PETRONEFT
RESOURCES PLC

ANNUAL REPORT
ГОДОВОЙ ОТЧЕТ

2016

FORWARD LOOKING STATEMENTS

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

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

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

HIGHLIGHTS

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OPERATIONAL HIGHLIGHTS

CHIEF EXECUTIVE OFFICER'S REPORT
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2,707 BOPD

2,707 bopd Average gross production at Licence 61 in 2016.

5

5 New wells drilled, four at Arbuzovskoye, one at Sibkrayevskoye.

35% INCREASE

35% increase in production at Licence 61 in 2016.

50%

50% interest in Licence 61 and Licence 67.

65 MMBBLS

65 mmbbls 2P reserves net to PetroNeft at 31 December 2016.

FINANCIAL HIGHLIGHTS

FINANCIAL REVIEW
PAGES 15–21

US$2.3M

PetroNeft revenue US$2.3 million.

US$56M

US$56m Loans receivable from joint ventures.

US$14M

Funding of US$14 million provided by Oil India to fund 2016 and 2017 work programmes at Licence 61.

US$95M

Total investment by Oil India in Licence 61 Farmout to end 2016 is US$95 million.

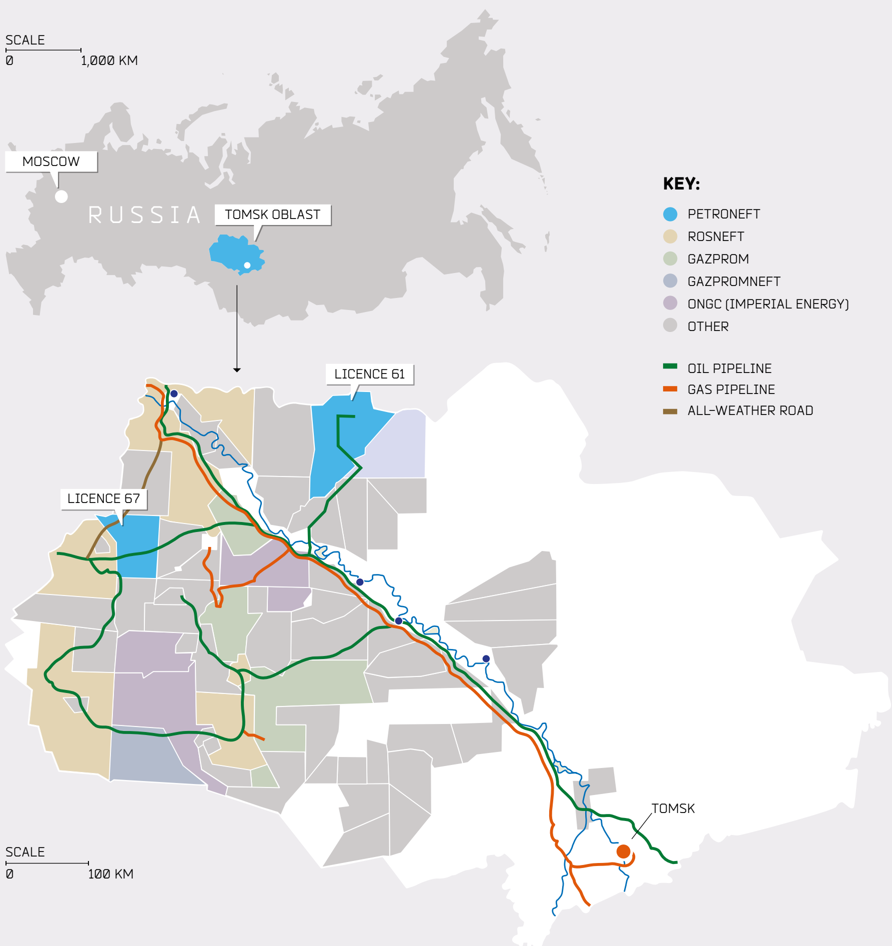
ZERO DEBT

PetroNeft is debt free following completion of Licence 61 Farmout.

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.



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.

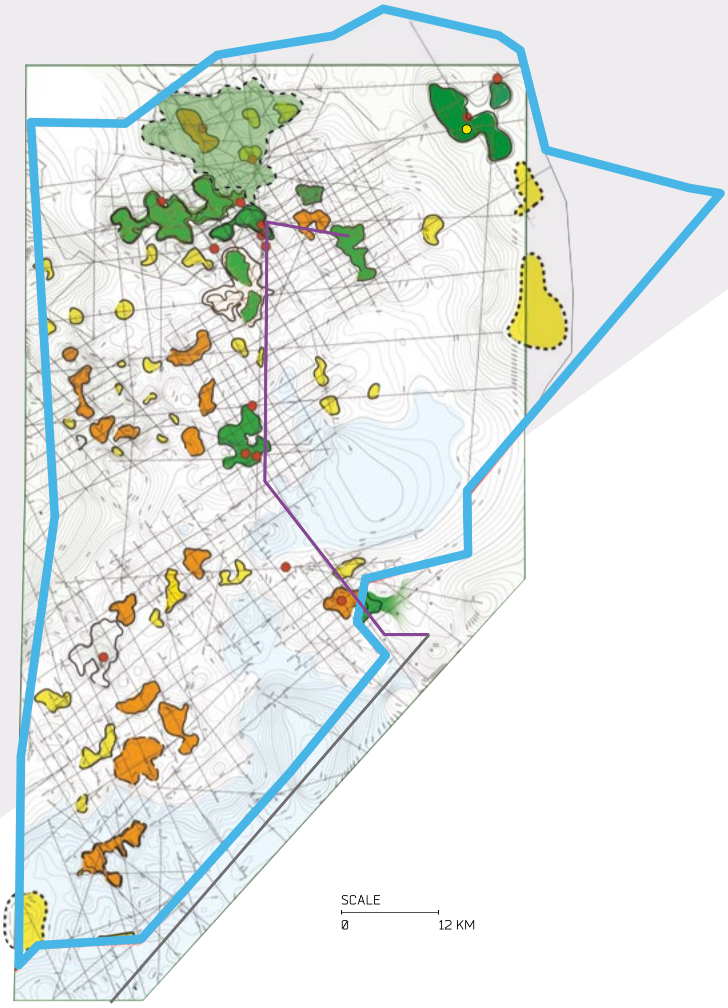
The Group's strategy is to develop an oil exploration, development and production business in Russia, using the combined skills, experience and resources of the Group's Directors and employees.
In the short-term this is to be achieved through a focus on growth of production and cash flows at Licence 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
PAGES 04–07



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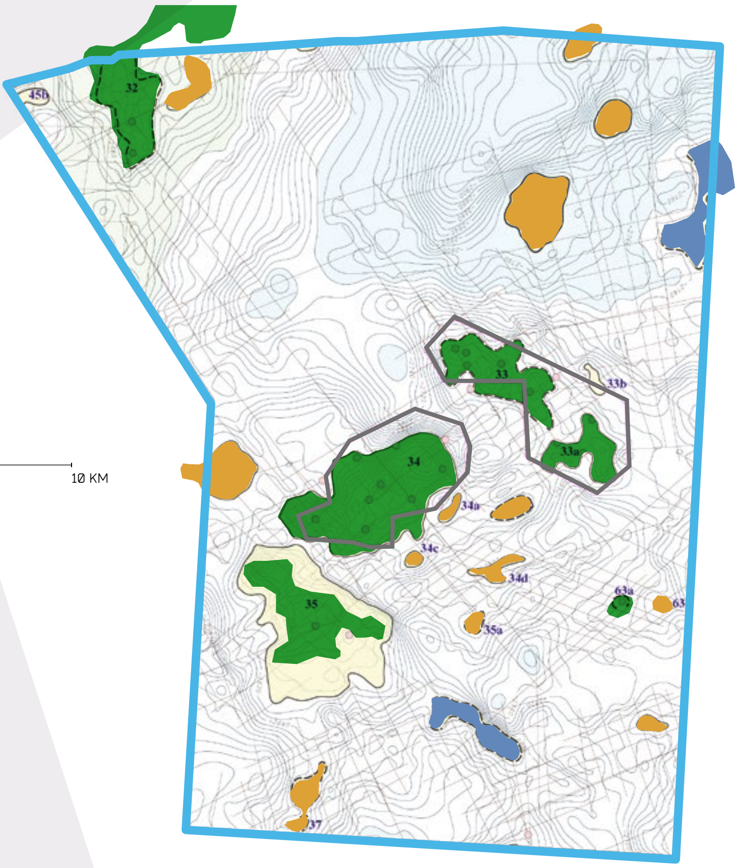

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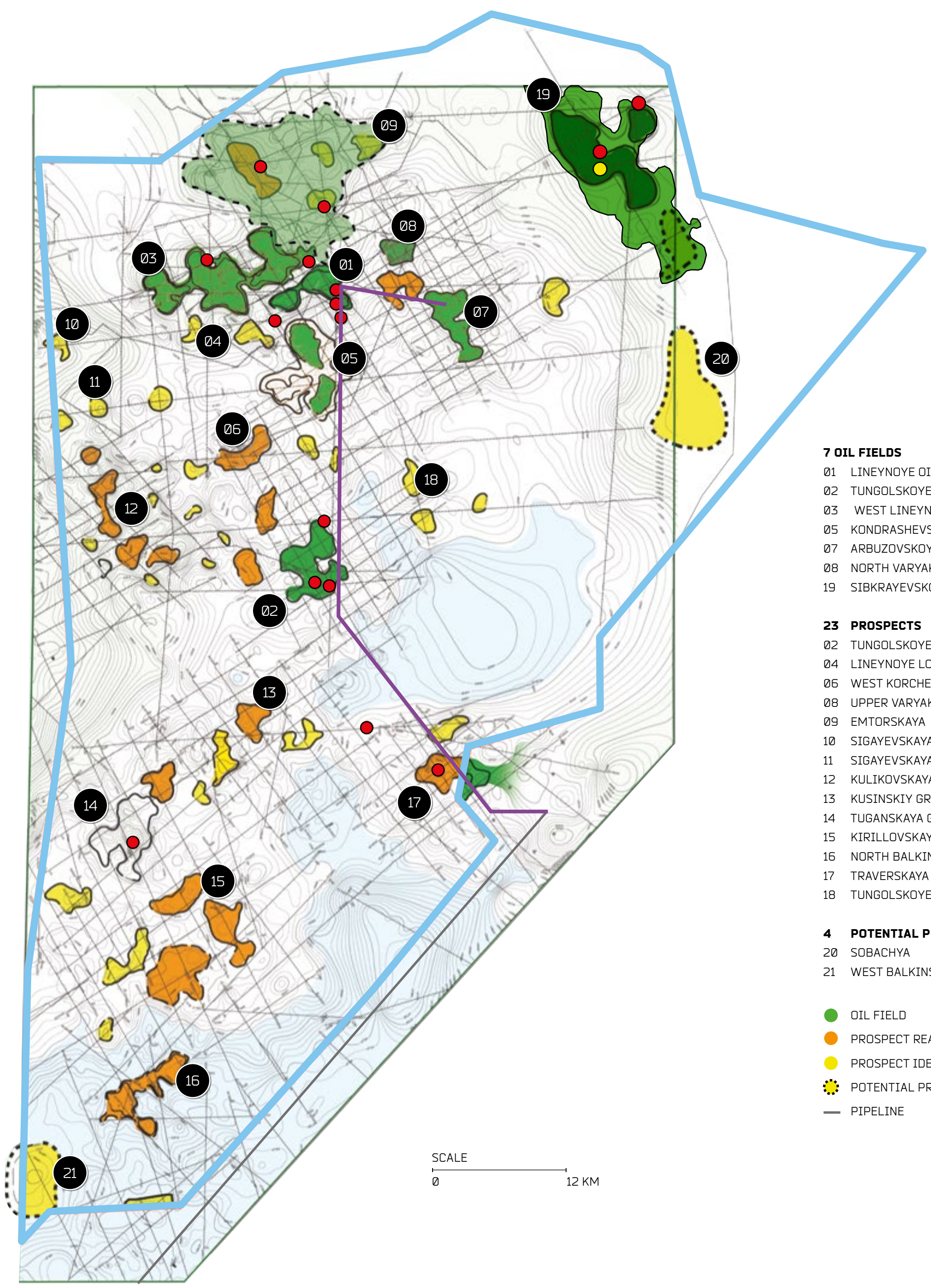
LICENCE 67

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

MORE INFORMATION
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
19 SIBKRAYEVSKOYE

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

4 POTENTIAL PROSPECTS/LEADS
20 SOBACHYA
21 WEST BALKINSKAYA

OIL FIELD
PROSPECT READY FOR DRILLING
PROSPECT IDENTIFIED
POTENTIAL PROSPECTS
PIPELINE

LICENCE 61

50% JOINT VENTURE WITH OIL INDIA LIMITED.

ऑयल इंडिया लिमिटेड
Oil India Limited

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

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

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

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

Additional Financing from Oil India

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

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

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

Oil India have indicated to the Company their willingness to provide 100 per cent funding for the Sibkrayevskoye development by way of a similar shareholder loan to the joint venture company.

About Oil India Limited

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

LICENCE 61 (CONTINUED)

SOUTH ARBUZOVSKOYE DEVELOPMENT

Southern Lobe Development 2016

- Location for Pad 2 development wells.
- Pipeline and power line connected back to Pad 1 at Arbuzovskoye
- **A-213 Vertical well** – control well for Drilled in May 2016.
  - Oil encountered in J1-2 for the first time at Arbuzovskoye
  - combined production from the J1-1 and J1-2 intervals > 350 bopd
- **A-214 Horizontal well location** – based upon the results of A-213/A-103.
  - 1,000 m horizontal segment,
  - 853 m interpreted net pay
  - Initial flow rate > 850 bopd
- **A-215 Horizontal well** – based upon the results of A-213/A-214. 1,000 m horizontal segment in J1-1.
  - Initial flow rate of 650 bopd
- **A-216 Deviated well** – production well to drain south end of structure.
  - Initial flow rate of 175 bopd
  - Water influx saw this rate drop quickly

TOP J1-1 RESERVOIR – JUNE 2016

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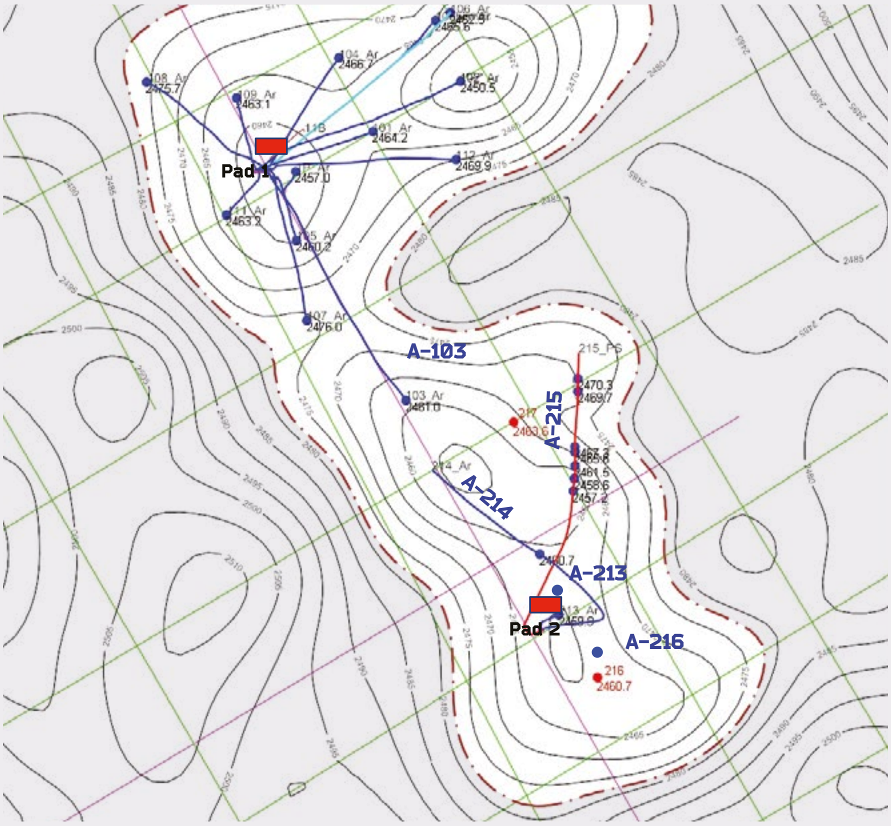


SIBKRAYEVSKOYE OIL FIELD

MAJOR DISCOVERY – 50 MILLION BBLS PLUS – EXPECTED ON-STREAM 2018

Four Wells Drilled In Prior Years

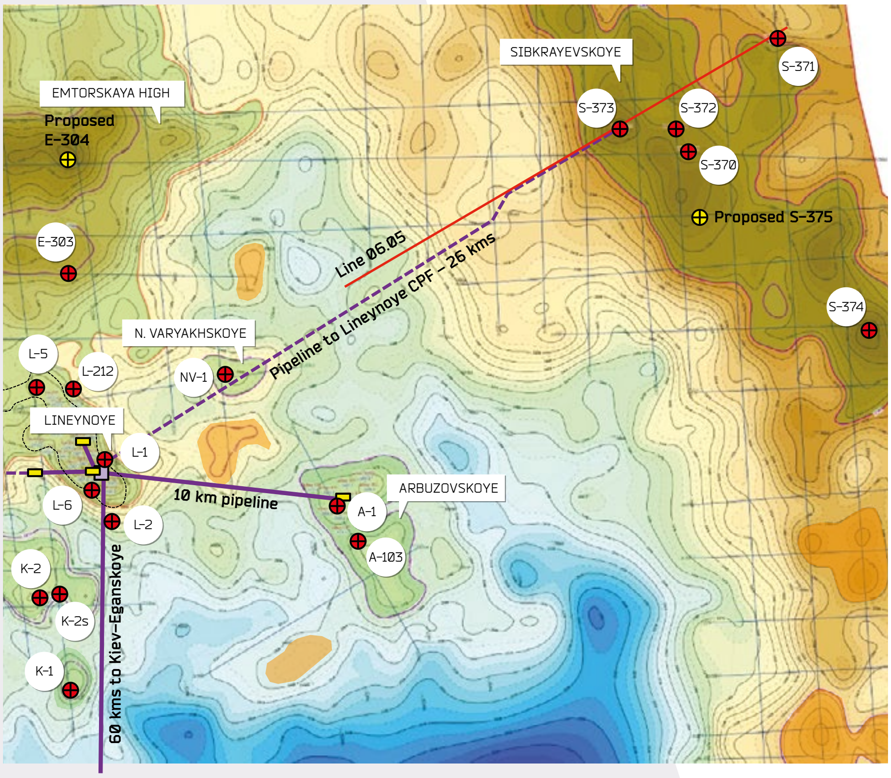
- Wells S-370 & S-371 drilled in early 1970s
- PetroNeft drilled Well S-372 in 2011 parallel to S-370
  - Net pay 12.3 m (confirmed 8.2 m of 'missed pay' in S-370)
  - Open hole inflow test 170 bopd, 37° API
- Well S-373 – completed May 2015
  - Net pay 11.5 m
  - Winter production ~200 bopd in 2015/16 and 2016/17
- Additional 2D Seismic acquisition in Q1 2015

2016 Activities

- Drill Well S-374 – 10 km step-out to south
  - No commercial oil encountered, well abandoned

2017 Planned Activities

- S-375 well near to previous northerly wells
- To be spudded in July 2017, result August 2017
- Engineering Studies for Development
- Development Decision



STRUCTURE MAP ON BASE BAZHENOV HORIZON 2015
SEPTEMBER 2015 – CONTOUR INTERVAL 10M

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NORTHERN DEVELOPMENTS 2016

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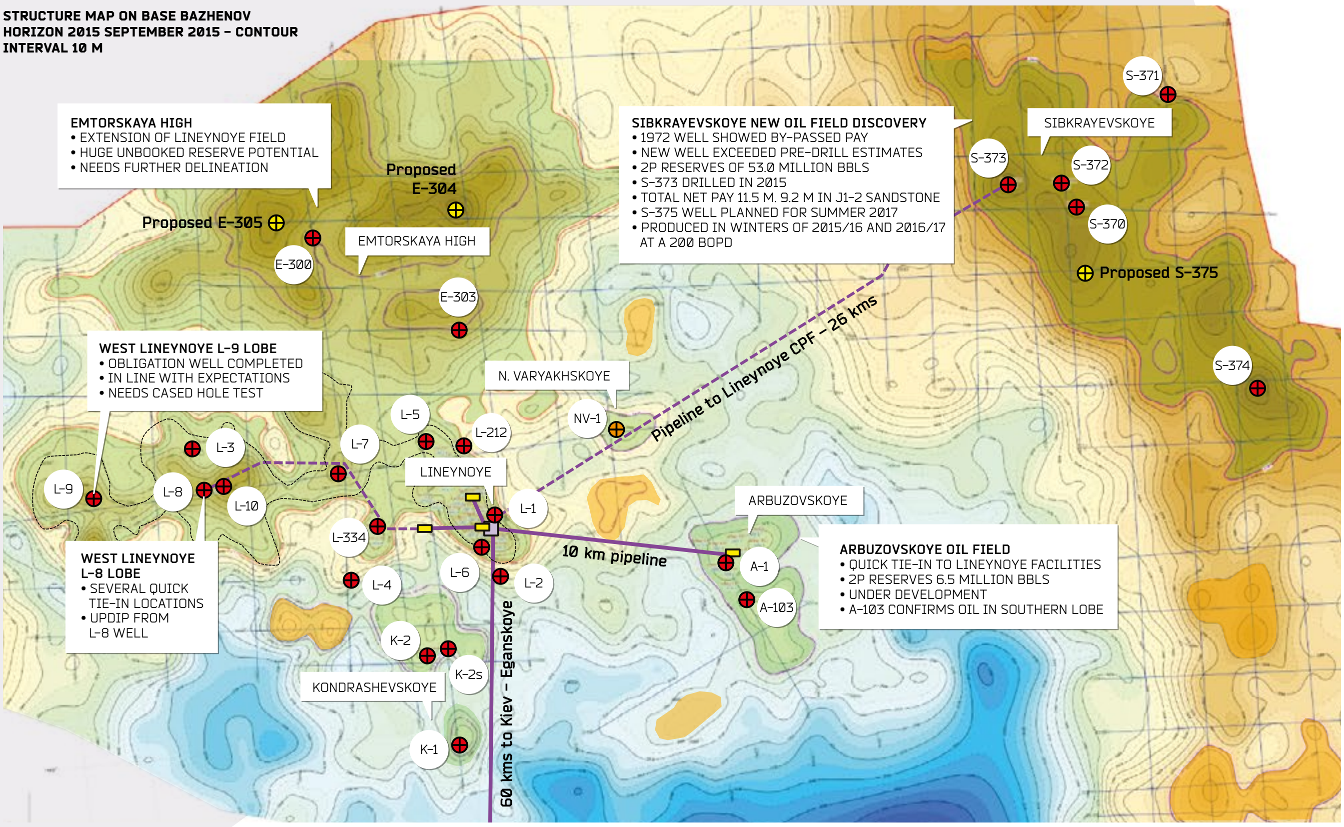
STRUCTURE MAP ON BASE BAZHENOV HORIZON 2015 SEPTEMBER 2015 – CONTOUR INTERVAL 10 M



LICENCE 67

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.

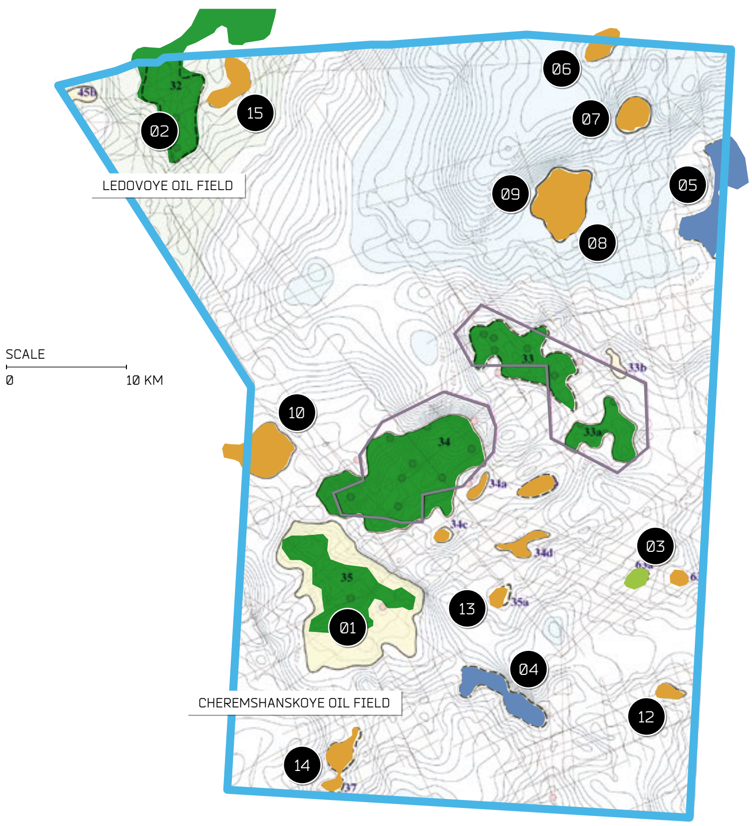
There are large producing fields nearby with similar characteristics and the strong indications are that Cheremshanskoye will prove to be a substantial discovery upon further delineation.

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 4.5 m of potential oil pay. The Lower Cretaceous zone will eventually need to be flow tested behind casing for confirmation. We are pleased with the result given that the same interval is productive at the neighbouring Stolbovoye field which is located 24 km to the south of Ledovoye.

2014 3D Seismic

In the first half of 2014 PITC Geophysical Company acquired 156 km² of 3D seismic data across the Ledovoye and Cheremshanskoye oil fields. This is high quality data that has helped to better define the structure and potential of the two fields. In October 2014, we received the next 5 year exploration extension for the Licence. We have no significant exploration commitments on the Licence in 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.



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 January 2016.
- Ryder Scott reserves for Licence 67 were updated as at 1 January 2011.

LICENCE 61

29.4	Sibkrayevskoye
12.8	Lineynoye
4.2	Arbuzovskoye
2.9	Tungolskoye
1.3	Kondrashevskoye
0.4	North Varyakhskoye

LICENCE 67

14.0	Ledovoye

2P TOTAL
65.0 MMBBLS

3P RESERVES AND EXPLORATION RESOURCES (P4)

LICENCES 61 AND 67

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

LICENCE 61

172.8	Upper Jurassic
78.1	Lower Cretaceous
31.5	Lower to Middle Jurassic

LICENCE 67

72.6	Upper Jurassic
37.4	Lower to Middle Jurassic

3P/P4 TOTAL
392.4 MMBBLS

CHAIRMAN'S STATEMENT

2016 was an active year for our Company particularly at Licence 61 where, with our partner Oil India, we drilled wells at Arbuzovskoye and Sibkrayevskoye. The work programme saw a mix of results, as described in the Chief Executive Officer's Report which follows. 2016 also saw continuing challenges for the industry as a whole with further significant weakness in the oil price internationally.

Operations

The existing production wells at Lineynoye and Arbuzovskoye generally performed reasonably well during 2016 but continued their expected natural decline. The main development programme in 2016 brought the southern part of the Arbuzovskoye oil field into production. Thanks to the considerable experience gained in drilling horizontal wells in 2015 we achieved excellent results at South Arbuzovskoye where the two horizontal and two vertical wells all achieved initial production rate greater than forecast.

In August 2016 we announced the results of a delineation well at Sibkrayevskoye. The S-374 well was a long (10 km) step out from previous wells to a different structural high. Unfortunately it failed to encounter commercial oil and the well was plugged and abandoned.

2017 work programme

Following the S-374 result and in view of the low oil prices expected in the near term, it was decided to defer the first development pad at the Sibkrayevskoye oil field until we could drill a further appraisal well just 2 km from existing wells. We will drill this delineation well (S-375) at Sibkrayevskoye in 2017 with a view to commencing development of Sibkrayevskoye in 2018. Oil India have indicated their willingness to provide the funding for these two projects by way of a shareholder loan to the joint venture company.

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 PARTNER OIL INDIA.

Reserves

The Chief Executive Officer's Report contains the details of the Ryder Scott report as at 1 January 2016 as adjusted for 2016 production. The report demonstrates the large potential of the Sibkrayevskoye oil field which we expect to start developing in 2018.

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 partner Oil India. However, we have not lost sight of our longer-term objective of securing assets outside our current licences to provide growth for the future. In that regard, Pavel Tetyakov joined the Company in 2016 and is responsible for new business development in Russia. We have been very active in pursuing opportunities since then and hope to make significant progress during 2017.

Engagement with Natlata

Following extensive engagement with our largest shareholder, Natlata Partners Limited ('Natlata'), during 2015 and in connection with their requisitioned EGM, in April 2016 we announced that we reached an agreement on a new Board composition and structure. This involved the appointment Maxim Korobov as non-executive Director and Anthony Sacca and David Sturt as independent non-executive Directors. David Sanders, Gerry Fagan and Paul Dowling left the Board. Mr. Dowling remains CFO of the Company. The agreement includes a commitment from Natlata that it will support the newly constituted Board for a period of two years and I am pleased to report that the new Board has worked well together in the period since April 2016.

I would like to thank David Sanders, who was a founder of the Company, and Gerry Fagan for their many years of service to the Company.

Summary

2016 was a mixed year for PetroNeft with positives and negatives coming from a busy work programme. The lessons learned from the 2015 programme of horizontal wells bore good results at Arbuzovskoye leading to a 35% increase in production. The result of the S-374 well at Sibkrayevskoye has led us to delay the commencement of the Sibkrayevskoye development pending the result of the S-375 well. Our industry is continuing to go through tough times at present but we have future development targets such as Sibkrayevskoye that will still be profitable at current reduced oil prices.

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

David Golder
Non-Executive Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

2016 was an active year at Licence 61 as we leveraged the experience gained in 2015 drilling horizontal wells at Tungolskoye to the drilling of new horizontal wells at South Arbuzovskoye. Gross production at Licence 61 rose 35% to 990,931 barrels of oil (2015: 737,655 barrels) in the year or an average of 2,707 bopd (2015: 2,021 bopd).

Licence 61 – Arbuzovskoye

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 Pad 1 at the northern end of the Arbuzovskoye oil field. Further 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 confirm the oil productivity of the southern lobe of the field. The A-103 result combined with new seismic data acquired in 2015 gave us additional confidence in the southern portion of the Arbuzovskoye oil field. This led to the approval of its development with our partner.

The initial development plan was for the construction of Pad 2 along with the drilling of one vertical and two horizontal wells. In the end we drilled two vertical and two horizontal wells. Our pre-drill estimates were to achieve initial production of 125 bopd from the vertical wells and 600 bopd from the horizontal wells. The results far exceeded these estimates with the vertical wells (A213 & A-216) coming in at over 350 bopd and 175 bopd respectively and the horizontal wells (A-214 & A-215) coming in at over 800 bopd and 650 bopd respectively. With the exception of the A-216 well, the new wells at South Arbuzovskoye continue to perform ahead of expectations. The water cut at A-216 has been higher than expected due to water production from a lower sand and we are looking at ways to isolate it.

Licence 61 – Lineynoye Development

The wells at Lineynoye have continued to perform well during 2016, 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.

WE HAVE HAD GOOD EXPLORATION SUCCESS IN THE PAST AND FEEL WE CAN ADD RESERVES WITH ADDITIONAL APPRAISAL AT EMTORSKAYA AND TRAVERSKAYA IN THE MEDIUM TERM, AND GROW OUR RESERVES FURTHER WITH CONTINUED EXPLORATION ON OUR TWO LICENCE AREAS.

Licence 61 – Sibkrayevskoye

In 2015 we drilled the S-373 delineation well and carried out a major 2D seismic programme across the northern portion of Licence 61 including Sibkrayevskoye. Between late January and April 2016 the S-373 well was put on production and averaged 200 bopd during the period. The S-373 well was also put on production in the winter of 2016-2017 and achieved a similar daily rate. This well, along with the previous wells, S-372 and S-370, forms the basis for the initial development of Sibkrayevskoye at Pad 1 which was initially planned for 2017.

In 2016 we sought to ascertain the full potential of Sibkrayevskoye through the drilling of a 10 km step out well, S-374. The well was drilled in July and August 2016. The well was designed to evaluate the southernmost lobe of the Sibkrayevskoye oil field about 10 km from existing wells. The well was drilled to a total depth of 2,640 m MD. The log evaluation was as follows:

- The Base Bazhenov was intersected at -2,340.8 m TVDSS (2,554 MD)
- Two tight sandstone reservoirs with total net pay of 3.6 m were identified on the logs:
  - J1-2 (2,559.4 to 2,561.1 m MD) net pay 1.7 m
  - J1-2 (2,564.6 to 2,566.5 m MD) net pay 1.9 m

A cased-hole DST was conducted over the two intervals and the fluid inflow was minimal with about 6.3 bbls per day of mineralised water with no indications of hydrocarbons.

This was a disappointing result as it removed some of the upside from the Sibkrayevskoye oil field, however it does not significantly affect the current 2P reserves of 59 million bbls defined by 4 wells in the northern part of the field. This remains a very significant field with robust economics at today's oil prices.

The result, however, did lead us to defer commencement of the development of the Sibkrayevskoye oil field by one year in order to drill one more appraisal well, S-375.

The S-375 well will be drilled on the northern structural lobe of the field approximately 2 km south of existing wells that contained approximately 10 m of net pay (e.g. S-372 and S-373). This well will be spudded in July 2017 and completed later in the summer. If successful, it is expected to lead to the development of the Sibkrayevskoye oil field commencing in 2018. The drilling rig and materials have been mobilized for the S-375 well and the erection of the rig is almost complete.

Reserves

Independent reserve consultants Ryder Scott completed an assessment of petroleum reserves on Licence 61 as at 1 January 2016. The total Proved and Probable ('2P') reserves for the licence stood at 103 mmbbls. PetroNeft's net interest in these reserves is 50%.

As shown in the table below, PetroNeft's share of the combined Licence 61 and Licence 67 reserves is 65.0 mmbbls 2P and 17.2 mmbbls P1 as at the end of 2016 following adjustment of the Ryder Scott numbers for 2016 production. We have had good exploration success in the past and feel we can add reserves with additional appraisal at 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.

CHIEF EXECUTIVE OFFICER'S REPORT (CONTINUED)

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 2017 and are currently reviewing the next steps in the development of the Licence with our partner Arawak in light of the current oil prices which may include the sale of the licence.

Conclusion

In 2016 we applied the experience gained in horizontal drilling at Tungolskoye in 2015 to the new horizontal wells at South Arbuzovskoye and achieved very good results. We have had a setback at Sibkrayevskoye but I am confident that the S-375 well to be drilled in 2017 will get us back on track there in 2018. Even with the negative results of well S-374, Sibkrayevskoye is the largest field found in the Tomsk region in recent years and represents a core asset in the future of the company. With an excellent partner in Oil India we are well placed to exploit these opportunities despite the challenging times for our industry.

Dennis Francis
Chief Executive Officer

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	7.0	12.8	15.9
Tungolskoye	0.3	2.9	3.6
Kondrashevskoye	0.7	1.3	1.6
Arbuzovskoye	1.7	4.2	5.4
Sibkrayevskoye	5.8	29.4	52.8
North Varyakhskoye	0.2	0.4	0.5
	15.7	**51.0**	**79.8**
Licence 67			
Ledovoye	1.5	14.0	17.4
Total net to PetroNeft	**17.2**	**65.0**	**97.2**

- Licence 61 as at 31 December 2016 (Ryder Scott report as at 1 January 2016, adjusted for 2016 production).
- Reserves reflect just PetroNeft's 50% share of reserves for each licence.
- All oil in discovered fields is in the Upper Jurassic section.
- Reserves were determined in accordance with the Society of Petroleum Engineers ('SPE') Petroleum Resources Management System ('PRMS') rules.

IN 2016 WE APPLIED THE EXPERIENCE GAINED IN HORIZONTAL DRILLING AT TUNGOLSKOYE IN 2015 TO THE NEW HORIZONTAL WELLS AT SOUTH ARBUZOVSKOYE AND ACHIEVED VERY GOOD RESULTS.

FINANCIAL REVIEW

The year was a challenging one from a finance point of view with the continued volatility encountered in the commodity and currency markets. Oil prices continued to be volatile during the year as was the Russian Rouble. Lower oil prices and some disappointing well results in 2015 meant that the funding provided by Oil India as part of the Licence 61 farmout was utilised earlier than expected. Therefore some additional finance was required in order to fund the 2016 work programme.

Oil India agreed to provide funding for the development of South Arbuzovskoye and Sibkrayevskoye by way of an unsecured shareholder loan to the WorldAce Group, thereby removing the funding requirement from PetroNeft for this work. The first tranche of this funding was agreed by way of an unsecured US$10 million shareholder loan from Oil India to WorldAce in March 2016. Principal repayments on the loan will not commence until October 2019. A further US$4 million shareholder loan was agreed between WorldAce and Oil India in March 2017 to fund the 2017 programme.

Accounting implications of the Licence 61 farmout

As discussed in previous Annual Reports, 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 financial statements of PetroNeft. 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.

IN 2016 PETRONEFT GROUP CHARGED A TOTAL OF US$1.46 MILLION (2015: US$1.64 MILLION) TO THE JOINT VENTURES IN RESPECT OF MANAGEMENT SERVICES.

PetroNeft Key Financial Metrics

	2016 US$'000	2015 US$'000
Continuing operations		
Revenue	2,280	2,398
Cost of sales	(2,038)	(2,371)
Gross profit	**242**	**27**
Administrative expenses	(2,155)	(1,380)
Exchange profit/(loss) on intra-Group loans	77	(284)
Operating loss	**(1,836)**	**(1,637)**
Share of joint venture's net loss – WorldAce Investments Limited	(5,721)	(8,765)
Share of joint venture's net loss – Russian BD Holdings B.V.	(288)	(315)
Finance revenue	3,248	3,042
Loss for the year for continuing operations before taxation	**(4,597)**	**(7,675)**
Income tax expense	(830)	(799)
Loss for the year	**(5,427)**	**(8,474)**

Review of PetroNeft loss for the year

The loss after taxation for the year was US$5,427,660 (2015: US$8,474,383). The loss included a foreign exchange gain on intra-group loans of US$77,458 (2015: loss of US$284,449), the share of joint venture's net loss in WorldAce Investments of US$5,721,232 (2015: US$8,765,055).

Revenue

Revenue in 2016 and 2015 includes income as operator of both licences and the revenue of PetroNeft's wholly owned subsidiary, Granite Construction in respect of construction services provided in relation to both joint ventures.

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

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

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

In 2016 PetroNeft Group charged a total of US$1.46 million (2015: US$1.64 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 2016 Granite Construction charged the WorldAce Group US$0.81 million (2015: US$0.75 million) in respect of these services.

Finance Revenue

Most of the finance revenue relates to Interest receivable on loans to joint ventures. During 2016 PetroNeft had interest receivable of US$3,011,025 (2015: US$2,826,303) on its loans to WorldAce Group and US$234,402 (2015: US$205,189) on its loans to Russian BD Holdings B.V.

Key Financial Metrics – WorldAce Group

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

	PetroNeft's 2016 US$'000	PetroNeft's 2015 US$'000
Continuing operations		
Revenue	11,604	10,300
Cost of sales	(11,200)	(10,436)
Gross profit	**404**	**(136)**
Gross margin %	**3.5%**	**(1.3%)**
Administrative expenses	(1,614)	(1,519)
Impairment of oil and gas properties	–	(4,550)
Operating loss	**(1,210)**	**(6,205)**
Loss on disposal of oil and gas properties	(438)	–
Write-off of exploration and evaluation assets	(710)	–
Finance revenue	10	12
Finance costs	(3,373)	(2,572)
Loss for the year for continuing operations before taxation	**(5,721)**	**(8,765)**
Income tax	–	–
Loss for the year for continuing operations before taxation	**(5,721)**	**(8,765)**

FINANCIAL REVIEW
(CONTINUED)

WE WOULD EXPECT THE GROSS MARGIN TO IMPROVE IN FUTURE PERIODS AS OUR FACILITIES AND FIELD OPERATIONS ARE FULLY STAFFED AND CAN HANDLE ADDITIONAL PRODUCTION FROM THE SIBKRAYEVSKOYE OIL FIELD ONCE IT COMES ONLINE.

Net Loss – WorldAce Group

The net loss of WorldAce Group for the full year decreased to US$11,442,464 from US$17,530,110 in 2015. The decrease in the loss for the year before taxation can be attributed to the fact that there was no impairment necessary in the year. Of the US$6.6 million in interest payable by WorldAce, US$3.0 million is payable to PetroNeft. Due to the lower oil price environment and a reduction in reserves at the Lineynoye oil field an impairment of oil and gas properties in the amount of US$9.1 million was required in 2015.

Revenue, Cost of Sales and Gross Margin – WorldAce Group

Revenue from oil sales was US$23,208,363 for the year (2015: US$20,600,188). Cost of sales includes depreciation of US$3,337,902 (2015: US$2,856,469), which was higher mainly due to increased production. The gross margin improved during the year also due to higher production. Operating costs per barrel (cost of sales excluding depreciation and Mineral Extraction Tax) were lower at US$8.04 (2015: US$10.73 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 Sibkrayevskoye oil field once it comes online. We produced 990,931 barrels of oil (2015: 737,655 barrels) in the year and sold 985,824 barrels of oil (2015: 761,123 barrels) achieving an average oil price of US$24 per barrel (2015: US$27 per barrel). All oil was sold on the domestic market in Russia.

Finance Costs – WorldAce Group

Finance costs of US$6,744,948 (2015: US$5,144,634) mainly relates to interest on loans from PetroNeft and Oil India.

Taxation – WorldAce Group

There is no tax payable in 2016 or 2015.

Current and Future Funding of PetroNeft Group

In the 2015 Annual Report we outlined that PetroNeft expected to start receiving interest due on its shareholder loans to WorldAce in the second half of 2017 once the development of the Sibkrayeskoye oil field in Licence 61 was up and running. The S-374 appraisal well drilled in 2016 at the Sibkrayevskoye oil field, to assess the true extent of the field 10 km to the south of existing wells, did not encounter commercial hydrocarbons. The result of this well has led to the postponement of the commencement of the development of the Sibkrayevskoye oil field by one year pending the result of a new appraisal well, S-375, which will be drilled in the summer of 2017. As a consequence of this, the date by which PetroNeft expects to start receiving interest due on its shareholder loans to WorldAce has been extended by a minimum of 12 months from the previously guided estimate of late 2017.

Success of the S-375 well would provide assurance that there are at least two pads to be developed at Sibkrayevskoye, in which case it is expected that the development of the Sibkrayevskoye oil field will commence in 2018. The proposed first pad at Sibkrayevskoye has already been delineated by the S-370, S-372 and S-373 wells. The S-375 well is being drilled within the proposed pad 2 area which is about 2 km from the existing wells that found oil and is within the same structural closure. The S-374 well was more than 10 km south in a different structural lobe. The S-373 well at the proposed pad 1 area has produced oil during the last two winters at consistent rates giving further comfort to the Company of the prospects of the area.

SUCCESS OF THE S-375 WELL WOULD PROVIDE ASSURANCE THAT THERE ARE AT LEAST TWO PADS TO BE DEVELOPED AT SIBKRAYEVSKOYE, IN WHICH CASE IT IS EXPECTED THAT THE DEVELOPMENT OF THE SIBKRAYEVSKOYE OIL FIELD WILL COMMENCE IN 2018.

In 2016 the Board of Oil India provided a non-binding indication of their willingness to provide a US$25 million shareholder loan to WorldAce for the development of Sibkrayevskoye. Should the S-375 well not be successful the joint venture shareholders will need to consider other options. This could include the development of Sibkrayevskoye as a one-pad development focussed only on the area surrounding previous wells such as S-373 or it could lead to some further appraisal work. The joint venture shareholders have provided non-binding indications of their willingness to consider providing continuing support in this event, including not immediately seeking repayments of principal or payment of interest under shareholder loan agreements.

The effect of the delay in receiving interest due is that PetroNeft will require additional funding to cover its operating costs during the next 12 months. Management have prepared cash flow projections for the period to 31 December 2018 which indicate a shortfall of funds by the end of quarter one 2018, and a cumulative shortfall of approximately US$1 million by 31 December 2018, irrespective of the success of S-375.

The Company is currently in confidential discussions pursuing several options in order to meet this potential shortfall. These include the potential sale or farmout of Licence 67, short term debt financing from a related corporate entity and the acquisition of producing and non-producing assets in share for share type transactions. The Board believe that the first two options can be completed in a short timeframe. In relation to the latter option, the Company has signed non-disclosure agreements and opened data rooms. As there are delaying factors, including regulatory requirements, around a share for share type transaction, the timeframe to close such a transaction could be several months following binding agreement between the parties.

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

The successful development of S-375 and the potential shortfall in funds represent material uncertainties that may cast significant doubt upon the Group's and the Company's ability to continue as a going concern as described in Note 2 to the Consolidated Financial Statements.

Financial Risk Management

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

Principal risks and uncertainties

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

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

Risk Category	Risk Issue	Mitigation
Other Risks	*HSE incidents*	HSE standards set and monitored regularly across the Group.
	Export quota	Equal access to export quotas available for all oil producers using Transneft.
		Conservative assumption in economics – domestic net back price now largely in alignment with export net back.
	Third party pipeline access	25-year transportation agreement in place for Licence 61, several options available for ultimate development of Licence 67.
	Transneft pipeline access	Available capacity and access confirmed.
		East Siberia-Pacific Ocean ('ESPO') pipeline allows export of oil to Pacific market.

Investor Relations

During 2016, the CEO and CFO held regular meetings with analysts and institutional investors. The target for 2017 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 21 June 2017 are as follows:

Name of shareholder	Ordinary Shares	Percentage
Natlata Partners Limited	208,429,458	29.47%
General Invest Overseas S.A.	75,678,700	10.70%
Mr. Duming Zhai	26,000,000	3.68%
Ali Sobraliev	23,014,273	3.25%
J&E Davy	55,184,379	7.80%

Paul Dowling
Chief Financial Officer

HEALTH, SAFETY AND ENVIRONMENTAL REPORT

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

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 2016 or 2015.

Health and Safety Management

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

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

Emergency Preparedness Training

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

WE CONTINUE TO WORK TOWARDS A GOAL OF 95% GAS UTILISATION AND ARE CURRENTLY STUDYING VARIOUS OPTIONS INCLUDING MIXING ASSOCIATED GAS WITH WATER FOR USE IN OUR WATER FLOOD OPERATIONS.

Environmental Impact Management

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

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

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

In 2016 the main activities from an environmental perspective were:

- Environmental, air, water and subsoil monitoring at Lineynoye, Arbuzovskoye and Tungolskoye oil fields.
- Planning and approvals for 2016 and 2017 drilling programmes.
- Recultivation at Arbuzovskoye Oil field.
- Engineering and survey works, including environmental relating to planned facilities construction at Sibkrayevskoye oil field.

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

Gas Utilisation

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

Compliance and Inspections

The Group reports on its HSE activities to various statutory authorities in Russia on a quarterly and annual basis and is also subject to regular inspections by various bodies. A number of routine inspections relating to compliance with the various health, safety and environmental obligations took place in 2016 and 2015 and no significant issues arose from these inspections.

BOARD OF DIRECTORS

David Golder
(Non-Executive Chairman) (Age 69)

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

Dennis Francis
(Chief Executive Officer and Executive Director) (Age 68)

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

Thomas Hickey
(Non-Executive Director) (Age 48)

Mr. Hickey has been a Non-Executive Director of the Company since 2005. He is Chairman of the Audit and Nomination Committees and a member of the Remuneration Committee. He is Chief Financial Officer of CarTrawler, a world leading B2B travel technology platform. Tom was previously Chief Financial Officer at Petroceltic International Plc. Prior to that he was an Executive Director and Chief Financial Officer of Tullow Oil plc, from 2000 to 2008. During this time, Tullow grew via a number of significant acquisitions including the US$570 million acquisition of Energy Africa in 2004 and the US$1.1 billion acquisition of Hardman Resources in 2006. Prior to joining Tullow, Tom was an Associate Director of ABN AMRO Corporate Finance (Ireland) Limited. Tom is a Fellow of the Institute of Chartered Accountants in Ireland.

Maxim Korobov
(Non-Executive Director) (Age 59)

Mr. Korobov was appointed a Non-Executive Director of the Company on 24 April 2016. He is a Russian businessman with over 20 years of experience in the oil & gas sector and the ultimate beneficial owner of Natlata Partners Limited, a significant shareholder of PetroNeft.

Anthony Sacca
(Non-Executive Director) (Age 45)

Mr. Sacca was appointed a Non-Executive Director of the Company on 24 April 2016. He is a member of the Audit Committee. He is principal of Karri Tree executive coaching. Anthony was previously the Chief Financial Officer of Rolf Group of Companies, one of Russia's largest independent automotive distributor/retailers. Prior to that he was a Partner with PwC in Moscow. In addition to coaching, Anthony sits on the advisory board of Emex Group. His role on these businesses ranges from business decision making to the implementation or improvement of corporate governance practices. Anthony is a Fellow of the Institute of Chartered Accountants in Australia. He holds a Bachelor of Business and Administration (Distinction) from Curtin University of Technology Perth, Australia. He is a member of the Russian Independent Directors Association and is a Fellow Chartered Director with the Institute of Directors in the United Kingdom. In addition to his business, Anthony is a lecturer on business ethics, as part of the Masters in Finance programme at the New Economic School in Moscow.

David Sturt
(Non-Executive Director) (Age 55)

Mr. Sturt was appointed a Non-Executive Director of the Company on 24 April 2016. He is a member of the Remuneration and Nomination Committees. David has over 29 years of international experience in the oil and gas industry gained working on projects in Europe, CIS, Africa and SE Asia. Since 2012 David has been a Senior Vice President with Azimuth Limited, and is a founding shareholder of VTX, which is an oil and gas production company with assets in Indiana and Illinois formed after the sale of VistaTex. He is currently a Non-Executive director of Petrosibir AB a Swedish company with oil and gas interests in Russia. During 2011–2012, David served as a Deputy Board Chairman and Head of Upstream for Ukrnafta. David was one of the founding shareholders of VistaTex, a gas producing company with assets onshore US, recently acquired by Dome Energy. David holds a BSc honours degree in Earth Sciences from Kingston Polytechnic University, an MSc degree in Exploration and Geophysics from Leeds University, and a postgraduate diploma in business administration from Herriott Watt University.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016.

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$4,597,419 (2015: US$7,674,917). After a tax charge of US$830,241 (2015: US$799,466) the loss for the year amounted to US$5,427,660 (2015: US$8,474,383). 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 14 and the Financial Review on pages 15 to 21. The key financial metrics used by management are set out in the Financial Review on page 16.

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.

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

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

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

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

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

Audit Committee

The members of the Audit Committee are Thomas Hickey (Chairman), David Golder and Anthony Sacca. The Audit Committee's responsibilities include, among other things, reviewing interim and year-end financial statements and preliminary announcement, accounting principles, policies and practices, internal controls and overseeing the relationship with the external auditor including reviewing the results of their audit.

Remuneration Committee

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

Nomination Committee

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

Governance of 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.

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

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

Internal Control

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

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

Directors

The present Directors are listed on pages 24 to 25.

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

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
(CONTINUED)

Directors, Company Secretary and their Interests

The Directors and Company Secretary who held office at 31 December 2016 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 21 June 2017	Ordinary Shares As at 31 December 2016	Ordinary Shares As at 1 January 2016*
Directors			
David Golder	3,165,458	3,165,458	3,165,458
Dennis Francis	25,890,416	25,890,416	24,390,416
Maxim Korobov†	208,429,458	208,429,458	208,429,458
Thomas Hickey	2,226,283	2,226,283	2,226,283
Company Secretary			
Paul Dowling	731,583	731,583	731,583

* Position is as at 1 January 2016 or date of appointment if later.
† Appointed on 24 April 2016, shares held via Natlata Partners Limited.

In addition to the above, the Directors who held office at 31 December 2016 held the following share options:

Director	Options held as at 1 January 2016	Granted in year	Exercised in year	Lapsed in year	Options held as at 31 December 2016	Exercise price
David Golder	370,000	–	–	(120,000)	250,000	£0.065 – £0.66
Dennis Francis	1,135,000	–	–	(330,000)	805,000	£0.065 – £0.66
Thomas Hickey	310,000	–	–	(100,000)	210,000	£0.065 – £0.66

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

Principal Risks and Uncertainties

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

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

Going Concern

The appropriateness of continuing to prepare the financial statements on a going concern basis is discussed in detail in the Finance Review on pages 18 to 19 in the paragraphs related to the 'Current and future funding of PetroNeft' and in Note 2 to the financial statements on page 39.

The circumstances outlined in the Finance Review and Note 2 represent material uncertainties that may cast significant doubt upon the Group and the Company's ability to continue as a going concern. Nevertheless, after making enquiries, and considering the uncertainties described in the Finance Review and Note 2, the Directors are confident that the Group and the Company will have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group or Company was unable to continue as a going concern.

Remuneration Committee Report

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

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

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

Directors' Remuneration

Director	2016 Emoluments & Compensation	2016 Pension	2016 Total	2015 Emoluments & Compensation	2015 Pension	2015 Total
Executive directors						
Dennis Francis	399,505	29,963	429,468	396,334	28,140	424,474
Paul Dowling†	463,539	8,466	472,005	328,848	21,100	349,948
David Sanders†	351,359	1,399	352,758	296,178	19,330	315,508
	1,214,403	39,828	1,254,231	1,021,360	68,570	1,089,930
Non-executive directors						
David Golder	71,280	–	71,280	71,204	–	71,204
Thomas Hickey	44,164	–	44,164	44,101	–	44,101
Anthony Sacca	30,031	–	30,031	–	–	–
David Sturt	30,031	–	30,031	–	–	–
Maxim Korobov	30,031	–	30,031	–	–	–
Gerard Fagan†	22,811	–	22,811	44,101	–	44,101
Vakha Sobraliev*	–	–	–	24,895	–	24,895
	228,348	–	228,348	184,301	–	184,301
Total Directors' remuneration	**1,442,751**	**39,828**	**1,482,579**	**1,205,661**	**68,570**	**1,274,231**

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 28. In accordance with IFRS 2, Share-based Payment, a further expense of US$Nil (2015: US$8,971) has been recognised in the Consolidated Income Statement in respect of share options granted to Directors.

* Vakha Sobraliev resigned as director on 18 September 2015.
† Paul Dowling, David Sanders and Gerard Fagan left the Board of PetroNeft on 24 April 2016.

Political Donations

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

Important Events after the Balance Sheet Date

In March 2017, Oil India agreed to provide 100% funding for the agreed Licence 61 work programme in 2017. A loan of US$4 million was agreed with the joint venture company, WorldAce Investments Limited, to fund the 2017 programme. The loan is unsecured and capital repayments commence in October 2019. Should there be a significant change in the management of PetroNeft while the loan is outstanding then Oil India may seek early repayment in full. In such circumstances PetroNeft would need to provide its 50% share of the amount outstanding.

Accounting Records

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

Directors' Compliance Statement

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

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016
(CONTINUED)

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.

Disclosure of information to auditors

So far as each of the Directors in office at the date of approval of the financial statements is aware:

- There is no relevant audit information of which the Company's auditors are unaware; and
- The Directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Auditors

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 page 60. The AGM will be held on 15 September 2017 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 31,282,157 Ordinary Shares.

Approved by the Board on 27 June 2017

David Golder	**Dennis Francis**
Director	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 2016 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 27. 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 30, 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 2016 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.

Emphasis of Matter – going concern
In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 2 to the financial statements concerning the Group and the Company's ability to continue as a going concern. These conditions indicate the existence of material uncertainties which may cast significant doubt about the Group and the Company's ability to continue as a going concern.

The financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group or the Company was unable to continue as a going concern.

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 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
27 June 2017

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 US$	2015 US$
Continuing operations			
Revenue	5	2,279,585	2,398,314
Cost of sales		(2,038,209)	(2,370,949)
Gross profit		**241,376**	**27,365**
Administrative expenses		(2,154,699)	(1,379,506)
Exchange gain/(loss) on intra-Group loans		77,458	(284,449)
Operating loss	6	**(1,835,865)**	**(1,636,590)**
Share of joint venture's net loss – WorldAce Investments Limited	12	(5,721,232)	(8,765,055)
Share of joint venture's net loss – Russian BD Holdings B.V.	13	(288,198)	(314,859)
Finance revenue	7	3,247,876	3,041,587
Loss for the year for continuing operations before taxation		**(4,597,419)**	**(7,674,917)**
Income tax expense	9	(830,241)	(799,466)
Loss for the year attributable to equity holders of the Parent		**(5,427,660)**	**(8,474,383)**
Loss per share attributable to ordinary equity holders of the Parent			
Basic and diluted – *US dollar cent*	10	**(0.77)**	**(1.20)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 US$	2015 US$
Loss for the year attributable to equity holders of the Parent	**(5,427,660)**	**(8,474,383)**
Other comprehensive income to be reclassified to profit or loss in subsequent years:		
Currency translation adjustments – subsidiaries	25,298	265,640
Share of joint ventures' other comprehensive income – foreign exchange translation differences	7,741,440	(12,474,502)
Total comprehensive profit/(loss) for the year attributable to equity holders of the Parent	**2,339,078**	**(20,683,245)**

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2016

	Note	2016 US$	2015 US$
Assets			
Non-current Assets			
Property, plant and equipment	11	143,466	181,703
Equity-accounted investment in joint ventures – WorldAce Investments Limited	12	–	–
Equity-accounted investment in joint ventures – Russian BD Holdings B.V.	13	–	–
Financial assets – loans and receivables	15	47,713,421	42,883,861
		47,856,887	**43,065,564**
Current Assets			
Inventories	16	28,973	54,302
Trade and other receivables	17	1,143,904	1,842,128
Cash and cash equivalents	18	319,618	1,284,212
		1,492,495	**3,180,642**
Total Assets		**49,349,382**	**46,246,206**
Equity and Liabilities			
Capital and Reserves			
Called up share capital	20	9,429,182	9,429,182
Share premium account		140,912,898	140,912,898
Share-based payments reserve		6,796,540	6,796,540
Retained loss		(80,202,450)	(74,774,790)
Currency translation reserve		(31,118,410)	(38,885,148)
Other reserves		336,000	336,000
Equity attributable to equity holders of the Parent		**46,153,760**	**43,814,682**
Non-current Liabilities			
Deferred tax liability	9	2,113,541	1,286,378
		2,113,541	**1,286,378**
Current Liabilities			
Trade and other payables	19	1,082,081	1,145,146
		1,082,081	**1,145,146**
Total Liabilities		**3,195,622**	**2,431,524**
Total Equity and Liabilities		**49,349,382**	**46,246,206**

Approved by the Board on 27 June 2017

David Golder
Director

Dennis Francis
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Called up share capital US$	Share premium account US$	Share-based payment and other reserves US$	Currency translation reserve US$	Retained loss US$	Total US$
At 1 January 2015	**9,429,182**	**140,912,898**	**7,099,745**	**(26,676,286)**	**(66,300,407)**	**64,465,132**
Loss for the year	–	–	–	–	(8,474,383)	(8,474,383)
Currency translation adjustments – subsidiaries	–	–	–	265,640	–	265,640
Share of joint ventures' other comprehensive income – foreign exchange translation differences	–	–	–	(12,474,502)	–	(12,474,502)
Total comprehensive loss for the year	–	–	–	(12,208,862)	(8,474,383)	(20,683,245)
Share-based payment expense	–	–	32,795	–	–	32,795
At 31 December 2015	**9,429,182**	**140,912,898**	**7,132,540**	**(38,885,148)**	**(74,774,790)**	**43,814,682**
At 1 January 2016	**9,429,182**	**140,912,898**	**7,132,540**	**(38,885,148)**	**(74,774,790)**	**43,814,682**
Loss for the year	–	–	–	–	(5,427,660)	(5,427,660)
Currency translation adjustments – subsidiaries	–	–	–	25,298	–	25,298
Share of joint ventures' other comprehensive income – foreign exchange translation differences	–	–	–	7,741,440	–	7,741,440
Total comprehensive profit for the year	**–**	**–**	**–**	**7,766,738**	**(5,427,660)**	**2,339,078**
At 31 December 2016	**9,429,182**	**140,912,898**	**7,132,540**	**(31,118,410)**	**(80,202,450)**	**46,153,760**

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 US$	2015 US$
Operating activities			
Loss before taxation		**(4,597,419)**	**(7,674,917)**
Adjustment to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation		68,568	97,673
Share of loss in joint ventures		6,009,430	9,079,914
Share-based payment expense	25	–	32,795
Finance revenue	7	(3,247,876)	(3,041,587)
Working capital adjustments			
Decrease/(increase) in trade and other receivables		860,444	(548,351)
Decrease/(increase) in inventories		25,330	(39,122)
(Decrease)/increase in trade and other payables		(59,474)	31,428
Income tax paid		(16,650)	(25,832)
Net cash flows used in operating activities		**(957,647)**	**(2,087,999)**
Investing activities			
Purchase of property, plant and equipment		–	(19,059)
Loan facilities advanced to joint venture undertakings		(10,000)	–
Interest received		2,449	10,095
Net cash used in investing activities		**(7,551)**	**(8,964)**
Net decrease in cash and cash equivalents		**(965,198)**	**(2,096,963)**
Translation adjustment		604	(11,594)
Cash and cash equivalents at the beginning of the year		1,284,212	3,392,769
Cash and cash equivalents at the end of the year	18	**319,618**	**1,284,212**

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2016

	Note	2016 US$	2015 US$
Non-current Assets			
Property, plant and equipment	11	2,283	3,480
Financial assets – investments in joint ventures and subsidiaries	14	5,152,529	40,199,899
Financial assets – loans and receivables	15	56,492,695	53,237,269
		61,647,507	**93,440,648**
Current Assets			
Trade and other receivables	17	1,830,334	2,671,295
Cash and cash equivalents	18	297,247	1,279,652
		2,127,581	**3,950,947**
Total Assets		**63,775,088**	**97,391,595**
Equity and Liabilities			
Capital and Reserves			
Called up share capital	20	9,429,182	9,429,182
Share premium account		140,912,898	140,912,898
Share-based payment reserve		6,796,540	6,796,540
Retained loss		(96,676,960)	(62,137,203)
Other reserves		336,000	336,000
Equity attributable to equity holders of the parent		**60,797,660**	**95,337,417**
Non-current Liabilities			
Deferred tax liability	9	2,113,541	1,286,378
		2,113,541	**1,286,378**
Current Liabilities			
Trade and other payables	19	863,887	767,800
		863,887	**767,800**
Total Liabilities		**2,977,428**	**2,054,178**
Total Equity and Liabilities		**63,775,088**	**97,391,595**

Approved by the Board on 27 June 2017

David Golder
Director

Dennis Francis
Director

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital US$	Share premium US$	Share-based payment and other reserves US$	Retained loss US$	Total US$
At 1 January 2015	**9,429,182**	**140,912,898**	**7,099,745**	**(63,214,387)**	**94,227,438**
Profit for the year	–	–	–	1,077,184	1,077,184
Total comprehensive profit for the year	–	–	–	1,077,184	1,077,184
Share-based payment expense	–	–	32,795	–	32,795
At 31 December 2015	**9,429,182**	**140,912,898**	**7,132,540**	**(62,137,203)**	**95,337,417**
At 1 January 2016	**9,429,182**	**140,912,898**	**7,132,540**	**(62,137,203)**	**95,337,417**
Loss for the year	–	–	–	(34,539,757)	(34,539,757)
Total comprehensive loss for the year	–	–	–	(34,539,757)	(34,539,757)
At 31 December 2016	**9,429,182**	**140,912,898**	**7,132,540**	**(96,676,960)**	**60,797,660**

COMPANY CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 US$	2015 US$
Operating Activities			
(Loss)/profit before taxation		**(33,712,055)**	**1,854,270**
Adjustments to reconcile (loss)/profit before tax to net cash flows			
Non-cash			
Depreciation of property, plant and equipment		1,197	2,032
Share-based payment expense		–	11,288
Impairment of financial assets – investments in joint ventures and subsidiaries	14	35,047,370	-
Finance revenue		(3,310,811)	(3,108,342)
Working capital adjustments			
Decrease/(increase) in trade and other receivables		679,181	(381,035)
Increase/(decrease) in trade and other payables		101,933	(486,020)
Income tax paid		(3,876)	(4,193)
Net cash flows used in operating activities		**(1,197,061)**	**(2,112,000)**
Investing activities			
Loan facilities advances		(10,000)	–
Return of loan facilities		225,000	–
Interest received		2,159	9,933
Net cash received from investing activities		**217,159**	**9,933**
Net decrease in cash and cash equivalents		(979,902)	(2,102,067)
Translation adjustment		(2,503)	(10,516)
Cash and cash equivalents at the beginning of the year		1,279,652	3,392,235
Cash and cash equivalents at the end of the year	**18**	**297,247**	**1,279,652**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION ON THE COMPANY AND THE GROUP

PetroNeft Resources plc ('PetroNeft', 'the Company', or together with its subsidiaries and joint ventures, 'the Group') is a 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. GOING CONCERN

As described in the Financial Review on page 15 PetroNeft is facing a potential funding shortfall in 2018 due to the delay in the commencement of the Sibkrayevskoye oil field development. The effect of this delay is to also delay the commencement of payments to PetroNeft of interest due to it under shareholder loan agreements with WorldAce. The effect of this is that PetroNeft will require additional funding to meet its operating costs during the next 12 months.

The S-374 appraisal well drilled at Sibkrayevskoye oil field in Licence 61 in 2016 did not encounter commercial hydrocarbons. The result of this well has led to the postponement of the commencement of the development of the Sibkrayevskoye oil field by one year pending the result of a new appraisal well, S-375, which will be drilled in the Summer of 2017. As a consequence of this, the date by which Petroneft expects to start receiving interest due on its shareholder loans to WorldAce has been extended by a minimum of 12 months from the previously guided estimate of late 2017.

Success of the S-375 well would provide assurance that there are at least two pads to be developed at Sibkrayevskoye, in which case it is expected that the development of the Sibkrayevskoye oil field will commence in 2018. The proposed first pad at Sibkrayevskoye has already been delineated by the S-370, S-372 and S-373 wells. The S-375 well is being drilled within the proposed pad 2 area which is about 2 km from the existing wells that found oil and is within the same structural closure. The S-374 well was more than 10 km south in a different structural lobe. The S-373 well at the proposed pad 1 area has produced oil during the last two winters at consistent rates giving further comfort to the Company of the prospects of the area.

In 2016 the Board of Oil India provided a non-binding indication of their willingness to provide a US$25 million shareholder loan to WorldAce for the development of Sibkrayevskoye. Should the S-375 well not be successful the joint venture shareholders will need to consider other options. This could include the development of Sibkrayevskoye as a one-pad development focussed only on the area surrounding previous wells such as S-373 or it could lead to some further appraisal work. The joint venture shareholders have provided non-binding indications of their willingness to consider providing continuing support in this event, including not immediately seeking repayments of principal or payment of interest under shareholder loan agreements.

The Group has analysed its cash flow requirements through to 31 December 2018 in detail. The cash flow includes estimates for a number of key variables including timing of cash flows of expenditure and management of working capital, and the Directors believe that the Group's cash flow forecasts represent the best estimate of the actual cash flows over the forecast period at the date of approval of the financial statements. The cash flow is stress tested to assess the adverse effect arising from reasonable changes in circumstance. The cash flow projections for the period to 31 December 2018 indicate a potential shortfall of funds by the end of quarter one in 2018.

The Company is currently in confidential discussions pursuing several options in order to meet this potential shortfall. These include the potential sale or farmout of Licence 67, short term debt financing from a related corporate entity and the acquisition of producing and non-producing assets in share for share type transactions. The Board believe that the first two options can be completed in a short timeframe. In relation to the latter option, the Company has signed non-disclosure agreements and opened data rooms. As there are delaying factors, including regulatory requirements, around transferring licences and in a share for share type transaction, the timeframe to close such a successful transaction could be at least six months following binding agreement between the parties. The Board is confident that one of these options will bring a solution.

The successful development of S-375 and the potential shortfall in funds represent material uncertainties that may cast significant doubt upon the Group and the Company's ability to continue as a going concern. Nevertheless, after making enquiries, and considering the uncertainties described above, the Directors are confident that the Group and the Company will have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group or Company was unable to continue as a going concern.

3. ACCOUNTING POLICIES

3.1 Basis of Preparation

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

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

Statement of Compliance

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

3.2 Basis of Consolidation

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. 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.

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 statement of comprehensive income 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.

3.3 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.

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

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

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

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

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

3.4 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 2016 and 2015 were:

	2016		2015	
US$1 =	Closing	Average	Closing	Average
Russian Rouble	61.000	66.930	73.293	61.128
Euro	0.9487	0.9034	0.9168	0.9012
British Pound	0.8122	0.7403	0.6755	0.6542

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

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

Depreciation
Property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives at the following annual rates:
- Buildings and leasehold improvements – 3% to 7% or remaining term of the lease.
- Plant and machinery – 10% to 35%.
- Motor vehicles – 14% to 35%.

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

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

3. ACCOUNTING POLICIES (CONTINUED)
3.4 Summary of Significant Accounting Policies (continued)

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

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

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

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

(e) Financial assets
Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement ('IAS 39') are classified as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

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

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

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

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

In relation to trade receivables, 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(h) Inventories
Inventories are stated at the lower of cost and net realisable value. Cost 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.

(i) 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.

3. ACCOUNTING POLICIES (CONTINUED)
3.4 Summary of Significant Accounting Policies (continued)

(j) Taxes

Current income tax

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

Deferred income tax

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

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

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

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

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

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

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

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

(k) Revenue recognition

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

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

(l) 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 25.

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

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the awards are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

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

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

(m) Share issue expenses

Costs of share issues are deducted from equity.

(n) 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.

(o) 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.

(p) Pension costs

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

3.5 Changes in Accounting Policy and Disclosures

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

A number of amendments to existing IFRS (principally related to clarifications and refinements of definitions) became effective for, and have been applied in preparing, these Financial Statements. The application of these amendments did not result in material changes to the results or financial position of the Group or the Company.

IFRS and IFRIC interpretations being adopted in subsequent years

IFRS 15 Revenue from Contracts with Customers will replace IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The new standard is applicable from 1 January 2018 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. The Group is currently assessing the impact of IFRS 9.

There are no other IFRS or IFRIC interpretations that are effective subsequent to the 2016 financial year-end that would have a material impact on the results or financial position of the Group or the Company.

4. SEGMENT INFORMATION

At present the Group has one reportable operating segment, which is oil exploration and production through its joint venture undertakings. As a result, there are no further disclosures required in respect of the Group's reporting segment.

The risk and returns of the Group's operations are primarily determined by the nature of the activities that the Group engages in, rather than the geographical location of these operations. This is reflected by the Group's organisational structure and the Group's internal financial reporting systems.

Management monitors and evaluates the operating results for the purpose of making decisions consistently with how it determines operating profit or loss in the consolidated financial statements.

Geographical segments

Although the joint venture undertakings WorldAce Investments Limited and Russian BD Holdings B.V. are domiciled in Cyprus and the Netherlands, the underlying businesses and assets are in Russia. Substantially all of the Group's sales and capital expenditures are in Russia.

Assets are allocated based on where the assets are located:

	2016 US$	2015 US$
Non-current assets		
Russia	47,854,604	43,062,084
Ireland	2,283	3,480
	47,856,887	**43,065,564**

5. REVENUE

	2016 US$	2015 US$
Revenue		
Management Services	1,465,105	1,644,642
Construction Services	814,480	753,672
	2,279,585	**2,398,314**

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

6. OPERATING LOSS

	Note	2016 US$	2015 US$
Operating loss is stated after charging/(crediting):			
Included in cost of sales			
Operating lease rentals – equipment		102,326	148,998
Foreign exchange loss on intra-Group loans		(77,458)	284,449
Included in administrative expenses			
Other foreign exchange gains		(5,946)	(36,576)
Operating lease rentals – land and buildings		36,804	32,052
Depreciation of property, plant and equipment			
Included in cost of sales		67,371	95,641
Included in administrative expenses		1,197	2,032
	11	68,568	97,673
Auditors' remuneration – Group			
– audit of group financial statements		79,920	77,622
– other assurance services		–	–
– tax advisory services		–	–
– other non-audit services		–	–
		79,920	77,622
Auditors' remuneration – Company			
– audit of group financial statements		20,000	20,000
– other assurance services		–	–
– tax advisory services		–	–
		20,000	20,000

7. FINANCE REVENUE

	2016 US$	2015 US$
Bank interest receivable	2,449	10,095
Interest receivable on loans to Joint Ventures	3,245,427	3,031,492
	3,247,876	**3,041,587**

8. EMPLOYEES

Group
Number of employees

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

	2016 Number	2015 Number
Directors	6	7
Senior Management	3	5
Professional Staff	6	9
Construction crew employees	35	31
	50	**52**

Company
Number of employees

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

	2016 Number	2015 Number
Directors	6	7
Senior Management	2	1
Professional Staff	1	1
	9	**9**

Group
Employment costs (including Directors)

	2016 US$	2015 US$
Wages and salaries	2,495,310	2,377,958
Social insurance costs	244,350	298,567
Share-based payment expense	–	32,795
Contributions to defined contribution pension plan	68,405	94,932
	2,808,065	**2,804,252**

Company
Employment costs (including Directors)

	2016 US$	2015 US$
Wages and salaries	1,976,953	1,533,107
Social insurance costs	99,606	94,686
Share-based payment expense	–	11,288
Contributions to defined contribution pension plan	68,405	94,932
	2,144,964	**1,734,013**

Group and company
Directors' emoluments

	2016 US$	2015 US$
Remuneration and other emoluments – Executive Directors	1,214,403	1,021,360
Remuneration and other emoluments – non-Executive Directors	228,348	184,301
Pension contributions	39,828	68,570
	1,482,579	**1,274,231**

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$Nil (2015: US$8,971) has been recognised in the Consolidated Statement of Comprehensive Income in respect of share options granted to Directors. The aggregate amount of any compensation paid to directors or former directors in respect of retirement, loss of office or other termination payments in the financial year was US$661,633 (2015: US$Nil). An amount of US$426,803 (2015: US$510,681) relating to Executive Directors' salaries was re-charged to WorldAce Investments Limited. An amount of US$59,926 (2015: US$59,450) relating to Executive Directors' salaries was re-charged to Russian BD Holdings B.V.

9. INCOME TAX

	2016 US$	2015 US$
Current income tax		
Current income tax charge	3,078	24,863
Total current income tax	**3,078**	**24,863**
Deferred tax		
Relating to origination and reversal of temporary differences	827,163	774,603
Total deferred tax	**827,163**	**774,603**
Income tax expense reported in the Consolidated Income Statement	**830,241**	**799,466**

	2016 US$	2015 US$
Loss before income tax	**(4,597,419)**	**(7,674,917)**
Accounting loss multiplied by Irish standard rate of tax of 12.5%	(574,677)	(959,365)
Share-based payment expense	–	4,099
Non-deductible expenses	15,453	–
Effect of higher tax rates on investment income	413,851	388,543
Tax deductible timing differences	19,397	1,265
Share of joint ventures' net loss	751,179	1,134,990
Other	21,788	24,515
Profits taxable at higher rates	39,908	7,813
Taxable losses not utilised	246,937	194,268
Utilisation of previously unrecognised tax losses	(103,595)	3,338
Total tax expense reported in the Consolidated Income Statement	**830,241**	**799,466**

Deferred tax

Group and Company

	2016 US$	2015 US$
Deferred income tax liability		
At 1 January	1,286,378	511,775
Expense for the year recognised in the income statement	827,163	774,603
At 31 December	**2,113,541**	**1,286,378**

Group and Company

Deferred tax at 31 December relates to the following:

	2016 US$	2015 US$
Deferred income tax liability		
Accrued interest income on intra-Group loans	2,113,541	1,286,378
	2,113,541	**1,286,378**

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.

Numerator	2016 US$	2015 US$
Loss attributable to equity shareholders of the Parent for basic and diluted loss	(5,427,660)	(8,474,383)
	(5,427,660)	**(8,474,383)**
Denominator		
Weighted average number of Ordinary Shares for basic and diluted earnings per Ordinary Share	707,245,906	707,245,906
Diluted weighted average number of shares	**707,245,906**	**707,245,906**
Loss per share:		
Basic and diluted – *US dollar cent*	**(0.77)**	**(1.20)**

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

- **Employee Share Options** – Refer to Note 25 for the total number of shares related to the outstanding options that could potentially dilute basic earnings per share in the future. These potential Ordinary Shares are anti-dilutive for the years ended 31 December 2016 and 2015.
- **Warrants** – All remaining warrants expired during 2015.

11. PROPERTY, PLANT AND EQUIPMENT

Group

	Plant and machinery US$
Cost	
At 1 January 2015	996,588
Additions	19,059
Translation adjustment	(215,247)
At 1 January 2016	**800,400**
Translation adjustment	145,468
At 31 December 2016	**945,868**
Depreciation	
At 1 January 2015	674,786
Charge for the year	97,673
Translation adjustment	(153,762)
At 1 January 2016	**618,697**
Charge for the year	68,568
Translation adjustment	115,137
At 31 December 2016	**802,402**
Net book values	
At 31 December 2016	**143,466**
At 31 December 2015	181,703

Company

	Plant and machinery US$
Cost	
At 1 January 2015	32,066
At 1 January 2016	**32,066**
At 31 December 2016	**32,066**
Depreciation	
At 1 January 2015	26,554
Charge for the year	2,032
At 1 January 2016	**28,586**
Charge for the year	1,197
At 31 December 2016	**29,783**
Net book values	
At 31 December 2016	**2,283**
At 31 December 2015	3,480

12. EQUITY-ACCOUNTED INVESTMENT IN JOINT VENTURE – WORLDACE INVESTMENTS LIMITED

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

	Share of net assets US$
At 1 January 2015	**10,865,156**
Elimination of unrealised profit on intra-Group transactions	(29,326)
Retained loss	(8,765,055)
Translation adjustment	(11,587,393)
Credited against loans receivable from WorldAce Investments Limited (Note 15)	9,516,618
At 1 January 2016	–
Elimination of unrealised profit on intra-Group transactions	**(157,876)**
Retained loss	**(5,721,232)**
Translation adjustment	**7,149,140**
Debited to loans receivable from WorldAce Investments Limited (Note 15)	**(1,270,032)**
At 31 December 2016	–

The balance sheet position of WorldAce Investments Limited shows net liabilities of US$25,915,002 following a loss in the year of US$11,442,464 together with a positive currency translation adjustment of US$14,298,281. PetroNeft's 50% share is included above and results in a negative carrying value of US$8,246,586. Therefore, the share of net assets is reduced to Nil and, in accordance with IAS 28 Investments in Associates and Joint Ventures, the amount of US$8,246,586 is deducted from other assets associated with the joint venture on the Balance Sheet which are the loans receivable from WorldAce Investments (see Note 15).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

12. 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:

	2016 US$	2015 US$
Continuing operations		
Revenue	11,604,182	10,300,094
Cost of sales	(11,199,845)	(10,435,521)
Gross profit/(loss)	**404,337**	**(135,427)**
Administrative expenses	(1,614,435)	(1,519,005)
Impairment of oil and gas properties	–	(4,550,000)
Operating loss	**(1,210,098)**	**(6,204,432)**
Loss on disposal of oil and gas properties	(438,034)	–
Write-off of exploration and evaluation assets	(710,047)	–
Finance revenue	9,421	11,694
Finance costs	(3,372,474)	(2,572,317)
Loss for the year for continuing operations before taxation	**(5,721,232)**	**(8,765,055)**
Income tax expense	–	–
Loss for the year	**(5,721,232)**	**(8,765,055)**
Loss for the year	(5,721,232)	(8,765,055)
Other comprehensive income to be reclassified to profit or loss in subsequent years:		
Currency translation adjustments	7,149,140	(11,587,393)
Total comprehensive profit/(loss) for the year	**1,427,908**	**(20,352,448)**

The currency translation adjustment results from the movement of the Russian Rouble during the year. All Russian Rouble carrying values in Stimul-T, the 100% subsidiary of WorldAce are converted to US Dollars at each period end. The resulting gain or loss is recognised through other comprehensive income and transferred to the currency translation reserve. The Russian Rouble appreciated significantly against the US Dollar during the year from RUB73.3:US$1 at 31 December 2015 to RUB60.9:US$1 at 31 December 2016.

	2016 US$	2015 US$
Non-current Assets		
Oil and gas properties	37,945,273	27,646,307
Property, plant and equipment	199,338	197,826
Exploration and evaluation assets	7,556,920	6,044,036
Assets under construction	932,631	2,345,358
	46,634,162	**36,233,527**
Current Assets		
Inventories	536,685	257,857
Trade and other receivables	176,318	259,142
Cash and cash equivalents	40,415	153,198
	753,418	**670,197**
Total Assets	**47,387,580**	**36,903,724**
Non-current Liabilities		
Provisions	(433,573)	(273,278)
Interest-bearing loans and borrowings	(56,686,519)	(48,366,752)
	(57,120,092)	**(48,640,030)**
Current Liabilities		
Trade and other payables	(3,224,989)	(2,649,103)
	(3,224,989)	**(2,649,103)**
Total Liabilities	**(60,345,081)**	**(51,289,133)**
Net Liabilities	**(12,957,501)**	**(14,385,409)**

Capital commitments

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

	2016 US$	2015 US$
Contracted for but not provided in the financial statements	**1,080,620**	**1,236,788**

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

	2016 US$	2015 US$
Within one year	57,039	39,459
After one year but not more than five years	219,319	150,274
More than five years	414,738	326,079
	691,096	**515,812**

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

13. EQUITY-ACCOUNTED INVESTMENT IN JOINT VENTURE – RUSSIAN BD HOLDINGS B.V.

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

	Share of net assets US$
At 1 January 2015	**365,178**
Retained loss	(314,859)
Translation adjustment	(887,109)
Credited against loans receivable from Russian BD Holdings B.V. (Note 15)	836,790
At 1 January 2016	**–**
Retained loss	**(288,198)**
Translation adjustment	**592,300**
Debited to loans receivable from Russian BD Holdings B.V. (Note 15)	**(304,102)**
At 31 December 2016	**–**

The balance sheet position of Russian BD Holdings B.V. shows net liabilities of US$1,065,376 following a loss in the year of US$576,396 together with a positive currency translation of US$1,184,600. PetroNeft's 50% share is included above and results in a negative carrying value of US$532,688. Therefore, the share of net assets is reduced to Nil and, in accordance with IAS 28 *Investments in Associates and Joint Ventures*, the amount of US$532,688 is deducted from other assets associated with the joint venture on the Balance Sheet which are the loans receivable from Russian BD Holdings B.V. (Note 15).

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

	2016 US$	2015 US$
Revenue	–	–
Cost of sales	–	–
Gross profit	**–**	**–**
Administrative expenses	(66,718)	(106,224)
Operating loss	**(66,718)**	**(106,224)**
Finance revenue	294	434
Finance costs	(239,079)	(209,069)
Loss for the year for continuing operations before taxation	**(305,503)**	**(314,859)**
Taxation	17,305	–
Loss for the year	**(288,198)**	**(314,859)**
Loss for the year	**(288,198)**	**(314,859)**
Other comprehensive income to be reclassified to profit or loss in subsequent years:		
Currency translation adjustments	592,300	(887,109)
Total comprehensive profit/(loss) for the year	**304,102**	**(1,201,968)**

	2016 US$	2015 US$
Non-current assets	4,069,104	3,327,327
Current assets	198,788	71,104
Total assets	**4,267,892**	**3,398,431**
Non-current liabilities	(4,512,667)	(4,034,780)
Current liabilities	(287,913)	(200,441)
Total liabilities	**(4,800,580)**	**(4,235,221)**
Net Liabilities	**(532,688)**	**(836,790)**

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

	2016 US$	2015 US$
Within one year	2,524	2,091
After one year but not more than five years	7,898	6,706
More than five years	25,751	22,010
	36,173	**30,807**

There were no capital commitments as at 31 December 2016 or 31 December 2015.

14. FINANCIAL ASSETS – INVESTMENTS IN JOINT VENTURES AND SUBSIDIARIES

Company

	Investment in joint ventures US$	Investment in Subsidiaries US$	Total US$
Cost			
At 1 January 2015	39,894,040	284,342	40,178,382
Capital contribution in respect of share-based payment expense	12,145	9,372	21,517
At 1 January 2016	**39,906,185**	**293,714**	**40,199,899**
Impairment	(35,047,370)	–	(35,047,370)
At 31 December 2016	**4,858,815**	**293,714**	**5,152,529**
Net book values			
At 31 December 2016	**4,858,815**	**293,714**	**5,152,529**
At 31 December 2015	39,906,185	293,714	40,199,899

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

Details of the Company's holding in direct and indirect subsidiaries at 31 December 2016 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 2016 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.

15. FINANCIAL ASSETS – LOANS AND RECEIVABLES

Group

	2016 US$	2015 US$
Loans to WorldAce Investments Limited (Note 24)	52,235,829	49,224,805
Less: share of WorldAce Investments Limited loss (Note 12)	(8,246,586)	(9,516,618)
	43,989,243	**39,708,187**
Loans to Russian BD Holdings B.V. (Note 24)	4,256,866	4,012,464
Less: share of Russian BD Holdings B.V. loss (Note 13)	(532,688)	(836,790)
	3,724,178	**3,175,674**
	47,713,421	**42,883,861**

Company

	2016 US$	2015 US$
Loans to WorldAce Investments Limited (Note 24)	52,235,829	49,224,805
Loans to Russian BD Holdings B.V. (Note 24)	4,256,866	4,012,464
	56,492,695	**53,237,269**

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 2018 at the earliest. The loan is set to mature on 31 December 2022. As at 31 December 2016 the loan was fully drawn down. The loan from the Company to Russian BD Holdings is repayable on demand. Interest currently accrues on the loan at USD LIBOR plus 5.0% per annum.

16. INVENTORIES

	2016 US$	2015 US$
Materials	28,973	54,302
	28,973	**54,302**

17. TRADE AND OTHER RECEIVABLES

Group

	2016 US$	2015 US$
Other receivables	155,651	147,641
Receivable from jointly controlled entities (Note 24)	920,390	1,628,667
Advances to contractors	8,047	3,708
Prepayments	59,816	62,112
	1,143,904	**1,842,128**

Company

	2016 US$	2015 US$
Amounts owed by subsidiary undertakings (Note 24)	1,008,598	1,170,375
Amounts owed by other related companies (Note 24)	622,883	1,292,252
VAT Receivable	139,037	146,556
Prepayments	59,816	62,112
	1,830,334	**2,671,295**

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

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

18. CASH AND CASH EQUIVALENTS

Group

	2016 US$	2015 US$
Cash at bank and in hand	319,618	1,284,212
	319,618	**1,284,212**

Company

	2016 US$	2015 US$
Cash at bank and in hand	297,247	1,279,652
	297,247	**1,279,652**

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.

19. TRADE AND OTHER PAYABLES

Group

	2016 US$	2015 US$
Trade payables	337,208	238,570
Trade payables to jointly controlled entity (Note 24)	108,338	239,228
Corporation tax	55,750	59,087
Oil taxes, VAT and employee taxes	56,165	78,293
Other payables	318,074	212,141
Accruals	206,546	317,827
	1,082,081	**1,145,146**

Company

	2016 US$	2015 US$
Trade payables	330,540	230,563
Corporation tax	55,750	59,087
Other taxes and social welfare costs	300,442	187,734
Accruals	177,155	290,416
	863,887	**767,800**

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.

20. SHARE CAPITAL – GROUP AND COMPANY

Authorised

	2016 €	2015 €
1,000,000,000 (2015: 1,000,000,000) Ordinary Shares of €0.01 each	**10,000,000**	10,000,000
	10,000,000	**10,000,000**

Allotted, called up and fully paid equity

	Number of Ordinary Shares	Called up share capital US$
At 1 January 2015	707,245,906	9,429,182
At 1 January 2016	**707,245,906**	**9,429,182**
At 31 December 2016	**707,245,906**	**9,429,182**

21. 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 considers the use of derivative transactions, primarily forward currency contracts. The purpose is to manage the currency risks arising from the Group and Company's operations and its sources of finance. There are no contracts outstanding for Group or Company as at 31 December 2016 and 2015.

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 2016 and 2015, 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 2016 and 2015, 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 2016. 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.

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

	2016 US$	2015 US$
Impact on loss [lower/(higher)]	36,964	34,550
Impact on net equity [lower/(higher)]	38,457	36,054

Company

	2016 US$	2015 US$
Impact on loss and net equity [lower/(higher)]	5,535	3,122

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. Recoverability of amounts due from joint venture companies are dependent on the success of the joint ventures.

The Group and the Company do not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. 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. The Group and Company's financial liabilities as at 31 December 2016 and 2015 are all payable on demand. The Group and the Company expect to meet its other obligations from operating cash flows.

The expected maturity of the Group and Company's third party financial assets (excluding prepayments) as at 31 December 2016 and 2015 was less than one month. The expected maturity of the Group and Company's related party financial assets as at 31 December 2016 and 2015 was more 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 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

21. 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 US$	Between 1 and 2 years US$	Between 2 to 5 years US$	After 5 years US$	Total US$
Year ended 31 December 2016					
Trade and other payables	1,082,081	–	–	–	1,082,081
	1,082,081	**–**	**–**	**–**	**1,082,081**
Year ended 31 December 2015					
Trade and other payables	1,145,146	–	–	–	1,145,146
	1,145,146	**–**	**–**	**–**	**1,145,146**

Company

	Within 1 year US$	Between 1 and 2 years US$	Between 2 to 5 years US$	After 5 years US$	Total US$
Year ended 31 December 2016					
Trade and other payables	863,887	–	–	–	863,887
	863,887	**–**	**–**	**–**	**863,887**
Year ended 31 December 2015					
Trade and other payables	767,800	–	–	–	767,800
	767,800	**–**	**–**	**–**	**767,800**

Interest rate risk

The Group and Company's exposure to the risk of changes in market interest rates relates primarily to the Group and Company's loans to joint ventures which are tied to the LIBOR interest rate and their holdings of cash and short-term deposits which are on variable rates ranging from 0.1% to 0.5%. 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 increase Group loss before tax by US$32,304 and increase Company profit before tax by US$490,806.

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 2016 and 2015. The capital structure of the Group and the Company consists of equity attributable to equity holders of the Parent, comprising issued capital, reserves and retained losses as disclosed in the Consolidated Statement of Changes in Equity. There is no external debt.

Fair values

The carrying amount of the Group's and Company's financial assets and the Group and Company's financial liabilities is a reasonable approximation of the fair value. The carrying amount of the Group's financial assets is lower than the estimated fair value because of the adjustment required in accordance with IAS 28 arising primarily from the currency translation adjustments in the joint venture companies that exceeded the carrying value of the equity accounted investment in joint venture. See notes 12 and 13. The carrying value of the loans to WorldAce in the Group is US$44.0 million. The carrying value of the loans in the Company is US$52.2 million, which approximates the fair value. The fair value of the loans is evaluated using a discounted cashflow model (using a Weighted Average Cost of Capital of 17%), based upon level 3 inputs.

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

Hedging

At the year ended 31 December 2016 and 2015, 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 2016 and 2015.

22. (LOSS)/PROFIT 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$34,539,757 (2015: profit of US$1,077,184), which included impairment of investments in joint ventures of US$35,047,370 (Note 14).

23. FUTURE MINIMUM RENTALS PAYABLE UNDER NON-CANCELLABLE OPERATING LEASES AT THE BALANCE SHEET DATE ARE AS FOLLOWS:

	2016 US$	2015 US$
Land and buildings		
Within one year	5,983	5,968
After one year but not more than five years	–	–
More than five years	–	–
	5,983	**5,968**

There were no capital commitments as at 31 December 2015 or 31 December 2016.

24. RELATED PARTY DISCLOSURES

Transactions with subsidiaries

Transactions between the Group and its subsidiaries, Granite and Dolomite have been eliminated on consolidation. The Company had the following transactions with its subsidiaries during the years ended 31 December 2016 and 2015:

Company

	Granite Construction US$
Loans	
At 1 January 2015	**1,103,458**
Interest accrued in the year	66,917
At 1 January 2016	**1,170,375**
Interest accrued in the year	63,224
Loans repaid during the year	(225,000)
Balance 31 December 2016	**1,008,599**
Capital contributions	
Share-based payment 2016	–
Share-based payment 2015	2,978

Transactions with joint ventures

PetroNeft Resources plc had the following transactions with its joint ventures during the years ended 31 December 2016 and 2015:

Group

	Russian BD Holdings B.V. Group US$	WorldAce Investments Limited Group US$
Receivable by PetroNeft Group at 1 January 2015	**3,882,578**	**47,341,766**
Transactions during the year	183,333	2,670,250
Interest accrued in the year	205,189	2,826,303
Payments for services made during the year	(29,781)	(2,483,727)
Share of joint venture's translation adjustment	(836,790)	(9,516,618)
Translation adjustment	(14,821)	45,618
At 1 January 2016	**3,389,708**	**40,883,592**
Advanced during the year	10,000	–
Transactions during the year	159,260	2,622,188
Interest accrued in the year	234,402	3,011,025
Payment for services made during the year	(10,821)	(3,426,007)
Share of joint venture's translation adjustment	304,102	1,270,032
Translation adjustment	(5,769)	83,761
At 31 December 2016	**4,080,882**	**44,444,591**
Balance at 31 December 2015 comprised of:		
Loan facility advanced	3,175,674	39,708,187
Trade and other receivables	214,034	1,414,633
Trade Payables	–	(239,228)
	3,389,708	**40,883,592**
Balance at 31 December 2016 comprised of:		
Loans receivable	3,724,178	43,989,243
Trade and other receivables	356,704	563,686
Trade and other payables	–	(108,338)
	4,080,882	**44,444,591**

24. RELATED PARTY DISCLOSURES (CONTINUED)

Company

	Russian BD Holdings B.V. Group US$	WorldAce Investments Limited Group US$
At 1 January 2015	**3,877,645**	**47,271,144**
Transactions during the year	128,153	1,065,444
Interest accrued in the year	205,189	2,826,303
Payments for services made during the year	–	(834,318)
Translation adjustment	(8,551)	(1,488)
At 1 January 2016	**4,202,436**	**50,327,085**
Advanced during the year	10,000	–
Transactions during the year	140,409	1,243,187
Interest accrued in the year	234,402	3,011,025
Payments for services made during the year	–	(2,040,000)
Translation adjustment	(12,486)	(480)
Balance 31 December 2016	**4,574,761**	**52,540,817**
Balance at 31 December 2015 comprised of:		
Loan facility advanced	4,012,464	49,224,805
Trade and other receivables	189,972	1,102,280
	4,202,436	**50,327,085**
Balance at 31 December 2016 comprised of:		
Loan facility advanced	4,256,866	52,235,829
Trade and other receivables	317,895	304,988
	4,574,761	**52,540,817**

Remuneration of key management

Key management comprise the Directors of the Company, the Vice Presidents 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:

	2016 US$	2015 US$
Compensation of key management	1,923,326	1,715,340
Contributions to defined contribution pension plan	69,308	89,917
Share-based payment expense	–	15,401
	1,992,634	**1,820,658**

The total amount of unpaid fees and expenses due to Directors as at 31 December 2016 was US$54,021 (2015: US$143,536).

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

Transactions with HGR Consulting Limited

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

Transactions with TBNG Group

Vakha Sobraliev, Director of PetroNeft until his resignation on 18 September 2015, is the principal of LLC Tomskburneftegaz ('TBNG'), a company which has drilled production and exploration wells for the Group. 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 arrangement WorldAce 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:

	TBNG Group From 1 January to 18 September 2015 US$
Maximum value of new contracts awarded during the period	1,778,324
Paid during the period for drilling and related services	5,379,260
Paid during the period for other services	2,023
Amount due to TBNG and related companies at period end	–
Received during the period for sundry goods and services	98,789
Amount due from TBNG and related companies at period end	–

Other PetroNeft Group companies provided various services to TBNG Group during the period from 1 January to 18 September 2015 amounting to US$536. An amount of US$Nil was outstanding from TBNG Group at 18 September 2015.

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 From 1 January to 18 September 2015 US$
Maximum value of new contracts awarded during the period	–
Paid during the period for drilling and related services	–
Paid during the period for other services	–
Amount due to TBNG and related companies at period end	–
Received during the period for sundry goods and services	4,114
Amount due from TBNG and related companies at period end	–

25. SHARE-BASED PAYMENT

Share options

The expense recognised for employee services during the year is US$Nil (2015: US$32,795). The Group share-based payment plan is described below. There was no cancellation or modification to the plan during 2016 and 2015.

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.

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.

	2016 Number	2016 WAEP	2015 Number	2015 WAEP
Outstanding as at 1 January	13,842,500	£0.28	16,070,500	£0.2913
Granted during the year	–	–	–	–
Forfeited during the year	(2,622,500)	£0.2869	(40,000)	£0.3625
Expired during the year	(2,405,000)	£0.1925	(2,188,000)	£0.3615
Outstanding at 31 December	8,815,000	£0.3012	13,842,500	£0.28
Exercisable at 31 December	–	–	–	–

The range of exercise prices for options outstanding at the year-end is £0.065 to £0.66 (2015: £0.065 to £0.66).

The weighted average remaining contractual life for the share options outstanding as at 31 December 2016 was 2.13 years (2015: 2.65 years).

No options were granted in 2016 or 2015.

The weighted average share price of forfeited options in 2016 was £0.2869 (2015: £0.3625).

The weighted average share price of expired options in 2016 was £0.1925 (2015: £0.3615).

As no options were issued in 2016 or 2015, no valuation was carried out in 2016 or 2015.

Warrants

There were no warrants issued in 2016.

26. IMPORTANT EVENTS AFTER THE BALANCE SHEET DATE

In March 2017, Oil India agreed to provide 100% funding for the agreed Licence 61 work programme in 2017. A loan of US$4 million was agreed with the joint venture company, WorldAce Investments Limited, to fund the 2017 programme. The loan is unsecured and capital repayments commence in October 2019. Should there be a significant change in the management of PetroNeft while the loan is outstanding then Oil India may seek early repayment in full. In such circumstances PetroNeft would need to provide its 50% share of the amount outstanding.

27. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved, and authorised for issue, by the Board of Directors on 27 June 2017.

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 15 September 2017, 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 Resolution number 6 will be proposed as a Special Resolution.

Ordinary Business

1. To receive, consider and adopt the accounts for the year ended 31 December 2016 together with the Directors' and Auditors' Reports thereon.
2. To re-elect Mr. Golder 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. Hickey 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 an aggregate nominal amount of €1,463,770.47 during the period commencing on the date of passing of this Resolution and expiring 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 15 December 2018, 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 to subscribe 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 5% of the issued share capital of the Company from time to time;
   d) 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 15 December 2018, 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.

Dated this 27th day of June 2017
BY ORDER OF THE BOARD

Paul Dowling
Company Secretary

Registered Office:
20 Holles Street
Dublin 2

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
DST	Drill stem test.
ESM	Enterprise Securities Market of the Irish Stock Exchange.
ESP	Electric Submersible Pump
Exploration resources	An undrilled prospect in an area of known hydrocarbons with unequivocal four-way dip closure at the reservoir horizon.
Granite Construction	LLC Granite Construction, a 100% subsidiary of PetroNeft registered in the Russian Federation
Group	The Company and its joint ventures and subsidiary undertakings.
HSE	Health, Safety and Environment.
IAS	International Accounting Standard.
IFRIC	IFRS Interpretations Committee.
IFRS	International Financial Reporting Standard.
km	Kilometres.
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.
m	Metres.
mmbbls	Million barrels.

GLOSSARY (CONTINUED)

mmbo	Million barrels of oil.
Natlata	Natlata Partners Limited, a significant shareholder of PetroNeft.
Oil pay	A formation containing producible hydrocarbons.
P1	Proved reserves according to SPE standards.
P2	Probable reserves according to SPE standards.
P3	Possible reserves according to SPE standards.
PetroNeft	PetroNeft Resources plc.
Russian BD Holdings B.V.	Russian BD Holdings B.V., a company owned 50% by PetroNeft and registered in the Netherlands.
SPE	Society of Petroleum Engineers.
Spud	To commence drilling a well.
Stimul-T	Limited Liability Company Stimul-T, a wholly owned subsidiary of WorldAce, based in the Russian Federation.
TSR	Total Shareholder Return.
VAT	Value Added Tax.
WAEP	Weighted Average Exercise Price.
WorldAce	WorldAce Investments Limited, a company owned 50% by PetroNeft, registered in Cyprus.
WorldAce Group	WorldAce Investments Limited and its 100% subsidiary LLC Stimul-T

GROUP INFORMATION

Directors*

David Golder (U.S. citizen)
(Non-Executive Chairman)

Dennis Francis (U.S. citizen)
(Chief Executive Officer)

Thomas Hickey
(Non-Executive Director)

Maxim Korobov (Russian citizen)
Appointed 24 April 2016
(Non-Executive Director)

Anthony Sacca (Australian citizen)
Appointed 24 April 2016
(Non-Executive Director)

David Sturt (British citizen)
Appointed 24 April 2016
(Non-Executive Director)

Paul Dowling
Resigned 24 April 2016
(Chief Financial Officer)

David Sanders (U.S. citizen)
Resigned 24 April 2016
(General Legal Counsel)

Gerard Fagan
Resigned 24 April 2016
(Non-Executive Director)

Registered Office and Business Address

20 Holles Street
Dublin 2
Ireland

Secretary

Paul Dowling
Appointed 24 April 2016

David Sanders
Resigned 24 April 2016

Auditor

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

Nominated Adviser and ESM Adviser

Davy
49 Dawson Street
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Ireland

Joint Brokers

Davy
49 Dawson Street
Dublin 2
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Canaccord Genuity
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United Kingdom

Principal Bankers

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Sandwith Street
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AIB Bank
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Solicitors

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