the 6 months ended 30 June 2016

1. Corporate Information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2016 were authorised for issue in accordance with a resolution of the Directors on 27 September 2016.

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

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

2. Accounting Policies

2.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015 which are available on the Group's website – www.petroneft.com.

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

2.2 Significant Accounting Policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2016

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:

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2016	31 December 2015
	US\$	US\$
Non-current assets		
Russia	47,379,517	43,062,084
Ireland	2,781	3,480
	47,382,298	43,065,564

4. Finance revenue

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended	6 months ended	Year ended 31
	30 June 2016	30 June 2015	December 2015
	US\$	US\$	US\$
Bank interest receivable	1,480	5,984	10,095
Interest receivable on loans to Joint Ventures	1,594,464	1,498,190	3,031,492
	1,595,944	1,504,174	3,041,587

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2016

5. Income tax

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2016 US\$	6 months ended 30 June 2015 US\$	Year ended 31 December 2015 US\$
Current income tax			
Current income tax charge	2,968	9,047	24,863
Total current income tax	2,968	9,047	24,863
Deferred tax			
Relating to origination and reversal of temporary differences	406,957	383,654	774,603
Total deferred tax	406,957	383,654	774,603
Income tax expense reported in the Interim Consolidated Income Statement	409,925	392,701	799,466

6. Property, Plant and Equipment

	Plant and machinery US\$
Cost	
At 1 January 2015	996,588
Additions	19,059
Translation adjustment	(215,247)
At 1 January 2016	800,400
Translation adjustment	104,224
At 30 June 2016	904,624
Depreciation	
At 1 January 2015	674,786
Charge for the year	97,673
Translation adjustment	(153,762)
At 1 January 2016	618,697
Charge for the period	36,970
Translation adjustment	81,035
At 30 June 2016	736,702
Net book values	
At 30 June 2016	167,922
At 31 December 2015	181,703

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2016

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

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

	Share of net assets US\$
At 1 January 2015	10,865,156
Elimination of unrealised profit on intra-Group transactions	(29,326)
Retained loss	(8,765,055)
Translation adjustment	(11,587,393)
Credited against loans receivable from WorldAce Investments Limited (Note 9)	<u>9,516,618</u>
At 1 January 2016	-
Elimination of unrealised loss on intra-Group transactions	(151,029)
Retained loss	(2,407,781)
Translation adjustment	5,042,837
Reversal of credit to loans receivable from WorldAce Investments Limited (Note 9)	<u>(2,484,027)</u>
At 30 June 2016	<u>-</u>

The balance sheet position of WorldAce Investments Limited shows net liabilities of US\$23,500,706 following a loss in the period of US\$4,815,562 together with a positive currency translation adjustment of US\$10,085,675. PetroNeft's 50% share is included above and results in a negative carrying value of US\$7,032,591. 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\$7,032,591 is deducted from other assets associated with the joint venture on the Balance Sheet which are the loans receivable from WorldAce Investments (see Note 9).

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2016

7. 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:

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2016 US\$	6 months ended 30 June 2015 US\$	Year ended 31 December 2015 US\$
<i>Continuing operations</i>			
Revenue	4,339,111	4,924,336	10,300,094
Cost of sales	(4,259,206)	(4,766,524)	(10,435,521)
Gross profit	79,905	157,812	(135,427)
Administrative expenses	(916,886)	(830,570)	(1,519,005)
Impairment of oil and gas properties	-	-	(4,550,000)
Operating loss	(836,981)	(672,758)	(6,204,432)
Finance revenue	3,475	5,834	11,694
Finance costs	(1,574,275)	(1,161,795)	(2,572,317)
Loss for the period for continuing operations before taxation	(2,407,781)	(1,828,719)	(8,765,055)
Income tax expense	-	-	-
Loss for the period	(2,407,781)	(1,828,719)	(8,765,055)
Loss for the period	(2,407,781)	(1,828,719)	(8,765,055)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Currency translation adjustments	5,042,837	837,749	(11,587,393)
Total comprehensive profit/(loss) for the period	2,635,056	(990,970)	(20,352,448)

The currency translation adjustment results from the revaluation of the Russian Rouble during the period. All Russian Rouble carrying values in Stimul-T, the 100% subsidiary of WorldAce are converted to US Dollars at each period end. The resulting gain or loss is recognised through other comprehensive income and transferred to the currency translation reserve. The Russian Rouble appreciated significantly against the US Dollar during the period from RUB73.30:US\$1 at 31 December 2015 to RUB64.05:US\$1 at 30 June 2016.

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Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2016

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

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2016	31 December
	US\$	US\$
Non-current Assets		
Oil and gas properties	35,421,820	27,646,307
Property, plant and equipment	206,001	197,826
Exploration and evaluation assets	7,048,832	6,044,036
Assets under construction	2,665,129	2,345,358
	45,341,782	36,233,527
Current Assets		
Inventories	479,906	257,857
Trade and other receivables	308,786	259,142
Cash and cash equivalents	38,018	153,198
	826,710	670,197
Total Assets	46,168,492	36,903,724
Non-current Liabilities		
Provisions	(353,646)	(273,278)
Interest-bearing loans and borrowings	(52,416,272)	(48,366,752)
	(52,769,918)	(48,640,030)
Current Liabilities		
Trade and other payables	(5,148,927)	(2,649,103)
	(5,148,927)	(2,649,103)
Total Liabilities	(57,918,845)	(51,289,133)
Net Liabilities	(11,750,353)	(14,385,409)

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2016

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

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

	Share of net assets US\$
At 1 January 2015	365,178
Retained loss	(314,859)
Translation adjustment	(887,109)
Credited against loans receivable from Russian BD Holdings BV (Note 9)	836,790
At 1 January 2016	-
Retained loss	(172,677)
Translation adjustment	424,702
Reversal of credit to loans receivable from Russian BD Holdings BV (Note 9)	(252,025)
At 30 June 2016	-

The balance sheet position of Russian BD Holdings B.V. shows net liabilities of US\$1,169,530 following a loss in the year of US\$345,354 together with a currency translation adjustment (gain) of US\$849,404. PetroNeft's 50% share is included above and results in a negative carrying value of US\$584,765. 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\$584,765 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 9).

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2016

8. 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:

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2016 US\$	6 months ended 30 June 2015 US\$	Year ended 31 December 2015 US\$
Revenue	-	-	-
Cost of sales	-	-	-
Gross profit	-	-	-
Administrative expenses	(56,435)	(58,858)	(106,224)
Operating loss	(56,435)	(58,858)	(106,224)
Finance revenue	204	274	434
Finance costs	(116,446)	(98,886)	(209,069)
Loss for the period for continuing operations before taxation	(172,677)	(157,470)	(314,859)
Taxation	-	-	-
Loss for the period	(172,677)	(157,470)	(314,859)
Loss for the period	(172,677)	(157,470)	(314,859)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Currency translation adjustments	424,702	72,005	(887,109)
Total comprehensive profit/(loss) for the period	252,025	(85,465)	(1,201,968)
		<i>Unaudited</i>	<i>Audited</i>
		30 June 2016 US\$	31 December 2015 US\$
Non-current assets		3,787,327	3,327,327
Current assets		45,227	71,104
Total assets		3,832,554	3,398,431
Non-current liabilities		(4,214,659)	(4,034,780)
Current liabilities		(202,660)	(200,441)
Total liabilities		(4,417,319)	(4,235,221)
Net Liabilities		(584,765)	(836,790)

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2016

9. Financial assets - loans and receivables

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2016	31 December 2015
	US\$	US\$
Loans to WorldAce Investments Limited (Note 14)	50,704,823	49,224,805
Less: share of WorldAce Investments Limited loss	<u>(7,032,591)</u>	<u>(9,516,618)</u>
	<u>43,672,232</u>	<u>39,708,187</u>
Loans to Russian BD Holdings B.V. (Note 14)	4,126,909	4,012,464
Less: share of Russian BD Holdings B.V. loss	<u>(584,765)</u>	<u>(836,790)</u>
	<u>3,542,144</u>	<u>3,175,674</u>
	<u>47,214,376</u>	<u>42,883,861</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 H2 2017 at the earliest. The loan is set to mature on 31 December 2022. The loan from the Company to Russian BD Holdings is repayable on demand. Interest currently accrues on the loan at LIBOR plus 6.0% per annum.

10. Inventories

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2016	31 December 2015
	US\$	US\$
Materials	<u>29,676</u>	<u>54,302</u>
	<u>29,676</u>	<u>54,302</u>

11. Trade and other receivables

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2016	31 December 2015
	US\$	US\$
Other receivables	224,724	147,641
Receivable from jointly controlled entity (Note 14)	1,852,613	1,628,667
Advances to contractors	1,992	3,708
Prepayments	<u>235,007</u>	<u>62,112</u>
	<u>2,314,336</u>	<u>5,069,944</u>

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

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2016

12. Cash and Cash Equivalents

Group	<i>Unaudited</i>	<i>Audited</i>
	30 June 2016	31 December 2015
	US\$	US\$
Cash at bank and in hand	382,546	1,284,212
	<u>382,546</u>	<u>1,284,212</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.

13. Trade and other payables

	<i>Unaudited</i>	<i>Audited</i>
	30 June 2016	31 December 2015
	US\$	US\$
Trade payables	334,135	238,570
Trade payables to jointly controlled entity (Note 14)	388,254	239,228
Corporation tax	59,439	59,087
Oil taxes, VAT and employee taxes	44,874	78,293
Other payables	348,544	212,141
Accruals	213,826	317,827
	<u>1,389,072</u>	<u>1,145,146</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.

PetroNeft Resources plc

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the 6 months ended 30 June 2016

14. Related party disclosures

Transactions with subsidiaries

Transactions between the Group and its subsidiaries, Granite and Dolomite, have been eliminated on consolidation.

Transactions with joint ventures

PetroNeft Resources plc had the following transactions with its joint ventures during the six months ended 30 June 2016 and year ended 31 December 2015:

Group	Russian BD Holdings BV Group US\$	WorldAce Investments Limited Group US\$
Receivable by PetroNeft Group at 1 January 2015	3,882,578	47,341,766
Transactions during the year	183,333	2,670,250
Interest accrued in the year	205,189	2,826,303
Payments for services made during the year	(29,781)	(2,483,727)
Share of joint venture's translation adjustment	(836,790)	(9,516,618)
Translation adjustment	(14,821)	45,618
At 1 January 2016	3,389,708	40,883,592
Transactions during the period	78,222	1,686,332
Interest accrued in the period	114,445	1,480,019
Payment for services made during the period	(2,743)	(1,771,387)
Share of joint venture's translation adjustment	252,025	2,484,027
Translation adjustment	7,941	76,554
At 30 June 2016	3,839,598	44,839,137
Balance at 31 December 2015 comprised of:		
Loan facility advanced	3,175,674	39,708,187
Trade and other receivables	214,034	1,414,633
Trade Payables	-	(239,228)
	3,389,708	40,883,592
Balance at 30 June 2016 comprised of:		
Loans receivable	3,542,144	43,672,232
Trade and other receivables	297,454	1,555,159
Trade and other payables	-	(388,254)
	3,839,598	44,839,137