PetroNeft
Resources plc

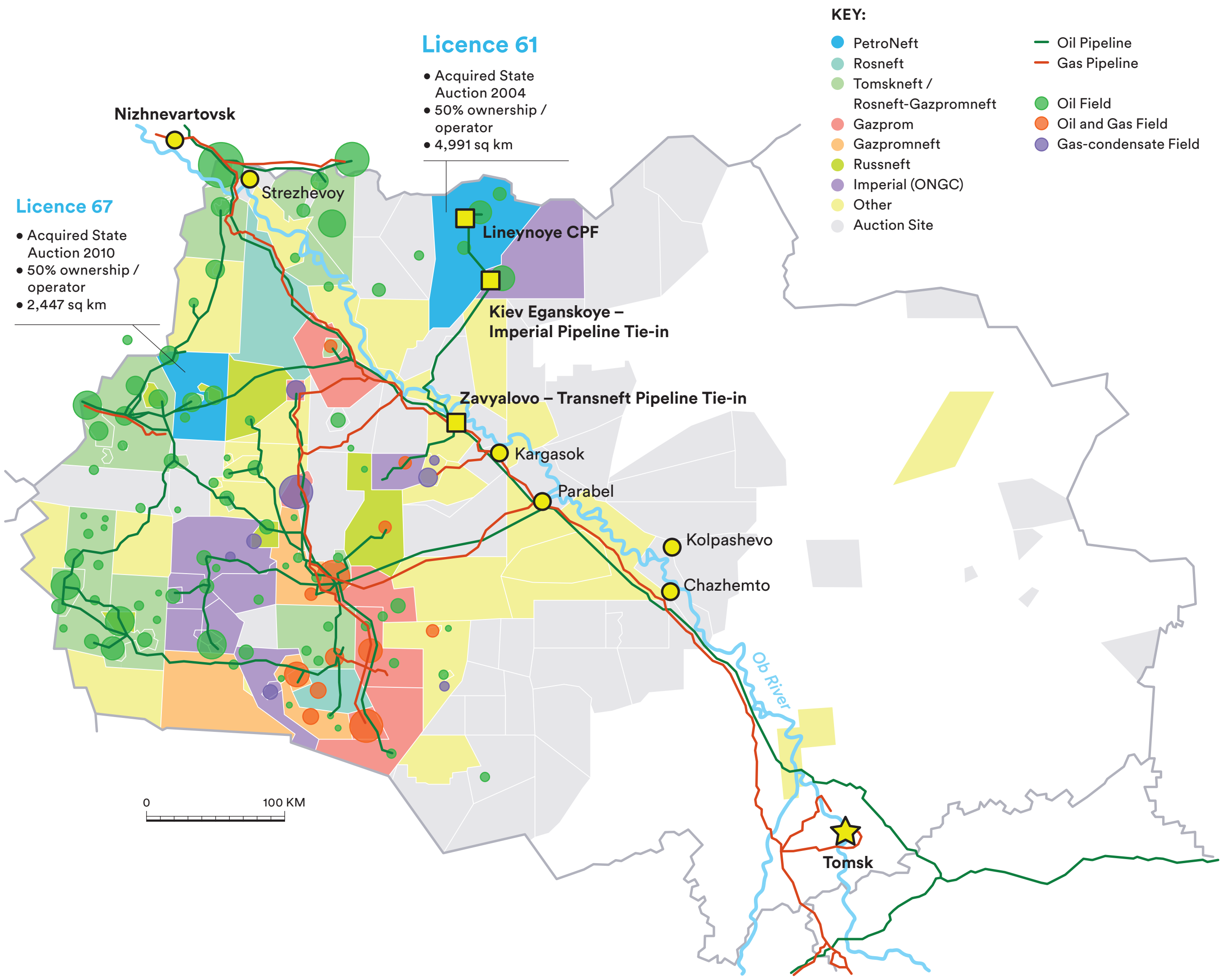
Annual Report
Годовой Отчет

2018

Producing oil from a solid asset base

Our Assets

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



PetroNeft Resources plc

Annual Report and Financial Statements

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Forward Looking Statements

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

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

PetroNeft Resources plc

Group Information

Directors	David Golder (U.S. citizen) *(Independent Non-Executive Chairman)* David Sturt (British citizen) *(Chief Executive Officer)* Thomas Hickey (Irish citizen) *(Independent Non-Executive Director)* Maxim Korobov (Russian citizen) *(Non-Executive Director)* Anthony Sacca (Australian citizen) *(Independent Non-Executive Director)* Dennis Francis (U.S. citizen) – resigned *15 December 2018* *(Former Chief Executive Officer)*
Registered Office and Business Address	20 Holles Street Dublin 2 Ireland
Secretary	Karl Johnson – *appointed 5 February 2019* Paul Dowling – *resigned 5 February 2019*
Auditor	**Deloitte Ireland LLP** Chartered Accountants Earlsfort Terrace Dublin 2 Ireland
Nominated Adviser and Euronext Growth Market Adviser	**Davy** 49 Dawson Street Dublin 2 Ireland

Group Information *(continued)*

Joint Brokers	**Davy** 49 Dawson Street Dublin 2 Ireland	**Canaccord Genuity** 88 Wood Street London EC2V 7QR United Kingdom
Principal Bankers	**KBC Bank Ireland** Sandwith Street Dublin 2 Ireland	**AIB Bank** 1 Lower Baggot Street Dublin 2 Ireland
	Promsvyazbank Sibirsky branch Tomsk Russia	
Solicitors	**Byrne Wallace** 88 Harcourt Street Dublin 2 Ireland	
Registered Number	408101	
Registrar	**Computershare** 3100 Lake Drive, Citywest Business Campus, Dublin 24, D24 AK82, Ireland	

PetroNeft Resources plc

Board of Directors

David Golder – *(Non-Executive Chairman) (Age 71)*
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.

David Sturt – *(Chief Executive Officer and Executive Director) (Age 57)*
Mr. Sturt was appointed a Non-Executive Director of the Company in April 2016 and became Chief Executive on 25 March 2019. He was a member of the Remuneration Committee up until his appointment as CEO. David has over 30 years of international experience in the oil and gas industry gained working on projects in Europe, CIS, Africa and SE Asia. Since 2012 through to March 2019, David was Senior Vice President with Azimuth Limited, and is a founding shareholder of VTX, which was an oil and gas production company with assets in Indiana and Illinois sold to Dome Energy in 2017. 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, acquired by Dome Energy. David holds a BSc honours degree in Earth Sciences from Kingston University, an MSc degree in Exploration Geophysics from Leeds University, and a postgraduate diploma in business administration from Heriot Watt University.

Thomas Hickey – *(Non-Executive Director) (Age 50)*
Mr. Hickey has been a Non-Executive Director of the Company since 2005. He is Chairman of the Audit and Nomination Committees and a member of the Remuneration Committee. Tom was previously Chief Financial Officer at Petroceltic International Plc. Prior to that he was an Executive Director and Chief Financial Officer of Tullow Oil plc, from 2000 to 2008. During this time, Tullow grew via a number of significant acquisitions including the US$570 million acquisition of Energy Africa in 2004 and the US$1.1 billion acquisition of Hardman Resources in 2006. Tom is a Fellow of the Institute of Chartered Accountants in Ireland.

Maxim Korobov – *(Non-Executive Director) (Age 61)*
Mr. Korobov was appointed a Non-Executive Director of the Company in April 2016. He is a Russian businessman with over 20 years of experience in the oil & gas sector and the ultimate beneficial owner of Natlata Partners Limited, a significant shareholder of PetroNeft.

Anthony Sacca – (*Non-Executive Director) (Age 47)*
Mr. Sacca was appointed a Non-Executive Director of the Company in April 2016. He is a member of the Audit Committee. He is principal of Karri Tree executive coaching. Anthony was previously the Chief Financial Officer of Rolf Group of Companies, one of Russia's largest independent automotive distributor/retailers. Prior to that he was a Partner with PwC in Moscow. Anthony is a Fellow of the Institute of Chartered Accountants in Australia and New Zealand. 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.

Chairman's Statement

2018 was a year of significant change for our Company which saw the retirement of our Chief Executive Officer Dennis Francis in November 2018.

Dennis was a founder of PetroNeft in 2004 and oversaw its growth from a private company to a public company listed on the London AIM and Dublin ESM stock exchanges. In that time period the Company evolved from an explorer to an established production company employing over 170 people in the Tomsk Region of Russia. In 2016 Mr. Francis received a Certificate of honour from the Subsurface Management Department for the Tomsk Region (TomskNedra) for significant contributions to the development of mineral resources in the Tomsk Region.

In early 2019 the Company announced the appointment of David Sturt as the new Chief Executive Officer. David had been a Non-Executive Director of the Company since 2016 and brings over 35 years of international experience in the upstream oil and gas industry gained working on projects in Europe, CIS, Africa, South America and SE Asia.

In the period between Dennis' retirement and David commencing as CEO, Karl Johnson, our Vice President of Operations assumed the role of Interim CEO.

I would like to thank Dennis for his many years of dedicated service to PetroNeft and to thank Karl for his work as Interim CEO. I would also like to sincerely welcome David to his new position.

I would also like to thank Paul Dowling for his long service with the Company, first as CFO and Director and then as CFO on a consultancy basis following his departure from the Board in 2016. At the end of 2018, Paul elected to end his full-time consultancy contract, but continues to provide his services on a part-time basis to assist the Company in certain matters.

Operations
The existing production wells at Licence 61 generally performed well during 2018, with a slower than expected natural decline. No new wells were drilled on Licence 61 in 2018.

At Licence 67 we drilled the C-4 appraisal well in conjunction with our Joint Venture partner, Arawak Energy. Oil was tested across two zones in the Upper Jurassic horizon and we achieved combined open hole test rates of 399 bfpd. We also encountered oil pay in the Lower Jurassic horizon, however, the reservoir was of lower quality. A subsequent cased hole test achieved a rate of 450 bopd. We are pleased with the result of the C-4 well, which enabled us to receive State Reserves committee (GKZ) approval for C1 + C2 reserves of 2.5 Mtons for the Cheremshanskoye Oil Field, equivalent to 2P reserves of approximately 19.26 mmbbls and we believe that potential exists for significant upward revision to these figures in the future.

2019 outlook
The geo-political and investment climate for Russia, as with other emerging markets, remains challenging. This has resulted in a significant difference between the market capitalization of the company and the long-term value of its assets and reserves. We are committed to narrowing that gap and are actively examining all available options to do so.

The Company, in conjunction with its 50/50 Joint Venture partners, Oil India and Arawak Energy has engaged financial advisers to evaluate the possible sale of Licence 61 and/or Licence 67. While there is no certainty that any transaction will be completed, we have seen an encouraging level of interest from a range of well-financed industry players. We continue to evaluate the exploration, appraisal and development potential for both licence areas to ensure that, if we receive bids for either licence area which appropriately value the asset, we will be able to make an informed decision on whether or not to sell.

Chairman's Statement *(continued)*

Reserves
The Chief Executive Officer's Report contains the details of the oil reserves of the Company and highlights the large potential of the Sibkrayevskoye oil field and the potential upside that could be achieved from prospects such as Emtorskaya, which lies north of Lineynoye.

Summary
2018 saw the drilling of a successful well at the Cheremshanskoye oil field in Licence 67 which has led to additional reserves being approved in Russia. The retirement of Dennis Francis was also a major event in 2018, however I am confident that David Sturt, thanks to his knowledge and experience, will focus on creating shareholder value whether through exploration, appraisal, development or sale of assets.

Our industry is continuing to experience unstable times but we have valuable future development targets at West Lineynoye, Cheremshanskoye and Sibkrayevskoye that can be profitable at a wide range of 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 for your continued support throughout the past year.

David Golder
Non-Executive Chairman

Chief Executive Officer's Report

I am delighted to provide my first report as Chief Executive of PetroNeft. Although the Company is facing challenges, I believe there is clear potential and value in the Company's assets that we will seek to exploit either through a possible sale process or through organic development. In 2018 this potential has been demonstrated by our recent success at Licence 67 with the successful C-4 well, which will further increase our reserves and potentially lead to bringing the Cheremshanskoye field into production in the near future.

Since commencing my executive role in March 2019, I have spent time in Tomsk with our staff reviewing the organization and its assets. While past performance has been mixed, I am making changes to the way we operate as we look to improve the Company's performance. We need to ensure we learn from the past and continue to enhance our operational efficiency.

The management team is not new to me as I have spent the past three years as a non-executive director of the Company, developing familiarity with the business and assets. In addition, I have worked closely with some existing and new members of management for many years. In our Tomsk office, we have already moved to strengthen our existing team, adding experienced personnel in the Technical and Financial disciplines to improve the Company's performance whilst simultaneously ensuring a very tight control on costs. This has included closing our office in Houston and scaling back operations in Dublin.

During 2018 we engaged a financial advisor with the aim to test the market for both of our licences. This process is ongoing and while there is still much to do, I am satisfied with the level of interest and the calibre of companies that we are currently talking to. Over the past twelve months the asset acquisition market in Russia has seen increased activity, especially for the larger domestic companies. This gives us reason for optimism.

At the end of 2018 our outstanding loan to Petrogrand became due for repayment. We were very pleased that in March 2019 we were able to reach agreement with Petrogrand enabling the company to be able to secure an extension and increase to the existing facility which provides us with additional time whilst we evaluate all potential future financing options, should we decide to develop our assets further.

2018 Review

Gross production at Licence 61 in 2018 was 713,603 barrels of oil or an average of 1,955 bopd. No new production wells were drilled during the year and this represents a decline of 12.6% from 2017 production of 816,476 barrels (2,237 bopd average). As our producing fields mature, we are seeing a slower pace of decline year-on-year; the decline in 2017 was 17%.

Three fields, two on Licence 61 and one on Licence 67 are in the planning phase which will add future production when sanctioned. On Licence 61 at West Lineynoye, we are currently securing the permits required to develop the L-8 Lobe, which has been producing for several years from the L-8 vertical and the L-10 horizontal wells. At Sibkrayevskoye, we have successfully produced the S-373 and S-375s wells during the winter season at about 250 bopd. Both of these future developments will use horizontal wells to drain the Upper Jurassic formation. Experience gained from the horizontal wells at Arbuzovskoye and Tungolskoye will enhance the economic viability of the potential developments of the Sibkrayevskoye and West Lineynoye fields.

On Licence 67 with the success of the C-4 well in 2018, we are now working on a fast track development plan which could see initial pilot production as early as 2020.

Moving forward, we will continue to maximise the use of modern oil field technology and the highest operational standards to minimize the chances of operational failures. We are already running a production optimisation project on Licence 61 by performing detailed reservoir engineering studies on our existing fields. These studies are improving our understanding of the complexities within our fields which we believe will lead to improved performance through the end of 2019 and into 2020.

We are also reviewing the geological models for all our fields and prospects to understand the potential benefits of wider use of 3D seismic technology. We have looked closely at the Sibkrayevskoye field in Licence 61 where we have had mixed results with drilling to date. We believe acquiring 3D seismic data over this field before full field development will enable future development wells to target reservoir sweet spots. On Licence 67, the two 3D seismic surveys we previously acquired are illuminating the potential upside within the Cretaceous intervals as well as providing a detailed understanding of subtleties within the main Jurassic reservoir sections.

Licence 61

The company hold a 50% operated interest in this licence with our partner Oil India Limited ("OIL") holding the remaining 50%. The licence contains the producing Arbuzovskoye, Lineynoye, Tungolskoye and Sibkrayevskoye fields (the latter field currently producing during the winter months only). In addition to these fields the licence also contains a number of exploration prospects with three having previously being tested by Soviet Era wells which indicate potential oil zones, these being Emtorskaya, Traverskaya and Tuganskaya.

The strategy for the development of this licence is to: optimise existing production to reduce and reverse the current natural decline; bring into production new areas for development (i.e. West Lineynoye and Sibkrayevskoye); and prove up additional low risk reserves adjacent or close to existing production facilities.

Arbuzovskoye field

At Arbuzovskoye, the two horizontal wells are performing well at Pad 2. The southern part of the Arbuzovskoye field (Pad 2) was brought into production in 2016. The field has been developed from two pads, on Pad 1 a series of vertical wells were used whilst on Pad 2 a combination of 2 horizontal + 2 vertical wells were drilled. The use of a mix of vertical and strategically placed horizontal wells from Pad 2 has been proven as a more efficient way to develop similar fields in the future.

Lineynoye field and West Lineynoye Potential Development

The wells at Lineynoye have continued to perform well, although they are showing natural production decline. Our team in Tomsk, including our in-house workover crew, have worked effectively to keep wells online and to intervene where necessary to optimise well performance. Production logging and tracer surveys are underway in an effort to further optimise water flood performance and increase production rates from existing wells.

At West Lineynoye we have been producing from two vertical wells and one horizontal well since 2015 with minimal decline in production and almost no water cut. Based on the experience gained drilling horizontal wells at Tungolskoye and at Arbuzovskoye Pad 2, where we have similar reservoir intervals, we feel we can attain higher production rates at West Lineynoye by adopting the same operational practices. We are currently planning development of the L-8 Lobe of the Lineynoye field utilising up to four horizontal wells with 1,000 m horizontal sections. As we have existing infrastructure which ties the L-8 Lobe to the Central Processing Facilities, the economics of the development are robust. This development will target an additional 10 million barrels of 2P reserves.

Sibkrayevskoye

At Sibkrayevskoye we have successfully produced the S-373 and S-375s delineation wells through the last two winter seasons. Oil has been trucked over winter roads (mid-December to mid-April) at an average combined rate of approximately 250 bopd during these past two winter periods. We are looking at developing Sibkrayevskoye using a mixture of horizontal and vertical wells and linking the field back to the Lineynoye Central Processing Facilities via a 26 km pipeline. We are however evaluating acquiring 3D seismic data over this field before any additional development drilling as we believe we can use this technology to identify sweet spots within the Upper Jurassic reservoir thereby reducing the risk of disappointing development wells.

Exploration and Appraisal

There are 25 prospects with 287mmbbls of potential resource (Ryder Scott) in the licence of which three have already been drilled during the Soviet Era, these being Emtorskaya, Traverskaya and Tuganskaya. Reprocessing of the old well data has identified potential missed pay at various intervals in the Jurassic and Cretaceous.

One of the largest of these prospects is Emtorskaya which is interpreted to be the northern extension and up-dip of the Lineynoye oil field. Two wells (E-300 and E-303) were drilled on the structure during Soviet times and have been reinterpreted and confirm oil in the Upper Jurassic. The structural crest of Emtorskaya is predicted to be 60 m high to the crest of the Lineynoye field. The resources associated with this prospect are estimated by Ryder Scott to be 64 million barrels in the P-3 case. Any discovery could be quickly tied into our existing production facilities.

Licence 67

The company hold a 50% operated interest in this licence with our partner Arawak Energy holding the remaining 50%. The licence is surrounded by producing fields and an all-weather road which runs through the licence. There are two fields on this Licence, Ledovoye in the north and Cheremshanskoye in the south, both are covered by modern 3D seismic data which provides us with a good understanding of the geology of these fields. The company is currently evaluating the potential to bring the Cheremshanskoye and potentially Ledovoye field into production.

Cheremshanskoye field

The field covers an area of 46km² and three previous wells have been drilled within the southern half of the field and encountered oil within the Upper Jurassic section. In 2018 PetroNeft successfully drilled the C-4 well which was a significant step out well proving up the northern half of the Cheremshanskoye field.

At the main Upper Jurassic J1-1 objective, 1.6 m of net oil pay was encountered. A short duration open-hole test was run over the interval and flowed at 228 bfpd consisting of 84% good quality light oil (35° API) and 16% mud/filtrate. This is a good initial flow test, without any reservoir stimulation.

The primary J1-3 interval was also cored, tested and logged. The well encountered 8.8m of net pay and during a short open-hole test flowed at a pro rata rate of 171 bfpd consisting of 70% oil and 30% mud/filtrate. This is also a positive flow rate even though the short flow test indicates it may have been restricted by formation damage. The combined open-hole tests achieved a prorated test rate of 399 bfpd. The two open-hole tests combined with the log and core data in the Upper Jurassic are encouraging.

Once drilling was complete a cased-hole testing programme was carried out on both the J1-1 and J1-3 intervals. The first test was over the J1-3 interval. The final natural oil flow rate on a 3 mm choke was 11.1 m3/day (70 bopd). The J1-3 interval was then isolated, and the J1-1 interval was tested with a final flow rates on a 5mm choke of a 17.4 m3/day (109 bopd). The well is expected to produce in excess of 450 bopd from these two intervals combined using an electrical submersible pump.

Following completion of the well we have had reserves of 2.5 Mtons of C1 + C2 approved by the Russian State and are now looking at potential development options with the possibility to bring the field into pilot production as early as first quarter 2020.

In addition to the Jurassic, oil was also identified in the overlying Cretaceous interval in the well but was not be tested for operational reasons. Since completion of the well we have looked in detail at the whole of the Cretaceous interval overlying the Cheremshanskoye Field and believe there is significant exploration potential which we are now looking at in more detail.

Ledovoye Field

The field lies along the northern margin of Licence 67 and is believed to be an extension of the producing North Ledovoye field in the adjacent licence to the north. Three previous wells have been drilled in the field with indications of oil within the Jurassic and Cretaceous intervals. We are currently evaluating options for the potential development of this field.

Licence 61 and 67 Reserves

Independent reserve consultants Ryder Scott completed an assessment of petroleum reserves on Licence 61 as at 1 January 2016, estimating the total Proved and Probable ("2P") reserves for the licence at that time 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 64.2 mmbbls 2P and 16.5 mmbbls P1 as at 1 January 2019 following adjustment of the Ryder Scott numbers for production. While we have not yet asked Ryder Scott to prepare an updated report for Licence 67 following the C-4 result we have had reserves approved by the State Reserves Committee (GKZ) for C1 + C2 reserves of 2.5 Mtons (this is approximately equal to 2P reserves of 19.26 mmbbls). The reserves approved are in the Upper Jurassic (J1) and Lower Jurassic (J14) intervals.

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

Chief Executive Officer's Report *(continued)*

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

Oil Field Name	Proved	Proved & Probable	Proved, Probable & Possible
Licence 61	**1P mmbo**	**2P mmbo**	**3P mmbo**
Lineynoye	6.6	12.5	15.6
Tungolskoye	0.3	2.8	3.6
Kondrashevskoye	0.7	1.3	1.6
Arbuzovskoye	1.2	3.8	5.0
Sibkrayevskoye	5.8	29.4	29.4
North Varyakhskoye	0.2	0.4	0.5
	14.8	**50.2**	**55.7**
Licence 67			
Ledovoye	1.5	14.0	17.4
Total net to PetroNeft	**16.3**	**64.2**	**73.1**

- Licence 61 as at 31 December 2018 (Ryder Scott report as at 1 January 2016, adjusted for 2016, 2017 and 2018 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.

Conclusion

As I settle into my new role as CEO of PetroNeft, I am gaining a new appreciation for the potential of our assets whilst at the same time clearly understanding the need to continue to optimise the application of technology and ensure operational excellence.

I would like to take this opportunity to thank our shareholders for the patience and support. I would also like to thank all our staff for their commitment and dedication which has seen the company transform from an exploration to a production company. Looking forward, we will be increasingly relying on our staff to ensure we continue to optimise and elevate the level of technology adopted within the company.

David Sturt
Chief Executive Officer

Financial Review

Review of PetroNeft loss for the year

The loss after taxation for the year was US$7,561,762 (2017: US$3,239,041). The loss included the share of joint venture's net loss in WorldAce Investments of US$6,339,613 (2017: US$4,285,833) which rose mainly due to the write-off of wells at Tungolskoye and the share of joint venture's net loss in Russian BD Holdings B.V. of US$508,757 (2017: US$381,654).

	2018 US$'000	2017 US$'000
Continuing operations		
Revenue	1,767	1,713
Cost of sales	(1,560)	(1,550)
Gross profit	**207**	**163**
Administrative expenses	(1,390)	(1,403)
Exchange (loss)/gain on intra-Group loans	(123)	52
Operating loss	**(1,306)**	**(1,188)**
Share of joint venture's net loss – WorldAce Investments Limited	(6,340)	(4,286)
Share of joint venture's net loss – Russian BD Holdings B.V.	(508)	(382)
Finance revenue	966	3,511
Finance costs	(117)	-
Loss for the year for continuing operations before taxation	**(7,305)**	**(2,345)**
Income tax expense	(257)	(894)
Loss for the year	**(7,562)**	**(3,239)**

Revenue

Revenue in 2018 and 2017 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

PetroNeft performs the role of operator for both the licence 61 and 67 joint ventures. 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 operator, PetroNeft is entitled to charge certain administrative, management and technical costs to the joint ventures. The costs associated with this revenue are included in cost of sales.

In 2018 PetroNeft Group charged a total of US$0.85 million (2017: US$0.85 million) to the joint ventures in respect of management services. PetroNeft also owns a small construction company, Granite Construction, which carries out ad hoc construction projects such as well pads and on-site accommodation on both Licences as well as maintaining the winter road network each year. In 2018 Granite Construction charged the WorldAce Group US$0.92 million (2017: US$0.86 million) in respect of these services.

Administrative expenditure was in line with last year. In 2017 the Company implemented a cost cutting program across the Group and the Directors and management agreed to reduce and defer significant portions of their remuneration; as at 31 December 2018 a total of US$934,041 (2017: US$824,080) had been deferred by the Directors and senior management - see Note 26 for details.

Financial Review *(continued)*

Finance Revenue

Most of the finance revenue relates to interest receivable on loans to joint ventures. During 2018 PetroNeft recognised interest income of US$3,686,372 (2017: US$3,238,839) on its loans to WorldAce Group and US$387,687 (2017: US$270,773) on its loans to Russian BD Holdings B.V. As a result of early adoption of amendments to IAS 28 in respect of Long-term Interest in Associates and Joint Ventures the Group recognised a loss allowance of US$3,109,501 given the uncertainties relating to WorldAce. The allowance was set against Finance Revenue. For more details see Note 3.6(iii) and Note 8.

Finance Costs

Finance costs relate to interest payable on loan from Petrogrand AB. The Company agreed a secured loan facility of up to US$2m with Petrogrand AB in January 2018. This loan facility was fully drawn down in 2018. For more details see Note 21.

Key Financial Metrics – WorldAce Group

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

	WorldAce Group 2018 US$'000	WorldAce Group 2017 US$'000
Continuing operations		
Revenue	31,370	27,637
Cost of sales	(27,773)	(25,273)
Gross profit	**3,597**	**2,364**
Administrative expenses	(3,122)	(3,093)
Operating profit/(loss)	**475**	**(729)**
Write-off of oil and gas properties	(4,096)	-
Write-off of exploration and evaluation assets	(5)	(26)
Finance revenue	129	66
Finance costs	(9,183)	(7,883)
Loss for the year for continuing operations before taxation	**(12,680)**	**(8,572)**
Income tax	-	-
Loss for the year	**(12,680)**	**(8,572)**
PetroNeft's 50% share	**(6,340)**	**(4,286)**

Net Loss – WorldAce Group

PetroNeft's share of the net loss of WorldAce Group for the full year increased to US$6.3 million from US$4.3 million in 2017. The increase in the loss for the year before taxation can be attributed to the write-off of the cost of some non-performing wells. Of the US$9.0 million in interest payable by WorldAce, US$3.7 million is payable to PetroNeft.

Revenue, Cost of Sales and Gross Margin – WorldAce Group

Gross Revenue from oil sales was US$31.4 million for the year (2017: US$27.6 million). Cost of sales includes depreciation of US$2.3 million (2017: US$2.6 million), which was lower mainly due to lower production. The gross margin improved during the year due to improved oil prices. Operating costs per barrel (cost of sales excluding depreciation and Mineral Extraction Tax) were higher at US$10.68 (2017: US$10.36 per barrel) due to lower production. We would expect the gross margin to improve in future periods as our facilities and field operations are fully staffed and can handle additional production from the Sibkrayevskoye oil field once it comes online. We produced 713,603 barrels of oil (2017: 816,476 barrels) in the year and sold 706,395 barrels of oil (2017: 822,388 barrels) achieving an average oil price of US$44 per barrel (2017: US$35 per barrel). All oil was sold on the domestic market in Russia.

Financial Review *(continued)*

Finance Costs – WorldAce Group
Gross Finance costs of US$9.2 million (2017: US$7.9 million) mainly relates to interest on loans from PetroNeft and Oil India.

Taxation – WorldAce Group
There is no tax payable in 2018 or 2017.

Current and Future Funding of PetroNeft Group
In previous Annual Reports we outlined that PetroNeft expected to start receiving interest due on its shareholder loans to WorldAce in 2017 once the development of the Sibkrayevskoye oil field in Licence 61 was up and running. The S-374 appraisal well drilled in 2016 at the Sibkrayevskoye oil field, to assess the true extent of the field 10km to the south of existing wells, did not encounter commercial hydrocarbons. The result of this well has led to the postponement of the commencement of the development of the Sibkrayevskoye oil field. As a consequence of this, the date by which PetroNeft expects to start receiving interest due on its shareholder loans to WorldAce has been delayed until 2020 at the earliest.

The success of the S-375 well in 2017 has led to a period of extended testing at Sibkrayevskoye and we are currently refining and re-evaluating the development program. However, significant funding is required to develop the Sibkrayevskoye oil field.

While there were consolidated net current liabilities at the year-end of US$2.8m (2017: US$1.1m), the Company has implemented a cost cutting program across the Group and the Directors and management have agreed to reduce and defer significant portions of their remuneration. Note 26 outlines the amounts owed to the Board and management in this regard.

In January 2018 the Company agreed a secured loan facility for up to US$2 million with Swedish company Petrogrand AB ("Petrogrand"). The loan was due to mature on 31 December 2018, however, in March 2019 the Company agreed an increase in the facility by US$500,000 to US$2.5 million and a revised maturity date of 15 December 2019 (which may be extended by mutual consent of the parties). The revised terms include the potential entitlement to bonus payments of US$2.5 million per Licence if either or both Licence 61 or Licence 67 are sold before 31 December 2020. More recently the Company have agreed a new loan for US$1.3 Million with a different group of investors which matures on 31 December 2020. This new loan is partially convertible into Ordinary shares of PetroNeft (up to 65% of the principal) at a price per Ordinary Share of US$0.01547.

As previously announced the Company has engaged a financial advisor with the aim to test the market for both of its licences. This process is ongoing and the level of interest and the calibre of companies in the process to date is encouraging. Over the past twelve months the asset acquisition market in Russia has seen increased activity, especially for the larger domestic companies. This gives management reason for optimism about a positive outcome. It is expected that both loan facilities would be repaid from the proceeds of sale of one of the Licences.

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

Financial Risk Management
The Board sets the treasury policies and objectives of the Group, which include controls over the procedures used to manage financial risk. The Group's activities expose the Group to a variety of financial risks including foreign currency, commodity price, credit, liquidity and interest rate risks. These financial risks are managed by the Group under policies approved by the Board. Details of the Group's financial risk management policies are set out in detail in Note 23 to the financial statements.

PetroNeft Resources plc

Financial Review *(continued)*

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.
		The Russian 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.
		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 supports the investment case.
	Oil price	Robust project sanction economics - conservative base case assumptions. Russian tax system means economics are less sensitive to changes in oil price.
	Industry cost inflation	Rigorous contracting procedures with competitive tendering. Also, the relationship of the US Dollar:Russian Rouble exchange rate to the oil price provides a natural balance between costs and income.
	Uninsured events	Comprehensive insurance programme in place.
Other Risks	HSE incidents	HSE standards set and monitored regularly across the Group.
	Export quota	Equal access to export quotas available for all oil producers using Transneft.
		Conservative assumption in economics - domestic net back price now largely in alignment with export net back.
	Third party pipeline access	25-year transportation agreement in place for Licence 61, several options available for ultimate development of Licence 67.

Financial Review *(continued)*

	Transneft pipeline access	Available capacity and access confirmed.
		East Siberia-Pacific Ocean ("ESPO") pipeline allows export of oil to Pacific market.

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 18 June 2019 are as follows:

Name of shareholder	Ordinary Shares	Percentage
Natlata Partners Limited	208,429,458	28.90%
Daria Shaftelskaya	78,079,986	10.83%
Mr. Duming Zhai	37,000,000	5.13%
Ali Sobraliev	23,014,273	3.19%
Dennis Francis	36,361,620	5.04%
J&E Davy	59,165,784	8.20%

Directors' Report
for the year ended 31 December 2018

The Directors present herewith their Annual Report and the audited financial statements of PetroNeft Resources plc ("PetroNeft", "the Company", or together with its subsidiaries and joint ventures, "the Group") for the year ended 31 December 2018.

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$7,304,881 (2017: US$2,345,371). After a tax charge of US$256,881 (2017: US$893,670) the loss for the year amounted to US$7,561,762 (2017: US$3,239,041). 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 5 to 6, the Chief Executive Officer's Report on pages 7 to 10 and the Financial Review on pages 11 to 15. The key financial metrics used by management are set out in the Financial Review on page 12.

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 2018 QCA Corporate Governance Code (the "QCA Code") as published by the Quoted Companies Alliance (the "QCA"). PetroNeft is a member of the Quoted Companies Alliance.

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

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

a) certain matters be specifically reserved for the Board's decision;
b) the Board should be supplied in a timely manner with information (including regular management financial information) in a form and of a quality appropriate to enable it to discharge its duties;
c) the Board should, at least annually, conduct a review of the effectiveness of the Company's system of internal controls and should report to shareholders that they have done so;
d) the roles of Chairman and Chief Executive should not be exercised by the same individual or there should be a clear explanation of how other Board procedures provide protection against the risks of concentration of power within the Company;

Corporate Governance (continued)

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 and, in respect of the Audit Committee, in accordance with Section 167 of the Companies Act 2014, 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 Independent Non-executive directors, Thomas Hickey (Chairman), David Golder and Anthony Sacca. The Audit Committee is responsible for ensuring that the financial activities of the Group are properly monitored, controlled and reported on complying with relevant legal requirements. The committee receives and reviews reports from management and the Group's auditors relating to the Group's report and accounts, the interim results and review of the accounting policies. Meetings are held at least two times a year with the auditors, once at the audit planning stage to consider the scope of the audit and thereafter at the reporting stage, to receive post-audit findings. The ultimate responsibility for reviewing and approving the Annual Report remains with the Board of Directors. The committee is also responsible for reviewing the relationship with the external auditors, making recommendations to the Board on their appointment and remuneration, monitoring their independence, as well as assessing scope and results of their work, including any non-audit work. The committee authorises any non-audit work to be carried out by the external auditors. The external auditors did not undertake any non-audit work during the current year and the committee is satisfied that the objectivity and independence of the external auditor has not been impaired in anyway by any other factors.
The committee, with management, reviews the effectiveness of internal controls.

Remuneration Committee

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

Nomination Committee

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

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

Governance of Joint Ventures

Under the joint venture agreements in respect of Licence 61 and Licence 67 both partners are entitled to appoint two board representatives to the joint venture companies, WorldAce Investments Limited and Russian BD Holdings B.V. PetroNeft has appointed Karl Johnson 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.

Directors' Report
for the year ended 31 December 2018 (continued)

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 Directors who served during the year are listed on page 2. Dennis Francis retired from the Board on 15 December 2018. There have been no other changes to the composition of the Board to date since 1 January 2018.

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

Directors, Company Secretary and their Interests
The Directors and Company Secretary who held office at 31 December 2018 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 18 June 2019	Ordinary Shares As at 31 December 2018	Ordinary Shares As at 1 January 2018
Directors			
David Golder	3,165,458	3,165,458	3,165,458
David Sturt	4,048,005	-	-
Maxim Korobov†	208,429,458	208,429,458	208,429,458
Thomas Hickey	2,226,283	2,226,283	2,226,283
Company Secretary			
Karl Johnson	355,349	N/A	N/A
Paul Dowling*	N/A	731,583	731,583

†Shares held via Natlata Partners Limited.
*Mr. Paul Dowling resigned as Company Secretary on 31 January 2019 and was replaced by Mr. Karl Johnson.

Directors' Report
for the year ended 31 December 2018 (continued)

In addition to the above, the Directors who held office at 31 December 2018 held the following share options:

Director	Options held as at 1 January 2018	Granted in year	Exercised in year	Lapsed in year	Options held as at 31 December 2018	Exercise price
David Golder	130,000	-	-	-	130,000	£0.065
Thomas Hickey	110,000	-	-	-	110,000	£0.065

Details of the terms and conditions of the option scheme are included in Note 27 of the financial statements.

Principal Risks and Uncertainties

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

Details of the principal risks and uncertainties affecting the Group, as required to be disclosed in accordance with the Companies Act 2014, are listed on pages 14 to 15.

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 page 13 in the paragraphs related to the "Current and future funding of PetroNeft" and in Note 2 to the financial statements on page 38.

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 at least 12 months after the signing date of the annual report. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

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

Directors' Report
for the year ended 31 December 2018 (continued)

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 on page 19.

Directors' Remuneration (US$)

	2018			2017		
Director	**Emoluments & compensation**	**Pension**	**Total**	**Emoluments & compensation**	**Pension**	**Total**
Executive director						
Dennis Francis	496,500*	26,217	522,717	399,505	29,963	429,468
	496,500	26,217	522,717	399,505	29,963	429,468
Non-executive directors						
David Golder	17,824	-	17,824	57,903	-	57,903
Thomas Hickey	11,751	-	11,751	36,907	-	36,907
Anthony Sacca	11,751	-	11,751	36,907	-	36,907
David Sturt	11,751	-	11,751	36,907	-	36,907
Maxim Korobov	11,751	-	11,751	36,907	-	36,907
	64,828	-	64,828	205,531	-	205,531
Total Directors remuneration	**561,328**	**26,217**	**587,545**	**605,036**	**29,963**	**634,999**

* includes US$146,934 of compensation in respect of retirement.

As detailed in Note 26, included in the above are unpaid fees and remuneration due to Directors as at 31 December 2018 of US$607,468 (2017: US$424,564).

Your attention is drawn to the details of the share options held by the Directors as set out in the Report of the Directors on page 19.

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

Important Events after the Balance Sheet Date
In January 2018 PetroNeft agreed a loan facility for up to US$2 million with Swedish company Petrogrand AB ("Petrogrand") secured on the assets of PetroNeft. The loan facility was fully drawn down in 2018 and was used to finance the drilling of the successful C-4 well and for general corporate purposes. In March 2019 the parties have agreed an increase in the facility by US$500,000 to US$2.5 million and a revised maturity date of 15 December 2019 (which may be extended by mutual consent of the parties). The revised terms include the potential entitlement to bonus payments of US$2.5 million per Licence if either or both Licence 61 or Licence 67 are sold before 31 December 2020.

In June 2019 PetroNeft agreed a new loan facility with a group of investors for the amount of US$1.3 million. This loan is unsecured and matures on 31 December 2020. The loan is also partly convertible to Ordinary Shares of PetroNeft. The conversion terms are that 65% of the principal may be converted at US$0.015477 per share at the option of the lender.

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

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

Directors' Responsibilities Statement in Respect of the Financial Statements
The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

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

Directors' Report
for the year ended 31 December 2018 (continued)

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

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

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

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

Auditors
Deloitte Ireland LLP 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 86. The AGM will be held on 20 September 2019 in the Clayton 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 vote in favour of the Resolutions. Your Directors intend to vote in favour of the Resolutions in respect of their own beneficial holdings of 217,869,204 Ordinary Shares.

Approved by the Board on 25 June 2019

David Golder
Director

David Sturt
Director

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

Opinion on the financial statements of PetroNeft Resources PLC

In our opinion the Group and Parent Company's financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Group and Parent Company as at 31 December 2018 and of the loss of the Group for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

The financial statements we have audited comprise:

The Group financial statements:

- The consolidated income statement;
- The consolidated statement of comprehensive income;
- The consolidated balance sheet;
- The consolidated statement of changes in equity;
- The consolidated cash flow statement; and
- The related notes 1 to 30, including a summary of significant accounting policies as set out in note 3.

The Parent Company financial statements:

- The parent company balance sheet;
- The parent company statement of changes in equity;
- The parent company cash flow statement; and
- The related notes 1 to 30, including a summary of significant accounting policies as set out in note 3.

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

Basis for opinion

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

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority, as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to going concern and the recoverability of financial assets

We draw your attention to note 2 to the Group's Consolidated Financial Statements concerning the Group and Parent Company's ability to continue as a going concern.

The Group incurred a loss of $15.9 million for the financial year ended 31 December 2018, had total assets of $36.6 million and net current liabilities of $2.8 million. The Group's total assets of $36.6 million includes US$35.5 million in respect of financial assets comprising loans and receivables due from joint ventures. The Group is dependent on the performance of its subsidiaries and joint ventures. The Group and Parent Company have two joint ventures that are loss making.

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

Material uncertainty relating to going concern and the recoverability of financial assets (Continued)

The Parent Company incurred a loss of $16.8 million for the financial year ended 31 December 2018, had total assets of $36.6 million and net current liabilities of US$2.6 million. The Parent Company's total assets of $36.6 million includes $35.5 million in respect of financial assets comprising loans and receivables due from joint ventures.

In January 2018, the Group agreed a loan facility for US$2 million with Swedish company Petrogrand AB ("Petrogrand"). During the period the loan facility was drawn down in full. In March 2019, both parties agreed to increase the facility by US$500,000 to US$2.5 million with a revised maturity date of 15 December 2019 which may be extended by mutual consent of both parties. The revised terms include the potential entitlement to bonus payments of US$2.5 million per Licence if either or both Licence 61 or Licence 67 are sold before 31 December 2020. In June 2019, the Group agreed further loan facilities amounting to US$1.3 million, including US$850,000 from related parties. These additional facilities mature on 31 December 2020.

In response to this, we:

- obtained an understanding of the Group's and Parent Company's controls over the development and approval of the projections and assumptions used in the cash flow forecasts to support the going concern assumption and assessed the design and implementation of these controls;
- challenged the key assumptions used in the cash flow forecasts by agreement to historical run rates, expenditure commitments and other supporting documentation;
- reviewed the terms of loan facilities in place;
- tested the clerical accuracy of the cash flow forecast model; and
- assessed the adequacy of the disclosures in the financial statements.

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • *Going concern (see material uncertainty relating to going concern section);* • *Recoverability of financial assets and amounts due from joint venture undertakings; and* • *Completeness of related party transactions.*
Materiality	The materiality that we used for the Group financial statements was $444,000, which was determined based on approximately 1.5% of shareholders' equity. The materiality that we used for the Parent Company financial statements was $355,200, which was determined based on 80% of the materiality used for the Group financial statements.
Scoping	We determined the scope of our Group audit by obtaining an understanding of the Group and its environment and assessing the risks of material misstatement at the Group level. We also considered the quantum of financial statement balances and individual financial transactions of a significant nature. We assessed the Group to consist of two significant components being PetroNeft Resources PLC (Parent Company), and WorldAce Investments Limited (joint venture). We performed a full scope audit on these components.
Significant changes in our approach	No significant changes in our approach.

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

Key audit matters

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

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

Key audit matter title	Recoverability of financial assets and amounts due from joint venture undertakings
Key audit matter description	The Group and Parent Company held loans receivable from joint ventures of $35.5 million (2017: Group: $49.4 million) at the balance sheet date. The realisation of investments in joint ventures and subsidiaries and amounts due from joint ventures is dependent on raising additional finance to enable the successful development of economic reserves and revenue growth from the Licences 61 and 67, held by joint ventures. Licence 61, held by WorldAce Investments Limited, is dependent on the future exploration and development of the licence, including the reserves at the Sibkrayevskoye field. The development of the Sibkrayevskoye field is subject to additional finanace being raised to develop the field area. Licence 67, held by Russian BD Holdings B.V. is dependent on the subsequent development or sale of the Licence. The development of the Cheremshanskoye Oil Field field is subject to additional finance being raised to develop the field area. There is a risk that the recoverability of financial assets and loans advanced to joint venture undertakings is not realisable and a provision should be recorded in the financial statements. As such, we have identified this as a key audit matter.
How the scope of our audit responded to the key audit matter	We carried out the following procedures: • We evaluated the design and determined the implementation of key controls identified in the impairment process; • We reviewed and challenged management's impairment models of the joint ventures including the key assumptions (oil reserves, discount rate, oil production rates, oil price and foreign exchange rates etc.) underpinning the models. • We assessed the adequacy of the disclosures in the financial statements.

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

Key audit matters (Continued)

Key audit matter title	Recoverability of financial assets and amounts due from joint venture undertakings (Continued)
Key observations	As noted above the recoverability of financial assets and amounts due from joint ventures is dependent on the Group and Parent Company continuing as a going concern and the continued successful development of economic reserves on the Licence 61 and on the future sale of Licence 67, which are subject to a number of uncertainties, including the raising of additional finance, which is subject to a number of uncertainties. The financial statements do not include any adjustments relating to this uncertainty and the ultimate outcome cannot, at present, be determined. Our opinion is not modified in respect of this matter and we are satisfied that the disclosures are reasonable and proportionate to this uncertainty.

Key audit matter title	Completeness of related party transactions
Key audit matter description	The Group and Company have a number of related parties as disclosed in note 26. In January 2018, the Group agreed a loan facility for US$2 million with Swedish company Petrogrand AB ("Petrogrand"). During the period the loan facility was drawn down in full. In March 2019 both parties agreed to increase the facility by US$500,000 to US$2.5 million and a revised maturity date of 15 December 2019 which may be extended by mutual consent of both parties. The revised terms include the potential entitlement to bonus payments of US$2.5 million per Licence if either or both Licence 61 or Licence 67 are sold before 31 December 2020. Petrogrand is a related party. Maxim Korobov, a director of PetroNeft, is a significant shareholder of Petrogrand. In June 2019, the Group agreed further loan facilities amounting to US$1.3 million, including US$850,000 from related parties. There is a risk that transactions with related parties or companies controlled by key management personnel are not disclosed. As such, we have identified this as a key audit matter.
How the scope of our audit responded to the key audit matter	We carried out the following procedures: • We evaluated the design and determined the implementation of key controls identified in determining the identifcation of related parties; • We obtained and understanding of unusual or high value transactions with related parties • We obtained written confirmations from the Directors and Key Management Personnel confirming details of related party transactions; and • We assessed the adequacy of the disclosures in the financial statements.
Key observations	We have not identifed any observation that impacts on our audit report.

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

Key audit matters (Continued)

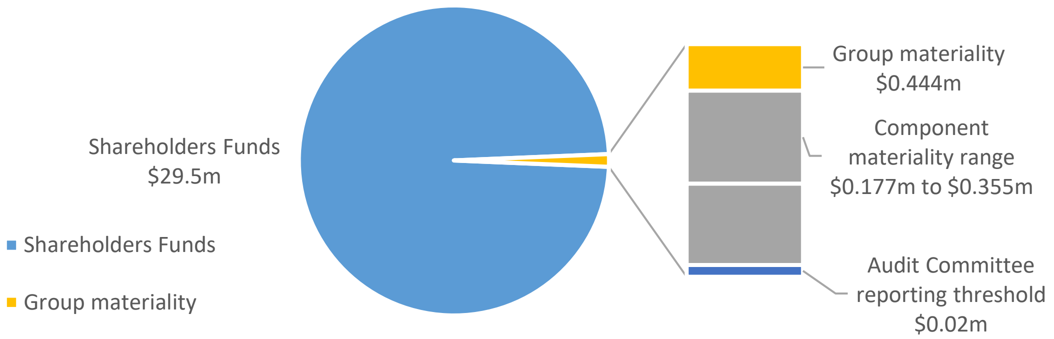
Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	$444,000	$355,200
Basis for determining materiality	Materiality was determined based on approximately 1.5% of shareholders' equity.	Materiality was determined based on approximately 80% ofof the materiality used for the Group financial statements.
Rationale for the benchmark applied	We have used benchmarks to determine our materiality for the Group and Parent Company financial statements, which we believe covers key metrics of the Group and Parent Companythat are used by stakeholders. Given that the Group's main activity is the holding of investments in joint ventures that are currently in the exploration stage and are loss making we have determined materiality based on shareholders' equity. We believe that using a materiality based on this benchmark reflects critical underlying measures of the Group given these are the critical elements of the business.	



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $22,000 for the Group as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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

An overview of the scope of our audit

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

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements for the year ended 31 December 2018, other than the financial statements and our auditor's report thereon.

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

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor’s responsibilities for the audit of the financial statements

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

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

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

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

For listed entities and public interest entities, the auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, including the Ethical Standard for Auditors (Ireland) 2016, and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor’s independence, and where applicable, related safeguards.

Where the auditor is required to report on key audit matters, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor’s report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Auditor’s responsibilities for the audit of the financial statements (Continued)

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2014

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

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

Matters on which we are required to report by exception

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

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

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

25 June 2019

PetroNeft Resources plc

Consolidated Income Statement
For the year ended 31 December 2018

	Note	2018 US$	2017 US$
Continuing operations			
Revenue	5	1,767,074	1,712,574
Cost of sales		(1,559,982)	(1,550,119)
Gross profit		**207,092**	**162,455**
Administrative expenses		(1,389,582)	(1,402,867)
Exchange (loss)/gain on intra-Group loans		(123,235)	52,093
Operating loss	7	**(1,305,725)**	**(1,188,319)**
Share of joint venture's net loss - WorldAce Investments Limited	13	(6,339,613)	(4,285,833)
Share of joint venture's net loss - Russian BD Holdings B.V.	14	(508,757)	(381,654)
Finance revenue	8	966,039	3,510,435
Finance costs	9	(116,825)	-
Loss for the year for continuing operations before taxation		**(7,304,881)**	**(2,345,371)**
Income tax expense	10	(256,881)	(893,670)
Loss for the year attributable to equity holders of the Parent		**(7,561,762)**	**(3,239,041)**
Loss per share attributable to ordinary equity holders of the Parent			
Basic and diluted - *US dollar cent*	11	**(1.07)**	**(0.46)**

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2018

	2018 US$	2017 US$
Loss for the year attributable to equity holders of the Parent	**(7,561,762)**	**(3,239,041)**
Other comprehensive income to be reclassified to profit or loss in subsequent years:		
Currency translation adjustments - subsidiaries	102,440	(37,190)
Share of joint ventures' other comprehensive income - foreign exchange translation differences	(8,456,256)	2,551,042
Total comprehensive loss for the year attributable to equity holders of the Parent	**(15,915,578)**	**(725,189)**

PetroNeft Resources plc

Consolidated Balance Sheet
As at 31 December 2018

	Note	2018 US$	2017 US$
Assets			
Non-current Assets			
Property, plant and equipment	12	38,296	88,202
Equity-accounted investment in joint ventures - WorldAce Investments Limited	13	-	-
Equity-accounted investment in joint ventures - Russian BD Holdings B.V.	14	-	-
Financial assets at amortised cost	16	35,525,743	49,439,502
		35,564,039	**49,527,704**
Current Assets			
Inventories	17	6,547	21,908
Trade and other receivables	18	249,280	587,601
Cash and cash equivalents	19	801,938	9,389
		1,057,765	**618,898**
Total Assets		**36,621,804**	**50,146,602**
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		(91,003,253)	(83,441,491)
Currency translation reserve		(36,958,374)	(28,604,558)
Other reserves		336,000	336,000
Equity attributable to equity holders of the Parent		**29,512,993**	**45,428,571**
Non-current Liabilities			
Deferred tax liability	10	3,219,203	3,001,617
		3,219,203	**3,001,617**
Current Liabilities			
Interest-bearing loans and borrowings	21	2,116,825	-
Trade and other payables	22	1,772,783	1,716,414
		3,889,608	**1,716,414**
Total Liabilities		**7,108,811**	**4,718,031**
Total Equity and Liabilities		**36,621,804**	**50,146,602**

Approved by the Board on 25 June 2019.

David Golder
Director

David Sturt
Director

Consolidated Statement of Changes in Equity
For the year ended 31 December 2018

	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 2017	**9,429,182**	**140,912,898**	**7,132,540**	**(31,118,410)**	**(80,202,450)**	**46,153,760**
Loss for the year	-	-	-	-	(3,239,041)	(3,239,041)
Currency translation adjustments - subsidiaries	-	-	-	(37,190)	-	(37,190)
Share of joint ventures' other comprehensive income - foreign exchange translation differences	-	-	-	2,551,042	-	2,551,042
Total comprehensive loss for the year	**-**	**-**	**-**	**2,513,852**	**(3,239,041)**	**(725,189)**
At 31 December 2017	**9,429,182**	**140,912,898**	**7,132,540**	**(28,604,558)**	**(83,441,491)**	**45,428,571**
At 1 January 2018	**9,429,182**	**140,912,898**	**7,132,540**	**(28,604,558)**	**(83,441,491)**	**45,428,571**
Loss for the year	-	-	-	-	(7,561,762)	(7,561,762)
Currency translation adjustments - subsidiaries	-	-	-	102,440	-	102,440
Share of joint ventures' other comprehensive income - foreign exchange translation differences	-	-	-	(8,456,256)	-	(8,456,256)
Total comprehensive loss for the year	**-**	**-**	**-**	**(8,353,816)**	**(7,561,762)**	**(15,915,578)**
At 31 December 2018	**9,429,182**	**140,912,898**	**7,132,540**	**(36,958,374)**	**(91,003,253)**	**29,512,993**

PetroNeft Resources plc

Consolidated Cash Flow Statement
For the year ended 31 December 2018

	Note	2018 US$	2017 US$
Operating activities			
Loss before taxation		**(7,304,881)**	**(2,345,371)**
Adjustment to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation		38,936	62,748
Share of loss in joint ventures		6,848,370	4,667,487
Finance revenue	*8*	(966,039)	(3,510,435)
Finance costs	*9*	116,825	-
Working capital adjustments			
Decrease in trade and other receivables		276,593	294,434
Decrease in inventories		12,960	7,066
Increase in trade and other payables		192,955	555,937
Income tax paid		(30,034)	(9,783)
Net cash flows used in operating activities		**(814,315)**	**(277,917)**
Investing activities			
Loan facilities advanced to joint venture undertakings		(392,000)	(40,000)
Interest received		1,481	823
Net cash used in investing activities		**(390,519)**	**(39,177)**
Financing activities			
Proceeds from loan facilities		2,000,000	-
Net cash received from financing activities		**2,000,000**	**-**
Net increase/(decrease) in cash and cash equivalents		**795,166**	**(317,094)**
Translation adjustment		(2,617)	6,865
Cash and cash equivalents at the beginning of the year		9,389	319,618
Cash and cash equivalents at the end of the year	*19*	**801,938**	**9,389**

PetroNeft Resources plc

Company Balance Sheet
As at 31 December 2018

	Note	2018 US$	2017 US$
Non-current Assets			
Property, plant and equipment	12	486	1,386
Financial assets - investments in joint ventures and subsidiaries	15	13,848	293,714
Financial assets at amortised cost	16	35,525,743	49,439,502
		35,540,077	**49,734,602**
Current Assets			
Trade and other receivables	18	290,974	1,110,630
Cash and cash equivalents	19	790,753	9,306
		1,081,727	**1,119,936**
Total Assets		**36,621,804**	**50,854,538**
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		(127,788,793)	(110,995,698)
Other reserves		336,000	336,000
Equity attributable to equity holders of the parent		**29,685,827**	**46,478,922**
Non-current Liabilities			
Deferred tax liability	10	3,219,203	3,001,617
		3,219,203	**3,001,617**
Current Liabilities			
Interest-bearing loans and borrowings	21	2,116,825	-
Trade and other payables	22	1,599,949	1,373,999
		3,716,774	**1,373,999**
Total Liabilities		**6,935,977**	**4,375,616**
Total Equity and Liabilities		**36,621,804**	**50,854,538**

The Company reported a loss for the financial year ended 31 December 2018 of US$16.8 million (2017: US$14.3 million).

Approved by the Board on 25 June 2019.

David Golder
Director

David Sturt
Director

Company Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital US$	Share premium US$	Share-based payment and other reserves US$	Retained loss US$	Total US$
At 1 January 2017	**9,429,182**	**140,912,898**	**7,132,540**	**(96,676,960)**	**60,797,660**
Loss for the year	-	-	-	(14,318,738)	(14,318,738)
Total comprehensive loss for the year	**-**	**-**	**-**	**(14,318,738)**	**(14,318,738)**
At 31 December 2017	**9,429,182**	**140,912,898**	**7,132,540**	**(110,995,698)**	**46,478,922**
At 1 January 2018	**9,429,182**	**140,912,898**	**7,132,540**	**(110,995,698)**	**46,478,922**
Loss for the year	-	-	-	(16,793,095)	(16,793,095)
Total comprehensive loss for the year	**-**	**-**	**-**	**(16,793,095)**	**(16,793,095)**
At 31 December 2018	**9,429,182**	**140,912,898**	**7,132,540**	**(127,788,793)**	**29,685,827**

PetroNeft Resources plc

Company Cash Flow Statement

For the year ended 31 December 2018

	Note	2018 US$	2017 US$
Operating Activities			
Loss before taxation		**(16,548,537)**	**(13,434,172)**
Adjustments to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation of property, plant and equipment		900	897
Impairment of financial assets - investments in joint ventures and subsidiaries		279,866	4,858,815
Allowance for doubtful debts on financial assets - loans and receivables		15,699,003	10,923,056
Finance revenue		(978,232)	(3,540,251)
Finance costs		116,825	-
Working capital adjustments			
Decrease in trade and other receivables		52,777	304,326
Increase in trade and other payables		329,467	424,160
Income tax paid		(81)	(930)
Net cash flows used in operating activities		**(1,048,012)**	**(464,099)**
Investing activities			
Loan facilities advances		(392,000)	(40,000)
Receipt from loan facilities		222,061	210,000
Interest received		799	315
Net cash (used in)/received from investing activities		**(169,140)**	**170,315**
Financing activities			
Proceeds from loan facilities		2,000,000	-
Net cash received from financing activities		**2,000,000**	**-**
Net increase/(decrease) in cash and cash equivalents		782,848	(293,784)
Translation adjustment		(1,401)	5,843
Cash and cash equivalents at the beginning of the year		9,306	297,247
Cash and cash equivalents at the end of the year	*19*	**790,753**	**9,306**

Notes to the Financial Statements

For the year ended 31 December 2018

1. General information on the Company and the Group

PetroNeft Resources plc ("PetroNeft", "the Company", or together with its subsidiaries and joint ventures, "the Group") is a public limited company incorporated in the Republic of Ireland with a company registration number 408101. The Company is listed on the Alternative Investments Market ("AIM") of the London Stock Exchange and the Enterprise Securities Market ("ESM") of the Irish Stock Exchange. The address of the registered office and the business address in Ireland is 20 Holles Street, Dublin 2. The Company is domiciled in the Republic of Ireland.

The principal activities of the Group, which are unchanged from last year, are oil and gas exploration, development and production.

2. Going Concern

As described in the Financial Review on page 13, in March 2019 PetroNeft agreed an extension of the loan facility and an increase by US$500,000 up to US$2.5 million with Swedish company Petrogrand AB, a related party. The loan matures on 15 December 2019 and is secured by way of a floating charge on the assets of PetroNeft. The original loan facility was used for general corporate purposes and to finance the drilling programme in 2018. The increase is being used for general corporate purposes. This loan facility has provided time and space for a more long-term financing solution to be put in place. In June 2019 the Company agreed another loan facility with a group of five investors for US$1.3 million. This loan matures on 31 December 2020, or such later date as may be agreed, and a portion (up to 65% of the principal) may be repaid via conversion to Ordinary shares of the Company at the option of the lenders at a conversion price of US$0.015477 per share. Three of the five investors are related parties. See Note 26 for details of related party transactions.

The Group has analysed its cash flow requirements through to 30 June 2020 in detail. The cash flows are highly dependent on the successful re-financing of the Petrogrand loan and on future production rates and oil prices achieved in its joint-venture undertaking, WorldAce Investments Limited. Should the Petrogrand loan not be re-financed the Group will need additional funding in order to continue as a going concern.

The Group has put in place cost saving measures and the Board and management have agreed to reduce and defer significant portions of their remuneration. Note 26 outlines the amounts owed to the Board and management in this regard.

In 2018 the Company, in conjunction with its joint venture partners engaged financial advisers to evaluate the disposal of Licence 61 and/or Licence 67. While there remains significant uncertainty that any transaction will be completed, the Company has seen interest from a range of well-financed industry players. The result of the C-4 well which was drilled during 2018 has generated additional interest. The Company has signed non-disclosure agreements and opened data rooms in relation to the potential sale or farmout of both Licence 61 and 67. As there are delaying factors, including regulatory requirements, around transferring licences and in a share for share type transaction, the timeframe to close such a successful transaction could be at least six months following binding agreement between the parties. The Board is confident that one of these options will bring a solution.

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

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

Notes to the Financial Statements

For the year ended 31 December 2018

3. Accounting policies

3.1 Basis of Preparation

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

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

Statement of Compliance

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

3.2 Basis of Consolidation

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

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

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

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

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

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

3. Accounting policies (continued)

3.2 Basis of Consolidation (continued)

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

3.3 Business Combination

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

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

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

3.4 Significant Accounting Judgements, Estimates and Assumptions

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

(a) Judgements

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

Going concern – Note 2

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in Note 2 above.

Loans and receivables from joint ventures – Notes 13, 14 and 16

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.

3. Accounting policies (continued)

3.4 Significant Accounting Judgements, Estimates and Assumptions (continued)

(b) Estimates and Assumptions

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

Income tax

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

Impairment of financial assets – Note 15

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.

Business model assessment

Classification and measurement of financial assets depends on the results of the Solely Payments of Principal and Interest (SPPI) and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business model for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

3. Accounting policies (continued)

3.5 Summary of Significant Accounting Policies

(a) Foreign currencies

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

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

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

The relevant average and closing exchange rates for 2018 and 2017 were:

	2018		2017	
US$1 =	**Closing**	**Average**	**Closing**	**Average**
Russian Rouble	69.471	62.743	57.860	58.335
Euro	0.8734	0.8488	0.8338	0.8789
British Pound	0.7813	0.7521	0.7398	0.7728

(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:

- Plant and machinery – 10% to 35%.

3. Accounting policies (continued)

3.5 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

(d) Financial assets
Financial assets – Classification
From 1 January 2018, the Group classifies its financial assets in the following measurement categories:
• those to be measured at amortised cost "AC", and
• those to be measured subsequently at fair value (either through OCI or through profit or loss).

The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

For investments in equity instruments that are not held for trading, classification will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). This election is made on an investment by investment basis.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

3. Accounting policies (continued)

3.5 Summary of Significant Accounting Policies (continued)

(d) Financial assets (continued)

Financial assets - Recognition and derecognition
Purchases of financial assets are recognized when the entity becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial assets - Measurement
At initial recognition, a financial asset is measured at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Financial assets - impairment - credit loss allowance for ECL
From 1 January 2018, the Group assesses on a forward-looking basis the expected credit losses "ECL" for debt instruments (including loans) measured at AC and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The carrying amount of the financial assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of profit or loss within ''allowance for doubtful debts'.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL.

Expected losses are recognized and measured according to one of two approaches: general approach or simplified approach.

For trade receivables the Group applies the simplified approach permitted by IFRS 9, which uses lifetime expected losses to be recognised from initial recognition of the financial assets.

For all other financial asset that are subject to impairment under IFRS 9, the Group applies general approach three stage model for impairment. The Group applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit impaired on initial recognition is classified in Stage 1.

Financial assets - write off
Financial assets are written off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write off represents a derecognition event. The Group may write off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits. Cash and cash equivalents are carried at amortised cost.

3. Accounting policies (continued)

3.5 Summary of Significant Accounting Policies (continued)

(d) Financial assets (continued)

Financial assets at amortised cost

These are held with the objective to collect their contractual cash flows and their cash flows represent solely payments of principal and interest. Accordingly, these are measured at amortised cost using the effective interest method, less provision for impairment. Financial assets at amortised cost are classified as current assets if they are due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current assets.

Trade receivables, loans, and other receivables are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Loans to and receivables from joint ventures represent funding by the company for which repayment is neither planned nor likely to occur in the foreseeable future. These are treated as part of the Company's net investment in the joint ventures.

(e) Financial liabilities

Financial liabilities - measurement categories

Financial liabilities are initially recognised at fair value and classified as subsequently measured at amortised cost, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Trade payables

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

Non-current liabilities

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

Interest-bearing loans and borrowings

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

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

Derecognition

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

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

Notes to the Financial Statements

For the year ended 31 December 2018

3. Accounting policies (continued)

3.5 Summary of Significant Accounting Policies (continued)

(f) 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.

Notes to the Financial Statements

For the year ended 31 December 2018

3. Accounting policies (continued)

3.5 Summary of Significant Accounting Policies (continued)

(g) Inventories

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

(h) Provisions

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

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

(i) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(i) Share capital

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

(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.

3. Accounting policies (continued)

3.5 Summary of Significant Accounting Policies (continued)

(j) Taxes (continued)

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 is recognised when control has been transferred to the customer. Revenue is recognized at the transaction price which the Group expects to be entitled to, after deducting sales taxes, excise duties and similar levies. For contracts that contain separate performance obligations the transaction price is allocated to those separate performance obligations by reference to their relative standalone selling prices.

The Group recognises revenue from the following major sources:

- Management services; and
- Construction services.

Both streams of revenue are predominantly generated from joint venture undertakings.

3. Accounting policies (continued)

3.5 Summary of Significant Accounting Policies (continued)

(k) Revenue recognition (continued)

Revenue from management services is recognised in accordance with agreements with our joint venture partners. The provision of management services is recognised on a monthly basis at a variable price with an application of "right to invoice" practical expedient. Revenue from construction services is recognised on a monthly basis in accordance with agreed work completion schedules.

(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 27.

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

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

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.

3. Accounting policies (continued)

3.5 Summary of Significant Accounting Policies (continued)

(m) 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.

(n) 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.

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

3.6 Changes in Accounting Policy and Disclosures

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

3.6 Adoption of new or revised standards and interpretations
As from 1 January 2018, the Group adopted all the IFRSs and International Accounting Standards (IAS), which are relevant to its operations.

The adoption of the following Standards has been considered in detail:
• IFRS 9 ''Financial Instruments''
• IFRS 15 ''Revenue from contracts with customers''

As explained below, in accordance with the transition provisions of IFRS 9 and IFRS 15, the Group has elected the simplified approach for adoption of the standards. Accordingly, IFRS 9 and IFRS 15 were adopted without restating the comparative information.

(i) IFRS 9 ''Financial instruments''
IFRS 9 ''Financial instruments'' replaces the provisions of IAS 39 that relate to recognition and derecognition of financial instruments and classification and measurement of financial assets and financial liabilities. IFRS 9 further introduces new principles for hedge accounting and a new forward-looking impairment model for financial assets.

The new standard requires debt financial assets to be classified into two measurement categories: those to be measured subsequently at fair value (either through other comprehensive income (FVOCI) or through profit or loss (either FVTPL or FVPL) and those to be measured at amortized cost. The determination is made at initial recognition. For debt financial assets the classification depends on the entity's business model for managing its financial instruments and the contractual cash flows characteristics of the instruments. For equity financial assets it depends on the entity's intentions and designation.

In particular, assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Lastly, assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss.

3. Accounting policies (continued)

3.6 Changes in Accounting Policy and Disclosures (continued)

3.6 Adoption of new or revised standards and interpretations (continued)

IFRS 9 also introduces a single impairment model applicable for debt instruments at amortised cost and fair value through other comprehensive income and removes the need for a triggering event to be necessary for recognition of impairment losses. The new impairment model under IFRS 9 requires the recognition of allowances for doubtful debts based on expected credit losses (ECL), rather than incurred credit losses as under IAS 39. The standard further introduces a simplified approach for calculating impairment on trade receivables as well as for calculating impairment on contract assets and lease receivables; which also fall within the scope of the impairment requirements of IFRS 9.

For financial liabilities, the standard retains most of the requirements of IAS 39. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to the entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.
With the introduction of IFRS 9 ''Financial Instruments'', the IASB confirmed that gains or losses that result from modification of financial liabilities that do not result in derecognition shall be recognized in profit or loss.

The Group has adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies for recognition and classification of financial assets and liabilities and impairment of financial assets.

With the introduction of IFRS 9 ''Financial Instruments'', the IASB confirmed that gains or losses that result from modification of financial liabilities that do not result in derecognition shall be recognized in profit or loss.

The Group's new accounting policies following adoption of IFRS 9 at 1 January 2018 are set out in section 3.5 above.

Impact of adoption
In accordance with the transition provisions in IFRS 9, the Group has elected the simplified transition method for adopting the new standard. Accordingly, the effect of transition to IFRS 9 was recognised as at 1 January 2018 as an adjustment to the opening retained earnings (or other components of equity, as appropriate). In accordance with the transition method elected by the Group for implementation of IFRS 9 the comparatives have not been restated but are stated based on the previous policies which comply with IAS 39. Consequently, the revised requirements of IFRS 7 ''Financial Instruments: Disclosures'' have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

On 1 January 2018 for debt instruments held by the Group and the Company, management has assessed which business models apply to the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI test). As a result, Management has classified its debt instruments into the appropriate IFRS 9 categories.

As a result of the adoption of IFRS 9 the Group revised its impairment methodology for each class of assets subject to the new impairment requirements. From 1 January 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and cash and cash equivalents. The impairment methodology applied depends on whether there has been a significant increase in credit risk and whether the debt instruments qualify as low credit risk.

The Group has the following types of assets that are subject to IFRS 9's new expected credit loss model: trade receivables, financial assets at amortised cost and cash and cash equivalents.

The Group has adopted the simplified expected credit loss model for its trade receivables as required by IFRS 9, paragraph 5.5.15, and the general expected credit loss model for financial assets at amortised cost and cash and cash equivalents. As a result, the Company has recognised an expected credit loss on its receivables, amounting to US$3.1 million during the year ended 31 December 2018 (2017: US$Nil). This is in addition to the amounts recognised as a Share of the joint ventures' net losses for the year ended 31 December 2018.

Notes to the Financial Statements

For the year ended 31 December 2018

3. Accounting policies (continued)

3.6 Changes in Accounting Policy and Disclosures (continued)

3.6 Adoption of new or revised standards and interpretations (continued)

	Measurement category		Carrying value per IAS 39 (closing balance at 31 December 2017)	Remeasurement	Reclassification	Carrying value per IFRS 9 (opening balance at 1 January 2018)
	IAS 39	IFRS 9	US$	US$	US$	US$
Financial assets						
Cash and cash equivalents	L&R	AC	9,389	-	-	9,389
Trade and other receivables	L&R	AC	587,601	-	-	587,601
Financial assets – Loans receivables	L&R	AC	49,349,502	-	-	49,349,502
Financial Liabilities						
Trade and other payables	AC	AC	1,716,414	-	-	1,716,414

Following an impairment review of the assets underlying the financial assets, no additional provision for impairment incurred relating to the opening balances.

• *Other financial instruments:*
For all other financial assets Management assessed that the Group's business model for managing the assets is ''hold to collect'' and these assets meet SPPI tests. As a result, all other financial assets were classified as financial assets at amortised cost and reclassified from the category ''loans and receivables'' under IAS 39, which was ''retired''. Previously under IAS 39 these financial assets were also measured at amortised cost. Thus, there were no impact of adoption of IFRS 9 as of 1 January 2018.

At 31 December 2017, all of the Group's financial liabilities were carried at amortised cost. Starting from 1 January 2018 the Group's financial liabilities continued to be classified at amortised cost.

(ii) IFRS 15 ''Revenue from Contracts with Customers''

IFRS 15 ''Revenue from contracts with customers'' and related amendments superseded IAS 18 ''Revenue'', IAS 11 ''Construction Contracts'' and related interpretations. The new standard replaces the separate models for recognition of revenue for the sale of goods, services and construction contracts under previous IFRS and establishes uniform requirements regarding the nature, amount and timing of revenue recognition. IFRS 15 introduces the core principle that revenue must be recognised in such a way to depict the transfer of goods or services to customers and reflect the consideration that the entity expects to be entitled to in exchange for transferring those goods or services to the customer; the transaction price.

The new standard provides a principle based five step model that must be applied to all categories of contracts with customers. Any bundled goods or services must be assessed as to whether they contain one or more performance obligations (that is, distinct promises to provide a good or service). Individual performance obligations must be recognised and accounted for separately and any discounts or rebates in the contract price must generally be allocated to each of them.

The Group's new accounting policies following adoption of IFRS 15 at 1 January 2018 are set out in section 3.5 (k).

3. Accounting policies (continued)

3.6 Changes in Accounting Policy and Disclosures (continued)

3.6 Adoption of new or revised standards and interpretations (continued)

(ii) IFRS 15 ''Revenue from Contracts with Customers'' (continued)

Impact of adoption
In accordance with the transition provisions of IFRS 15, the Group has elected the simplified transition method for adopting the new standard.

The Group has applied IFRS 15 retrospectively only to contracts that are not completed contracts at the date of initial application and adopted the practical expedient not to retrospectively restate contracts for which contract modifications occurred before the date of initial application. In accordance with the transition method elected by the Group for implementation of IFRS 15 the comparatives have not been restated but are stated based on the previous policies which comply with IAS 18 and related interpretations.

Based on detailed analysis of the Group’s revenue streams and individual contracts' terms and on the basis of the facts and circumstances relating to the Group’s revenue transactions, the impact of the adoption of IFRS 15 on 1 January 2018 was deemed immaterial.

(iii) Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28). The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

Impact of adoption
The directors of the Company decided to early adopt this amendment and have applied it in the calculation of the ECL as part of its first-time adoption of IFRS 9.

3. Accounting policies (continued)

3.7 New accounting pronouncements

At the date of approval of these financial statements, standards and interpretations were issued by the International Accounting Standards Board which were not yet effective. Some of them were adopted by the European Union and others not yet. The Board of Directors expects that the adoption of these accounting standards in future periods will not have a material effect on the financial statements of the Company. At the date of approval of these financial statements the following accounting standards were issued by the International Accounting Standards Board but were not yet effective:

(i) Adopted by the European Union

IFRS 16 ''Leases'' (Effective for annual periods beginning on or after 1 January 2019)

IFRS 16 replaces existing leases guidance including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standard introduces a single, on-balance sheet lease accounting model for lessees. IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The previous distinction between operating and finance leases is removed for lessees. Instead, a lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

The operating leases in the Group relate to leases of office space. An assessment of the Group's contractual leases existing as of 1 January 2019 indicates that the Group's implementation of IFRS 16 from January 2019 will have no significant impact on the measurement and recognition of Group's financial assets and liabilities. Refer to note 25 for the future minimum rentals under non-cancellable operating leases.

There are no other IFRS or IFRIC interpretations that are effective subsequent to the 2018 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.

Notes to the Financial Statements

For the year ended 31 December 2018

5. Revenue

	2018	2017
	US$	US$
Revenue		
Management Services	846,860	848,230
Construction Services	920,214	864,344
	1,767,074	**1,712,574**

Most of the revenue from management and construction services relate to services provided to the joint venture undertakings which PetroNeft Group have interests in. The revenue is mainly derived from two major customers Stimul-T LLC and WorldAce Investments Limited which comprise 52% (2017: 50%) and 41% (2017: 42%) respectively.

6. Employees

Number of employees	2018	2017
Group	Number	Number
The average numbers of employees (including Directors) during the year was:		
Directors	6	6
Senior Management	2	2
Professional staff	5	5
Construction crew employees	31	36
	44	**49**

6. Employees (*continued)*

Number of employees	**2018**	**2017**
Company	**Number**	**Number**
The average numbers of employees (including Directors) during the year was:		
Directors	6	6
Senior Management	2	2
Professional Staff	1	1
	9	**9**

Group	**2018**	**2017**
Employment costs (including Directors)	**US$**	**US$**
Wages and salaries	1,544,818	1,697,063
Social insurance costs	138,829	183,238
Contributions to defined contribution pension plan	55,963	78,050
	1,739,610	**1,958,351**

Company	**2018**	**2017**
Employment costs (including Directors)	**US$**	**US$**
Wages and salaries	1,167,793	1,188,185
Social insurance costs	34,324	40,521
Contributions to defined contribution pension plan	55,963	78,050
	1,258,080	**1,306,756**

No employment costs were capitalised during 2018 or 2017.

Group and company	**2018**	**2017**
Directors' emoluments	**US$**	**US$**
Remuneration and other emoluments - Executive Director	496,500	399,505
Remuneration and other emoluments - Non-executive Directors	64,828	205,531
Contributions to defined contribution pension plan - Executive Director	26,217	29,963
	587,545	**634,999**

Pension contributions to directors during the year relate to 1 director (2017: 1 director).
Your attention is drawn to the details of the share options received by the Directors as set out in the Report of Directors.

An amount of US$174,783 (2017: US$199,752) relating to Executive Directors' salaries was re-charged to WorldAce Investments Limited. An amount of US$48,690 (2017: US$59,926) relating to Executive Directors' salaries was re-charged to Russian BD Holdings B.V.

Included in remuneration and other emoluments for the Executive Director above is the aggregate amount of compensation paid to directors or former directors in respect of retirement, loss of office or other termination payments for the financial year of US$146,934 (2017: US$Nil).

Notes to the Financial Statements

For the year ended 31 December 2018

7. Operating loss

Operating loss is stated after charging/(crediting):	Note	2018 US$	2017 US$
Included in cost of sales			
Operating lease rentals - equipment		43,268	64,071
Foreign exchange loss on intra-Group loans		123,235	(52,093)
Included in administrative expenses			
Other foreign exchange gains		(30,842)	13,971
Operating lease rentals - land and buildings		44,589	38,596
Depreciation of property, plant and equipment			
Included in cost of sales		38,036	61,851
Included in administrative expenses		900	897
	12	38,936	62,748
Auditors' remuneration - Group			
-audit of group financial statements		68,878	65,849
-other assurance services		-	-
-tax advisory services		-	-
-other non-audit services		25,000	-
		93,878	65,849
Auditors' remuneration - Company			
-audit of entity financial statements		17,250	16,500
-audit of group financial statements		51,628	49,349
-other assurance services		-	-
-tax advisory services		-	-
		68,878	65,849

Notes to the Financial Statements

For the year ended 31 December 2018

8. Finance revenue

	2018 US$	2017 US$
Bank interest receivable	1,481	823
Interest receivable on loans to Joint Ventures	4,074,059	3,509,612
Loss allowance	(3,109,501)	-
	966,039	**3,510,435**

The loss allowance relates to the expected credit loss associated with the loans to WorldAce Investments Limited. See also Note 16.

9. Finance costs

	2018 US$	2017 US$
Interest on loan from related party (Note 26)	116,825	-
	116,825	**-**

10. Income tax

	2018 US$	2017 US$
Current income tax		
Current income tax charge	12,523	9,182
Total current income tax	**12,523**	**9,182**
Deferred tax		
Relating to origination and reversal of temporary differences	244,358	884,488
Total deferred tax	**244,358**	**884,488**
Income tax expense reported in the Consolidated Income Statement	**256,881**	**893,670**

	2018 US$	2017 US$
Loss before income tax	**(7,304,881)**	(2,345,371)
Accounting loss multiplied by Irish standard rate of tax of 12.5%	(913,110)	(293,171)
Non-deductible expenses	1,667	9,977
Effect of higher tax rates on investment income	122,279	442,531
Tax deductible timing differences	(2,366)	1,087
Share of joint ventures' net loss	856,046	583,436
Other	1,558	2,942
Profits taxable at higher rates	8,046	6,939
Taxable losses not utilised	193,488	149,182
Utilisation of previously unrecognised tax losses	(10,727)	(9,253)
Total tax expense reported in the Consolidated Income Statement	**256,881**	**893,670**

10. Income Tax (*continued*)

Deferred tax

Group and Company	**2018**	**2017**
	US$	**US$**
Deferred income tax liability		
At 1 January	3,001,617	2,113,541
Expense for the year recognised in the income statement	244,358	884,488
Translation adjustment	(26,772)	3,588
At 31 December	**3,219,203**	**3,001,617**

Group and Company		
Deferred tax at 31 December relates to the following:	**2018**	**2017**
	US$	**US$**
Deferred income tax liability		
Accrued interest income on intra-Group loans	3,219,203	3,001,617
	3,219,203	**3,001,617**

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.

11. 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.

	2018	**2017**
Numerator	**US$**	**US$**
Loss attributable to equity shareholders of the Parent for basic and diluted loss	(7,561,762)	(3,239,041)
	(7,561,762)	**(3,239,041)**
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*	**(1.07)**	**(0.46)**

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

- Employee Share Options – Refer to Note 27 for the total number of shares related to the outstanding options that could potentially dilute basic earnings per share in the future. These potential Ordinary Shares are anti-dilutive for the years ended 31 December 2018 and 2017.

Notes to the Financial Statements

For the year ended 31 December 2018

12. Property, Plant and Equipment

Group	Plant and machinery US$
Cost	
At 1 January 2017	945,868
Translation adjustment	47,060
At 1 January 2018	**992,928**
Disposals	(324)
Translation adjustment	(152,799)
At 31 December 2018	**839,805**
Depreciation	
At 1 January 2017	802,402
Charge for the year	62,748
Translation adjustment	39,576
At 1 January 2018	**904,726**
Charge for the year	38,936
Disposals	(324)
Translation adjustment	(141,829)
At 31 December 2018	**801,509**
Carrying amount	
At 31 December 2018	**38,296**
At 31 December 2017	88,202

12. Property, Plant and Equipment (continued)

Company	Plant and machinery US$
Cost	
At 1 January 2017	32,066
At 1 January 2018	**32,066**
At 31 December 2018	**32,066**
Depreciation	
At 1 January 2017	29,783
Charge for the year	897
At 1 January 2018	**30,680**
Charge for the year	900
At 31 December 2018	**31,580**
Carrying amount	
At 31 December 2018	**486**
At 31 December 2017	1,386

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

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

	Share of net assets US$
At 1 January 2017	-
Elimination of unrealised profit on intra-Group transactions	(27,336)
Share of net loss of joint venture for the year	(4,285,833)
Translation adjustment	2,356,702
Credited against loans receivable from WorldAce Investments Limited (Note 16)	1,956,467
At 1 January 2018	**-**
Elimination of unrealised profit on intra-Group transactions	**(1,174)**
Share of net loss of joint venture for the year	**(6,339,613)**
Translation adjustment	**(7,760,793)**
Credited against loans receivable from WorldAce Investments Limited (Note 16)	**14,101,580**
At 31 December 2018	**-**

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

The balance sheet position of WorldAce Investments Limited shows net liabilities of US$57,974,076 (2017: US$29,773,264) following a loss in the year of US$12,679,226 (2017: US$8,571,665) together with a negative currency translation adjustment of US$15,521,586 (2017: positive US$4,713,403). PetroNeft's 50% share is included above and results in a negative carrying value of US$24,304,633 (2017: US$10,203,053). 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$24,304,633 (2017: US$10,203,053) is deducted from other assets associated with the joint venture on the Balance Sheet which are the loans receivable from WorldAce Investments (see Note 16).

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

	50% Share of WorldAce Group	
	2018	**2017**
	US$	**US$**
Continuing operations		
Revenue	15,684,984	13,818,415
Cost of sales	(13,886,409)	(12,636,469)
Gross profit	**1,798,575**	**1,181,946**
Administrative expenses	(1,560,913)	(1,546,643)
Operating profit/(loss)	**237,662**	**(364,697)**
Write-off of oil and gas properties	(2,048,038)	-
Write-off of exploration and evaluation assets	(2,346)	(13,051)
Finance revenue	64,712	33,176
Finance costs	(4,591,603)	(3,941,261)
Loss for the year for continuing operations before taxation	**(6,339,613)**	**(4,285,833)**
Income tax expense	-	-
Loss for the year	**(6,339,613)**	**(4,285,833)**
Loss for the year	(6,339,613)	(4,285,833)
Other comprehensive income to be reclassified to profit or loss in subsequent years:		
Currency translation adjustments	(7,760,793)	2,356,702
Total comprehensive loss for the year	**(14,100,406)**	**(1,929,131)**

Finance costs mainly relate to interest on shareholder loans from Oil India International B.V. and PetroNeft. The details of gross interest accrued on loans to PetroNeft are disclosed in Note 26 Related party disclosures.

The currency translation adjustment results from the movement of the Russian Rouble during the year. All Russian Rouble carrying values in Stimul-T, the 100% subsidiary of WorldAce are converted to US Dollars at each period end. The resulting gain or loss is recognised through other comprehensive income and transferred to the currency translation reserve. The Russian Rouble depreciated against the US Dollar during the year from RUB57.86:US$1 at 31 December 2017 to RUB69.47:US$1 at 31 December 2018.

Notes to the Financial Statements

For the year ended 31 December 2018

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

	50% Share of WorldAce Group	
	2018 US$	2017 US$
Non-current Assets		
Oil and gas properties	29,786,687	39,312,150
Property, plant and equipment	128,111	184,027
Exploration and evaluation assets	7,804,586	9,321,748
Assets under construction	562,307	824,992
	38,281,691	**49,642,917**
Current Assets		
Inventories	848,776	605,240
Trade and other receivables	380,156	282,925
Cash and cash equivalents	225,846	68,613
	1,454,778	**956,778**
Total Assets	**39,736,469**	**50,599,695**
Non-current Liabilities		
Provisions	(573,540)	(658,513)
Interest-bearing loans and borrowings	(65,682,097)	(61,435,277)
	(66,255,637)	**(62,093,790)**
Current Liabilities		
Interest-bearing loans and borrowings	(974,793)	(715,405)
Trade and other payables	(1,493,077)	(2,677,132)
	(2,467,870)	**(3,392,537)**
Total Liabilities	**(68,723,507)**	**(65,486,327)**
Net Liabilities	**(28,987,038)**	**(14,886,632)**

Interest-bearing loans and borrowings are shareholder loans from Oil India International B.V. and PetroNeft. The details of loans due to PetroNeft are disclosed in Note 26 Related party disclosures.

Capital commitments

	2018 US$	2017 US$
Details of capital commitments at the balance sheet date are as follows:		
Contracted for but not provided in the financial statements	**60,710**	**466,114**

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

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

	2018 US$	2017 US$
Within one year	76,971	65,570
After one year but not more than five years	333,355	244,391
More than five years	513,455	421,508
	923,781	**731,469**

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

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

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

	Share of net assets US$
At 1 January 2017	-
Share of net loss of joint venture for the year	(381,654)
Translation adjustment	194,339
Credited against loans receivable from Russian BD Holdings BV (Note 16)	187,315
At 1 January 2018	**-**
Elimination of unrealised profit on intra-Group transactions	**(12,117)**
Share of net loss of joint venture for the year	**(508,757)**
Translation adjustment	**(695,463)**
Credited against loans receivable from Russian BD Holdings BV (Note 16)	**1,216,337**
At 31 December 2018	**-**

The balance sheet position of Russian BD Holdings B.V. shows net liabilities of US$3,848,446 (2017: US$1,440,006) following a loss in the year of US$1,017,514 (2017: US$763,308) together with a negative currency translation of US$1,390,926 (2017: positive US$388,678). PetroNeft's 50% share is included above and results in a negative carrying value of US$1,936,340 (2017: US$720,003). 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$1,936,340 (2017: US$720,003) 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 16).

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

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

	50% Share of Russian BD Holdings B.V. Group	
	2018	**2017**
	US$	**US$**
Revenue	-	-
Cost of sales	-	-
Gross profit	**-**	**-**
Administrative expenses	(104,256)	(94,626)
Operating loss	**(104,256)**	**(94,626)**
Finance revenue	520	259
Finance costs	(405,021)	(287,287)
Loss for the year for continuing operations before taxation	**(508,757)**	**(381,654)**
Taxation	-	-
Loss for the year	**(508,757)**	**(381,654)**
Loss for the year	**(508,757)**	**(381,654)**
Other comprehensive income to be reclassified to profit or loss in subsequent years:		
Currency translation adjustments	(695,463)	194,339
Total comprehensive loss for the year	**(1,204,220)**	**(187,315)**

Finance costs comprise of interest on shareholder loans from Belgrave Naftogas B.V. and PetroNeft. The details of gross interest accrued on loans to PetroNeft are disclosed in Note 26 Related party disclosures.

	50% Share of Russian BD Holdings B.V. Group	
	2018	**2017**
	US$	**US$**
Non-current assets	4,993,522	4,370,482
Current assets	238,093	12,048
Total assets	**5,231,615**	**4,382,530**
Non-current liabilities	(6,393,622)	(4,981,608)
Current liabilities	(762,216)	(120,925)
Total liabilities	**(7,155,838)**	**(5,102,533)**
Net Liabilities	**(1,924,223)**	**(720,003)**

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For the year ended 31 December 2018

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

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

	2018 US$	2017 US$
Within one year	3,939	2,194
After one year but not more than five years	18,840	8,775
More than five years	52,006	26,416
	74,785	**37,385**

Capital commitments

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

	2018 US$	2017 US$
Contracted for but not provided in the financial statements	**78,406**	-

15. Financial assets – investments in joint ventures and subsidiaries

Company	Investment in joint ventures US$	Investment in Subsidiaries US$	Total US$
Cost			
At 1 January 2017	4,858,815	293,714	5,152,529
Impairment (Russian BD Holdings B.V.)	(4,858,815)	-	(4,858,815)
At 1 January 2018	**-**	**293,714**	**293,714**
Impairment (Granite Construction)	-	(279,866)	(279,866)
At 31 December 2018	**-**	**13,848**	**13,848**
Net book values			
At 31 December 2018	**-**	**13,848**	**13,848**
At 31 December 2017	-	293,714	293,714

Due to the net liability position of Granite Construction LLC in 2018 the Board has taken the view that it was prudent to impair the carrying value of the investment in Granite Construction LLC to Nil. During 2017 due to the net liability position of Russian BD Holdings as discussed in Note 14 above the Board has taken the view that it was prudent to impair the carrying value of the investment in Russian BD Holdings to Nil.

Notes to the Financial Statements

For the year ended 31 December 2018

15. Financial Assets – investments in joint ventures and subsidiaries (continued)

Details of the Company's holding in direct and indirect subsidiaries at 31 December 2018 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 2018 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.

Notes to the Financial Statements

For the year ended 31 December 2018

16. Financial assets at amortised cost

Group	2018 US$	2017 US$
Loans to WorldAce Investments Limited (Note 26)	59,161,041	55,474,668
Less: accumulated share of WorldAce Investments Limited losses (Note 13)	(24,304,633)	(10,203,053)
Loss allowance	(3,109,501)	-
	31,746,907	**45,271,615**
Loans to Russian BD Holdings B.V. (Note 26)	5,715,176	4,887,890
Less: accumulated share of Russian BD Holdings B.V. losses (Note 14)	(1,936,340)	(720,003)
	3,778,836	**4,167,887**
	35,525,743	**49,439,502**

Company	2018 US$	2017 US$
Loans to WorldAce Investments Limited (Note 26)	59,161,041	55,474,668
Loans to Russian BD Holdings B.V. (Note 26)	5,715,176	4,887,890
Less: accumulated share of joint-venture losses	(26,240,973)	(10,923,056)
Loss allowance	(3,109,501)	-
	35,525,743	**49,439,502**

The Company has granted a loan facility to its joint venture undertaking WorldAce Investments Limited of up to US$45 million. This loan facility is US$ denominated and unsecured. Interest currently accrues on the loan at USD LIBOR plus 6.0% but the Company has agreed not to seek payment of interest until 2020 at the earliest. The loan is set to mature on 31 December 2025. As at 31 December 2018 the loan was fully drawn down. The realisation of financial assets of $31.7m in respect of WorldAce is dependent on the continued successful development of economic reserves which is subject to a number of uncertainties including the ability to raise finance, future rates of oil production and future international oil prices to continue to successfully generate revenue from the assets or the monetisation of the asset through a sale or farmout.

The loan from the Company to Russian BD Holdings B.V. is repayable on demand. Interest currently accrues on the loan at USD LIBOR plus 5.0% per annum. The group drilled the Cheremshanskoye No. 4 well in 2018. The board believe that the successful well has great potential as it tested oil at 450 bopd and has demonstrated the potential of Licence 67.

The realisation of financial assets of US$3.8m in respect of Russian BD Holdings B.V. is ultimately dependent on the successful development of reserves as outlined above in relation to Cheremshanskoye, which is subject to a number of uncertainties including the ability to finance the well development and bringing the assets to economic maturity and profitability or the monetisation of the asset through a sale or farmout.

Due to the difference in carrying value caused by the application of the equity method of accounting to the Group financial statements the Company thought it prudent to provide for an allowance for doubtful debts against the carrying value of these loans on the Company Balance Sheet in order to align the balances on the Group and Company balance sheets. It is not expected that any repayment will be received within 12 months of the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2018

17. Inventories

	2018 US$	2017 US$
Materials	6,547	21,908
	6,547	**21,908**

18. Trade and other receivables

Group	2018 US$	2017 US$
Receivable from joint ventures (Note 26)	170,627	503,527
Prepayments	17,883	61,359
Advances to contractors	758	1,676
Other receivables	60,012	21,039
	249,280	**587,601**

Company	2018 US$	2017 US$
Amounts owed by subsidiary undertakings (Note 26)	156,866	870,373
Amounts owed by other related companies (Note 26)	83,103	164,810
VAT Receivable	33,123	14,088
Prepayments	17,882	61,359
	290,974	**1,110,630**

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%.

Notes to the Financial Statements

For the year ended 31 December 2018

19. Cash and Cash Equivalents

Group	2018	2017
	US$	US$
Cash at bank	801,938	9,389
	801,938	**9,389**

Company	2018	2017
	US$	US$
Cash at bank	790,753	9,306
	790,753	**9,306**

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

20. Share capital - Group and Company

	2018	2017
	€	€
Authorised		
1,000,000,000 (2017: 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 2017	707,245,906	9,429,182
At 1 January 2018	**707,245,906**	**9,429,182**
At 31 December 2018	**707,245,906**	**9,429,182**

21. Interest-bearing loans and borrowings

Group and Company	Effective interest rate %	Contractual maturity date	2018 US$	2017 US$
Interest-bearing				
Current liabilities				
Petrogrand AB	11.56%	31 Dec 2018	2,116,825	-
Total current liabilities			2,116,825	-
Total loans and borrowings			**2,116,825**	**-**
Contractual undiscounted liability			**2,116,825**	**-**

Petrogrand AB loan facility

The Company has a US$2m loan facility from Petrogrand AB secured on assets of the Company. This loan facility was fully drawn down in 2018, carries an interest rate of US$ Libor plus 9% and has the original contractual maturity date of 31 December 2018. In March 2019, the parties have agreed an increase in the facility by US$500,000 and a revised maturity date of 15 December 2019. Further detail is contained in Note 29. Petrogrand AB is a related party by virtue of Maxim Korobov, a director of PetroNeft, being a significant shareholder of Petrogrand AB. For details of transactions between PetroNeft and Petrogrand AB see Note 26 Related party disclosures.

Changes in financial liabilities arising from financing activities	2018 US$	2017 US$
At 1 January	-	-
Cash flows – loan drawdowns	2,000,000	-
Interest accrued but not yet paid (Note 9)	116,825	-
At 31 December	**2,116,825**	**-**

22. Trade and other payables

Group	2018 US$	2017 US$
Trade payables	428,734	570,476
Trade payables to joint ventures (Note 26)	104,115	212,442
Corporation tax	55,016	54,898
Other taxes and social insurance costs	42,918	83,305
Accruals and other payables	1,142,000	795,293
	1,772,783	**1,716,414**

Company	2018 US$	2017 US$
Trade payables	428,428	570,326
Corporation tax	55,016	54,898
Other taxes and social insurance costs	6,056	16,675
Accruals and other payables	1,110,449	732,100
	1,599,949	**1,373,999**

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.

23. Financial risk management objectives and policies

The Group's and Company's principal financial instruments comprise loans to joint venture undertakings, cash and cash equivalents and interest-bearing loans and borrowings. 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 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 2018 and 2017, 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 2018 and 2017, the Group and the Company had no outstanding forward exchange contracts.

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

23. Financial risk management objectives and policies (*continued*)

Foreign currency sensitivity analysis

In accordance with IFRS 7, the impact of foreign currencies is determined based on the balances of financial assets and liabilities at 31 December 2018. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and largely results from payables and receivables and adjusts their translation at the year-end for a 5% change in foreign currency rates.

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

Group	Change in USD/RUB	Effect on loss before tax US$	Effect on pre-tax equity US$	Change in USD/EUR	Effect on loss before tax US$	Effect on pre-tax equity US$	Change in USD/GBP	Effect on loss before tax US$	Effect on pre-tax equity US$
2018	5%	19,212	-19,212	5%	-25,687	25,687	5%	-4,406	4,406
2018	-5%	-21,235	21,235	-5%	28,391	-28,391	-5%	4,870	-4,870
2017	5%	33,921	-33,921	5%	-34,240	34,240	5%	-4,614	4,614
2017	-5%	-37,491	37,491	-5%	59,290	-59,290	-5%	5,100	-5,100

Company	Change in USD/RUB	Effect on profit before tax US$	Effect on pre-tax equity US$	Change in USD/EUR	Effect on profit before tax US$	Effect on pre-tax equity US$	Change in USD/GBP	Effect on profit before tax US$	Effect on pre-tax equity US$
2018	5%	-19,212	-19,212	5%	25,687	25,687	5%	4,406	4,406
2018	-5%	21,235	21,235	-5%	-28,391	-28,391	-5%	-4,870	-4,870
2017	5%	-33,921	-33,921	5%	34,240	34,240	5%	4,614	4,614
2017	-5%	37,491	37,491	-5%	-59,290	-59,290	-5%	-5,100	-5,100

Credit risk

Credit risk arises from contractual cash flows of debt instruments carried at amortised cost, cash and cash equivalents, deposits with banks, as well as credit exposures to customers, including outstanding receivables from joint ventures.

(i) Risk management

Credit risk is managed on a group basis according to established policies, procedures and controls. Credit quality is assessed in line with credit rating criteria and credit limits are established where appropriate.

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.

Management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. As the Group does not have any trade receivables outstanding from third parties, this risk is minimal. Recoverability of amounts due from joint venture companies are dependent on the success of the joint ventures.

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

23. Financial risk management objectives and policies (*continued*)

Credit risk (continued)

(ii) Impairment of financial assets

The Group and the Company have the following types of financial assets that are subject to the expected credit loss model:

- Trade Receivables – Qualify for the simplified model provided they are trade receivables and do not contain a significant financing component.
- Intra-Group Loans – General Impairment Model applies
- Cash and cash equivalents

Trade Receivables

Within the PetroNeft Group, a provision matrix has been developed to measure the expected credit loss on trade receivables. Trade receivables are grouped by aging of receivable and by type (receivable from related parties and receivables from third parties). This grouping is based on management judgement of the risk characteristics and is based on internal sub-groupings.

The Group has determined the historical period of 36 months prior to date at which the expected credit loss is measured to determine historical loss data. For receivables from related parties, it has been determined that over the historical period there has been a zero percent loss rate. Notwithstanding the fact that some of these trade receivables may go substantially past due, these amounts are managed on a Group basis by the ultimate controlling party and as such, no loss has been recorded or is expected on these amounts.

Based on the historical loss rate of close to 0% and forward-looking information at the reporting date, the Group has applied prudent expected loss rates across the various sub-groupings and the final expected credit loss has been determined as immaterial.

Intra-Group Loans

PetroNeft has granted loans to its joint ventures over the years. The largest portion of these intra-Group loans is to WorldAce Investments Limited, bears interest at USD LIBOR plus 6.0% and have a maturity date of 31 December 2025. The remaining loan is repayable on demand and carries interest at USD LIBOR plus 5.0%. During 2018 the Company engaged in preliminary activities related to a possible sale of both joint ventures or the assets within the joint ventures. Therefore, the assumption that the loans would ultimately be repaid by the joint ventures through the generation of operating cashflows has been revisited and it has been assessed that the most likely way they will be recovered is from the proceeds of such a sale. Based on this it has been estimated that the ECL on the intra-Group loans is US$3.1 million.

When measuring ECL the Group uses reasonable and supportable forward-looking information incorporated in the financial model to estimate the ECL. The model encompasses multiple scenarios which outcomes are multiplied by estimated probability factors. The ECL is the sum of probability weighted scenarios.

The forward-looking information, including macroeconomic factors (such as consumer price index, oil prices, interest rates and exchange rates), is based on assumptions for the future movement of different economic drivers relevant to the Group's business and how these drivers will affect each other. The probability factors are based on management’s estimate of the likelihood of different scenarios.

Loans to Granite Construction are classified as credit impaired and a loss allowance of US$381,086 was made in 2018.

23. Financial risk management objectives and policies (*continued*)

A summary of the assumptions underpinning the Company's expected credit loss model is as follows:

Category	Company definition of category	Basis for recognition of expected credit loss provision	Basis for calculation of interest revenue
Performing	Counterparties have a low risk of default and a strong capacity to meet contractual cash flows	Stage 1: 12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime.	Gross carrying amount
Underperforming	Counterparties for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due (see above in more detail)	Stage 2: Lifetime expected losses	Gross carrying amount
Non-performing	Interest and/or principal repayments are 90 days past due	Stage 3: Lifetime expected losses	Amortised cost carrying amount (net of credit allowance)
Write-off	Interest and/or principal repayments are 180 days past due and there is no reasonable expectation of recovery.	Asset is written off	None

The Group's and Company's exposure to credit risk and the credit quality of its financial assets is presented below:

	Internal credit rating	External credit rating	ECL	Gross carrying amount	Accumulated joint venture losses	Loss allowance	Net carrying amount
2018				**US$**	**US$**	**US$**	**US$**
Group:							
Loans to joint ventures	N/A	N/A	General Impairment Model applies	64,876,217	(26,240,973)	(3,109,501)	35,525,743
Company:							
Loan to subsidiary	N/A	N/A		537,952	-	(381,086)	156,866

Cash and cash equivalents

The total amount of US$ 801,938 are cash held in banks. Credit losses are expected to have an immaterial effect on cash and cash equivalents.

23. Financial risk management objectives and policies (*continued*)

Liquidity risk management

Liquidity risk is the risk that the Group and the Company will encounter difficulties in meeting obligations associated with their financial liabilities. Ultimate responsibility for liquidity risk management rests with the Board of Directors, who manage liquidity risk and short, medium and long-term funding and liquidity management requirements by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Cash forecasts are regularly produced to identify the liquidity requirements of the Group and the Company. To date, the Group and the Company have relied on shareholder funding, loan facilities and normal trade credit to finance its operations. As at 31 December 2018, the Group and the Company have outstanding loan facility with Petrogrand AB (see Note 21).

The expected maturity of the Group and Company's third-party financial assets (excluding prepayments) as at 31 December 2018 and 2017 was less than one month. The expected maturity of the Group and Company's related party financial assets as at 31 December 2018 and 2017 is in excess of one year.

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

The Group and the Company had no derivative financial instruments as at 31 December 2018 and 2017.

The tables below show the projected contractual undiscounted total cash outflows arising from the Group's and Company's trade and other payables and gross debt based on the earliest date on which the Group is expected to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived by using rate applicable on 1 January 2019. These projections are based on the foreign exchange rates applying on 31 December 2018 (2017: 31 December 2017):

Group	***Within 1 year***	***Between 1 and 2 years***	***Between 2 to 5 years***	***After 5 years***	***Total***
Year ended 31 December 2018	**US$**	**US$**	**US$**	**US$**	**US$**
Interest-bearing loans and borrowings					
- current	2,116,825	-	-	-	2,116,825
Trade and other payables	1,674,849	-	-	-	1,674,849
	3,791,674	**-**	**-**	**-**	**3,791,674**
Year ended 31 December 2017					
Trade and other payables	1,578,211	-	-	-	1,578,211
	1,578,211	**-**	**-**	**-**	**1,578,211**

Company	***Within 1 year***	***Between 1 and 2 years***	***Between 2 to 5 years***	***After 5 years***	***Total***
Year ended 31 December 2018	**US$**	**US$**	**US$**	**US$**	**US$**
Interest-bearing loans and borrowings					
- current	2,116,825	-	-	-	2,116,825
Trade and other payables	1,538,877	-	-	-	1,538,877
	3,655,702	**-**	**-**	**-**	**3,655,702**
Year ended 31 December 2017					
Trade and other payables	1,302,426	-	-	-	1,302,426
	1,302,426	**-**	**-**	**-**	**1,302,426**

Notes to the Financial Statements

For the year ended 31 December 2018

23. Financial risk management objectives and policies (continued)

Interest rate risk

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

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

The effect of a rise of 1% in the LIBOR interest rate (e.g. from 2.4% to 3.4%) receivable on loans to joint ventures would be to increase Group loss before tax by US$72,881 and Company profit before tax by US$503,532.

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 adjust it in light of changes in economic conditions. To maintain or adjust its capital structure, the Group and the Company may issue new shares or raise debt. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 2017. 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 as well as external debt.

Fair values

The carrying amount of the Company's financial assets and the Group and Company's financial liabilities is a reasonable approximation of the fair value. The carrying amount of the Group's financial assets is lower than the estimated fair value because of the adjustment required in accordance with IAS 28 arising primarily from the currency translation adjustments in the joint venture companies that exceeded the carrying value of the equity accounted investment in joint venture. See notes 13 and 14. The carrying value of the loans to WorldAce in the Group and Company is US$34.9 million, which approximates the fair value. The carrying value of the loans to Russian BD in the Group and Company is US$3.8 million, which approximates the fair value. The fair value of the loans is evaluated using a discounted cashflow model (using a pre-tax Weighted Average Cost of Capital of 15.8%), based upon level 3 inputs.

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

Hedging

At the year ended 31 December 2018 and 2017, 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 2018 and 2017.

24. Loss of Parent Undertaking

The Company is availing of the exemption set out in section 304 of the Companies Act 2014 from presenting its individual Income Statement to the Annual General Meeting and from filing it with the Registrar of Companies. The amount of the loss dealt with in the Parent undertaking for the year was US$13,800,017 (2017: US$14,318,738), which included impairment of investments in joint ventures of US$Nil (2017: US$4,858,815) (Note 15) and allowance for doubtful debts on loans and receivables from joint ventures of US$15,317,917 (2017: US$10,923,056) (Note 16).

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For the year ended 31 December 2018

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

	2018 US$	2017 US$
Land and buildings		
Within one year	6,369	28,509
After one year but not more than five years	-	6,369
More than five years	-	-
	6,369	**34,878**

There were no capital commitments as at 31 December 2018 or 31 December 2017.

26. 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 2018 and 2017:

Company	Granite Construction US$
Loans	
At 1 January 2017	**1,008,599**
Interest accrued in the year	30,325
Loans repaid during the year	(210,000)
Translation adjustment	41,449
At 1 January 2018 (Note 18)	**870,373**
Interest accrued in the year	12,875
Loans repaid during the year	(222,061)
Loss allowance	(381,086)
Translation adjustment	(123,235)
At 31 December 2018 (Note 18)	**156,866**

26. Related party disclosures (*continued*)

Transactions with joint ventures

PetroNeft Resources plc had the following transactions with its joint ventures during the years ended 31 December 2018 and 2017:

Group	Russian BD Holdings BV Group US$	WorldAce Investments Limited Group US$
Receivable by PetroNeft Group at 1 January 2017	4,080,882	44,444,591
Advanced during the year	360,251	-
Transactions during the year	142,086	1,798,417
Interest accrued in the year	270,773	3,238,839
Payments for services made during the year	(480,723)	(2,019,374)
Share of joint venture's translation adjustment	(187,315)	(1,956,467)
Translation adjustment	32,962	5,665
At 1 January 2018	**4,218,916**	**45,511,671**
Advanced during the year	439,600	-
Transactions during the year	315,053	1,551,260
Interest accrued in the year	387,686	3,686,373
Payments for services made during the year	(309,505)	(1,758,280)
Share of joint venture's translation adjustment	(1,216,337)	(14,101,580)
Translation adjustment	(16,419)	(6,682)
At 31 December 2018	**3,818,994**	**34,882,762**
Balance at 31 December 2017 comprised of:		
Loans receivable (Note 16)	4,167,887	45,271,615
Trade and other receivables	51,029	452,498
Trade Payables	-	(212,442)
	4,218,916	**45,511,671**
Balance at 31 December 2018 comprised of:		
Loans receivable (Note 16)	3,778,836	34,856,408
Trade and other receivables	40,158	130,469
Trade and other payables	-	(104,115)
	3,818,994	**34,882,762**

Notes to the Financial Statements

For the year ended 31 December 2018

26. Related party disclosures (*continued*)

Company	Russian BD Holdings BV Group US$	WorldAce Investments Limited Group US$
At 1 January 2017	4,574,761	52,540,817
Advanced during the year	360,251	-
Transactions during the year	133,034	716,451
Interest accrued in the year	270,773	3,238,839
Payments for services made during the year	(480,251)	(859,713)
Translation adjustment	30,578	1,828
At 1 January 2018	**4,889,146**	**55,638,222**
Advanced during the year	439,600	-
Transactions during the year	127,929	718,930
Interest accrued in the year	387,686	3,686,373
Payments for services made during the year	(125,079)	(799,381)
Translation adjustment	(4,106)	-
At 31 December 2018	**5,715,176**	**59,244,144**
Balance at 31 December 2017 comprised of:		
Loans receivable (Note 16)	4,887,890	55,474,668
Trade and other receivables	1,256	163,554
	4,889,146	**55,638,222**
Balance at 31 December 2018 comprised of:		
Loans receivable (Note 16)	5,715,176	59,161,041
Trade and other receivables	-	83,103
	5,715,176	**59,244,144**

Remuneration of key management

Key management comprise the Directors, the Vice Presidents of Business Development and Operations of the Company and the consulting fees paid to HGR Consulting Limited for the services of the CFO. Their remuneration and fees during the year were as follows:

Remuneration of key management	2018 US$	2017 US$
Compensation of key management	1,064,724	1,103,224
Contributions to defined contribution pension plan	48,947	52,693
Consulting fees (HGR Consulting – see below)	324,115	304,556
	1,437,786	**1,460,473**

The following amounts, which are included in the above, were owed to key management and former CEO Dennis Francis at 31 December 2018 and 2017:

	2018	2017
Remuneration, fees and expenses due to Directors who were in office during the year	607,468	424,564
Remuneration due to other key management	133,354	122,946
Consulting fees (HGR Consulting – see below)	193,219	276,570
	934,041	**824,080**

26. Related party disclosures (*continued*)

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 (until 31 January 2019), provides his services through HGR Consulting Limited ("HGR") from May 2016. Services provided by HGR during 2018 amounted to US$324,115 (2017: US$304,556). An amount of US$193,219 was owed to HGR at 31 December 2018 (2017: US$276,570).

Transactions with Petrogrand AB
Petrogrand AB is a related party by virtue of Maxim Korobov, a director of PetroNeft, being a significant shareholder of Petrogrand AB. In 2018 the Company agreed a loan facility for up to US$2m with Petrogrand AB. The loan facility is secured by way of a floating charge on the assets of the Company, carries an interest of US$ Libor plus 9% and has the original maturity date of 31 December 2018. This loan facility was fully drawn down in 2018. In March 2019, the parties have agreed an increase in the facility by US$500,000 and a revised maturity date of 15 December 2019. Further detail is contained in Note 29. The following are the details of this transaction in 2018:

	Petrogrand AB 2018 US$
Loan facility maximum amount	2,000,000
Loan drawdowns during the year	2,000,000
Interest accrued but not yet paid	116,825
Amount due to Petrogrand AB at 31 December	2,116,825

In 2018 Granite Construction LLC (100% subsidiary of PetroNeft) purchased tubing from Petrogrand Exploration and Production (100% subsidiary of Petrogrand AB) for US$97,458. The amount due was fully paid in 2018.

New Loan agreed in June 2019
As detailed in Note 26 below PetroNeft entered a convertible loan facility of US$1.3 million with a group of five investors in June 2019. Three of the five investors are related parties as follows:

Lender	Amount provided (US$)	Relationship
Natlata Partners Limited	560,000	Ultimate Beneficial owner is Maxim Korobov, PetroNeft director
Daria Shaftelskaya	240,000	Substantial shareholder of PetroNeft
David Sturt	50,000	PetroNeft director

27. Share-based payment

Share options

The expense recognised for employee services during the year is US$NIL (2017: US$NIL). The Group share-based payment plan is described below. There was no cancellation or modification to the plan during 2018 and 2017.

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.

	2018 Number	2018 WAEP	2017 Number	2017 WAEP
Outstanding as at 1 January	5,260,000	£0.065	8,815,000	£0.3012
Granted during the year	-	-	-	-
Forfeited during the year	(990,000)	£0.065	(80,000)	£0.2509
Expired during the year	-	-	(3,475,000)	£0.66
Outstanding at 31 December	4,270,000	£0.065	5,260,000	£0.065
Exercisable at 31 December	-	-	-	-

The exercise price for options outstanding at the year-end is £0.065 (2017: £0.065).

The weighted average remaining contractual life for the share options outstanding as at 31 December 2018 was 0.91 years (2017: 1.91 years).

No options were granted in 2018 or 2017.

The weighted average share price of forfeited options in 2018 was £0.065 (2017: £0.2509).

No options expired in 2018. The weighted average share price of expired options in 2017 was £0.66.

As no options were issued in 2018 or 2017, no valuation was carried out in 2018 or 2017.

Warrants

There were no warrants issued in 2018 or 2017.

28. Accounting policies up to 31 December 2017

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9 and IFRS 15 and had no impact as of 1 January 2018, are as follows.

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.

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. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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

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

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

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.

Notes to the Financial Statements

For the year ended 31 December 2018

28. Accounting policies up to 31 December 2017 (continued)

Derecognition of financial assets and liabilities

Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Financial liabilities
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 Income Statement.

29. Important Events after the Balance Sheet Date

In January 2018 PetroNeft agreed a loan facility for up to US$2 million with Swedish company Petrogrand AB ("Petrogrand") secured on the assets of PetroNeft. The loan facility was fully drawn down in 2018 and was used to finance the drilling of the successful C-4 well and for general corporate purposes. In March 2019 the parties have agreed an increase in the facility by US$500,000 to US$2.5 million and a revised maturity date of 15 December 2019 (which may be extended by mutual consent of the parties). The revised terms include the potential entitlement to bonus payments of US$2.5 million per Licence if either or both Licence 61 or Licence 67 are sold before 31 December 2020.

In June 2019 PetroNeft agreed a new loan facility with a group of five investors for the amount of US$1.3 million. This loan is unsecured and matures on 31 December 2020. The loan is also partly convertible to Ordinary Shares of PetroNeft. The conversion terms are that 65% of the principal may be converted at US$0.015477 per share at the option of the lender. Three of the five investors are related parties, see Note 26 for details.

30. Approval of financial statements

The financial statements were approved, and authorised for issue, by the Board of Directors on 25 June 2019.

PetroNeft Resources plc

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 Clayton Hotel, Ballsbridge, Dublin 4 at 11.00 am on Friday 20 September 2019, 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 2018 together with the Directors' and Auditors' Reports thereon.

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

4. To re-appoint Deloitte, 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 €1,500,000 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 20 December 2020, 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 10% of the issued share capital of the Company from time to time;

   each of (a), (b) and (c) above being separate powers, which powers shall expire on the earlier of the date of the next Annual General Meeting of the Company held after the date of passing of this Resolution and the close of business on 20 December 2020, 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 25th day of June 2019
BY ORDER OF THE BOARD

Registered Office:
20 Holles Street
Dublin 2

Karl Johnson
Company Secretary

Glossary

1P	Proved reserves according to SPE standards.
2P	Proved and probable reserves according to SPE standards.
3P	Proved, probable and possible reserves according to SPE standards.
AGM	Annual General Meeting.
AIM	Alternative Investment Market of the London Stock Exchange.
Arawak	Arawak Energy Russia B.V.
bbl	Barrel.
Belgrave Naftogas	Belgrave Naftogas B.V., a member of the Arawak group of companies
bfpd	Barrels of fluid per day.
boe	Barrel of oil equivalent.
bopd	Barrels of oil per day.
Company	PetroNeft Resources plc.
CPF	Central Processing Facility.
CSR	Corporate and Social Responsibility.
Custody Transfer Point	Facility/location at which custody of oil transfers to another operator.
Dolomite	LLC Dolomite, a 100% subsidiary of PetroNeft registered in the Russian Federation
DST	Drill stem test.
ESM	Enterprise Securities Market of the Irish Stock Exchange.
ESP	Electric Submersible Pump
Exploration resources	An undrilled prospect in an area of known hydrocarbons with unequivocal four-way dip closure at the reservoir horizon.
Granite Construction	LLC Granite Construction, a 100% subsidiary of PetroNeft registered in the Russian Federation
Group	The Company and its joint ventures and subsidiary undertakings.
HSE	Health, Safety and Environment.
IAS	International Accounting Standard.
IFRIC	IFRS Interpretations Committee.
IFRS	International Financial Reporting Standard.
km	Kilometres.
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.

Glossary (continued)

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

PetroNeft Resources plc

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