PETRONEFT RESOURCES PLC

2014

ANNUAL REPORT

ГОДОВОЙ ОТЧЕТ

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.

REVIEW OF THE YEAR

01–21

GOVERNANCE

22–31

FINANCIAL STATEMENTS

32–83

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

50%

50% Farmout of Licence 61 agreed with Oil India.

4

New wells drilled, three at Arbuzovskoye and Tungolskoye No. 5.

156 KM^2

3D seismic programme at Licence 67.

1,997 BOPD

Average gross production at Licence 61 in 2014.

72 MMBBLS

2P reserves net to PetroNeft at 31 December 2014.

SEE CHIEF EXECUTIVE OFFICER'S REPORT

on pages 12 to 15

FINANCIAL HIGHLIGHTS

US$85M

Total investment by Oil India as part of Licence 61 Farmout will be up to US$85 million.

US$19.2M

PetroNeft revenue US$19.2 million.

US$46M

Loans receivable from Licence 61 joint venture.

ZERO DEBT

PetroNeft is now debt free following completion of Licence 61 Farmout.

US$6.7M

Fundraising of US$6.7 million completed in March 2014.

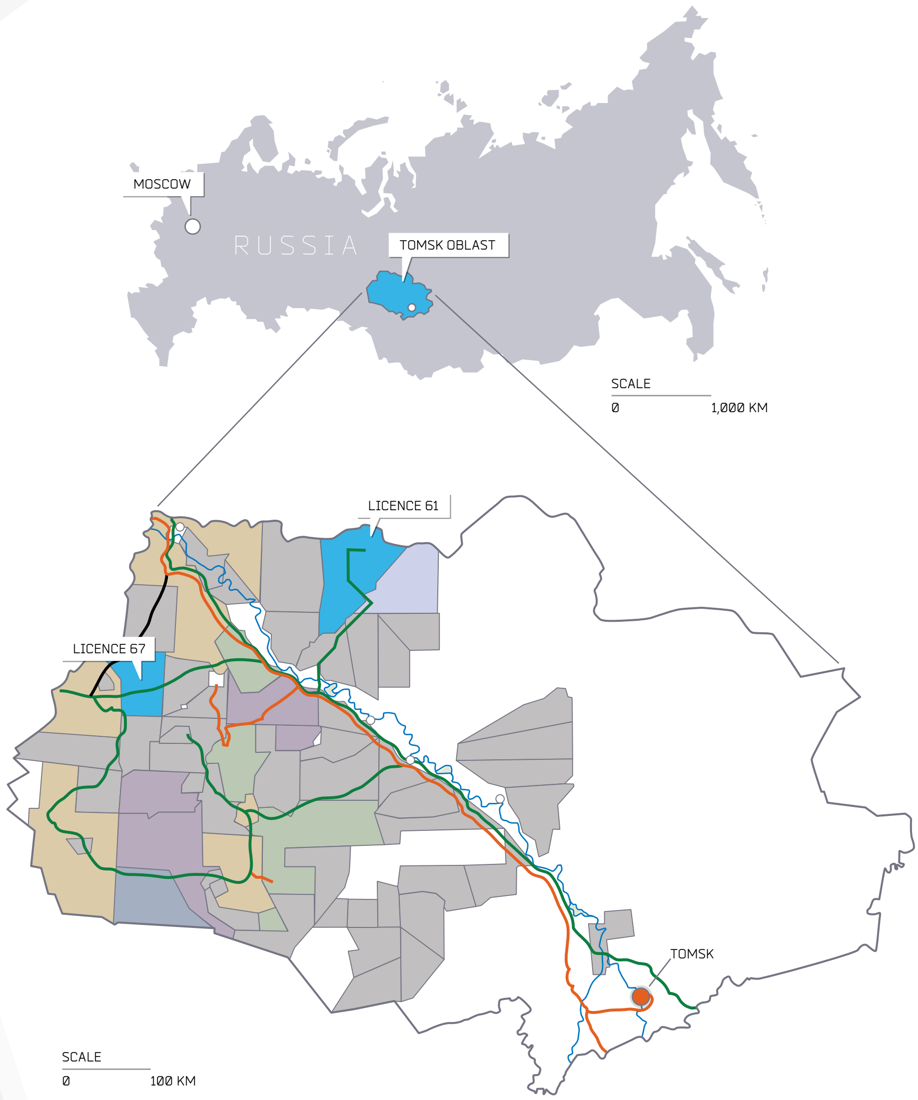
SEE THE FINANCIAL REVIEW

on pages 16 to 19

PRODUCING OIL FROM A SOLID ASSET BASE

OUR ASSETS

The main assets of the Company are a 50% operating interest in a 4,991 km^2 oil and gas licence (Licence 61) in the Tomsk Oblast in Russia and a 50% operating interest in a 2,447 km^2 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.



TOMSK OBLAST

KEY:

- PETRONEFT
- ROSNEFT
- GAZPROM
- GAZPROMNEFT
- ONGC (IMPERIAL ENERGY)
- OTHER
- OIL PIPELINE
- GAS PIPELINE
- ALL-WEATHER ROAD

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.

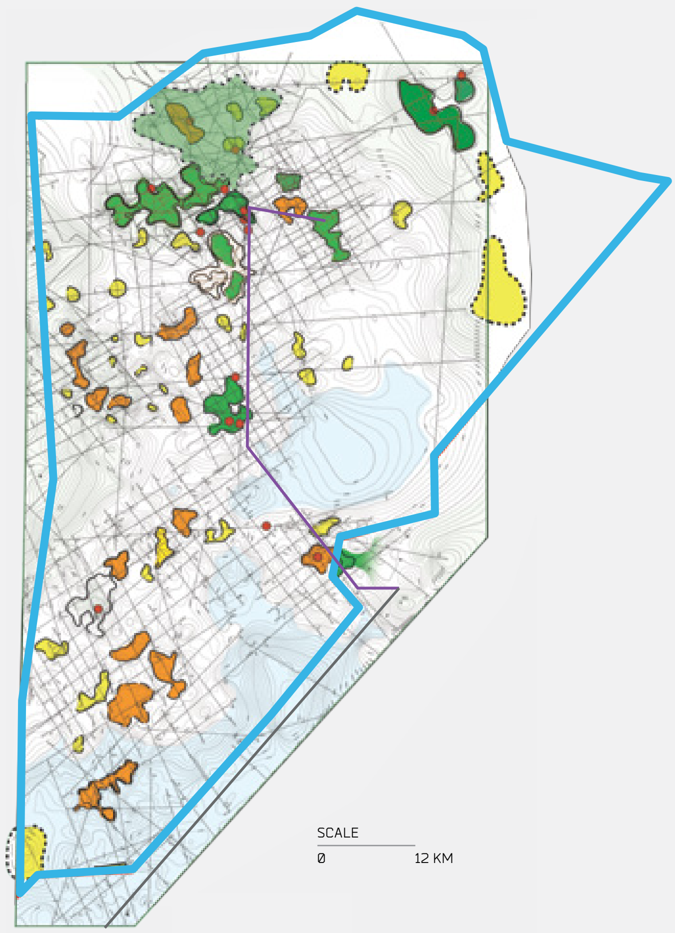
The Group's strategy is to develop an oil exploration, development and production business in Russia, using the combined skills, experience and resources of the Group's Directors and employees. In the short-term this is to be achieved through a focus on growth of production and cash flows at Licence 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.

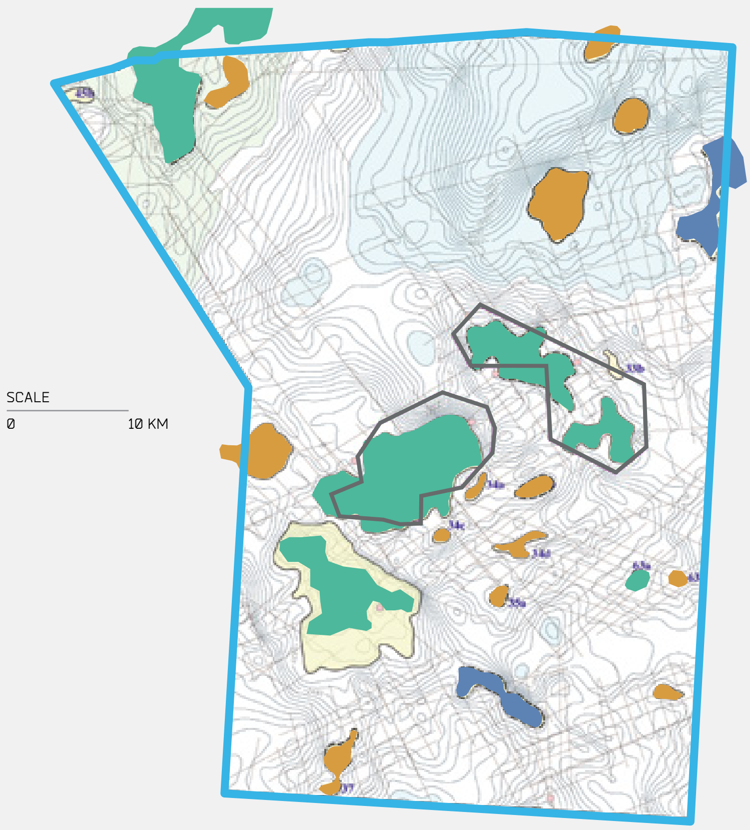
In addition to operations on Licences 61 and 67, the Company continues to evaluate new projects for acquisition. In 2014 PetroNeft signed a Farmout deal with Oil India Limited to farmout a 50% non-operating interest in Licence 61. PetroNeft remains the operator of Licence 61.

LICENCE 61

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 see pages 04-07





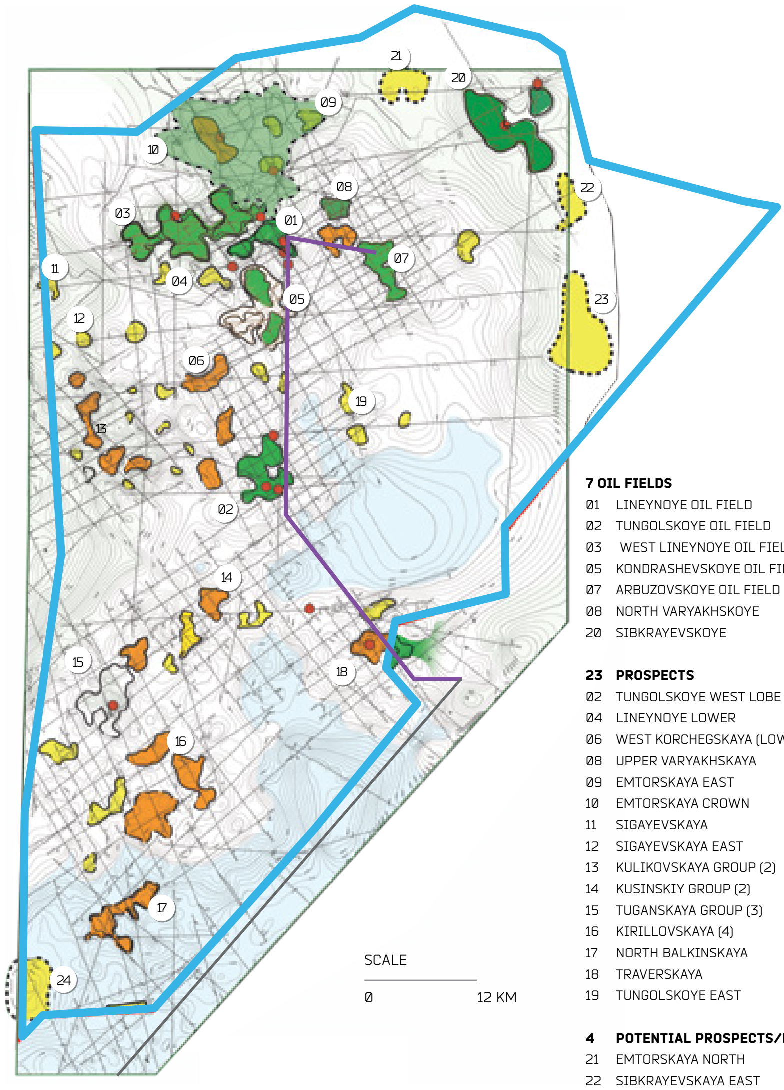
LICENCE 67

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

More information see page 08

LICENCE 61

AS WELL AS SEVEN DISCOVERED OIL FIELDS IN LICENCE 61 THERE ARE OVER 25 ADDITIONAL PROSPECTS AND LEADS TO BE EXPLORED.



7 OIL FIELDS
01 LINEYNOYE OIL FIELD
02 TUNGOLSKOYE OIL FIELD
03 WEST LINEYNOYE OIL FIELD
05 KONDRASHEVSKOYE OIL FIELD
07 ARBUZOVSKOYE OIL FIELD
08 NORTH VARYAKHSKOYE
20 SIBKRAYEVSKOYE

23 PROSPECTS
02 TUNGOLSKOYE WEST LOBE AND NORTH (2)
04 LINEYNOYE LOWER
06 WEST KORCHEGSKAYA (LOWER JURASSIC)
08 UPPER VARYAKHSKAYA
09 EMTORSKAYA EAST
10 EMTORSKAYA CROWN
11 SIGAYEVSKAYA
12 SIGAYEVSKAYA EAST
13 KULIKOVSKAYA GROUP (2)
14 KUSINSKIY GROUP (2)
15 TUGANSKAYA GROUP (3)
16 KIRILLOVSKAYA (4)
17 NORTH BALKINSKAYA
18 TRAVERSKAYA
19 TUNGOLSKOYE EAST

4 POTENTIAL PROSPECTS/LEADS
21 EMTORSKAYA NORTH
22 SIBKRAYEVSKAYA EAST
23 SOBACHYA
24 WEST BALKINSKAYA

OIL FIELD
PROSPECT READY FOR DRILLING
PROSPECT IDENTIFIED
POTENTIAL PROSPECTS
PIPELINE

LICENCE 61

ऑयल इंडिया लिमिटेड
Oil India Limited

FARMOUT OF A 50% NON-OPERATING INTEREST TO 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. Following shareholder approval in May 2014 and Russian Regulatory approval in June 2014, the deal completed on 3 July 2014. The basic terms of this agreement are summarised 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 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 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.

On completion OIL can book 50% of production and reserves from Licence 61.

POST COMPLETION ACTIVITIES

Since completion five additional production wells have been drilled at Arbuzovskoye and delineation wells were drilled at Tungolskoye (T-5) and Sibkrayevskoye (S-373), where significant upside potential and near-term developments are possible. The Tungolskoye No. 5 well was the first horizontal well drilled on Licence 61. In early 2015 an additional 1,000 km of 2D seismic has been acquired across the large Sibkrayevskoye oil field and Emtorskaya prospect and processing is underway. The success of the T-5 well has led to the development of the Tungolskoye oil field which will be brought into production in 2015.

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 Egypt, Gabon, Libya, Mozambique, Nigeria, USA, Venezuela and Yemen. For further detail please refer to www.oil-india.com

ARBUZOVSKOYE OIL FIELD DEVELOPMENT

DEVELOPMENT HAS BEEN REVISED BASED ON DRILLING

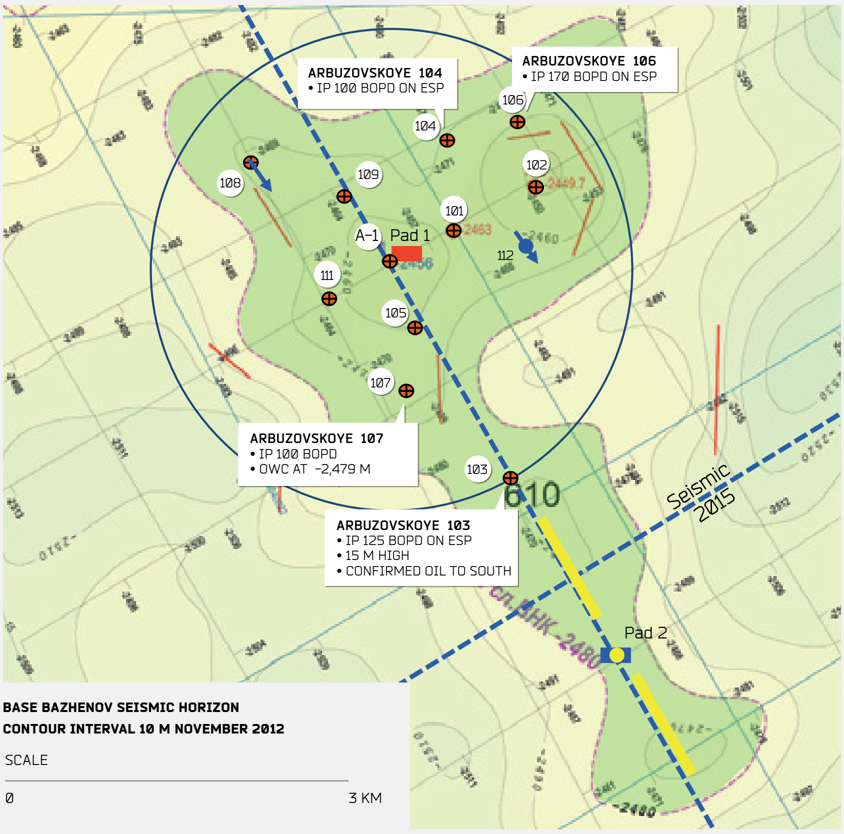
- Pilot production commenced in Jan 2012 with Well A-1 brought online at >300 bopd
- 6 wells brought on-stream winter 2012/13
- Water injection started with conversion of A-112 (lowest structurally) in April 2013

POST OIL FARMOUT – 2014/2015

- Additional 5 wells drilled on Pad 1 during 2014/15. All 5 wells successful.
- Well 9s (A-103) was strategically located to the south to maximise information gathering for Pad 2 well locations. The well was 15 m high to prognosis and confirmed the reservoir and oil saturation to the south.
- Seismic planned along axis of southern lobe in Q1 2015 to better define structure for potential horizontal well development.
- Updated seismic interpretation will be available in late 2015

SOUTHERN LOBE DEVELOPMENT POSSIBLE IN 2016

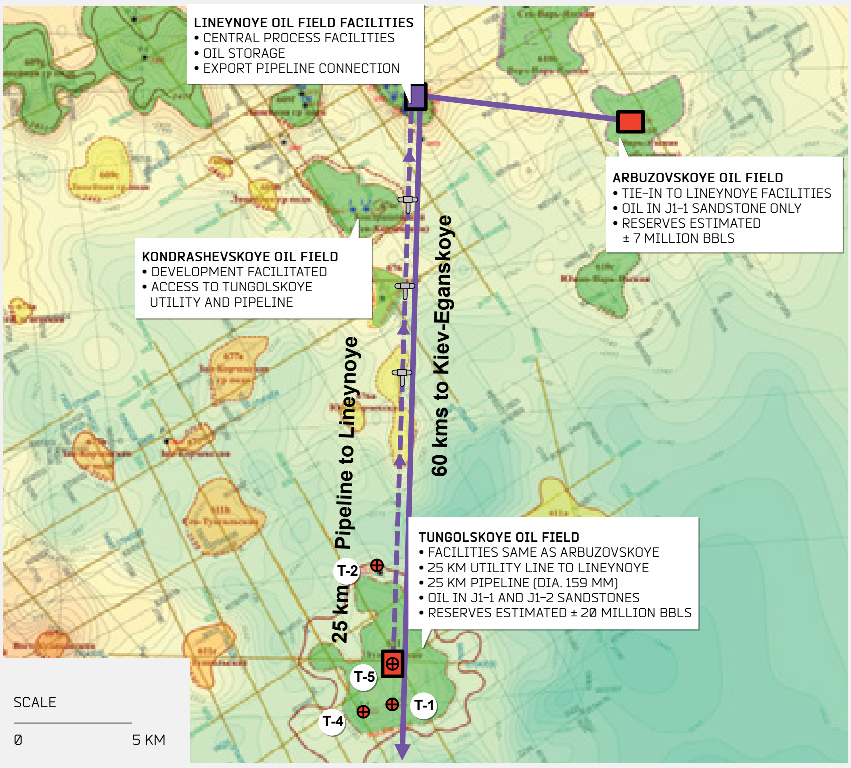
- Location for Pad 2 has been selected
- Quick tie-in to Pad 1 and Lineynoye Central Processing Facility.
- Currently planned development will consist on 2 horizontal wells with up to 1,000 m horizontal segments and one vertical well.



TUNGOLSKOYE PLANNED DEVELOPMENT

RISK MITIGATION IN ADVANCE OF DEVELOPMENT

- The T-5 well confirmed structure and reservoir
- Horizontal wells greatly reduce the cost and time required for development
- Productivity in 300 m segment confirmed



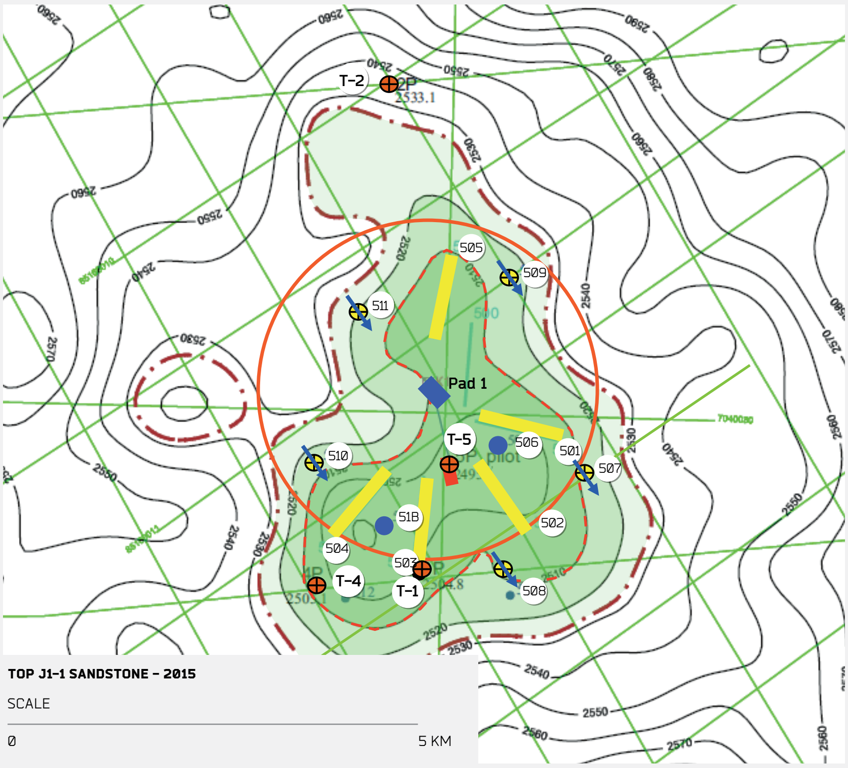
TUNGOLSKOYE WELL PLAN

TUNGOLSKOYE DEVELOPMENT

- 3-5 Horizontal wells
- 3-5 Vertical wells (will later convert to injectors)
- Up to 1,000 m Horizontal segments

POTENTIAL WELLS AND DRILLING ORDER:

1. 51B - to determine stratigraphy (core)
2. 503 - using T-5, 51B & T-1 as control
3. 504 - using T-5, 51B & T-4 as control
4. 508 - as far south as possible
5. 506 - to determine stratigraphy (core)
6. 502 - along seismic line
7. 507 - to determine stratigraphy
8. 501 - parallel to seismic line
9. 510 - to determine stratigraphy
10. 511 - to determine stratigraphy
11. 509 - to determine stratigraphy
12. 505 - close to seismic line



SIBKRAYEVSKOYE OIL FIELD OVERVIEW

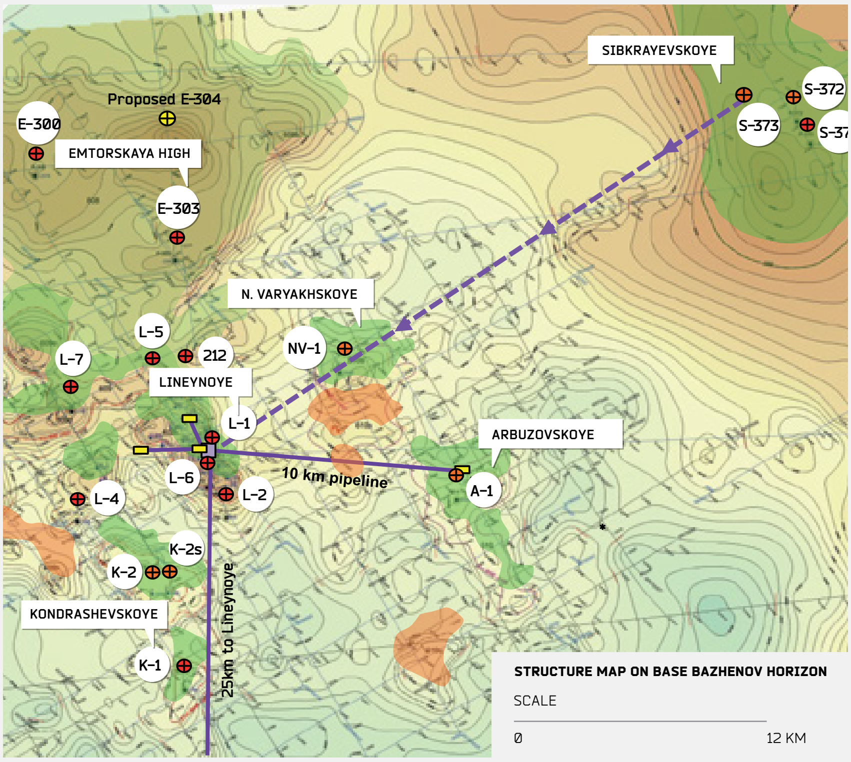
MAJOR DISCOVERY – POTENTIALLY ON-STREAM IN 2016

THREE WELLS WERE DRILLED ON THE FIELD PRIOR TO 2015

- Well S-372 (2011) twinned with well S-370 (1972) was drilled by PetroNeft
- S-372 well confirmed 12.3 m of "missed pay"
- Open hole inflow test 170 bopd, 37° API
- Over 50 sq km of closure above oil-down-to level in well 372
- Ryder Scott 2P reserves 53 million bbls
- Additional seismic and well data will be required to fully assess the discovery and register reserves for development

2015 PROGRAMME:

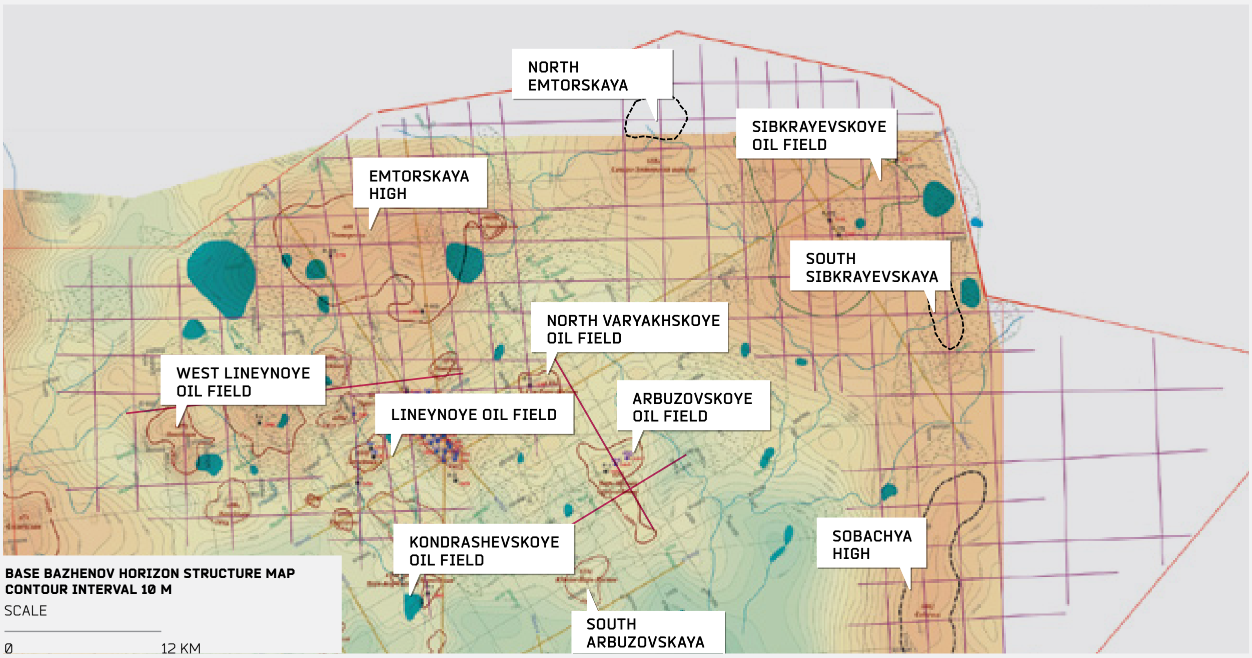
- Well S-373 - completed May 2015 – 11.5 m net pay - 100 bopd natural flow without stimulation
- Additional 2D Seismic acquisition in Q1 2015 – acquisition completed processing and interpretation underway.
- Development decision in 2015
- Will be tied back to Lineynoye Central Processing Facility via 25 km pipeline and utility line



NORTHERN AREA

SEISMIC ACQUISITION

- Licence obligation - 1,000 km 2D seismic by end 2015
- Needed to acquire 2D seismic over Sibkrayevskoye Oil Field in Q1 2015 in order for development to commence in Q1 2016
- Better definition of Emtorskaya, Sobachya and other prospects



LICENSE 67
156 KM² 3D SEISMIC PROGRAMME CARRIED OUT IN 2014

In 2011/2012 two wells were drilled, one at the Cheremshanskaya prospect and a second at the Ledovoye oil field.

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.

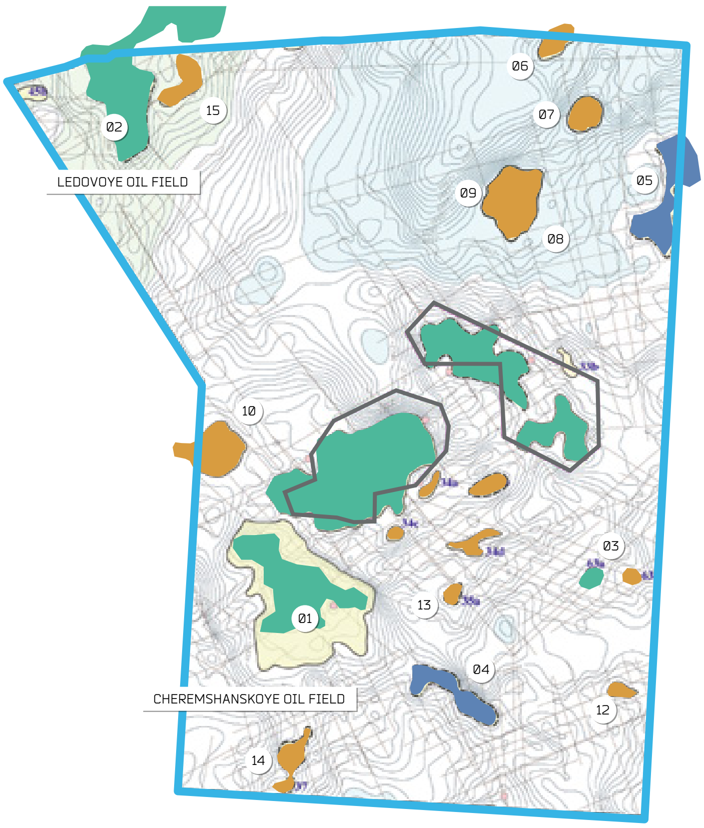
There are large producing fields nearby with similar characteristics and the strong indications are that Cheremshanskoye will prove to be a substantial discovery upon further delineation.

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 4.5m 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. We have no significant exploration commitments on the Licence in 2015 or 2016 and are currently reviewing the next steps in the development of the Licence with our partner Arawak in light of the current oil prices.



SCALE
0 10 KM

DRILLED STRUCTURES
01 CHEREMSHANSKOYE OIL FIELD
02 LEDOVOYE OIL FIELD
03 SKLONOVAYA
04 NORTH PIONERSKAYA
05 BOLOTNINSKAYA

IDENTIFIED PROSPECTS AND LEADS
06 LEVO-ILYAKSKAYA
07 SYGLYNIGAISKAYA
08 GRUSHEVAYA
09 GRUSHEVAYA STRATIGRAPHIC TRAP
10 MALOSTOLBOVAYA
11 NIZHENOLOMOVAYA TERRASA GP.
12 BAIKALSKAYA
13 MALOCHEREMSHANSKAYA
14 EAST CHERMSHANSKAYA
15 EAST LEDOVOYE

DRILLED STRUCTURE WITH OIL SHOW OR TEST
DRILLED STRUCTURE WITH NO OIL SHOWS REPORTED
UNDRILLED STRUCTURE OR STRATIGRAPHIC TRAP
EXCLUDED AREA WITH PRODUCING OIL FIELDS

OUR RESERVES

2P RESERVES

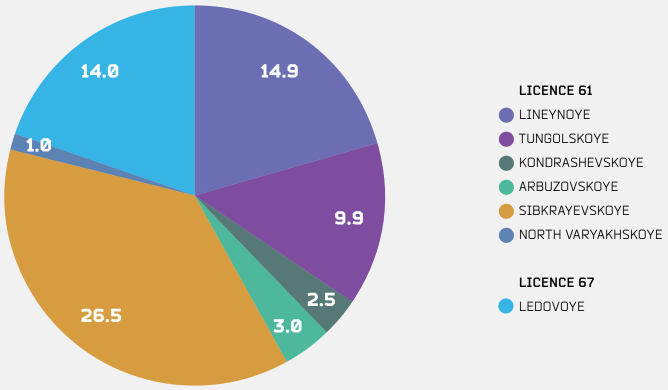
LICENCES 61 AND 67

- 2P reserves are as estimated by Ryder Scott, Petroleum Consultants, each year 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 April 2013, as adjusted for production to the end of December 2014.
- As a result of the Licence 61 Farmout 2P reserves will be reduced by 58 mmbbls to 72 mmbbls

72M

72 million barrels of 2P reserves net to PetroNeft

2P TOTALS

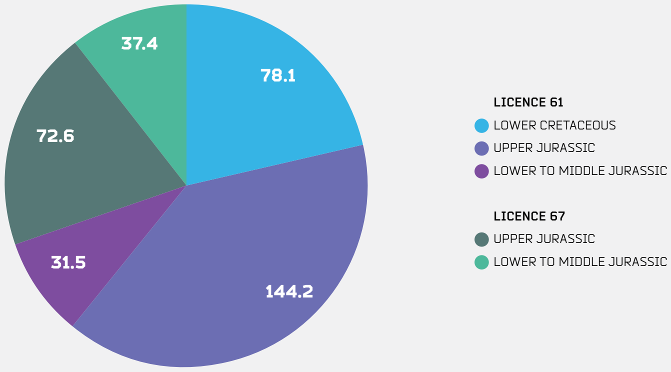


3P RESERVES AND EXPLORATION RESOURCES (P4)

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.
- As a result of the Licence 61 Farmout 3P reserves and Exploration Resources were reduced to 364 mmbbls.

3P TOTALS MILLION BBLS



CHAIRMAN'S STATEMENT

THE LICENCE 61 FARMOUT MATERIALLY STRENGTHENED PETRONEFT BOTH FINANCIALLY AND STRATEGICALLY. WE BELIEVE THE TRANSFORMATION WE WILL UNDERGO AS A RESULT OF THE LICENCE 61 FARMOUT WILL BE FOR THE BENEFIT OF THE SHAREHOLDERS IN THE COMPANY AS A WHOLE.

DAVID GOLDER
NON-EXECUTIVE CHAIRMAN

A TRANSFORMATIVE YEAR

2014 was a transformative year for our Company during which we succeeded in both solving the short-term funding constraints and securing the long-term investment requirements necessary to develop the full potential of Licence 61. On 17 April 2014, we signed a farmout deal with Oil India Limited ("OIL" or "Oil India") that accomplished both our short-term and long-term goals. Following shareholder approval at an EGM in May 2014 and subsequent Russian regulatory approval the deal was completed on 3 July 2014. The total investment by OIL will be up to US$85 million. The Licence 61 Farmout is defined and further details are provided in the Financial Review.

The Licence 61 Farmout materially strengthened PetroNeft both financially and strategically. We believe the transformation we will undergo as a result of the Licence 61 Farmout will be for the benefit of the shareholders of the Company as a whole. The Company is now debt-free and the jointly controlled entity is undertaking a fully funded US$45 million work programme. The Licence 61 Farmout has given us a strong industry partner seeking to build a strategic position in Russia as well as the financial resources to develop the significant potential of Licence 61.

OPERATIONS

The existing production wells at Lineynoye and Arbuzovskoye performed reasonably well during 2014 and while total production at Licence 61 declined in 2014 this was due to natural decline of existing wells and because no new wells were drilled between February 2013 and late 2014. We have had good success in maintaining production and slowing the production decline by the timely workover of wells to replace pumps and re-perforate wells where possible.

The specific geological and operations expertise we gained from Lineynoye and Arbuzovskoye will serve the Company well in the future developments at Tungolskoye and Sibkrayevskoye. Our new partner, Oil India, will also add to this expertise through targeted secondments of their experts.

2015 WORK PROGRAMME

In late 2014 we commenced drilling of the Tungolskoye No. 5 well which was our first horizontal well. The positive result, achieved in early 2015, gave us the confidence to take a decision to develop the Tungolskoye field in 2015. We have already constructed a 25km pipeline and utility line to connect the Tungolskoye oil field to the central processing facility at Lineynoye and have commenced a drilling programme of up to 11 wells. This is an exciting programme with significant production potential and we look forward to the results during the second half of 2015.

In late May 2015 we announced the results of a delineation well at Sibkrayevskoye. The S-373 well found net pay of 11.5 metres and achieved a stabilised natural flow of 100 bopd from a cased hole test. This bodes well for a positive development decision later in 2015 once the 1,000 km of new high quality 2D seismic acquired in the northern end of Licence 61 has been interpreted.

RESERVES

While the Licence 61 Farmout resulted in a reduction of the 2P reserves net to PetroNeft, the Company has had good exploration success in the past and I am confident that we can bring the Company's reserves back towards pre-farmout levels in the medium term with further appraisal and exploration wells on key fields and prospects, especially Sibkrayevskoye, Emtorskaya and Traverskaya in the coming years. Numerous unexplored structures have also been seismically defined but not yet drilled on the southern half of Licence 61.

At Licence 67 we acquired 156 km^2 of 3D seismic in 2014 to better define the three oil pools discovered at Cheremshanskoye and the two oil pools at Ledovoye. This data has been processed and interpreted and we are currently discussing future plans with our partner, Arawak.

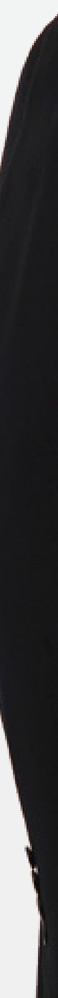
BUSINESS DEVELOPMENT

The principal near-term objective of the Group is the development of the Northern oil fields on Licence 61, leveraging the infrastructure put in place in recent years, together with our new partner Oil India. However, we have not lost sight of Licence 67 and our longer-term objective of securing assets outside our current licences to provide growth for the future.

EXTRAORDINARY GENERAL MEETINGS

Two Extraordinary General Meetings (EGMs) were held in 2014. In March 2014 the Company received a requisition notice from Natlata Partners Limited, a shareholder owning more than 10% of PetroNeft, for an EGM to replace five of the current Board members, including all three Executive Directors, with five of their own nominees as well as certain changes to the Memorandum & Articles of Association. It was our view that the resolutions proposed were not in the best interests of all of the shareholders of the Company and therefore the Board of PetroNeft recommended that shareholders vote against the proposed resolutions. The result of the EGM was that all resolutions were overwhelmingly rejected by the shareholders. Since the requisitioned EGM we have engaged on several occasions with Natlata, including a personal meeting I had with its owner Mr. Korobov. We will continue to engage with all shareholders in a similar way.

The second EGM was called by the Board in order to seek approval from shareholders of the Licence 61 Farmout and was held on 9 May 2014, the same day as the requisitioned EGM. This resolution was overwhelmingly passed by shareholders.



SUMMARY

In May 2014, the shareholders overwhelmingly supported the Board's recommendations and proposed strategy for the next phase of the Company's development at the EGM to approve the Licence 61 Farmout and the requisitioned EGM. This gave us a mandate to conclude the Licence 61 Farmout with Oil India and to progress the development of Licence 61, debt-free and with a fully funded US$45 million work programme. Since then we have commenced an ambitious programme to further develop Licence 61. With the Lineynoye, Arbuzovskoye, Tungolskoye and Sibkrayevskoye oil fields we can generate significant cash in the coming years utilising the infrastructure already in place as well as through the addition of yet to be discovered reserves from our portfolio of exploration prospects. Oil India appreciates the potential of the asset and has a long-term view with respect to Licence 61 and business development in Russia. This should enable PetroNeft to expand its reserve base both through exploration and delineation in current licence areas and through business development opportunities in Tomsk and further afield in Russia. We look forward to working with Oil India for many years to come.

2014 was a turn-around year for PetroNeft and the management team deserve credit for securing an excellent deal with Oil India, particularly given challenging wider market conditions. We are currently producing from less than 15% of our reserve base and the substantial investment in infrastructure made in recent years leaves us well placed to deliver significant and profitable growth now that we have satisfactorily resolved the funding challenges of recent years.

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

2014 WAS A TURN-AROUND YEAR FOR PETRONEFT AND THE MANAGEMENT TEAM DESERVE CREDIT FOR SECURING AN EXCELLENT DEAL WITH OIL INDIA, PARTICULARLY GIVEN CHALLENGING WIDER MARKET CONDITIONS.

CHIEF EXECUTIVE OFFICER'S REPORT

CLEARLY THE STANDOUT ACHIEVEMENT OF THE YEAR WAS THE LICENCE 61 FARMOUT TO OIL INDIA LIMITED ANNOUNCED IN APRIL 2014 AND COMPLETED IN JULY 2014.

DENNIS FRANCIS
CHIEF EXECUTIVE OFFICER

GENERAL

2014 saw the culmination of some very active years in respect of the efforts to find a solution to the funding constraints on the Company. The first part of the year was quiet from the point of view of drilling new wells due to those financial constraints imposed by the commencement of monthly repayments to Macquarie in March 2013. Production did decline somewhat during the year because of this. Clearly the greatest achievement of the year was the Licence 61 Farmout to Oil India Limited announced in April 2014 and completed in July 2014. This significantly strengthened PetroNeft financially and provided a source of funding for future developments. Gross production at Licence 61 was 728,826 barrels of oil (2013: 870,965 barrels) in the year or an average of 1,997 bopd (2013: 2,386 bopd).

At Licence 67 we completed the acquisition of a 156 km^2 3D seismic survey over two fields and this licence shows promise for the future.

Licence 61 Highlights

- Licence 61 Farmout to Oil India Limited.
- Drilling recommenced at the Arbuzovskoye oil field.
- Commenced drilling of the Tungolskoye No. 5 well, our first horizontal well.
- Commenced acquisition of 1,000 km of high quality 2D seismic in Licence 61.

Licence 67 Highlights

- 3D seismic survey over Cheremshanskoye and Ledovoye oil fields.
- New Law on Mineral Extraction Tax ("MET") relief for Tight Oil likely applicable.

LICENCE 61 (TUNGOLSKY LICENCE)

The Licence 61 Farmout has enabled us to embark upon an aggressive drilling and appraisal campaign as follows:

- A delineation well at Tungolskoye (T-5), including a 300m horizontal segment.
- Five additional production/injection wells at Arbuzovskoye Pad 1.
- A delineation well at Sibkrayevskoye (S-373) with significant upside and near-term development potential.
- Acquisition of 1,000 km high resolution 2D seismic data across Sibkrayevskoye, Emtorskaya, West Lineynoye and other leads and prospects in the northern part of Licence 61.
- A horizontal well on the Lineynoye 8 lobe of West Lineynoye.

LICENCE 61 – LINEYNOYE DEVELOPMENT

The wells at Lineynoye have performed well during 2014 and have shown good response to the water injection and pressure maintenance programme, however the wells 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, replace pumps and in some cases carry out acid washes on both production and injection wells to improve or maintain production.

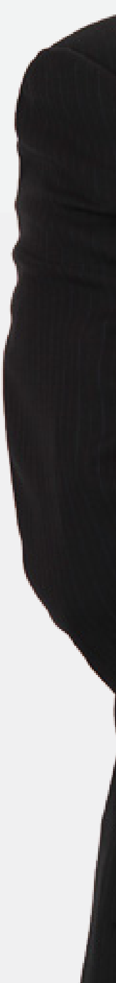
In 2015, as part of the full field development of the Lineynoye and West Lineynoye oil fields, we will drill the Lineynoye No. 10 delineation well on the Lineynoye 8 lobe of the West Lineynoye field. The Lineynoye No. 8 well has been steadily producing 50 bopd for the last several years with little decline and no water production. The L-10 well will be drilled initially as a vertical well but then a horizontal segment of up to 300m will be drilled in the main J1-1 reservoir interval. The well is being drilled by LLC Tomskburneftegaz ("TBNG"), and is similar in nature to the T-5 well which they drilled at Tungolskoye. It is expected to be completed in the summer of 2015 and if successful can immediately be brought in production.

LICENCE 61 – ARBUZOVSKOYE DEVELOPMENT

Arbuzovskoye was brought into year-round production in 2012 following the construction of a 10 km pipeline and utility line from the Lineynoye Central Processing Facilities to Arbuzovskoye. Production drilling recommenced in October 2014 and five additional wells were drilled up to March 2015. All of the wells came in close to prognosis and confirmed the continuity of the reservoir interval and the oil water contact at the spill point of the structure. The A-103 well was the most important of these wells as it was drilled as the maximum reach step out to the south to better define the oil water contact and productivity. The well was high to prognosis and encountered 5.0 m of oil saturated pay in the J1-1 Upper Jurassic interval and confirmed oil in the southern lobe of the Arbuzovskoye field.

Additional high resolution 2D seismic data was acquired over the southern lobe of the field this year and an initial interpretation of the data indicates that the structure will be somewhat larger than currently mapped. We are planning to develop the southern lobe of the structure in 2016 with a combination of vertical and horizontal wells which can be quickly tied-in to existing facilities. Given the uniformity of the J1-1 sandstone and good flow rates in the vertical wells at Arbuzovskoye, we anticipate positive results by developing the southern lobe with horizontal wells in the J1-1 reservoir.

The Arbuzovskoye development was the first outlying field to be developed and tied back to the Lineynoye Central Processing Facility ("CPF"). It has acted as a design template for future developments such as Tungolskoye and Sibkrayevskoye which will also be tied back to the CPF. The CPF will act as a hub for processing oil produced from oil fields in the northern part of the licence. Based on this model future developments can be simple and cost-effective with minimal infrastructure costs because of the substantial infrastructure already in place. As future projects are incremental in nature the economics are robust even at lower flow rates and oil prices.



LICENCE 61 – EXPLORATION AND DELINEATION

Tungolskoye

The Tungolskoye No. 5 ("T-5") well commenced in August 2014. We drilled an initial vertical pilot hole which was cored, open hole tested and logged. This data was then used in conjunction with the structural map and data from the Tungolskoye No. 1 well to plan and drill a 300 metre horizontal segment in the J1-1 and J1-2 reservoirs between the T-5 and T-1 wells.

In February 2015 we announced that the horizontal segment of the Tungolskoye No. 5 well was drilled and completed in the J1-1 and J1-2 Upper Jurassic intervals. The total horizontal segment was just over 350 metres of which over 80% was located in the productive J1-1 and J1-2 reservoirs. The well achieved initial production of 604 bopd using an Electric Submersible Pump ("ESP"). The oil was initially trucked 25 km to the Lineynoye central processing facility until the pipeline could be completed, but an ESP breakdown meant production had to be stopped and could only be recommenced once the drilling rig was disassembled and the pipeline completed. After replacing the ESP an influx of water, which can be avoided in future wells, has now limited oil production to about 100 bopd. T-5 successfully proved the increased productivity of even a moderate horizontal segment, as predicted, and allowed development to be sanctioned at Tungolskoye. Future wells will be drilled higher on the structure.

Development of the Tungolskoye oil field which is estimated to contain 20 mmbbls of 2P reserves (10 mmbbls net to PetroNeft) is now proceeding. The programme is expected to comprise from three to five horizontal and four to six vertical wells depending on the drilling results. Drilling commenced in May 2015 and will be completed in Q1 2016. The drilling contract for Tungolskoye was awarded to SGK Drilling, a subsidiary of Eurasia Drilling, Russia's largest drilling contractor. SGK will use Schlumberger for measure-while-drilling and related services for the horizontal segments. A production drilling rig with top drive unit will be used for these wells, allowing longer horizontal segments with enhanced control. The first well was spudded in early May 2015.

To date in 2015 we have completed the construction of a pipeline and power line to connect the Tungolskoye oil field back to the Lineynoye central processing facility.

DEVELOPMENT OF THE TUNGOLSKOYE OIL FIELD WHICH IS ESTIMATED TO CONTAIN 20 MMBBLS (GROSS) IN 2P RESERVES IS NOW PROCEEDING

CHIEF EXECUTIVE OFFICER'S REPORT (CONTINUED)

Sibkrayevskoye

In March 2015 we commenced drilling a delineation well at Sibkrayevskoye (S-373) and announced the results in May 2015. The well was designed as a follow-up to the S-372 discovery well, which was drilled in 2011, to further delineate the Sibkrayevskoye oil field. Log and core data over the primary J1 sandstone reservoir interval indicate 11.5 m of net oil pay. A cased-hole drill stem test of the target interval flowed at a stabilised rate of 100 bopd on a 4 mm choke (unstimulated natural flow). Flow rates with an Electrical Submersible Pump would be about 300 bopd. The reservoir interval is completely saturated with oil to its base and is located about 19 m structurally higher than the equivalent oil saturated interval in the S-372 well, which is also oil saturated throughout.

Prior to the S-373 well Ryder Scott estimated the Sibkrayevskoye 2P reserves of 53 million bbls (26.5 mmbbls net to PetroNeft), making this the largest oil field discovered on Licence Block 61 to-date. Additional seismic data has also been acquired over the structure this past winter as part of a 1,000 km 2D seismic acquisition programme in the northern part of Licence 61. A development decision is expected in the second half of 2015 with a view to the field being brought into production in 2016 utilising a combination of horizontal and vertical wells. A reserve update will be prepared at the end of the year incorporating the new seismic and well data and there is good potential for a reserve upgrade here given the S-373 results and preliminary seismic interpretations.

RESERVES

Independent reserve consultants Ryder Scott last completed an assessment of petroleum reserves on Licence 61 as at 1 April 2013. The total Proved and Probable ("2P") reserves for the licence stood at 117 mmbbls. Ryder Scott will prepare a new reserve update for the Licence area later this year once the Tungolskoye oil field is fully in production and the results of the 1,000 km of 2D seismic are available. If we adjust these reserves for production to the end of 2014 reserves are estimated at 115.6 mmbbls 2P and 18.8 mmbbls P1. After the Licence 61 Farmout, PetroNeft's net interest in these reserves is 50%.

As shown in the table below, PetroNeft's share of the combined Licence 61 and Licence 67 reserves became 71.8 mmbbls 2P and 10.9 mmbbls P1 as at the end of 2014. We have had good exploration success in the past and feel we can add much of these reserves back with additional appraisal at Sibkrayevskoye, Emtorskaya and Traverskaya in the medium term, and 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.

LICENCE 67 (LEDOVY LICENCE)

In the winter of 2013/2014, we acquired 156 km^2 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 October 2014, we received the next 5 year exploration extension for the Licence. We have no significant exploration commitments on the Licence in 2015 or 2016 and are currently reviewing the next steps in the development of the Licence with our partner Arawak in light of the current oil prices.

UNCONVENTIONAL RESERVE POTENTIAL – BAZHENOV FORMATION

The Bazhenov Formation is present throughout both Licence 67 and Licence 61. The Bazhenov Formation is the organic rich source rock that sourced 85% of the conventional oil fields in the West Siberian Basin. The Bazhenov has similarities to major US tight oil plays (Bakken and Eagle Ford) and is currently the subject of Joint Venture studies by major Russian and foreign companies to determine if the US technology (horizontal wells with multiple fracs) would be effective and economic in Russia. Recent legislation provides for zero

WE WERE VERY PLEASED TO HAVE COMPLETED THE LICENCE 61 FARMOUT WITH OIL INDIA AND TO HAVE SHAREHOLDERS' ENDORSEMENT OF THE LICENCE 61 FARMOUT.

MET for 15 years for Bazhenov Formation production. In Licence 67 oil shows were described in Bazhenov core samples in two of the prior wells. Given the attractive fiscal incentives, we are carefully following efforts within the industry to commercialise the potential of this resource.

HEALTH, SAFETY AND ENVIRONMENTAL

The Group is fully committed to high standards of Health, Safety and Environmental ("HSE") management. More details of our HSE activities are included in the HSE report on page 21.

CONCLUSION

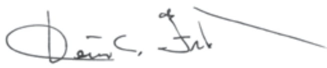
We were very pleased to have completed the Licence 61 Farmout with Oil India and to have Shareholders' endorsement of the Licence 61 Farmout. The Company is now debt-free with significant funding available to develop the significant potential in Licence 61 alongside a great new partner. Since the deal was completed we have restarted the work programme and I look forward to briefing shareholders in more detail on the results of this programme during 2015.

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	4.0	14.9	19.3
Tungolskoye	1.4	9.9	12.3
Kondrashevskoye	0.9	2.5	3.1
Arbuzovskoye	0.9	3.0	3.9
Sibkrayevskoye	1.8	26.5	33.7
North Varyakhskoye	0.4	1.0	1.2
	9.4	57.8	73.5
Licence 67			
Ledovoye	1.5	14.0	17.4
Total net to PetroNeft	**10.9**	**71.8**	**90.9**

- Licence 61 as at 31 December 2014 (Ryder Scott report as at 1 April 2013 adjusted for production to 31 December 2014).
- Licence 61 reserves reflect just PetroNeft's 50% share of reserves.
- 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.
- Licence 67 will be co-developed with Arawak Energy and the reserves above reflect PetroNeft's 50% share as per the most recent Ryder Scott report as at 1 January 2011.

I would like to personally thank the Shareholders for their patience over the last two years and their resounding endorsement of the Licence 61 Farmout to OIL. 2015 will be an exciting year and we especially look forward to bringing the Tungolskoye oil field into full production.

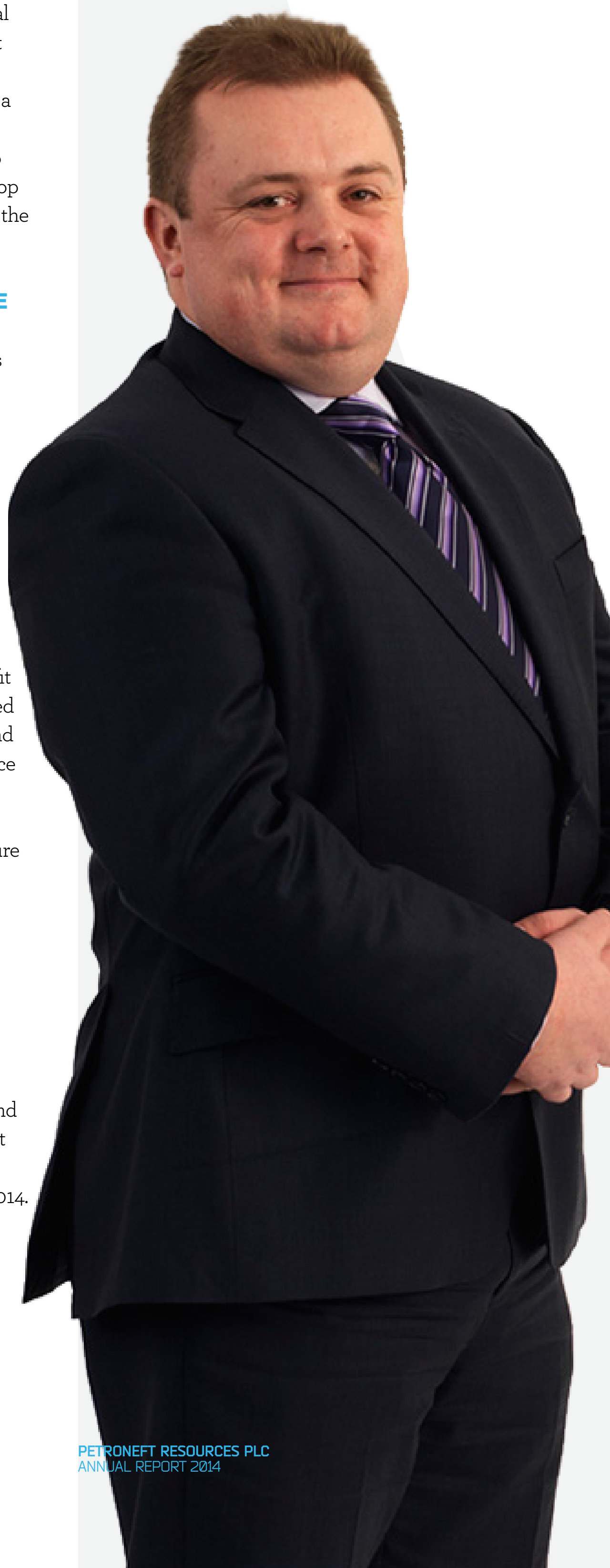


Dennis Francis
Chief Executive Officer

FINANCIAL REVIEW

THE YEAR WAS A BUSY ONE FROM A FINANCE POINT OF VIEW WITH THE COMPLETION OF THE FARMOUT OF 50% OF LICENCE 61 TO OIL INDIA LIMITED.

PAUL DOWLING
CHIEF FINANCIAL OFFICER



The year was a busy one from a finance point of view with the completion of the farmout of 50% of Licence 61 to Oil India Limited. This enabled the Group to repay all debt and provided funding to further develop Licence 61.

Having spoken to over 60 potential counterparties the efforts started coming to fruition in late December 2013 with the signing of a memorandum of understanding with Oil India Limited to farmout a 50% non-operated interest in Licence 61. The deal was subject to final legal and financial due diligence and to final legal documentation which was completed in the first quarter of 2014 leading to the signing of a formal farmout agreement in April 2014. Shareholder approval came at an EGM in May 2014 and the transaction closed in July 2014 following the receipt of Russian Regulatory approval.

The basic terms of this agreement are summarised 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 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 (the "Licence 61 Farmout").

The Licence 61 Farmout fully addressed PetroNeft's capital structure and long-term investment requirements with all existing debt repaid in full and additional funds for working capital and significant investment directly in Licence 61. The Licence 61 Farmout has given PetroNeft a strong industry partner seeking to build a strategic position in Russia. It has also given us the financial resources to develop the significant potential of Licence 61 in the short term.

ACCOUNTING IMPLICATIONS OF THE LICENCE 61 FARMOUT

The effect of the Licence 61 Farmout was that PetroNeft became a 50% owner of WorldAce Investments Limited which is the 100% owner of Stimul-T the Russian entity that owns Licence 61 and all of the associated infrastructure. Prior to the farmout the WorldAce Group was consolidated 100% in the financials of PetroNeft Group. Once the farmout was completed the consolidation method changed to the equity method which means that just the 50% share of the profit or loss of the WorldAce Group is included in the Income Statement of PetroNeft and 50% of the share of net assets of WorldAce Group is included in the Balance Sheet of PetroNeft rather than showing the proportional share of revenue, expenditure and individual classes of assets and liabilities.

As the Licence 61 Farmout completed during the financial year the Income Statement for 2014 is effectively in transition as it reflects the revenues and expenditures of 100% of the WorldAce Group for the period up to 3 July 2014 and thereafter only shows the share of the net loss of WorldAce Group for the period between 3 July 2014 and 31 December 2014.

STRUCTURE OF THE TRANSACTION

The Licence 61 Farmout was effected by bringing Oil India in as a 50% shareholder in WorldAce Investments Limited. This happened through the payment of US$35 million to WorldAce for the issue of new shares in WorldAce. Separately, PetroNeft had previously funded the WorldAce Group through a combination of granting shareholder loans to the WorldAce Group and the investment of equity in the WorldAce Group. Following restructuring of the shareholder loans in 2013, PetroNeft was owed approximately US$80 million by the WorldAce Group. Following the payment of US$35 million by Oil India these funds were passed on to PetroNeft by way of loan repayments meaning that PetroNeft is still owed US$45 million by the WorldAce Group. The other element of the Licence 61 farmout is that Oil India will invest US$45 million into WorldAce for investment in the Licence 61 work programme. Once this amount is fully invested both parties will have mirror image investments through their 50% shareholding and US$45 million shareholder loan to WorldAce. Following that each shareholder will fund future investments in proportion to their equity.

REVIEW OF PETRONEFT LOSS FOR THE YEAR

The loss for the year was US$8,376,425 (2013: US$11,495,885). The loss included a foreign exchange loss on intra-Group loans of US$2.4 million and a loss on the disposal of a subsidiary of US$5.6 million. Finance costs of US$1.6 million relate to interest on the loans from Macquarie and Arawak for the period to 3 July 2014 when the loans were repaid in full and include a US$0.4 million fee charged by Macquarie for extending the maturity date of their loan from 28 May 2014 to 7 July 2014.

As mentioned above, the Licence 61 Farmout was completed on 3 July 2014. For accounting purposes the results of the WorldAce Group are fully consolidated in the PetroNeft Income statement up to that date. After that date PetroNeft must account for its share of the results of WorldAce Group using the equity method of accounting. Also, interest on loans to the WorldAce Group, which up to 3 July 2014 would have been eliminated on consolidation, is included as income in the PetroNeft consolidated income statement after that date.

PETRONEFT KEY FINANCIAL METRICS

	2014 US$ '000	2013 US$ '000
Continuing operations		
Revenue	19,165	38,687
Cost of sales	(15,233)	(33,552)
Gross profit	**3,932**	**5,135**
Administrative expenses	(3,678)	(6,840)
Exchange loss on intra-Group loans	(2,402)	(6,190)
Operating loss	**(2,148)**	**(7,895)**
Loss on disposal of subsidiary undertaking	(5,569)	–
Share of joint venture's net loss – WorldAce Investments Limited	(304)	–
Share of joint venture's net loss – Russian BD Holdings B.V.	(294)	(235)
Finance revenue	1,551	71
Finance costs	(1,612)	(3,437)
Loss for the year for continuing operations before taxation	**(8,376)**	**(11,496)**
Income tax (expense)/credit	(408)	2,337
Loss for the year	**(8,784)**	**(9,159)**

REVENUE

Revenue includes revenues from oil sales for the period to 3 July 2014 of US$17.5 million and income as operator of both licences of US$1.7 million.

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. In that regard we established a management group of key Russian employees who are now employed by the PetroNeft subsidiary LLC Dolomite. Both PetroNeft and Dolomite invoice for their services to the joint ventures based on rates pre-agreed with our respective joint venture partners.

In 2014 PetroNeft Group charged a total of US$1.2 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. In 2014 Granite Construction charged the WorldAce Group US$0.5 million in respect of these services.

INTEREST RECEIVABLE ON LOANS TO JOINT VENTURES

During 2014 PetroNeft had interest receivable of US$1,415,202 (2013: US$Nil) on its loans to WorldAce Group and US$117,120 (2013: US$32,222) on its loans to Russian BD Holdings B.V.

LOSS ON DISPOSAL OF SUBSIDIARY

Note 11 to the financial statements sets out the full details of the loss on disposal of subsidiary of US$5.6 million. The loss was calculated by comparing the value of the assets that remain with PetroNeft after the transaction to the value of the assets and liabilities that were held for sale and

FINANCIAL REVIEW
(CONTINUED)

then deducting transaction costs of US$1.8 million and transferring the accumulated foreign exchange loss of US$9.3 million included in the currency translation reserve relating to the WorldAce Group to the PetroNeft consolidated income statement.

KEY FINANCIAL METRICS – WORLDACE GROUP

Because of the above accounting implications it is difficult to extract meaningful metrics from the PetroNeft 2014 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:

	PetroNeft's 50% share 3 July – 31 December 2014	100% of WorldAce 12 months ended 31 December 2014	100% of WorldAce 12 months ended 31 December 2013
	US$ '000	US$ '000	US$ '000
Continuing operations			
Revenue	5,846	29,289	38,687
Cost of sales	(5,451)	(26,379)	(33,456)
Gross profit	**395**	**2,910**	**5,231**
Gross margin %	**6.8%**	**10.0%**	**13.5%**
Administrative expenses	(1,027)	(5,129)	(8,341)
Operating loss	**(632)**	**(2,219)**	**(3,110)**
Finance revenue	5	16	23
Finance costs	(877)	(1,818)	(6,945)
Loss for the period for continuing operations before taxation	**(1,504)**	**(4,021)**	**(10,032)**
Income tax credit/(expense)	1,200	2,400	(2,400)
Loss for the period	**(304)**	**(1,621)**	**(12,432)**

NET LOSS – WORLDACE GROUP

The net loss of WorldAce Group for the full year decreased to US$1,621,345 from US$12,432,403 in 2013. The reduction in the loss for the year before taxation can be attributed to lower interest payable on loans from shareholders in 2014 as a result of the loan restructuring that occurred at the end of 2013 in preparation for the Licence 61 Farmout. Also in 2014, included in administrative expenses, there was a foreign exchange loss of US$1,348,387 (2013: US$4,920,385) on US Dollar-denominated loans owed by Stimul-T, whose functional currency is the Russian Rouble. This loss arose due to the weakening of the Russian Rouble against the US Dollar in the year, however, due a restructuring of the inter-company loans on 3 July 2014 this loss only arose in the first half of 2014 as thereafter any exchange differences were taken to the currency translation reserve of WorldAce Group.

In the consolidated income statement of PetroNeft the share of the WorldAce loss for the period after completion of the farmout is US$304,436. This is after allowing for the interest charge of US$1,415,202 on the loans owed by WorldAce Group to PetroNeft for that period and management service charges from PetroNeft to WorldAce of US$834,318 for the period.

REVENUE, COST OF SALES AND GROSS MARGIN – WORLDACE GROUP

Revenue from oil sales was US$29,288,078 for the year (2013: US$38,687,123). Cost of sales includes depreciation of US$2,866,247 (2013: US$5,133,256), which was lower mainly because of the weaker Rouble but also because of lower production. The gross margin fell during the year primarily due to lower oil prices in the second half but also because of lower production in the year and therefore a higher costs per barrel because of the level of fixed costs included in cost of sales. For this reason, operating costs per barrel produced (Cost of Sales excluding depreciation and Mineral Extraction Tax) rose from US$10.86 per barrel to US$11.67 per barrel. 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 Arbuzovskoye and Tungolskoye oil fields under the current cost structure. We produced 728,826 barrels of oil (2013: 870,965 barrels) in the year and sold 704,189 barrels of oil (2013: 879,826 barrels) achieving an average oil price of US$41.59 per barrel (2013: US$43.97 per barrel). All oil was sold on the domestic market in Russia.

FINANCE COSTS – WORLDACE GROUP

Finance costs of US$1,818,438 relate to interest on loans from PetroNeft and Oil India.

TAXATION – WORLDACE GROUP

The tax credit arises on the reversal of a deferred tax charge of US$2,400,000 which arose in relation to temporary differences in Russia.

PROCEEDS OF LICENCE 61 FARMOUT

PetroNeft received proceeds of US$35 million from the Licence 61 Farmout. US$26.5 million of this was used to settle all outstanding external debt to Macquarie Bank Limited and Arawak. Transaction costs amounted to approximately US$1.8 million. US$3 million was then invested in Licence 67 by way of a loan to Russian BD Holdings B.V. to cover the PetroNeft share of the 3D seismic programme carried out at Licence 67 in 2014.

CURRENT AND FUTURE FUNDING OF PETRONEFT GROUP

In March 2014 we secured additional funding of US$6.7 million, including US$5.2 million new equity and US$1.5 million in additional debt under the Arawak loan. The proceeds of the placing and debt were largely used to purchase and mobilise supplies and equipment to the field to enable a full programme of works in 2014 following the Licence 61 Farmout. The proceeds were also used to pay Macquarie Bank Limited ("Macquarie") US$2.5 million and for working capital purposes. PetroNeft subsequently repaid all debt outstanding from the proceeds of the Licence 61 Farmout. As part of the Licence 61 Farmout, Oil India is providing exploration and development funding of US$45 million through the jointly controlled entity WorldAce. Up to 31 December 2014 WorldAce had drawn US$18.5 million of these funds with most of the remainder expected to be utilised in 2015 in order to fund the seismic programme, wells at Sibkrayevskoye No. 373 and Lineynoye No. 10 and bringing the Tungolskoye oil field into production in 2015. The addition of production from Tungolskoye should result in much increased cash generation from Licence 61 providing funding to develop the Licence further. Following the Licence 61 Farmout, PetroNeft is debt-free and well capitalised to further develop its assets.

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 23 to the financial statements.

INVESTOR RELATIONS

During 2014, the CEO and CFO held regular meetings with analysts and institutional investors. The target for 2015 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 12 June 2015 are as follows:

Name of shareholder	Ordinary Shares	Percentage
Natlata Partners Limited	139,819,805	19.77%
General Invest Overseas S.A.	106,178,700	15.01%
Athos Limited	34,201,130	4.84%
Ceres Environmental Consultants	23,975,066	3.39%
Ali Sobraliev	23,014,273	3.25%
J&E Davy	53,531,365	7.57%

Paul Dowling
Chief Financial Officer

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:

COUNTRY RISKS

Risk Issue	Mitigation
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

Risk Issue	Mitigation
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.

FINANCIAL RISKS

Risk Issue	Mitigation
Availability of finance	Strong reserve base and key infrastructure already in place makes attractive investment case.
Oil price	Robust project sanction economics - conservative base case assumptions. Russian tax system means economics are not too sensitive to changes in oil price. Board will consider use of appropriate hedging instruments.
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

Risk Issue	Mitigation
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.

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.

Alexey Balyasnikov, 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 all Board meetings to report to the full Board on HSE issues. There were no lost time incidents in 2014 (2013: 1).

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 2015, we held a joint training exercise with the Ministry of Emergency Situations to test our oil spill contingency plan. The scheduled training plan involved the scenario where there was a sudden fracture of an oil storage tank (2,000 m^3) at the Lineynoye Central Processing Facilities and a spill wave broke part of the containment dyke leading to one of the employees being asphyxiated by oil fumes. 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 Company is well prepared for such an emergency. A similar joint exercise had been carried out in 2013 which simulated an oil spill from the pipeline. 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 staff 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 2014 the main activities from an environmental perspective were:

- Environmental and subsoil monitoring at Lineynoye and Arbuzovskoye oil fields.
- Planning and approvals for 2014 and 2015 drilling programmes.
- Planning and approvals for 2014 3D seismic acquisition programme in Licence 67.
- Planning and approvals for 2015 pipeline and utility line construction
- Planning and approvals for 2015 2D seismic acquisition programme in Licence 61.

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.

Environmental Initiatives

In 2013 we handed back five leased land plots at Licence 61 to the local authorities. These included old well sites and areas where we were able to narrow the amount of land required for operations. As part of this process we were obliged to carry out recultivation works in these areas. This included the planting of over 50,000 cedar tree saplings.

International Environmental Protection Day

In June 2014 we also took part in an initiative supported by the Ministry of Natural Resources and Ecology of the Russian Federation as part of their campaign to recognise International Environmental Protection Day in June 2014. Participants in the campaign, called "Zero Negative Environmental Impact", were aiming to demonstrate to the public an environmentally responsible approach in matters of negative impact on the environment and a considerate attitude to natural resources of Russia. As part of this initiative we planted over 100 kg of grass seed and almost 400 trees and saplings at the central crew camp at Lineynoye.

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 an option to mix associated gas with water for use in our water flood operations thereby re-injecting the gas back to the formation it came from. In addition, this past winter 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 inspections relating to compliance with the various health, safety and environmental obligations took place in 2014 and 2013 and no significant issues arose from these inspections.

BOARD OF DIRECTORS

1. DAVID GOLDER – (NON-EXECUTIVE CHAIRMAN) (AGE 67)

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 Nominations 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.

2. DENNIS FRANCIS – (CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR) (AGE 66)

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.

3. PAUL DOWLING – (CHIEF FINANCIAL OFFICER AND EXECUTIVE DIRECTOR) (AGE 43)

Mr. Dowling joined the Company in October 2007 and was appointed to the Board of Directors in April 2008. He has over 20 years experience in the areas of accounting, auditing, taxation, financial reporting, AIM/IPO reporting, corporate restructuring, corporate finance and acquisitions/disposals. Prior to joining PetroNeft, he was a Partner in the accounting firm, LHM Casey McGrath, located in Dublin. Mr. Dowling is a fellow of the Association of Chartered Certified Accountants (ACCA) and a member of the Irish Taxation Institute. He currently represents the ACCA with the Consultative Committee of Accountancy Bodies - Ireland. He is also a non-executive director of Moesia Oil & Gas plc, an unlisted company focused on oil and gas exploration and development in Central and Eastern Europe.

4. DR. DAVID SANDERS – (GENERAL LEGAL COUNSEL, EXECUTIVE DIRECTOR AND COMPANY SECRETARY) (AGE 66)

Dr. Sanders has been General Legal Counsel, Executive Director and Company Secretary of the Company since its formation in 2005. He is an attorney at law and has over 35 years experience in the petroleum industry, including 20 years of doing business in Russia and three years in the oil and gas litigation division of the law firm of Fulbright & Jaworski LLP. In 1988, Dr. Sanders joined Marathon where he analysed and reviewed joint venture agreements for worldwide production until his assignment in 1991 to the negotiating team for the Sakhalin II Project in Russia. Dr. Sanders has a degree in electronics from Pennsylvania Institute of Technology, a liberal arts degree from the University of Houston and a doctorate of jurisprudence from South Texas College of Law. He is a member of the State Bar of Texas and of the American Bar Association.

5. GERARD FAGAN – (NON-EXECUTIVE DIRECTOR) (AGE 66)

Mr. Fagan was appointed as a Non-Executive Director in 2010. He is a member of the Audit Committee and became its Chairman on 18 June 2015 and a member of the Remuneration and Nominations Committees. Mr. Fagan previously worked with Smurfit Kappa Group plc ("Smurfit Kappa") for 23 years before his retirement as Group Financial Controller in September 2009. During this time he had global responsibility for controlling financial operations of Smurfit Kappa, a company with turnover of €7 billion and operations in over 30 countries worldwide. Mr. Fagan has vast experience in mergers and acquisitions, corporate finance, accounting, taxation, insurance and corporate governance. He is both a Chartered Accountant and a Chartered Certified Accountant and has previously served on the audit committee of the Institute of Chartered Accountants in Ireland. Mr. Fagan is also a Non-Executive Director of Smurfit Kappa Group Foundation, Liffey Reinsurance Company Limited, The Baxendale Insurance Company Limited, Bramshott Management Limited and Bramshott Europe Fund plc, Stewarts Care Limited, Stewarts Foundation Limited, Ronanstown Community Training Workshop Limited, QMM Property Investments Limited and QMM Relocations Investments Limited.

6. THOMAS HICKEY – (NON-EXECUTIVE DIRECTOR) (AGE 46)

Mr. Hickey has been a Non-Executive Director of the Company since 2005. He was Chairman of the Audit Committee until 18 June 2015, Chairman of the newly formed Nominations Committee from 18 June 2015 and a member of the Remuneration Committee. He is Chief Financial Officer of Petroceltic International plc an AIM listed oil and gas company focused on the Middle East, North Africa and the Mediterranean basin. Tom was previously 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.

7. VAKHA SOBRALIEV – (NON-EXECUTIVE DIRECTOR) (AGE 60)

Mr. Sobraliev has been a Non-Executive Director of the Company since 2005. He is a member of both the Audit and Remuneration Committees. He has over 35 years of experience operating and managing energy service companies and state operating units exploring for and exploiting oil resources in the Western Siberian oil basin. Mr. Sobraliev is currently the principal shareholder of LLC Tomskburneftegaz, an oil and gas well drilling and services company operating in Western Siberia. From 1975 to 2000, Mr. Sobraliev worked for Tomskneft and Strezhevoy drilling boards in various drilling and economic capacities including Chief Engineer and Chief Accountant. He has degrees in mining engineering and economics from Tomsk Polytechnic Institute and the Tomsk State University respectively and an Executive MBA from the Academy of National Economy of Russia. Mr. Sobraliev is a resident of Tomsk, Russia.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

The Directors present herewith their Annual Report and the audited financial statements of PetroNeft Resources plc (the 'Company') and its subsidiaries (collectively, the 'Group') for the year ended 31 December 2014.

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$8,376,425 (2013: US$11,495,885). After a tax charge of US$407,960 (2013: credit of US$2,337,159) the loss for the year amounted to US$8,784,385 (2013: US$9,158,726). 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 10 to 11, the Chief Executive Officer's Report on pages 12 to 15 and the Financial Review on pages 16 to 19. The key financial metrics used by management are set out in the Financial Review on page 17.

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 Corporate Governance Code For Small And Mid-Size Quoted Companies (the "QCA Code") as published by the Quoted Companies Alliance (the "QCA"). PetroNeft is a member of the Quoted Companies Alliance.

QUOTED COMPANIES ALLIANCE
MEMBER

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, Gerard Fagan and Vakha Sobraliev. 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. With effect from 18 June 2015 Gerard Fagan will become Chairman of the Audit Committee.

Remuneration Committee

The members of the Remuneration Committee are David Golder (Chairman), Gerard Fagan, Thomas Hickey and Vakha Sobraliev. 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. In response to shareholder feedback in 2014, the Remuneration Committee decided that PetroNeft would no longer issue share options to Non-Executive Directors. While the Non-Executive Directors already hold some share options and will retain them, all existing share options are out of the money.

Nomination Committee

Given the current size of the Group, a permanent Nominations Committee was not considered necessary and the Board had reserved to itself the process by which a new Director is appointed. On 18 June 2015 the Board agreed to form a permanent Nominations Committee comprising Thomas Hickey (Chairman), David Golder, Gerard Fagan and Dennis Francis.

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 Jointly Controlled Entities

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.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

The Chairmen of the Audit Committee and Remuneration 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. In Summer 2014 the Chairman of PetroNeft, Mr. Golder, met with Mr. Korobov the beneficial owner of Natlata Partners Limited to discuss the issues arising from the EGM called by Natlata Partners Limited earlier in 2014. Management also met with Natlata representatives on other occasions during 2014.

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 pages 22 and 23.

In accordance with Article 89 of the Articles of Association, Thomas Hickey and Vakha Sobraliev retire by rotation and, being eligible, offer themselves for re-election.

DIRECTORS, COMPANY SECRETARY AND THEIR INTERESTS
The Directors and Company Secretary who held office at 31 December 2014 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 12 June 2015	Ordinary Shares As at 31 December 2014	Ordinary Shares As at 1 January 2014
David Golder	**3,165,458**	3,165,458	3,165,458
Dennis Francis	**23,760,416**	23,760,416	23,760,416
Paul Dowling	**731,583**	731,583	731,583
David Sanders	**2,238,235**	2,238,235	2,238,235
Vakha Sobraliev	**–**	–	–
Gerard Fagan	**200,000**	200,000	200,000
Thomas Hickey	**2,226,283**	2,226,283	2,226,283

As at 31 December 2014, Mr. Thomas Hickey is entitled to receive 557,659 (2013: 557,659) shares in relation to Directors' fees payable in shares instead of cash. Due to continuing close periods in recent years relating to the ongoing re-financing and farmout negotiations, it was not possible to issue these shares. At the 2014 AGM shareholders did not renew the authority of Directors to issue shares. Should the authority be granted at the 2015 AGM the shares will then be issued, otherwise Mr. Hickey will receive a payment of the cash forgone in recent years.

In addition to the above, the Directors hold the following share options:

Director	Options held as at 1 January 2014	Granted in year	Exercised in year	Lapsed in year	Options held as at 31 December 2014	Exercise price
David Golder	425,000	–	–	–	425,000	£0.065 - £0.66
Dennis Francis	1,465,000	–	–	–	1,465,000	£0.065 - £0.66
Paul Dowling	1,541,250	–	–	(400,000)	1,141,250	£0.065 - £0.66
David Sanders	1,246,250	–	–	–	1,246,250	£0.065 - £0.66
Vakha Sobraliev	325,000	–	–	–	325,000	£0.065 - £0.66
Gerard Fagan	260,000	–	–	–	260,000	£0.065 - £0.66
Thomas Hickey	355,000	–	–	–	355,000	£0.065 - £0.66

Details of the terms and conditions of the option scheme are included in Note 27 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 page 20.

GOING CONCERN

In the 2013 Directors' Report the risks to the Group's ability to continue as a going concern, particularly as a result of the debts to Macquarie and Arawak, were detailed. During 2014 the completion of the Licence 61 Farmout as detailed in the Financial Review enabled the Group to repay all debt and provided finance for the development of Licence 61 alongside the new joint venture partner, Oil India. Therefore the risks present in 2013 have been resolved and the Group is now debt free. A significant work programme is being carried out at Licence 61 in 2015 using the funds invested into the WorldAce Group by Oil India as a result of the Licence 61 joint venture.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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.

The Board has also agreed to allow Directors elect to have their Directors' fees paid in shares. Under this scheme, the number of shares issued will be based on the closing price at each quarter end. Elections under this scheme must be for a minimum of one year. Certain Directors elected to receive a portion of their remuneration for 2008 to 2013 in shares instead of cash.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014 (CONTINUED)

DIRECTORS REMUNERATION

Director	2014 Basic US$	2014 Bonus US$	2014 Pension US$	2014 Total US$	2013 Basic* US$	2013 Bonus US$	2013 Pension US$	2013 Total US$
Executive directors								
Dennis Francis	**342,433**	**152,192**	**21,116**	**515,741**	312,425	80,888	15,621	408,934
Paul Dowling	**274,968**	**112,099**	**13,512**	**400,579**	255,566	66,163	12,427	334,156
David Sanders	**266,841**	**49,758**	**15,295**	**331,894**	254,698	39,566	12,735	306,999
	884,242	**314,049**	**49,923**	**1,248,214**	822,689	186,617	40,783	1,050,089
Non-executive directors								
David Golder	**62,546**	**–**	**–**	**62,546**	59,766	–	–	59,766
Gerard Fagan	**42,913**	**–**	**–**	**42,913**	39,844	–	–	39,844
Thomas Hickey	**42,913**	**–**	**–**	**42,913**	39,844	–	–	39,844
Vakha Sobraliev	**28,609**	**–**	**–**	**28,609**	26,563	–	–	26,563
	176,981	**–**	**–**	**176,981**	166,017	–	–	166,017
Total Directors remuneration	**1,061,223**	**314,049**	**49,923**	**1,425,195**	988,706	186,617	40,783	1,216,106

Your attention is drawn to the details of the share options received by the Directors as set out in the Report of the Directors on page 27. In accordance with IFRS 2, Share-based Payment, a further expense of US$23,289 (2013: US$157,218) has been recognised in the Consolidated Income Statement in respect of share options granted to Directors.

* Certain amounts are to be paid in shares instead of cash.

POLITICAL DONATIONS

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

IMPORTANT EVENTS AFTER THE BALANCE SHEET DATE

There were no important events since the Balance Sheet date.

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 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.

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.

AUDITORS

Ernst & Young, Chartered Accountants, have indicated their willingness to continue in office in accordance with the provisions of Section 383 (2) of the Companies Act 2014.

ANNUAL GENERAL MEETING

Your attention is drawn to the Notice of the Annual General Meeting ("AGM") set out on pages 77 to 80. The AGM will be on 18 September 2015 in the Herbert Park Hotel, Ballsbridge, Dublin 4, Ireland.

Your Directors believe that the Resolutions to be proposed at the AGM are in the best interests of the Company and its shareholders as a whole and, therefore, recommend you to vote in favour of the Resolutions. Your Directors intend to vote in favour of the Resolutions in respect of their own beneficial holdings of 32,321,975 Ordinary Shares.

Approved by the Board on 18 June 2015

Dennis Francis
Director

Paul Dowling
Director

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PETRONEFT RESOURCES PLC

We have audited the Group and Parent Company financial statements (the 'financial statements') of PetroNeft Resources plc for the year ended 31 December 2014 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity, and the related Notes 1 to 29. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2014.

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.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement on page 28, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the 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 2014 and of the loss of the Group for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014; and
- the Group and Parent Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY THE COMPANIES ACT 2014

- 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 Parent Company financial statements to be readily and properly audited.
- The Parent Company balance sheet is in agreement with the accounting records.
- In our opinion the information given in the Directors' Report is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the sections 305 to 312 of 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.

Dermot Quinn
For and on behalf of Ernst & Young

Dublin
18 June 2015

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 US$	2013 US$
Continuing operations			
Revenue	4	**19,165,456**	38,687,123
Cost of sales		**(15,233,532)**	(33,551,965)
Gross profit		**3,931,924**	5,135,158
Administrative expenses		**(3,677,947)**	(6,839,970)
Exchange loss on intra-Group loans		**(2,401,138)**	(6,189,735)
Operating loss	5	**(2,147,161)**	(7,894,547)
Loss on disposal of subsidiary undertaking	11	**(5,569,164)**	–
Share of joint venture's net loss – WorldAce Investments Limited	13	**(304,439)**	–
Share of joint venture's net loss – Russian BD Holdings B.V.	14	**(294,103)**	(235,060)
Finance revenue	6	**1,550,754**	70,810
Finance costs	7	**(1,612,312)**	(3,437,088)
Loss for the year for continuing operations before taxation		**(8,376,425)**	(11,495,885)
Income tax (expense)/credit	9	**(407,960)**	2,337,159
Loss for the year attributable to equity holders of the Parent		**(8,784,385)**	(9,158,726)
Loss per share attributable to ordinary equity holders of the Parent			
Basic and diluted - US dollar cent	10	**(1.27)**	(1.42)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 US$	2013 US$
Loss for the year attributable to equity holders of the Parent		**(8,784,385)**	(9,158,726)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Currency translation adjustments – subsidiaries		**(764,277)**	(3,293,001)
Share of joint ventures' other comprehensive income – foreign exchange translation differences		**(26,480,234)**	(252,238)
Recycling of currency translation reserve on disposal of subsidiary	11	**9,337,907**	–
Total comprehensive loss for the year attributable to equity holders of the Parent		**(26,690,989)**	(12,703,965)

Approved by the Board on 18 June 2015

Dennis Francis
Director

Paul Dowling
Director

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2014

	Note	2014 US$	2013 US$
Assets			
Non-current Assets			
Property, plant and equipment	12	**321,802**	467,060
Equity-accounted investment in joint venture – WorldAce Investments Limited	13	**10,865,156**	–
Equity-accounted investment in joint venture – Russian BD Holdings B.V.	14	**365,178**	3,331,844
Financial assets – loans and receivables	16	**46,398,502**	–
		57,950,638	3,798,904
Current Assets			
Inventories	17	**15,179**	30,523
Trade and other receivables	18	**5,069,944**	790,864
Cash and cash equivalents	19	**3,392,769**	116,831
Restricted cash	19	**–**	2,054,947
		8,477,892	2,993,165
Assets held for sale	11	**–**	125,766,570
		8,477,892	128,759,735
Total Assets		**66,428,530**	132,558,639
Equity and Liabilities			
Capital and Reserves			
Called up share capital	22	**9,429,182**	8,561,499
Share premium account		**140,912,898**	136,762,387
Share-based payment reserve		**6,763,745**	6,684,820
Retained loss		**(66,300,407)**	(57,516,022)
Currency translation reserve		**(26,676,286)**	(177,021)
Other reserves		**336,000**	336,000
Amounts recognised in other comprehensive income and accumulated in equity relating to assets held for sale	11	**–**	(8,592,661)
Equity attributable to equity holders of the Parent		**64,465,132**	86,059,002
Non-current Liabilities			
Deferred tax liability	9	**511,775**	106,674
		511,775	106,674
Current Liabilities			
Trade and other payables	20	**1,451,623**	1,806,732
Interest-bearing loans and borrowings	21	**–**	30,000,000
		1,451,623	31,806,732
Liabilities directly associated with assets held for sale	11	**–**	14,586,231
		1,451,623	46,392,963
Total Liabilities		**1,963,398**	46,499,637
Total Equity and Liabilities		**66,428,530**	132,558,639

Approved by the Board on 18 June 2015

Dennis Francis
Director

Paul Dowling
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

	Called up share capital	Share premium account	Share-based payment and other reserves	Currency translation reserve	Currency translation reserve relating to assets held for sale	Retained loss	Total
	US$	US$	US$	US$	US$	US$	US$
At 1 January 2013	**8,561,499**	**136,762,387**	**6,602,045**	**(5,224,443)**	**–**	**(48,357,296)**	**98,344,192**
Loss for the year	–	–	–	–	–	(9,158,726)	(9,158,726)
Currency translation adjustments - subsidiaries	–	–	–	(3,293,001)	–	–	(3,293,001)
Share of joint ventures' other comprehensive income – foreign exchange translation differences	–	–	–	(252,238)	–	–	(252,238)
Total comprehensive loss for the year	–	–	–	(3,545,239)	–	(9,158,726)	(12,703,965)
Transfer in relation to assets held for sale	–	–	–	8,592,661	(8,592,661)	–	–
Share-based payment expense	–	–	418,775	–	–	–	418,775
At 31 December 2013	**8,561,499**	**136,762,387**	**7,020,820**	**(177,021)**	**(8,592,661)**	**(57,516,022)**	**86,059,002**
At 1 January 2014	**8,561,499**	**136,762,387**	**7,020,820**	**(177,021)**	**(8,592,661)**	**(57,516,022)**	**86,059,002**
Loss for the year	–	–	–	–	–	(8,784,385)	(8,784,385)
Currency translation adjustments - subsidiaries	–	–	–	(19,031)	(745,246)	–	(764,277)
Share of joint ventures' other comprehensive income – foreign exchange translation differences	–	–	–	(26,480,234)	–	–	(26,480,234)
Recycling of currency translation reserve on disposal of subsidiary	–	–	–	–	9,337,907	–	9,337,907
Total comprehensive loss for the year	–	–	–	(26,499,265)	8,592,661	(8,784,385)	(26,690,989)
New share capital subscribed	867,683	4,308,865	–	–	–	–	5,176,548
Transaction costs on issue of share capital	–	(158,354)	–	–	–	–	(158,354)
Share-based payment expense	–	–	78,925	–	–	–	78,925
At 31 December 2014	**9,429,182**	**140,912,898**	**7,099,745**	**(26,676,286)**	**–**	**(66,300,407)**	**64,465,132**

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

		2014 US$	2013 US$
Operating activities			
Loss before taxation		**(8,376,425)**	(11,495,885)
Adjustment to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation		**126,250**	5,632,077
Share of loss in joint ventures		**598,542**	235,060
Share-based payment expense	27	**78,925**	418,775
Loss on disposal of subsidiary	11	**5,569,164**	–
Finance revenue	6	**(1,550,754)**	(70,810)
Finance costs	7	**1,612,312**	3,437,088
Working capital adjustments			
(Increase)/decrease in trade and other receivables		**(506,502)**	189,890
Decrease in inventories		**44,199**	661,568
(Decrease)/increase in trade and other payables		**(1,028,136)**	9,703,801
Income tax (paid)/ received		**(5,354)**	167,592
Net cash flows (used in)/received from operating activities		**(3,437,779)**	8,879,156
Investing activities			
Purchase of oil and gas properties		**(200,669)**	(4,866,256)
Purchase of property, plant and equipment		**(144,137)**	(83,286)
Proceeds from disposal of property, plant and equipment		**–**	12,268
Exploration and evaluation payments		**(1,187,432)**	(326,918)
Loan facilities advanced to joint venture undertakings		**(3,500,000)**	–
Repayment of loan facilities by joint venture undertakings		**36,105,575**	–
Decrease in restricted cash		**2,054,947**	1,945,053
Decrease in cash and cash equivalents held for sale		**176,857**	–
Interest received		**15,310**	32,819
Net cash received from/(used in) investing activities		**33,320,451**	(3,286,320)
Financing activities			
Proceeds from issue of share capital		**5,176,548**	–
Transaction costs of issue of shares		**(158,354)**	–
Proceeds from loan facilities		**1,500,000**	–
Repayment of loan facilities		**(31,500,000)**	(6,500,000)
Interest paid		**(1,601,285)**	(2,709,529)
Net cash used in financing activities		**(26,583,091)**	(9,209,529)
Net increase/(decrease) in cash and cash equivalents		**3,299,581**	(3,616,693)
Translation adjustment		**(23,643)**	(14,607)
Cash and cash equivalents held for sale	11	**–**	(191,291)
Cash and cash equivalents at the beginning of the year		**116,831**	3,939,422
Cash and cash equivalents at the end of the year	19	**3,392,769**	116,831

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2014

	Note	2014 US$	2013 US$
Assets			
Non-current Assets			
Property, plant and equipment	12	**5,512**	4,140
Financial assets – investments in joint ventures and subsidiaries	15	**40,178,392**	40,128,770
Financial assets – loans and receivables	16	**46,398,502**	–
		86,582,406	40,132,910
Current Assets			
Trade and other receivables	18	**5,960,565**	82,900,052
Cash and cash equivalents	19	**3,392,235**	115,165
Restricted cash	19	**–**	2,054,947
		9,352,800	85,070,164
Total Assets		**95,935,206**	125,203,074
Equity and Liabilities			
Capital and Reserves			
Called up share capital	22	**9,429,182**	8,561,499
Share premium account		**140,912,898**	136,762,387
Share-based payment reserve		**6,763,745**	6,684,820
Retained loss		**(63,214,387)**	(58,969,330)
Other reserves		**336,000**	336,000
Equity attributable to equity holders of the parent		**94,227,438**	93,375,376
Non-current Liabilities			
Deferred tax liability	9	**511,775**	106,674
		511,775	106,674
Current Liabilities			
Trade and other payables	20	**1,195,993**	1,721,024
Interest-bearing loans and borrowings	21	**–**	30,000,000
		1,195,993	31,721,024
Total Liabilities		**1,707,768**	31,827,698
Total Equity and Liabilities		**95,935,206**	125,203,074

Approved by the Board on 18 June 2015

Dennis Francis
Director

Paul Dowling
Director

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

	Share capital	Share premium	Share-based payment and other reserves	Retained loss	Total
	US$	US$	US$	US$	US$
At 1 January 2013	**8,561,499**	**136,762,387**	**6,602,045**	**(10,603,541)**	**141,322,390**
Loss for the year	–	–	–	(48,365,789)	(48,365,789)
Total comprehensive loss for the year	–	–	–	(48,365,789)	(48,365,789)
Share-based payment expense	–	–	418,775	–	418,775
At 31 December 2013	**8,561,499**	**136,762,387**	**7,020,820**	**(58,969,330)**	**93,375,376**
At 1 January 2014	**8,561,499**	**136,762,387**	**7,020,820**	**(58,969,330)**	**93,375,376**
Loss for the year	**–**	**–**	**–**	**(4,245,057)**	**(4,245,057)**
Total comprehensive loss for the year	–	–	–	(4,245,057)	(4,245,057)
New share capital subscribed	867,683	4,308,865	–	–	5,176,548
Transaction costs on issue of share capital	–	(158,354)	–	–	(158,354)
Share-based payment expense	–	–	78,925	–	78,925
At 31 December 2014	**9,429,182**	**140,912,898**	**7,099,745**	**(63,214,387)**	**94,227,438**

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 US$	2013 US$
Operating Activities			
Loss before taxation		**(3,837,097)**	(53,102,948)
Adjustments to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation of property, plant and equipment		**3,667**	4,511
Share-based payment expense		**29,303**	158,072
Impairment of financial assets	15	**–**	5,766,820
Impairment of trade and other receivables	18	**–**	46,287,424
Finance revenue		**(1,621,654)**	(6,920,052)
Finance costs		**1,554,898**	3,299,496
Working capital adjustments			
(Increase)/decrease in trade and other receivables		**(882,361)**	7,170,652
(Decrease)/increase in trade and other payables		**(476,151)**	1,008,047
Income tax paid		**(5,354)**	(1,293)
Net cash flows (used in)/received from operating activities		**(5,234,749)**	3,670,729
Investing activities			
Purchase of property, plant and equipment		**(5,039)**	–
Loan facilities advanced to subsidiaries and joint venture undertakings		**(4,100,000)**	–
Repayment of loan facilities advanced to subsidiaries and joint venture undertakings		**37,145,000**	–
Decrease in restricted cash		**2,054,947**	1,945,053
Interest received		**11,459**	15,002
Net cash received from investing activities		**35,106,367**	1,960,055
Financing activities			
Proceeds from issue of share capital		**5,176,548**	–
Transaction costs of issue of shares		**(158,354)**	–
Proceeds from loan facilities		**1,500,000**	–
Repayment of loan facilities		**(31,500,000)**	(6,500,000)
Interest paid		**(1,601,285)**	(2,709,529)
Net cash used in financing activities		**(26,583,091)**	(9,209,529)
Net increase/(decrease) in cash and cash equivalents		**3,288,527**	(3,578,745)
Translation adjustment		**(11,457)**	1,873
Cash and cash equivalents at the beginning of the year		**115,165**	3,692,037
Cash and cash equivalents at the end of the year	19	**3,392,235**	115,165

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

1. GENERAL INFORMATION ON THE COMPANY AND THE GROUP

PetroNeft Resources plc ("PetroNeft", "the Company", or together with its subsidiaries, "the Group") is a company incorporated in Ireland. 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 are oil and gas exploration, development and production.

2. ACCOUNTING POLICIES

2.1 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. With effect from 3 July 2014 when the WorldAce Group became a joint venture (as described in more detail in Note 11) certain accounting policies, estimates and assumptions, and judgements do no longer apply directly to PetroNeft, but are still applicable to its joint venture undertakings. These accounting policies, estimates and assumptions, and judgements, which were applicable to PetroNeft until 3 July 2014, have been marked with an asterisk (*).

Statement of Compliance

The consolidated 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").

Going Concern Assessment

The Directors have prepared budgets and cash flows for a period of at least twelve months from the date of the approval of the financial statements which demonstrate that the Group and the Company will be in a position to meet its liabilities as they fall due. On this basis the Directors consider it appropriate to prepare the financial statements on a going concern basis. Accordingly, these financial statements do not include any adjustments to the carrying amount and classification of assets and liabilities that may arise if the Group and the Company was unable to continue as a going concern.

2.2 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. 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:

- 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.

2. ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of Consolidation (continued)

The Group has an interest in two joint venture undertakings, WorldAce Investments Limited and Russian BD Holdings B.V. Both joint ventures qualify separately as a jointly controlled entity ("JCE"), whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and major operating decisions among the venturers. The JCE controls the assets of the joint venture, earns its own income and incurs its own liabilities and expenses. Interests in the JCE are accounted for using the equity method. Under the equity method, the investment in the joint venture is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the joint venture. Where there has been a change recognised directly in other comprehensive income or equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated income statement or the statement of changes in equity, as appropriate. 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. The share of the joint venture's net profit/(loss) is shown on the face of the consolidated income statement. This is the profit/(loss) attributable to the Group's interest in the joint venture. The financial statements of the JCE are prepared for the same reporting period as the venturer. 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 JCEs, 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.

2.3 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, liabilities and disclosed contingent 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.

Assets held for sale and discontinued operations

On 27 December 2013, the Group signed a Memorandum of Understanding with Oil India ("OIL") in respect of the Licence 61 Farmout. Consequently it was deemed that the held for sale criteria under IFRS 5 were met and that the related assets and liabilities ('the disposal group') be classified as held for sale in the 31 December 2013 balance sheet. For more details on the assets held for sale, refer to Note 11. The Directors determined that the disposal group does not meet the criteria under IFRS 5 for discontinued operations for the following reasons:

For more details on the assets held for sale, refer to Note 11.

The Directors determined that the disposal group does not meet the criteria under IFRS 5 for discontinued operations for the following reasons:

- The Group will have significant continuing involvement with Licence 61 and while the Group will lose outright control, it will maintain joint control and continue to be the operator of Licence 61;
- There will be no strategic shift in how the Directors approach the Group – although the Group have brought in a new investor for financing and operational expertise, and while the Group's economic interest in Licence 61 will be reduced, the Directors consider the nature of the Group's continuing operations are substantively unchanged; and
- Licence 61 was never considered a separate component of the entity or geographical area of business, and was previously assessed on a unified basis with Licence 67 as one segment.

2. ACCOUNTING POLICIES (CONTINUED)

(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:

Assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Reserves base (*)

Certain oil and gas properties are depreciated on a unit-of-production ("UOP") basis at a rate calculated by reference to Proved and Probable reserves, determined in accordance with the Society of Petroleum Engineers Petroleum Resources Management System rules and incorporating the estimated future cost of developing and extracting those reserves. This results in a depreciation charge proportional to the depletion of the anticipated remaining production from the field. Commercial reserves are determined using estimates of oil in place, recovery factors and future oil prices. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The current long-term Urals blend oil price assumption used in the estimation of commercial reserves is an export price of US$63 to $73 per barrel.

Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the field at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The calculation of the UOP rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on Proved and Probable reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves.

These factors could include:

- Changes in Proved and Probable reserves;
- The effect on Proved and Probable reserves of differences between actual commodity prices and commodity price assumptions; and
- Unforeseen operational issues.

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 15

Investments in 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.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 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 2014 and 2013 were:

	2014		2013	
	Closing	Average	Closing	Average
US$1 =				
Russian Rouble	**56.452**	**38.462**	32.769	31.819
Euro	**0.8191**	**0.7533**	0.7263	0.7532
British Pound	**0.6419**	**0.6069**	0.6064	0.6395

(b) Oil and gas exploration, evaluation and development expenditure (*)

Oil and gas exploration, evaluation and development expenditure is accounted for using the successful efforts method of accounting.

Pre-licence costs

Pre-licence costs are expensed in the period in which they are incurred.

Exploration and evaluation costs

Payments to acquire the legal right to explore are capitalised at cost as intangible assets. If no future activity is planned, the carrying value of these costs is written-off. Costs directly associated with an exploration well are capitalised until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If hydrocarbons are not found, the exploration expenditure is written-off as a dry hole. If extractable oil is found and, subject to further appraisal activity, which may include the drilling of further wells, is likely to be developed commercially, the costs continue to be carried as an intangible asset. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. If this is no longer the case, the costs are written-off. When proved reserves are determined and development is sanctioned, the relevant expenditure is transferred to oil and gas properties after impairment is assessed and any resulting impairment loss is recognised. The net proceeds or costs of pilot production are allocated to exploration and evaluation costs.

2. ACCOUNTING POLICIES (CONTINUED)

Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties and depreciated from the commencement of production on a unit-of-production basis other than certain non-production related equipment and facilities which are expected to have a shorter useful economic life and are depreciated on a straight-line basis.

(c) Oil and gas properties and other property, plant and equipment

Oil and gas properties and other 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

Oil and gas properties are depreciated on the following basis:

- Production related items including the wells, production facility and pipeline are depreciated on a unit-of-production basis over the Proved and Probable reserves of the field concerned. The unit-of-production rate for the amortisation of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure to extract these reserves. The related depreciation is included within cost of sales.
- Certain non-production related equipment and facilities which are expected to have a shorter useful economic life are depreciated on a straight-line basis over their estimated useful lives at annual rates ranging from 10% to 50%. The related depreciation is included within administrative expenses.

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

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

2. ACCOUNTING POLICIES (CONTINUED)

(d) Impairment of property, plant and equipment and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets 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.

(e) Financial assets - investment in subsidiaries

Investments in subsidiaries are stated at cost and are reviewed for impairment if there are indications that the carrying value may not be recoverable.

(f) Cash and cash equivalents

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

(g) 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.

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.

2. ACCOUNTING POLICIES (CONTINUED)

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, a provision 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.

(h) 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 and loans and borrowings.

Interest-bearing loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Consolidated Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the Consolidated Income Statement.

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.

2. ACCOUNTING POLICIES (CONTINUED)

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.

(i) 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.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of producing and processing crude oil is accounted on a weighted average basis. This cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil includes an appropriate proportion of depreciation and overheads based on normal capacity. Net realisable value of crude oil is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to completion and disposal.

2. ACCOUNTING POLICIES (CONTINUED)

(k) Provisions

General

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.

Decommissioning liability (*)

A decommissioning liability is recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. The amount recognised is the estimated cost of decommissioning, discounted to its present value. A corresponding amount equivalent to the provision at the time of recognition is recognised as part of the cost of the related oil and gas properties or in exploration and evaluation expenditure. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to oil and gas properties or exploration and evaluation expenditure. The unwinding of the discount on the decommissioning provision is included as a finance cost.

(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.

2. ACCOUNTING POLICIES (CONTINUED)

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 s recognised in accordance with agreed work completion schedules.

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

(n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. No finance costs met the criteria to be capitalised as borrowing costs in either or 2014 or 2013.

(o) 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").

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 27.

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.

2. ACCOUNTING POLICIES (CONTINUED)

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.

(p) Share issue expenses

Costs of share issues are written-off against the premium arising on the issue of share capital.

(q) 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.

(r) 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.

(s) 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.

(t) Non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management is committed that the sale is expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated balance sheet.

2. ACCOUNTING POLICIES (CONTINUED)

2.5 Changes in Accounting Policy and Disclosures
Adoption of IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

(i) The following standards and amendments have been adopted during the financial year

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32 Financial Instruments: Presentation)
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36 Impairment of Assets)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39 Financial Instruments: Recognition and Measurement)
- IFRIC 21 Levies

The application of the above standards and interpretations did not result in material changes to the results or financial position of the Group or the Company.

(ii) 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 2017 and is subject to EU endorsement. 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 is currently assessing the impact of IFRS 15 but currently does not expect any significant impact.

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 and is awaiting EU endorsement. The Group is currently assessing the impact of IFRS 9.

There are no other IFRS or IFRIC interpretations that are effective subsequent to the 2014 financial year-end that would have a material impact on the results or financial position of the Group or the Company.

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:

Non-current assets	2014 US$	2013 US$
Russia	**57,945,126**	3,794,764
Ireland	**5,512**	4,140
	57,950,638	3,798,904

4. REVENUE

Revenue	2014 US$	2013 US$
Crude oil sales	**17,527,913**	38,687,123
Management services	**1,187,494**	–
Construction services	**450,049**	–
	19,165,456	38,687,123

All revenue from crude oil sales arises from sales to third parties based in the Russian Federation. In 2014, revenue from crude oil sales arises from sales to Finko Group companies (99%) (2013: 65% Finko Group companies and 35% VTEK).

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

5. OPERATING LOSS

Operating loss is stated after charging/(crediting):	Note	2014 US$	2013 US$
Included in cost of sales			
Cost of inventory recognised as an expense		**15,233,532**	33,551,965
- including:			
Operating lease rentals - land and buildings		**27,528**	63,180
Operating lease rentals - equipment		**682,205**	1,285,471
Foreign exchange loss on intra-Group loans		**2,401,138**	6,189,735
Included in administrative expenses			
Other foreign exchange gains		**(17,756)**	(166,537)
Operating lease rentals - land and buildings		**94,120**	152,105
Operating lease rentals - equipment		**42,721**	93,220
Depreciation of property, plant and equipment			
Included in cost of sales		**84,468**	–
Included in administrative expenses		**41,782**	271,985
Capitalised during year		**–**	57,018
	12	**126,250**	329,003
Depreciation of oil and gas properties*			
Included in cost of sales		**–**	5,133,256
Included in administrative expenses		**–**	226,836
Included in closing inventories		**–**	195,884
		–	5,555,976
Auditors' remuneration - Group			
-audit of group financial statements		**92,890**	169,652
-other assurance services		**–**	22,908
-tax advisory services		**–**	–
-other non-audit services		**–**	–
		92,890	192,560
Auditors' remuneration - Company			
-audit of parent company financial statements		**20,000**	20,000
-other assurance services		**–**	–
-tax advisory services		**–**	–
-other non-audit services		**–**	–
		20,000	20,000

* In accordance with the provisions of IFRS 5 no depreciation charge was made on oil and gas properties held for sale.

6. FINANCE REVENUE

	2014 US$	2013 US$
Bank interest receivable	**15,310**	32,819
Interest receivable on loans to joint ventures	**1,532,322**	32,222
Unwinding of discount on deposit paid for pipeline usage	**3,122**	5,769
	1,550,754	70,810

7. FINANCE COSTS

	2014 US$	2013 US$
Interest on loans	**1,554,898**	3,299,496
Unwinding of discount on decommissioning provision	**57,414**	137,592
	1,612,312	3,437,088

8. EMPLOYEES

Group ***Number of employees***	2014 Number	2013 Number
The average numbers of employees (including Directors) during the year was:		
Directors	**7**	7
Senior Management	**5**	5
Professional Staff - WorldAce Group*	**20**	42
Professional Staff	**9**	6
Oil field employees - WorldAce Group*	**43**	83
Construction crew employees	**26**	28
	110	171

*Employees of WorldAce Group included up to 3 July 2014.

Company ***Number of employees***	2014 Number	2013 Number
The average numbers of employees (including Directors) during the year was:		
Directors	**7**	7
Senior Management	**1**	1
Professional Staff	**1**	2
	9	10

8. EMPLOYEES (CONTINUED)

Group **Employment costs (including Directors)**	2014 US$	2013 US$
Wages and salaries	**4,140,738**	5,143,318
Social insurance costs	**738,384**	945,546
Share-based payment expense	**78,925**	418,775
Contributions to defined contribution pension plan	**68,166**	55,129
	5,026,213	6,562,768

Included in employment costs above is an amount of US$436,263 (2013: US$961,423) capitalised during the year.

Company **Employment costs (including Directors)**	2014 US$	2013 US$
Wages and salaries	1,810,597	1,560,081
Social insurance costs	92,353	78,786
Share-based payment expense	29,303	158,072
Contributions to defined contribution pension plan	68,166	55,129
	2,000,419	1,852,068

Included in employment costs above is an amount of US$Nil (2013: US$168,163) capitalised during the year.

Group and Company **Directors' emoluments**	2014 US$	2013 US$
Remuneration and other emoluments - Executive Directors	**1,198,291**	1,009,306
Remuneration and other emoluments - non-Executive Directors	**176,981**	126,173
Remuneration and other emoluments payable in shares	**–**	39,844
Pension contributions	**49,923**	40,783
	1,425,195	1,216,106

Your attention is drawn to the details of the share options received by the Directors as set out in the Report of the Directors. In accordance with IFRS 2, Share-based Payment, a further expense of US$23,289 (2013: US$157,218) has been recognised in the Consolidated Statement of Comprehensive Income in respect of share options granted to Directors. An amount of US$442,121 (2013: US$Nil) relating to Executive Directors salaries was re-charged to WorldAce Investments Limited. An amount of US$51,365 (2013: US$46,864) relating to Executive Directors salaries was re-charged to Russian BD Holdings B.V.

9. INCOME TAX

	2014 US$	2013 US$
Current income tax		
Current income tax (credit)/charge	**(2,859)**	480
Total current income tax	**(2,859)**	480
Deferred tax		
Relating to origination and reversal of temporary differences	**(405,101)**	(2,337,639)
Total deferred tax	**(405,101)**	(2,337,639)
Income tax expense reported in the Consolidated Income Statement	**(407,960)**	(2,337,159)

9. INCOME TAX (CONTINUED)

	2014 US$	2013 US$
Loss before income tax	**(8,376,425)**	(11,495,885)
Accounting loss multiplied by Irish standard rate of tax of 12.5%	**(1,047,053)**	(1,436,986)
Share-based payment expense	**9,866**	52,347
Effect of higher tax rates on investment income	**202,707**	865,007
Effect of impairment of intra-Group Interest	**–**	(3,229,806)
Non-deductible expenses	**698,123**	971,268
Tax deductible timing differences	**(9,503)**	1,489,594
Other	**19,405**	29,362
Losses available at higher rates	**–**	–
Taxable losses not utilised	**534,415**	–
Utilisation of previously unrecognised tax losses	**–**	(1,077,945)
Total tax expense/(credit) reported in the Consolidated Income Statement	**407,960**	(2,337,159)

Deferred tax

Group and Company	2014 US$	2013 US$
Deferred income tax liability		
At 1 January	**106,674**	4,871,227
Translation adjustment	**–**	(26,914)
Expense for the year recognised in the income statement	**405,101**	4,132,225
Reversal of deferred tax liability through the income statement as a result of impairment of accrued interest income on intra-Group loans	**–**	(6,469,864)
Transferred to liabilities held for sale (Note 11)	**–**	(2,400,000)
At 31 December	**511,775**	106,674

Group and Company

Deferred tax at 31 December relates to the following:	2014 US$	2013 US$
Deferred income tax liability		
Accrued interest income on intra-Group loans	**511,775**	106,674
	511,775	106,674

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.

	2014	2013
Numerator	US$	US$
Loss attributable to equity shareholders of the Parent for basic and diluted loss	**(8,784,385)**	(9,158,726)
	(8,784,385)	(9,158,726)
Denominator		
Weighted average number of Ordinary Shares for basic and diluted earnings per Ordinary Share	**694,097,759**	644,920,275
Diluted weighted average number of shares	**694,097,759**	644,920,275
Loss per share		
Basic and diluted - US dollar cent	**(1.27)**	(1.42)

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 27 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 2014 and 2013.
- Warrants – At 31 December 2014, 9,900,000 (2013: 9,400,000) Ordinary Shares are subject to warrants being exercised (refer to Note 27). These potential Ordinary Shares are anti-dilutive for the years ended 31 December 2014 and 2013.

11. ASSETS HELD FOR SALE

In 2013 the Company commenced a process with Evercore Partners of London to seek a farmout partner for Licence 61. This process led to the signing of a Memorandum of Understanding with Oil India Limited ("OIL") on 27 December 2013 in respect of the farmout of a 50% non-operated interest in Licence 61. Consequently it was deemed that the held for sale criteria under IFRS 5 were met and that the related assets and liabilities ('the disposal group') be classified as held for sale in the 31 December 2013 balance sheet.

Immediately before the classification as held for sale, the recoverable amount was estimated and no impairment loss was identified. As at 31 December 2013, there was no write-down as the carrying amount of the disposal group did not fall below its fair value less costs to sell.

A legally-binding contract was entered into on 17 April 2014. 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 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 (the "Licence 61 Farmout"). The basic terms of this agreement provide for a 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.

11. ASSETS HELD FOR SALE (CONTINUED)

Following shareholders' approval at an EGM in May 2014 and Russian Regulatory approval, the transaction closed on 3 July 2014, and WorldAce Investments Limited, which was previously a 100% subsidiary of PetroNeft, became a jointly controlled entity, resulting in a loss on disposal of US$5.6 million (after the recycling of the currency translation reserve of US$9.3 million).

The major classes of assets and liabilities held for sale as at 3 July 2014 and 31 December 2013 were as follows:

	As at 3 July 2014 US$	As at 31 December 2013 US$
Assets held for sale		
Oil and gas properties	**95,360,748**	96,023,796
Property, plant and equipment	**903,759**	935,000
Exploration and evaluation assets	**27,518,559**	27,235,454
Inventories	**1,156,906**	1,215,210
Trade and other receivables	**200,722**	165,819
Cash and cash equivalents	**14,434**	191,291
	125,155,128	125,766,570
Liabilities directly associated with assets held for sale		
Trade and other payables	**10,755,435**	10,633,142
Deferred tax liability	**2,400,000**	2,400,000
Provisions	**1,568,280**	1,553,089
	14,723,715	14,586,231
Amounts recognised in other comprehensive income and accumulated in equity relating to assets held for sale		
Currency translation reserve	**9,337,907**	8,592,661
	9,337,907	8,592,661

Loss on disposal of subsidiary undertaking	2014 US$
Fair value of remaining equity investment in joint venture	**35,000,000**
Loans and other receivables from joint venture (note 26)*	**81,021,362**
Value of assets retained by PetroNeft	**116,021,362**
Assets held for sale	**(125,155,128)**
Liabilities held for sale	**14,723,715**
Gain before transaction costs and recycling of currency translation reserve	**5,589,949**
Recycling of currency translation reserve on disposal of subsidiary†	**(9,337,907)**
Transaction costs	**(1,821,206)**
Loss on disposal of subsidiary undertaking	**(5,569,164)**

* US$35 million of the loans receivable from the joint venture noted above were repaid to PetroNeft out of the proceeds of the new share issue by WorldAce to Oil India. A further US$600,000 was repaid from operating cashflows in the second half of 2014.

† The recycling of the currency translation reserve of US$9.3 million relates primarily to the realisation of the cumulative foreign currency losses relating to the retranslation of Russian Rouble denominated assets and liabilities held by Stimul-T whose functional currency is Russian Rouble. As part of the consolidation process in prior periods up to 3 July 2014 those Russian Rouble carrying amounts were converted to US Dollars, the functional currency of PetroNeft, at each period end and the unrealised gain or loss was then recognised through the statement of other comprehensive income and included in the currency translation reserve rather than the retained loss reserve. With the completion of the Licence 61 Farmout in July 2014 this accumulated loss was realised and therefore transferred to the Income Statement and included in the calculation of loss on disposal arising from the Licence 61 Farmout.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

(CONTINUED)

12. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery US$
Cost	
At 1 January 2013	**1,854,724**
Additions	**14,551**
Transferred from oil and gas properties	**108,427**
Disposals	**(39,380)**
Translation adjustment	**(129,353)**
	1,808,969
Transferred to assets held for sale	**(335,997)**
At 1 January 2014	**1,472,972**
Additions	**148,917**
Disposals	**(43,974)**
Translation adjustment	**(581,327)**
At 31 December 2014	**996,588**
Depreciation	
At 1 January 2013	**1,082,298**
Charge for the year	**227,083**
Transferred from oil and gas properties	**52,512**
Disposals	**(27,112)**
Translation adjustment	**(81,280)**
	1,253,501
Transferred to assets held for sale	**(247,589)**
At 1 January 2014	**1,005,912**
Charge for the period	**126,250**
Disposals	**(43,974)**
Translation adjustment	**(413,402)**
At 31 December 2014	**674,786**
Net book values	
At 31 December 2014	**321,802**
At 31 December 2013	**467,060**

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	Plant and machinery US$
Cost	
At 1 January 2013	**27,027**
At 1 January 2014	**27,027**
Additions	**5,039**
At 31 December 2014	**32,066**
Depreciation	
At 1 January 2013	**18,376**
Charge for the year	**4,511**
At 1 January 2014	**22,887**
Charge for the year	**3,667**
At 31 December 2014	**26,554**
Net book values	
At 31 December 2014	**5,512**
At 31 December 2013	**4,140**

13. 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 became a joint venture with effect from 3 July 2014. Full details of the transaction and the accounting implications are discussed in Note 11. 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 2014	**–**
Subsidiary becoming a joint venture (Note 11)	**35,000,000**
Elimination of unrealised profit on intra-Group transactions	**(22,734)**
Retained loss	**(304,439)**
Translation adjustment	**(23,807,671)**
At 31 December 2014	**10,865,156**

13. 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:

	Period from 3 July to 31 December 2014 US$
Continuing operations	
Revenue	**5,845,646**
Cost of sales	**(5,450,642)**
Gross profit	**395,004**
Administrative expenses	**(1,027,260)**
Operating loss	**(632,256)**
Finance revenue	**4,713**
Finance costs	**(876,896)**
Loss for the period for continuing operations before taxation	**(1,504,439)**
Income tax credit	**1,200,000**
Loss for the period	**(304,439)**
Loss for the period	**(304,439)**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:	
Currency translation adjustments	**(23,807,671)**
Total comprehensive loss for the period	**(24,112,110)**

The currency translation adjustment results from the devaluation 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 depreciated significantly against the US Dollar during the period moving from RUB34.2:US$1 at 3 July 2014 to RUB56.5:US$1 at 31 December 2014.

	2014 US$
Non-current Assets	
Oil and gas properties	**27,860,901**
Property, plant and equipment	**285,775**
Exploration and evaluation assets	**9,600,431**
	37,747,107
Current Assets	
Inventories	**691,950**
Trade and other receivables	**1,633,624**
Cash and cash equivalents	**514,206**
	2,839,780
Total Assets	**40,586,887**
Non-current Liabilities	
Provisions	**(393,153)**
Interest-bearing loans and borrowings	**(32,593,955)**
	(32,987,108)
Current Liabilities	
Trade and other payables	**(1,638,815)**
	(1,638,815)
Total Liabilities	**(34,625,923)**
Net Assets	**5,960,964**

13. EQUITY-ACCOUNTED INVESTMENT IN JOINT VENTURE – WORLDACE INVESTMENTS LIMITED (CONTINUED)

Capital commitments

	2014 US$
Details of capital commitments at the balance sheet date are as follows:	
Contracted for but not provided in the financial statements	**12,839,994**
Including contracted with related parties	**3,697,366**

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

	2014 US$
Within one year	**44,624**
After one year but not more than five years	**160,711**
More than five years	**403,104**
	608,439

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.

14. 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 2013	**3,819,142**
Retained loss	**(235,060)**
Translation adjustment	**(252,238)**
At 1 January 2014	**3,331,844**
Retained loss	**(294,103)**
Translation adjustment	**(2,672,563)**
At 31 December 2014	**365,178**

14. 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:

	2014 US$	2013 US$
Revenue	–	–
Cost of sales	–	–
Gross profit	–	–
Administrative expenses	**(143,643)**	(114,563)
Exchange loss on intra-Group loans	–	(65,784)
Operating loss	**(143,643)**	(180,347)
Finance revenue	**1,743**	184
Finance costs	**(152,203)**	(45,134)
Loss for the year for continuing operations before taxation	**(294,103)**	(225,297)
Taxation	–	(9,763)
Loss for the year	**(294,103)**	(235,060)
Loss for the year		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:	**(294,103)**	(235,060)
Currency translation adjustments	**(2,672,563)**	(252,238)
Total comprehensive loss for the year	**(2,966,666)**	(487,298)

	2014 US$	2013 US$
Non-current assets	**4,155,338**	4,774,180
Current assets	**165,716**	164,066
Total assets	**4,321,054**	4,938,246
Non-current liabilities	**(22,810)**	(34,704)
Current liabilities	**(3,933,066)**	(1,571,698)
Total liabilities	**(3,955,876)**	(1,606,402)
Net Assets	**365,178**	3,331,844

14. EQUITY-ACCOUNTED INVESTMENT IN JOINT VENTURE – RUSSIAN BD HOLDINGS B.V. (CONTINUED)

Capital commitments	2014 US$	2013 US$
Details of capital commitments at the balance sheet date are as follows:		
Contracted for but not provided in the financial statements	–	4,935,229
Including contracted with related parties	–	204,980

	2014 US$	2013 US$
Future minimum rentals payable under non-cancellable operating leases at the balance sheet date are as follows:		
Within one year	**2,605**	4,261
After one year but not more than five years	**8,980**	15,801
More than five years	**29,377**	51,251
	40,962	71,313

The above capital commitments in the joint venture are incurred jointly with Arawak Energy. The Group has a 50% share of these commitments.

15. FINANCIAL ASSETS – INVESTMENTS IN JOINT VENTURES AND SUBSIDIARIES

Company	Investment in joint ventures US$	Investment in subsidiaries US$	Total US$
Cost			
At 1 January 2013	4,858,816	40,776,071	45,634,887
Capital contribution in respect of share-based payment expense	–	260,703	260,703
Impairment charge during year	–	(5,766,820)	(5,766,820)
At 1 January 2014	**4,858,816**	**35,269,954**	**40,128,770**
Capital contribution in respect of share-based payment expense	14,056	35,566	49,622
Subsidiary undertaking becoming a joint venture (note 11)	35,021,168	(35,021,168)	–
At 31 December 2014	**39,894,040**	**284,352**	**40,178,392**
Net book values			
At 31 December 2014	**39,894,040**	**284,352**	**40,178,392**
At 31 December 2013	4,858,816	35,269,954	40,128,770

In 2014 PetroNeft disposed of 50% of its interest in WorldAce Investments Limited through the Licence 61 Farmout. Therefore the carrying value is now classified as an investment in joint venture, see note 11 for further details.

At 31 December 2013, investments in subsidiaries primarily relate to the historic equity investment in WorldAce Investments Limited by the Company. In 2013 the Directors identified the Licence 61 Farmout as an indicator of impairment. Subsequently, the Directors performed an impairment review on the carrying amount of the investment in WorldAce in accordance with IAS 36 Impairment of Assets. In performing their review the Directors established that the carrying value exceeded the recoverable amount of the investment based on its fair value less costs of disposal. As a result, the investment in WorldAce was impaired by US$5,766,820.

15. FINANCIAL ASSETS – INVESTMENTS IN JOINT VENTURES AND SUBSIDIARIES (CONTINUED)

Details of the Company's holding in direct and indirect subsidiaries at 31 December 2014 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 2014 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, Cyprus	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.

16. FINANCIAL ASSETS – LOANS AND RECEIVABLES

Group and Company	2014 US$	2013 US$
Loans to WorldAce Investments Limited (Note 26)	**46,398,502**	–
	46,398,502	–

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 2016 at the earliest. The loan is set to mature on 31 December 2017. As at 31 December 2014 the loan is fully drawn down.

17. INVENTORIES

	2014 US$	2013 US$
Materials	**15,179**	30,523
	15,179	30,523

18. TRADE AND OTHER RECEIVABLES

Group	2014 US$	2013 US$
Other receivables	**112,492**	14,544
Receivable from jointly controlled entities (Note 26)	**4,879,292**	717,190
Receivable from related parties (Note 26)	**11,858**	–
Advances to contractors	**1,922**	–
Prepayments	**64,380**	59,130
	5,069,944	790,864

Company	2014 US$	2013 US$
Amounts owed by subsidiary undertakings (Note 26)	**1,103,458**	82,111,541
Amounts owed by joint venture undertakings (Note 26)	**4,750,287**	717,190
VAT Receivable	**42,440**	12,198
Prepayments	**64,380**	59,123
	5,960,565	82,900,052

In 2013, the Company recorded an impairment charge of US$46,287,424 in relation to amounts owed by subsidiary undertakings. The impairment was measured as the difference between the carrying value of the receivable and the present value of the estimated cash flows.

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%.

19. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

Group

	2014 US$	2013 US$
Cash at bank and in hand	**3,392,769**	116,831
Restricted cash	**–**	2,054,947
	3,392,769	2,171,778

Company	2014 US$	2013 US$
Cash at bank and in hand	**3,392,235**	115,165
Restricted cash	**–**	2,054,947
	3,392,235	2,170,112

At 31 December 2013 restricted cash amounting to US$2,054,947 was being held in a Macquarie Debt Service Reserve Account ("DSRA"). This account was part of the security package held by Macquarie and was offsetable against the loan in the event of a default on the loan or by agreement between the parties. The related Macquarie loan was repaid in full following the Licence 61 Farmout in July 2014, and the DSRA was subsequently released.

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.

20. TRADE AND OTHER PAYABLES

	2014 US$	2013 US$
Trade payables	**306,857**	740,817
Trade payables to jointly controlled entity (Note 26)	**53,450**	72,659
Corporation tax	**60,797**	63,292
Oil taxes, VAT and employee taxes	**74,497**	87,004
Other payables	**137,475**	22,745
Accruals	**818,547**	820,215
	1,451,623	1,806,732

Company	2014 US$	2013 US$
Trade payables	**295,446**	812,026
Corporation tax	**60,797**	63,292
Other taxes and social welfare costs	**44,038**	53,510
Accruals	**795,712**	792,196
	1,195,993	1,721,024

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. INTEREST-BEARING LOANS AND BORROWINGS

Group and Company	Effective interest rate %	Contractual maturity date	2014 US$	2013 US$
Interest bearing				
Current liabilities				
Macquarie Bank Limited	9.81%	7 July 2014	–	15,000,000
Belgrave Naftogaz B.V.	7.38%	30 May 2015	–	15,000,000
Total current liabilities			–	30,000,000
Total loans and borrowings			–	30,000,000
Contractual undiscounted liability			–	30,000,000

Macquarie loan facility

The Macquarie loan was repaid in full in July 2014 following the completion of the Licence 61 Farmout.

Arawak Energy loan facility

In March 2014 Belgrave Naftogas B.V. (an Arawak Group company) extended its loan facility to the Company by US$1,500,000 to US$16,500,000. The loan was subsequently repaid in full following the completion of the Licence 61 Farmout in July 2014.

22. SHARE CAPITAL – GROUP AND COMPANY

Authorised	2014 €	2013 €
1,000,000,000 (2013: 800,000,000) Ordinary Shares of €0.01 each	10,000,000	8,000,000
	10,000,000	8,000,000

Allotted, called up and fully paid equity	Number of Ordinary Shares	Called up share capital US$
At 1 January 2013	**644,920,275**	8,561,499
At 1 January 2014	**644,920,275**	8,561,499
Issued in the year	**62,325,631**	867,683
At 31 December 2014	**707,245,906**	9,429,182

The Company issued 62,325,631 new shares for consideration of US$5.2 million in March 2014. The net proceeds of this share issue of US$5.0 million, after transaction costs of US$0.2 million, were used to finance expenditure on oil and gas properties, exploration and evaluation costs, debt repayment and corporate overhead.

Warrants

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, warrants during the year.

	2014 Number	2014 WAEP	2013 Number	2013 WAEP
Outstanding as at 1 January	**9,400,000**	**US$0.133**	14,100,000	US$0.131
Granted during the year	**2,000,000**	**US$0.089**	–	–
Expired during the year	**(1,500,000)**	**US$0.131**	(4,700,000)	US$0.127
Outstanding at 31 December	**9,900,000**	**US$0.106**	9,400,000	US$0.133
Exercisable at 31 December	**9,900,000**	**US$0.106**	9,400,000	US$0.133

2,000,000 warrants were granted to Belgrave Naftogas B.V. (Arawak Energy) during 2014 as part of a new loan advance in March 2014.

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group and Company's principal financial instruments comprise cash and cash equivalents. 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 enters into 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. The Group and Company entered into forward currency contracts during the year, however there are no contracts outstanding as at 31 December 2014 and 2013.

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 2014 and 2013, 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 2014 and 2013, the Group and the Company had no outstanding forward exchange contracts.

Foreign currency sensitivity analysis

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 Company has an exposure to US Dollars because payments to some suppliers are effected in Euro and in UK Sterling, and the Company has bank accounts in Russian Rouble, Euro, UK Sterling and US Dollar.

In accordance with IFRS 7, the impact of foreign currencies is determined based on the balances of financial assets and liabilities at 31 December 2014. 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. A positive number below indicates a reduction in loss and increase in other equity where the US Dollar strengthens 5% against the relevant currency. For a 5% weakening of the US Dollar against the relevant currency, there would be an equal and opposite impact on the loss and other equity, and the balances following would be negative.

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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.

Group	2014 US$	2013 US$
Impact on loss [lower/(higher)]	**49,616**	2,368
Impact on net equity [lower/(higher)]	**51,616**	12,019

Company	2014 US$	2013 US$
Impact on loss and net equity [lower/(higher)]	**18,188**	2,368

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 and cash and cash equivalents. 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.

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. 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 not have sufficient funds to meet 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. As at 31 December 2013, the Group and the Company had outstanding loan facilities with Macquarie Bank Limited and with Arawak Energy Russia B.V. (see Note 21). Both loans were repaid in full in July 2014 from the proceeds of the Oil India transaction. The rest of the Group and Company's financial liabilities as at 31 December 2014 and 2013 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 financial assets (excluding prepayments) as at 31 December 2014 and 2013 was less than one month.

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

The Group and the Company had no derivative financial instruments as at 31 December 2014 and 2013.

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

The tables below show the projected contractual undiscounted total cash outflows (principal and interest) arising from the Group's trade and other payables and gross debt. These projections are based on the interest and foreign exchange rates applying at the end of the relevant years:

Group	Within 1 year	Between 1 and 2 years	Between 2 to 5 years	After 5 years	Total
	US$	US$	US$	US$	US$
Year ended 31 December 2014					
Trade and other payables	1,451,623	–	–	–	1,451,623
	1,451,623	**–**	**–**	**–**	**1,451,623**
Year ended 31 December 2013					
Interest-bearing loans and borrowings					
- current	31,009,233	–	–	–	31,009,233
Trade and other payables	1,806,732	–	–	–	1,806,732
	32,815,965	**–**	**–**	**–**	**32,815,965**

Company	Within 1 year	Between 1 and 2 years	Between 2 to 5 years	After 5 years	Total
	US$	US$	US$	US$	US$
Year ended 31 December 2014					
Trade and other payables	1,195,993	–	–	–	1,195,993
	1,195,993	**–**	**–**	**–**	**1,195,993**
Year ended 31 December 2013					
Interest-bearing loans and borrowings					
- current	31,009,233	–	–	–	31,009,233
Trade and other payables	1,721,024	–	–	–	1,721,024
	32,730,257	**–**	**–**	**–**	**32,730,257**

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 0.3% to 0.75%. . The effect of a rise of 1% in the LIBOR interest rate (e.g. from 0.3% to 1.3%) receivable on loans to joint ventures would be to reduce Group loss before tax by US$79,905 and Company loss before tax by US$246,574.

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.

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 make adjustments to 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 2014 and 2013. 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.

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Group	2014 US$	2013 US$
External borrowings	–	30,000,000
Less cash and cash equivalents	–	(116,831)
Less restricted cash	–	(2,054,947)
Net debt	–	27,828,222
Equity	**64,465,132**	86,059,002
Net debt ratio	**0%**	32%

Company	2014 US$	2013 US$
External borrowings	–	30,000,000
Less cash and cash equivalents	–	(115,165)
Less restricted cash	–	(2,054,947)
Net debt	–	27,829,888
Equity	**94,227,438**	93,375,376
Net debt ratio	**0%**	30%

Fair values

The carrying amount of the Group and Company's financial assets and financial liabilities is a reasonable approximation of the fair value.

The fair value of the 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. The fair value of fixed and variable rate borrowings is evaluated using a discounted cash flow valuation technique using based on market interest rates which are a Level 2 observable input.

Hedging

At the year ended 31 December 2014 and 2013, 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 2014 and 2013. Amounts which cannot be offset under IFRS, but which could be settled net under the terms of master netting agreements if certain conditions arise, and collateral received or pledged, are shown in the table below to show the total net exposure of the Group and the Company as at 31 December 2013. There were no such amounts as at 31 December 2014.

Financial assets and liabilities recognised at 31 December 2013	Net amount presented in balance sheet US$	Effect of remaining rights of set-off – fair value of collateral US$	Net exposure US$
Restricted cash	2,054,947	(2,054,947)	–
Interest-bearing loans and borrowings - current	(30,000,000)	2,054,947	(27,945,053)
Total	**(27,945,053)**	–	**(27,945,053)**

Restricted cash was held in a Macquarie Debt Service Reserve Account ("DSRA"). This account was part of the security package held by Macquarie and could have been offset against the loan in the event of a default on the loan or by agreement between the parties.

24. 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$4,245,057 (2013: US$48,365,789).

25. CAPITAL COMMITMENTS

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

	2014 US$	2013 US$
Committed for but not provided in the financial statements	–	1,196,759
Including committed with related parties	–	1,196,759

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

	2014 US$	2013 US$
Within one year	**17,903**	72,485
After one year but not more than five years	**5,968**	208,656
More than five years	–	547,268
	23,871	828,409

26. RELATED PARTY DISCLOSURES

Transactions with subsidiaries

Transactions between the Group and its subsidiaries, WorldAce Investments Limited, Stimul-T, Granite and Dolomite have been eliminated on consolidation. The Company had the following transactions with its subsidiaries during the years ended 31 December 2014 and 2013:

Company	Stimul-T US$	Granite Construction US$	WorldAce Investments Limited US$
Loans			
At 1 January 2013	**101,924,207**	**1,581,167**	**25,133,138**
Technical and management services provided	198,750	–	41,627
Interest accrued in the year	6,767,453	105,375	–
Impairment of loans receivable and interest in the year	(46,287,424)	–	–
Repaid during the year	(5,230,000)	(650,000)	–
Translation adjustment	(1,481,277)	–	8,525
At 1 January 2014	**55,891,709**	**1,036,542**	**25,183,290**
Technical and management services provided	–	–	16,255
Advanced during the year	600,000	–	–
Interest accrued in the year	7,233	66,916	–
Loans repaid during the year	(1,075,000)	–	–
Assigned to WorldAce Investments Limited	(54,815,433)	–	54,815,433
Transferred on cessation as a subsidiary	(607,233)	–	(80,011,257)
Translation adjustment	(1,276)	–	(3,721)
At 31 December 2014	**–**	**1,103,458**	**–**
Capital contributions			
Share-based payment 2014	21,169	7,247	–
Share-based payment 2013	221,744	38,959	–

26. 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 2014 and 2013:

Group	Russian BD Holdings B.V. Group US$	WorldAce Investments Limited Group US$
Receivable by PetroNeft Group at 1 January 2013	**639,251**	**–**
Advanced during the year	15,000	–
Transactions during the year	(7,774)	–
Interest accrued in the year	32,222	–
Repaid during the year	(37,936)	–
Translation adjustment	3,767	–
At 1 January 2014	**644,531**	**–**
Transferred on subsidiary becoming a joint venture (note 11)	–	81,021,362
Advanced during the year	3,500,000	–
Transactions during the year	330,967	1,574,116
Interest accrued in the year	117,120	1,415,202
Loans repaid during the year	(475,000)	(35,630,575)
Payments for services made during the year	(206,290)	(968,140)
Translation adjustment	(28,750)	(70,199)
At 31 December 2014	**3,882,578**	**47,341,766**
Balance at 31 December 2013 comprised of:		
Trade and other receivables	717,190	–
Trade and other payables	(72,659)	–
	644,531	**–**
Balance at 31 December 2014 comprised of:		
Loan facility advanced	–	46,398,502
Trade and other receivables	3,882,578	996,714
Trade and other payables	–	(53,450)
	3,882,578	**47,341,766**

26. RELATED PARTY DISCLOSURES (CONTINUED)

Company	Russian BD Holdings B.V. Group	WorldAce Investments Limited Group
	US$	US$
At 1 January 2013	**651,431**	**–**
Advanced during the year	15,000	–
Transactions during the year	111,904	–
Interest accrued in the year	32,222	–
Repaid during the year	(96,529)	–
Translation adjustment	3,162	–
At 1 January 2014	**717,190**	**–**
Transferred on subsidiary becoming a joint venture	–	80,618,490
Advanced during the year	3,500,000	–
Transactions during the year	123,299	834,318
Interest accrued in the year	117,121	1,415,202
Loans repaid during the year	(475,000)	(35,595,000)
Payments for services made during the year	(101,216)	–
Translation adjustment	(3,749)	(1,866)
At 31 December 2014	**3,877,645**	**47,271,144**
Balance at 31 December 2013 comprised of:		
Trade and other receivables	717,190	–
	717,190	**–**
Balance at 31 December 2014 comprised of:		
Loans facility advanced	–	46,398,502
Trade and other receivables	3,877,645	872,642
	3,877,645	**47,271,144**

Remuneration of key management

Key management comprise the Directors of the Company, the Vice President of Business Development and Operations, the General Director and the Executive Director of the Russian subsidiary LLC Dolomite, along with both the Chief Geologist and Chief Engineer of LLC Dolomite. Their remuneration during the year was as follows:

Remuneration of key management

	2014	2013
	US$	US$
Compensation of key management	**2,068,014**	1,799,937
Contributions to defined contribution pension plan	**65,923**	40,784
Share-based payment expense	**39,981**	258,258
	2,173,918	2,098,979

The total amount of unpaid fees and expenses due to Directors as at 31 December 2014 was US$561,348 (2013: US$400,036).

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

26. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with TBNG Group

Vakha Sobraliev, a Director of PetroNeft, is the principal of LLC Tomskburneftegaz ("TBNG") which has drilled production and exploration wells for the WorldAce Group (100% subsidiary of PetroNeft Group until 3 July 2014, and 50% joint venture afterwards). Various contracts for drilling have been awarded to TBNG in recent years. All drilling contracts with TBNG are "turnkey" contracts whereby TBNG assumes substantially all liabilities in relation to the health and safety, environmental and other risks associated with drilling operation. As part of this relationship PetroNeft Group companies also occasionally sell sundry goods and services to TBNG. Other companies related to TBNG also provide some services to the Group such as transportation, power management and repairs.

The following is a summary of the transactions between the WorldAce Group and the TBNG Group:

	TBNG Group 2014 US$	TBNG Group 2013 US$
Maximum value of new contracts awarded during the year	**4,494,543**	–
Paid during the year for drilling and related services	**6,869,038**	1,527,850
Paid during the year for other services	**24,523**	128,416
Amount due to TBNG and related companies at year end	**351,172**	1,962,935
Received during the year for sundry goods and services	**37,271**	49,445
Amount due from TBNG and related companies at year end	**400,970**	10,122

Other PetroNeft Group companies provided various services to TBNG Group during 2014 amounting to US$15,917 (2013: US$Nil). An amount of US$11,858 (2013: US$Nil) is outstanding from TBNG Group at 31 December 2014.

The Group has an indirect 50% interest in Lineynoye which in turn is 100% owned by the jointly controlled entity Russian BD Holdings B.V. Lineynoye also entered into some transactions with TBNG and related companies as follows:

	TBNG Group 2014 US$	TBNG Group 2013 US$
Maximum value of new contracts awarded during the year	**–**	–
Paid during the year for drilling and related services	**183,874**	–
Paid during the year for other services	**–**	–
Amount due to TBNG and related companies at year end	**–**	–
Received during the year for sundry goods and services	**–**	–
Amount due from TBNG and related companies at year end	**4,625**	7,968

27. SHARE-BASED PAYMENT

Share options

The expense recognised for employee services during the year is US$78,925 (2013: US$418,775). The Group share-based payment plan is described below. There was no cancellation or modification to the plan during 2014 and 2013.

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.

27. 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.

	2014 Number	2014 WAEP	2013 Number	2013 WAEP
Outstanding as at 1 January	**17,696,750**	**£0.2928**	22,429,750	€0.295/£0.2915
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**(521,250)**	**£0.2819**	(795,000)	£0.2628
Expired during the year	**(1,105,000)**	**£0.32**	(3,938,000)	€0.295
Outstanding at 31 December	**16,070,500**	**£0.2913**	17,696,750	£0.2928
Exercisable at 31 December	**2,188,000**	**£0.3615**	3,293,000	£0.3476

The range of exercise prices for options outstanding at the year-end is £0.065 to £0.66 (2013: £0.065 to £0.66).

The weighted average remaining contractual life for the share options outstanding as at 31 December 2014 was 3.17 years (2013: 3.99 years).

No options were granted in 2014 or 2013.

The weighted average share price of forfeited options in 2014 was £0.2819 (2013: £0.2628).

The weighted average share price of expired options in 2014 was £0.32 (2013: €0.295).

As no options were issued in 2013 or 2014, no valuation was carried out in 2013 or 2014.

Warrants

Where applicable, the fair value of the warrants is estimated at the grant date using an option pricing model considering the terms and conditions upon which the instruments were granted. The table included in Note 21 illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, warrants during the year.

In March 2014, Belgrave Naftogas B.V. were awarded 2,000,000 new warrants, and 4,000,000 warrants granted in prior years were re-priced.

The range of exercise prices for warrants outstanding at the year-end is US$0.089 to US$0.131 (2013: US$0.127 to US$0.131).

The weighted average remaining contractual life for the warrants outstanding as at 31 December 2014 was 0.46 years (2013: 1.31 years).

28. IMPORTANT EVENTS AFTER THE BALANCE SHEET DATE

There were no important events since the balance sheet date.

29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved, and authorised for issue, by the Board of Directors on 18 June 2015.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of PetroNeft Resources plc (the "Company") will be held at the Herbert Park Hotel, Ballsbridge, Dublin 4 at 11.00 am on Friday 18 September 2015, for the purposes of considering and, if thought fit, passing, the following Resolutions, of which Resolutions numbered 1, 2, 3, 4 and 5 will be proposed as Ordinary Resolutions and Resolutions numbered 6, 7 and 8 will be proposed as Special Resolutions.

ORDINARY BUSINESS

1. To receive, consider and adopt the accounts for the year ended 31 December 2014 together with the Directors' and Auditors' Reports thereon.

2. To re-elect Mr. Hickey as a Director, who retires by rotation in accordance with Article 89 of the Articles of Association of the Company.

3. To re-elect Mr. Sobraliev as a Director, who retires by rotation in accordance with Article 89 of the Articles of Association of the Company.

4. To re-appoint Ernst & Young, Chartered Accountants, as Auditors and to authorise the Directors to fix the remuneration of the Auditors.

SPECIAL BUSINESS

5. That, in substitution for all existing authorities of the Directors, pursuant to Section 1021 of the Companies Act, 2014 (the "2014 Act"), the Directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of the said Section 1021 of the 2014 Act) up to a maximum amount equal to the aggregate nominal value of the authorised but unissued share capital of the Company as at the date of passing of this Resolution. The authority hereby conferred shall expire (unless previously renewed, varied or revoked by the Company in general meeting) on the earlier of the date of the next Annual General Meeting of the Company held after the date of passing of this Resolution and the close of business on 18 December 2016, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority hereby conferred has expired.

6. That the Directors be and are hereby empowered pursuant to Sections 1022 and 1023(3) of the 2014 Act to allot equity securities (within the meaning of the said Section 1022 of the 2014 Act) for cash pursuant to the authority conferred by Resolution numbered 5 above as if the said Section 1022 of the 2014 Act does not apply to any such allotment provided that this power shall be limited to the allotment of equity securities:
   a) in connection with the exercise of any options or warrants granted by the Company;
   b) (including, without limitation, any shares purchased by the Company pursuant to the provisions of the Companies Act 1990 and held as treasury shares), in connection with any offer of securities, open for a period fixed by the Directors, by way of rights, open offer or otherwise in favour of shareholders holding Ordinary Shares in the capital of the Company and/or any persons having a right to subscribe for, or convert securities into, Ordinary Shares in the capital of the Company (including, without limitation, any person entitled to options under any of the Company's share option schemes or any other person entitled to participate in any of the Company's profit sharing schemes for the time being) and subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to legal or practical problems under the laws or the requirements of any recognised body or stock exchange in any territory; and
   c) up to an aggregate nominal value not greater than the nominal value of 10% of the issued share capital of the Company from time to time;

   each of (a), (b) and (c) above being separate powers, which powers shall expire on the earlier of the date of the next Annual General Meeting of the Company held after the date of passing of this Resolution and the close of business on 18 December 2016, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

NOTICE OF ANNUAL GENERAL MEETING

(CONTINUED)

7. That the Memorandum of Association of the Company be and is hereby altered as follows:
   a. in clause 3(1)(j), the words "Company's holding company (as defined by Section 155 of the Companies Act, 1963)" be deleted and replaced with the words "Company's holding company (as defined by Section 7 of the Companies Act, 2014)"; and
   b. in clause 3, the words "Companies Acts, 1963 to 2005" be deleted and replaced with the words "Companies Act, 2014".

8. That the Articles of Association, in the form produced to the meeting and marked for the purposes of identification with the letter "A", be and are hereby approved and adopted as the Articles of Association of the Company in substitution for and to the exclusion of the existing Articles of Association.

Dated this 18th day of June 2015

BY ORDER OF THE BOARD

	Registered Office:
David Sanders	20 Holles Street
Company Secretary	Dublin 2

NOTE:

On 1 June 2015, the Companies Act, 2014 (the "2014 Act") came into effect in Ireland. With 1,448 sections and 17 schedules, the 2014 Act is the largest piece of legislation to ever be enacted in the history of the State. It brings together over 30 previous company law enactments into a single piece of legislation. Resolutions 7 and 8 are proposed in response to the 2014 Act.

RESOLUTION 7

This special resolution is being proposed in order to make minor amendments to clause 3 and 3(1)(j) of the Memorandum of Association of the Company so as to update the statutory references in these provisions to be consistent with the 2014 Act.

RESOLUTION 8

The 2014 Act adopts a new approach in regard to Articles of Association ("Articles"). Instead of making provisions for a model set of Articles with "opt-in" provisions, as was the case under the Companies Acts, 1963 to 2012 ("Table A"), the 2014 Act now contains specific sections which automatically apply (the "Optional Provisions") to all companies unless the Articles of the Company specifically exclude the Optional Provisions. Most of the Optional Provisions deal with matters which are already dealt with in the Company's Articles. Therefore, to maintain the status quo and to ensure the 2014 Act does not have any unintended consequences on the Articles of the Company, it is proposed to specifically disapply all of the Optional Provisions. This approach is consistent with the approach adopted in relation to disapplying Table A under the current Articles of the Company. Part 1 of the table in the Appendix to the Notice of AGM summarises the changes being made to the Articles while Part 2 lists the Optional Provisions and the equivalent Articles

CURRENT AND PROPOSED MEMORANDUM AND ARTICLES OF ASSOCIATION

The Memorandum and Articles of Association of the Company as well as a copy of the Memorandum and Articles of Association showing the amendments that would be made if Resolutions 7 and 8 are passed is available for inspection: (i) on the Company's website, http://petroneft.com, and during normal business hours on any weekday (public holidays excepted) at the registered office of the Company at 20 Holles Street, Dublin 2, Ireland from the date of this letter to the close of the Annual General Meeting; and (ii) at the location of the Annual General Meeting for at least 15 minutes before, and during, the meeting.

APPENDIX TO THE NOTICE OF AGM

1. Proposed Amendments to Articles of Association

Article Number	Proposed Amendment
Introductory paragraph	The words "The regulations contained in Part 1 of Table A (as amended) and set out in the First Schedule of the Companies Act 1963 as amended shall not apply to the Company." be deleted and replaced with the words "All of the Optional Provisions, as defined in section 1007(2) of the Companies Act, 2014 shall not apply to the Company".
1, 6(a), 7(a), 7(a)(iii), 7(a)(iv), 7(b)(ii) 45(b), 63(g)iii), 71(e), 78(h), and 80(b)(iv)	Replace references to sections of the Companies Acts 1963 to 2012 with their equivalent reference under the 2014 Act.
1 and 12(a)	Delete reference to "Stock Exchange Nominee" as the term no longer exists.
7(a)(ii)	Amend the term "Irish Stock Exchange Limited" to "Irish Stock Exchange plc".

2. Optional Provisions Comparison Table

Section of the 2014 Act	Article(s) Number	Subject Matter
43(2) and 43(3)	110	Use of the common seal of the Company.
65(2) – 65(7)	7	Power to convert shares into stock.
66(4)	5	Allotment of redeemable shares.
69	6	Allotment of shares.
77 - 79	16 - 22	Making of calls in respect of unpaid amounts due on issued shares.
80	23 - 27	Lien on shares.
81	28 - 31	Forfeiture.
83(1) and 84(1)	43 - 46	Variation/reduction of capital.
83(3)	5	Conversion of shares to redeemable shares.
88(2)	15	Conferral of rights upon classes of shares.
94 (1) and 94(8)	32	Instruments of transfer.
95	33 and 34	Restriction on the transfer of shares.
96(2) – 96(11)	39 - 41	Transmission of shares.
124 and 125	112 - 122	Procedures for declaration and payment of dividends.
126	123	Bonus issues.
136	73	Share qualifications of directors.
144(3)	91 and 92	Appointment of director.
148(2)	88	Vacation of office of a director.
155	75 - 77	Remuneration of directors.
158 - 164	81 – 87 and 99 - 106	General power of management and delegation. Meetings of directors and committees, quorum for directors meetings.
165	74	Alternate directors.
178(2)	48	Convening of extraordinary general meetings by members.
180(5) and 181(6)	50	Notice of general meetings.
182(2) and 182(5)	51	Quorum of a general meeting.

2. Optional Provisions Comparison Table (continued)

Section of the 2014 Act	Article(s) Number	Subject Matter
183(3)	65	Multiple proxies.
186(c) and 186(d)	47	Business of an AGM.
187	51 - 69	Proceedings at general meetings.
188	55 - 65	Votes of members.
218(3) and 218(5	50	Service of Notices on Members.
229(1)	80	Other interests of director.
230	80(h)	Power of a director to act in a professional capacity.
338(5) - 338(7)	128	Circulation of financial statements.
424	85(b)	Power to re-issue redeemed debentures.
618(1)(b)	138	Distribution of the property of a company on winding up.
620(8)	116	Timeframe for unclaimed dividends.
1090	89	Rotation of directors.
1092	75 - 77	Remuneration of directors.

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.
AMI	Area of Mutual Interest.
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
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 subsidiary undertakings.
HSE	Health, Safety and Environment.
IAS	International Accounting Standard.
IFRIC	IFRS Interpretations Committee.
IFRS	International Financial Reporting Standard.
km	Kilometres.
km^2/ 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.
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.
Macquarie	Macquarie Bank Limited.
m	Metres.
mmbbls	Million barrels.
mmbo	Million barrels of oil.
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.

GLOSSARY
(CONTINUED)

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

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(Non-Executive Chairman)
Dennis Francis (U.S. citizen)
(Chief Executive Officer)
Paul Dowling
(Chief Financial Officer)
David Sanders (U.S. citizen)
(General Legal Counsel)
Gerard Fagan
(Non-Executive Director)
Thomas Hickey
(Non-Executive Director)
Vakha Sobraliev (Russian citizen)
(Non-Executive Director)

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