PetroNeft Resources plc

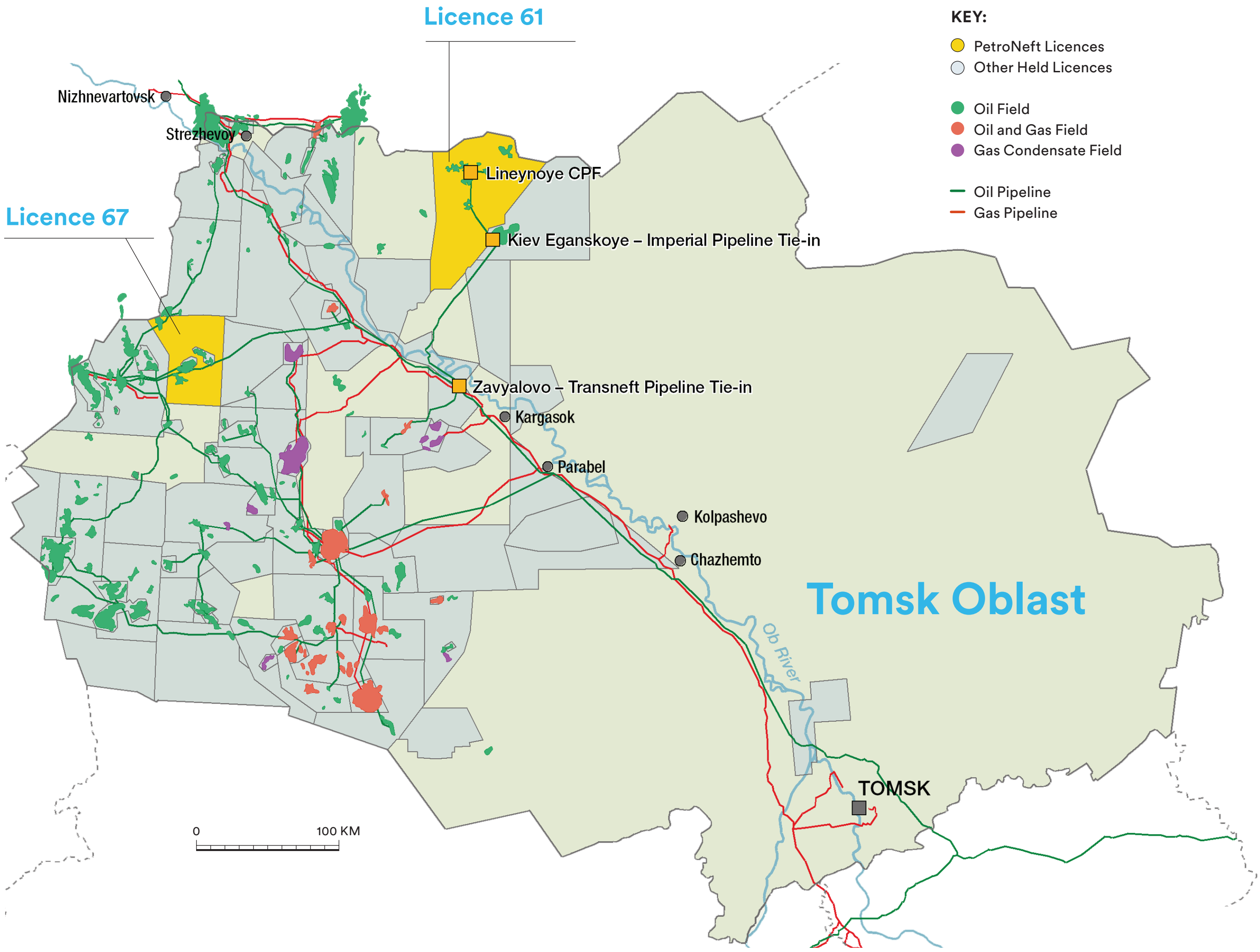
Annual Report
Годовой Отчет

2019

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

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Annual Report and Financial Statements

Forward Looking Statements

This report contains forward-looking statements. These statements relate to the Group's 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)* Pavel Tetyakov (Russian citizen- appointed 17th January 2020) (*Vice President Business Development)* Thomas Hickey (Irish citizen) *(Independent Non-Executive Director)* Maxim Korobov (Russian citizen-resigned 17th January 2020) (Non-Executive Director) Anthony Sacca (Australian citizen) *(Independent Non-Executive Director)* Daria Shaftelskaya (Russian citizen- appointed 17th January 2020) (Non-Executive Director)
Registered Office and Business Address	20 Holles Street Dublin 2 Ireland
Secretary	Michael Power appointed 3rd May 2020 Karl Johnson appointed 5th February 2019 - resigned 3rd May 2020 Paul Dowling resigned 5th February 2019
Auditor	**BDO** Beaux Lane House Mercer Street Lower Dublin 2 Ireland
Nominated Adviser and Euronext Growth Market Adviser	**Davy** 49 Dawson Street Dublin 2 Ireland

PetroNeft Resources plc

Group Information *(continued)*

Broker	**Davy** 49 Dawson Street Dublin 2 Ireland	
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 72)*
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 58)*
Mr. Sturt was appointed a Non-Executive Director of the Company in April 2016 and became Chief Executive Officer on 25 March 2019. He was a member of the Remuneration Committee up until his appointment as CEO. David has over 35 years international experience in the oil and gas industry gained working on projects in Europe, CIS, Africa and SE Asia in a variety of senior technical and managerial positions at Conoco-Philips, Hess, PetroKazakhstan, Exillon Energy, Ukrnafta and Azimuth Energy. In 2010 he was a founding partner in VistaTex Energy which built a portfolio of producing assets across the onshore US, the company was later successfully sold to Dome Energy in 2014. He is currently also Non-Executive director of Petrosibir AB, a Swedish company with oil and gas interests in in the Bashkiria and Komi regions of Russia. 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.

Pavel Tetyakov – *(Vice President Business Development and Executive Director) (Age 40)*
Mr. Tetyakov has 20 years' experience in senior and top management positions working for a variety of E&P companies including PetroKazakhstan, Exillon Energy, Ukrnafta, Sibgasoil and Petrosibir. He joined the Company in May 2016 as Vice-President Business Development. In January 2020 he was appointed to the Board as an Executive Director. Pavel holds a Bachelor of Arts degree in Business Administration from Budapest University of Economic Sciences and Public Administration.

Thomas Hickey – *(Independent Non-Executive Director) (Age 52)*
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 several 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.

Anthony Sacca – (Independent *Non-Executive Director) (Age 48)*
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.

Daria Shaftelskaya – (*Non-Executive Director) (Age 41)*
Ms. Shaftelskaya has 20 years of experience in the oil & gas exploration and production business within the West-Siberian basin (Tomsk region). Daria was appointed a Non-Executive Director in January 2020. More recently she has been working as chief financial officer in several Russian companies including: "Finco", "Hermes - Moscow" and "Sever" where she was primarily focused on oil & gas trading and operational facilities construction in the West Siberian region. She holds a degree in economics and engineering from Tomsk Technical University (1999) and a Master's Degree in Economics also from Tomsk Technical University (2001).

PetroNeft Resources plc

Chairman's Statement

Dear Shareholders as I write to you the world and in particular the energy sector is experiencing unprecedented challenges. The rapid spread of Coronavirus at the start of 2020 has led to tragic consequences across the globe, which combined with the break-up of the OPEC+ agreement, has led to significant demand destruction while supply is rising.

However, we remain confident in the capacity of the human race to overcome the Coronavirus challenge, and of our industry to adapt and transform itself to maintain supplies to meet recovering demand over time. As a company we moved to restrict all international company travel to protect our staff who are crucial to our plans to develop the company further, as well as introducing additional procedures at our offices and field sites to ensure work could continue safely. Thankfully, we have had no direct COVID cases within our business to date.

2019 saw considerable changes for the company with 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 upstream oil and gas industry gained working on projects in Europe, CIS, Africa, South America, and SE Asia. As David assumed his position, Karl Johnson stepped down as the interim CEO. I would like to thank Karl for his work as interim CEO after the retirement of Dennis Francis in 2018. Karl returned to his previous role as Vice President of Operations and Company Secretary.

Change has continued as we entered 2020. Maxim Korobov, who served as a Non–Executive Director since 2016 resigned from our Board of Directors. I am deeply appreciative of all the time and effort Maxim devoted to the work of the Board. At the same time the Directors decided to appoint Daria Shaftelskaya, who is another major shareholder in our company, to join the Board and Pavel Tetyakov, who has been Vice President of Business Development since 2016, was appointed as an Executive Director. I look forward to continuing working with both Daria and Pavel in the future.

Strategy Review

While the external environment continues to be challenging, the company remains committed and focused on working towards a long-term strategy of delivering value to shareholders through rigorous cost control, optimising the allocation of its capital and increasing production where possible.

We also continue to receive interest in our assets and business from a range of industry participants, however any sales process would take significant time and thus our strategy has two strands – business and cost optimisation and focussed engagement with buyers.

These two strategies are mutually supportive, as an improvement in production and reserves will increase attractiveness and interest in our assets, leaving us more in control of the company's destiny. I am particularly pleased that we are now moving to transform Licence 67 from an exploration to a producing asset and look forward to seeing more news on this through 2020.

With the evolution of this new strategy, we have been able to stabilise the financial position of the company by extending the Petrogrand AB loan, raising a convertible loan in mid-2019 and successfully completing a share placement at the end of 2019.

The amount of the Petrogrand AB loan was increased from US$2 million to US$2.5 million and the redemption date was extended from 15th December 2019 to 15th December 2020. The redemption date can also now be extended at our option provided we make a repayment of 20% of the loan on or before 15th December 2020. In such circumstances the final redemption date would be the earliest of (a) 15th December 2021 or (b) the date of completion of the License 61 sale or (c) the date of completion of License 67 sale.

In June of 2019, $1.3M was raised through the issuance of a convertible loan note with a group of 5 lenders, 3 of which are related parties. Interest on the loan is at LIBOR plus 8% and the lenders can at their discretion elect to convert up to 65% of their debt amount into Ordinary equity shares up to the date of final maturity which is 31st December 2020. If not redeemed at the final maturity date, or otherwise extended by consent of the holders the interest rate becomes LIBOR plus 11%.

Finally, there was a successful capital raise at the end of 2019. Overall, we were able to raise capital in the amount of US$2.12 million, by the issuance 107,755,037 Ordinary Shares at £0.015 which represented a 58% premium to the previous closing price.

Chairman's Statement *(continued)*

The placement had strong support from institutional and other investors with strong Board participation representing approximately 44% of the placing.

Outlook

During the early stages of the Covid pandemic, international travel was forbidden, field shift schedules were extended to minimize cross over of personnel, and we set about upgrading and revising our HSE protocols to meet the challenges faced by the pandemic so that when production restarted, our staff and suppliers/contractors could operate in a safer environment. Through this period, we minimized cash outgoings by working with our contractors and service providers to reschedule key payments, our staff took voluntary salary reductions in some cases with 50% reduction of the Tomsk office payroll and 30% for the field personnel payroll. With our oil offtakers we worked on a prepayment basis. We kept a minimum crew on in the fields to ensure ongoing maintenance programs could be continued. I am pleased that our operations are now back to normal and we are seeing production volumes increasing year on year with approximately 7.8% and July year on year increasing by 17%.

The outlook remains challenging due to the combination of the Coronavirus outbreak and turbulence in the oil price. These events continue to affect the market capitalization of the company and my belief is that, in common with many other small listed oil companies, there is a significant discrepancy between our stock price and the long-term value of the company's assets and reserves. We are committed to narrowing that gap and are actively examining all available options with an increasing emphasis on continuing to develop our assets cost effectively. Our workovers and water flood optimization programs have stabilized our production rate and arrested the long-term production decline from our existing fields. We continually focus on cost optimization and administrative expenses are down 47% year on year. We continue to negotiate with key contractors and suppliers in securing better pricing to boost margins per barrel. The completion of the mini oil processing unit at License 61 should further reduce operating costs. On License 67 I am particularly looking forward to seeing this asset being transformed from an exploration to a production asset in 2021 following the successful extended test of the C4 well at the Cheremshanskoye field. I am very proud of the hard work that our PetroNeft and Stimul-T personnel have put in to achieve these results, but I also believe significant further scope exists.

Operations and Reserves

The Chief Executive Officer's report contains the details of the operations and oil reserves of the Company and highlights the large potential of the Sibkrayevskoye and West Lineynoye fields in Licence 61 and the Cheremshanskoye and Ledovoye oil fields in Licence 67, as well as the significant upside potential that could be achieved from prospects such as Emtorskaya, which lies north of the Lineynoye field in Licence 61.

Summary

2019 saw the successful re-negotiation of the Petrogrand AB loan and the raising of additional capital at a 58% premium, with support from many of the board members. These events provided the company with financial stability, enabling us to engage in a program of data acquisition, interpretation, and review of all our assets combined with the continual review of our cost base across the company. We are now embarking on an exciting low CAPEX investment program which can deliver significant value particularly on Licence 67 where we are now hopeful of transforming this from an exploration to a production asset towards the end of 2020.

We will continue to test the market to see if greater value can be delivered to our shareholders through a full or partial sale. While this process has attracted interest from a range of companies and is ongoing, we will concentrate our efforts on areas where 2019's performance demonstrates the potential of the business notably, improving the performance of our assets through increased production and cash flow.

Our industry is continuing to experience unstable times, but we have valuable future development targets in both our licences with West Lineynoye, Sibkrayevskoye and Emtorskaya in Licence 61 and Cheremshanskoye and Ledovoye in Licence 67; these assets 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.

Chairman's Statement *(continued)*

David Golder
Non-Executive Chairman

Chief Executive Officer's Report

Dear fellow shareholders, as highlighted in the Chairman's Letter and at the time of writing this report, we have been and continue to face considerable external challenges. I am, however, pleased to see that the oil price has regained some of the ground lost earlier this year and hope for continued strengthening of oil prices as demand increases through 2020 and in to 2021.

We are however fortunate in Russia as the tax regime for oil and gas companies works as a partial hedge against movements in either direction in the oil price. As prices rise and fall, the tax is adjusted so that the amount of tax paid, as a percentage, stays relatively consistent at approximately 60% of gross price.

Through this crisis, we have taken measures to protect the safety and health of our staff and stakeholders. All unnecessary travel was suspended, and operations have been redesigned to ensure that social distancing is incorporated. We have implemented policies to keep our employees safe by requiring temperature scans and hand sanitizers at all locations, and frequent disinfection of offices and public areas.

Our strategy has remained the same through this crisis and is focused on:

Reducing & Optimising Costs	Closing and downsizing peripheral offices Reducing headcount but also accessing local talent with knowledge and experience of developing analogous fields Engaging with contractors and suppliers to improve terms
Improved asset knowledge	Tracer surveys and downhole pressure measurements to optimise water flood programs across our fields leading to identification of well intervention opportunities Re-interpretation of historic seismic/well data to identify missed pay
Strengthened Finances	Renegotiated and extended the Petrogrand AB Loan Raised $1.3M by way of a convertible note in June 2019. Closed $2.1M capital raise at end of year at 58% premium in January 2020
Low capital investment program	Mini oil processing unit licence 61 Sibkrayevskoye pipeline to CPF licence 61 Identified five potential well re-entries ~ Licence 67 Identified one potential well re-entry ~ Licence 61

2019 Review

Management has worked hard to focus on cost reduction and optimisation across all levels of the company. Our Corporate costs at PTR level were reduced by 47% in 2019, while WorldAce, which is the holding company for Licence 61, also managed to reduce Administrative expenses by 15%. These cost reductions were achieved by closing and downsizing offices, reducing personnel, and working closely with contractors and suppliers to improve contractual arrangements. The loss for the year was $6.04 M (2019) compared to a loss of $7.56 M (2018).

Gross production in 2019 was 589,165 barrels of oil or an average of 1,614 bopd, all coming from Licence 61. No new production wells were drilled during the year, and this represents a decline of 17.4% from 2018 production of 713,603 barrels (1,955 bopd average). We are however starting to see the results from our water flood optimisation programs with production currently 16.6% higher than in August 2019.

In 2019, we successfully reorganized the company structure in Tomsk and upgraded the local technical talent across geology, engineering, and accounting functions. This has provided a valuable fresh set of eyes to review our fields and operations and enabled us to arrest the natural decline in some of our core fields, with further opportunities also identified. At the same time as strengthening the technical team, we also significantly increased the amount of data gathering and well monitoring across our well inventory which has been combined with a re-interpretation of our seismic and well data. We have gained valuable insights from these studies, which is being integrated into an updated plan for our assets which is described in more detail in the individual field and prospect sections.

Three of our mature fields have performed particularly well. Lineynoye production increased by 3.4% year-on-year and West Lineynoye declined by only 4.6%. Sibkrayevskoye has only been producing during the winter months historically and only declined marginally by 2.3% year-on-year. In July, this year's total production increased by over 17% versus same period in 2018, primarily due to the added production from Sibkrayevskoye wells and optimisation of the water flood program at the Lineynoye field.

At Arbuzovskoye, production was down by 25.8% year-on-year. The main reason for this decline was due to poor pressure support on Pad 2 which caused steep declines in the two horizontal wells. We recognised that pressure support would be required to arrest further declines and therefore converted an idle well into an injection well at the end of 2019. It is still early days, but we are starting to see signs of the decline flattening.

At Tungolskoye, in 2019 we saw a large drop in production due to the field not in production during the entire year. This was partially due to diverting our workover rig to more profitable parts of our portfolio, as the then current production levels could not justify continued production. We are however continuing to evaluate ways to re-establish economic production at the field.

Field	2019 Gross production	2018 Gross production	Percentage decline
Lineynoye	194,429	188,111	3.4%
West Lineynoye	65,357	68,541	-4.6%
Arbuzovskoye	282,238	380,228	-25.8%
Sibkrayevskoye†	36,583	37,451	-2.3%
Tungolskoye††	10,558	39,272	-73.1%
Total =	**589,165**	**713,603**	**-17.4%**

†Note: Sibkrayevskoye historically only produced during the winter periods, currently producing year-round in 2020.

††Note: Tungolskoye field only produced for part of the year due to operational reasons.

Three fields, two on Licence 61 and one on Licence 67 are in the final planning phase for development, which when sanctioned will add future production. On Licence 61 at West Lineynoye, we have been producing from three wells for five years with 5% water cut. Such low water cut over such an extended time demonstrates that there is good reserves potential waiting for low risk development of the L-8 lobe part of the West Lineynoye field. This part of the field already has the L-8 vertical and the L-10 horizontal producing wells. At Sibkrayevskoye, we have consistently produced the S-373 and S-375s wells during the winter season, averaging between 250 and 300 bopd. During 2019 we connected the field to the Central Processing Facility at the Lineynoye field via a pipeline to enable year-round production. As well as increasing production and cash flow in the near term without having to drill any new wells, it is now crucially providing valuable long-term reservoir performance data. So far, the wells have been producing throughout 2020 without any appreciable declines. Both future developments will use a combination of horizontal and vertical wells with potential utilisation of hydraulic fracturing which proved so successful in the southern part of the Lineynoye field where the geology is very similar to Sibkrayevskoye. For these developments we will build on the operational experience gained from the horizontal wells at Arbuzovskoye and Tungolskoye, and the very successful performance at Lineynoye (Pad 1), to enhance the economic viability of the potential developments of the Sibkrayevskoye and West Lineynoye fields by reducing CAPEX and increasing cash flow.

At Licence 67 in 2019 we relooked at all existing wells and seismic data and identified a potential low cost well re-entry program to re-test to confirm commercial production rates. We started by successfully re-entering and re-testing the C-4 well this past 2019-20 winter. The C-4 well flowed naturally at up to 476 bopd of good quality oil from the Upper Jurassic J1-1 & J1-3 reservoirs. In total 1,200 barrels of oil were produced and sold at the well head during 2020. The amount of production could have been higher, but the winter was unusually warm and short, limiting the time that winter roads could be used. The workover rig was then moved to the C-3 well where we successfully tested gas and non-commercial quantities of high paraffin oil. Workover operations were suspended in April due to the combination of low oil price and the global COVID pandemic. We are now planning to continue this workover program during the next winter season.

We are also reviewing 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 holds a 50% operated interest in this licence with our partner Oil India Limited ("OIL") holding the remaining 50%. The licence contains five producing fields: Lineynoye, West Lineynoye, Arbuzovskoye, Tungolskoye and Sibkrayevskoye (which historically produced only during the winter months). In addition to these fields the licence also contains several attractive low risk exploration prospects. We are particularly excited by the potential of the Emtorskaya prospect due to its significant low risk potential combined with being located only 16 kilometres from the Central Processing Facility and structurally up dip from the Lineynoye field. The prospect has already been previously tested by two Soviet Era wells which indicate potential missed oil zones. We now recognise significant development potential within this northern hub area which includes Sibkrayevskoye, Emtorskaya and West Lineynoye which all exhibit similar geology and characteristics as the successful Lineynoye field.

In addition to Emtorskaya, there are a further two high grade prospects located in the southern half of the licence which have also previously been tested by Soviet Era wells which have been re-interpreted and indicate potential missed oil zones, these being Traverskaya and Tuganskaya.

The strategy for the development of this licence is therefore to:

- Optimise existing production to reduce and where possible reverse the current natural decline.
- Develop low risk opportunities that can add significant near-term growth (Sibkrayevskoye and West Lineynoye).
- Capture the value of the significant exploration inventory, particularly Emtorskaya, but also Traverskaya and Tuganskaya. These represent low risk targets which we regard as appraisal led exploration due to previous Soviet era wells partially de-risking the presence of oil.

Arbuzovskoye field
In 2019 we gathered considerable valuable reservoir performance data from wells at Arbuzovskoye as well as in our other fields. Water injection logs, tracer surveys and bottom hole pressure data were collected. We observed some interesting results and found out that some of the water injected was not getting to the intended areas. This new data along with recent re-interpretation of seismic data has been incorporated into our geological model to improve our understanding of how to increase oil recovery and stabilise production.

The two horizontal wells at Pad 2 continued to be strong producers, producing more than all 11 development wells at Pad 1. However, we continued to see declining production from these two horizontal wells due to a lack of pressure support. At the end of 2019 we therefore decided to convert two adjacent vertical wells into water injector/water source wells to provide pressure support for the Pad 2 area which covers the southern part of the field. It is still too early to judge the success of this program, however, we believe that we are starting to see production starting to stabilise around this area, reducing the historic steep declines.

Lineynoye field
The wells at Lineynoye continue to perform well, with production in 2019 increasing slightly compared to 2018. Through 2019 we performed injection logs and tracer surveys on the water injection wells, which is being used to maximise sweep efficiency and oil recovery, thereby optimising water flood performance and increasing production rates from existing wells. The slight increase we saw between 2018 and 2019 has continued throughout 2020 with the August-to-August increase of almost 20%. 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. We continue to look at all methods to increase production including potential re-fracking selected wells in the near term.

Chief Executive Officer's Report *(continued)*

The geology of the Lineynoye field is very similar to the Sibkrayevskoye field and the Emtorskaya prospect. We believe that we can translate the success achieved especially at the Lineynoye Pad 1 development to the Sibkrayevskoye field and Emtorskaya prospect. We have termed this area the Northern Hub due to similarities in geology and proximity to the Lineynoye field where the Central Processing Facility is located.

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 successful L-10 horizontal well, which has had zero decline during the past four years, combined with the experience gained drilling horizontal wells at Tungolskoye and Arbuzovskoye Pad 2, we believe we can attain higher production rates at West Lineynoye by drilling 500 to 1,000 meter horizontal wells. The development of the L-8 Lobe of the Lineynoye field known as West Lineynoye, is a prime candidate for future investment utilising horizontal wells. We have existing infrastructure already in place tying the L-8 Lobe to the Central Processing Facilities and the economics of the development are robust. This development will target an additional 10 million barrels of 2P reserves.

Sibkrayevskoye
Historically we have successfully produced the S-373 and S-375s delineation wells during the last three winter seasons. Oil has been trucked over winter roads (mid-December to mid-April) at an average combined rate between 250 and 300 bopd.

In 2019 we took the decision to connect the field to the main Central Processing Facility at Lineynoye. This enables year-round production and increased cash flow at the same time as providing critically valuable reservoir performance data which will be used to de-risk the future full field development decision. The hook-up of the 26km pipeline was completed in March 2020, significantly under budget and well within schedule.

We have reviewed the geology of this field and recognise that it is very similar to that at Lineynoye where the Pad 1 wells have been outstanding producers. The main reservoir in this field comprises a channelized reservoir system which is laterally variable and explains the past well history. These channels systems can be visualised using 3D seismic data. We are therefore looking at the potential to acquire 3D seismic ahead of any further development drilling to ensure we target reservoir sweet spots which will significantly de-risk further capital allocation.

With the completion of the link to the CPF during Q1 2020, the field has been producing through 2020 without any appreciable decline. This provides confidence in the economic viability of the full field development.

Tungolskoye
Through the ongoing technical review, we quickly recognised that the geology of the field is more challenging than viewed initially. Initial production rates were good, but declines have been rapid at the same time as experiencing high water cuts.

As part of our cost optimisation program we decided to divert resource and capital away from the field, moving the workover rig from Tungolskoye to the higher rate and commercially more attractive wells at the L-8 lobe at West Lineynoye. This reallocation of resource proved to be highly effective as both pumps on these wells went down during the summer months of 2019. If we had not relocated resources, we would have lost approximately 150 bopd for the rest of the year.

Despite the geological complexity of this field we are continuing to evaluate potential solutions such as the utilisation of a coiled tubing unit to restore economic production.

Exploration and Appraisal
The license contains 25 prospects with 288 mmbbls of prospective (Ryder Scott).

The Emtorskaya prospect is aerially extensive (146 km2) and structurally 65 m higher than the Lineynoye field with similar geological characteristics. Two wells (E-300 and E-303) were drilled on the structure during Soviet times and have been re-interpreted with potential missed oil zones being identified within the Upper Jurassic in both wells. We believe that the Emtorskaya structure could be a potentially significant up-dip extension of the Lineynoye field. The geological conditions encountered at the Pad 1 drilling campaign at the Lineynoye field has been a great success which we believe could be replicated at Emtorskaya. Ryder Scott audited potential resources of 64 million barrels at Emtorskaya. Economically proving up this prospect would add material value due to its scale and proximity to existing production facilities where there is abundant spare capacity.

In addition, we also particularly like Traverskaya and Tuganskaya in the south, where re-processing of the old well data has identified potential missed pay at various intervals in the Jurassic and Cretaceous.

Licence 67

The company holds a 50% operated interest in this licence with our partner Belgrave NaftoGaz (formerly called Arawak Energy) which holds the remaining 50%. The ownership of Belgrave NaftoGaz changed at the end of 2019 due to a buyout by a group of investors led by the former CEO of Arawak Energy. Through ongoing meetings with the new owners, we are pleased to see enthusiasm and support for the future development of this asset.

The licence is surrounded by producing fields and all-weather roads which run through the licence and past both the Cheremshanskoye and Ledovoye fields. The proximity of roads to both fields enabling an easy transportation route makes development of these fields highly attractive due to reduced CAPEX and OPEX costs combined with multiple export routes. Both these fields are covered by modern 3D seismic data which was re interpreted in 2019 and geological models for the fields were updated.

In 2018 the company successfully drilled the C-4 well on the Cheremshanskoye field. Following completion of this well we successfully had 19.26 mmbbls of C1+C2 reserves (equivalent to International standard 2P) approved by GKZ (Russian State Reserves Auditor) in January 2019.

In 2019 we carried out a detailed technical review of all available data and developed a low cost five well re-entry program on the Cheremshanskoye and Ledovoye fields and the Sklonovoye prospect. This multi-well re-entry program started with very successful results from the first well – C-4, completed during March 2020. The C-3 well was successfully re-entered and tested before operations were suspended due to the economic crisis and the COVID-19 virus.

Following our technical review combined with the significant economic advantages of developing assets near infrastructure, we see this licence as having the potential to add significant value for the company.

The strategy for the development of this licence is therefore to:

- Establish year-round production initially through bringing the C-4 well on stream by the end of 2020.
- Increasing reserves and production through re-testing and if successful bringing the Ledovoye field into production.

Cheremshanskoye field
The field covers an area of 46 km² with three previous wells drilled within the southern half of the field encountering oil within the Upper and Lower Jurassic intervals. 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. This well tested oil on a short period test from the Upper Jurassic J1-1 and J1-3 intervals at a combined open hole prorated test of 399 bopd.

Immediately adjacent to this field along the NW margin lies the Lomovoye field which is operated by Tomskneft (subsidiary of Rosneft) and reportedly already has over two hundred producing wells. We see the geology as being very similar and so a good analogue for our field.

Following completion of the C-4 well, the company during the first quarter of 2019 had reserves of 2.5 mmtons of C1 + C2 (19.26 mmbbls) approved by the Russian State Reserves Committee (approximately equivalent to International 2P category). Crucially this reserves level qualifies for an approximate 20% reduction in the rate of Mineral Extraction Tax which is generally set at 60% of the gross revenue, so a 20% reduction equates to a considerable value over the life of the asset. For example, at $50/bbl this reduction improves the value of every barrel produced by approximately $6/bbl.

In 2019 after reviewing all technical data we developed a well re-entry program to start producing from this field. The initial C-4 well test in 2018 had been for a short duration so we needed to collect longer term reservoir performance data. We started the re-entry program with C-4. In March 2020 we announced that we had successfully re-entered and flowed naturally up to 476

Chief Executive Officer's Report *(continued)*

bopd of good quality 100% oil from the Upper Jurassic J1-1 and J1-3 reservoirs in the C-4 well. We tested the well at various choke sizes and produced over 1,200 bbls. This well test provided conformation economic viability of producing oil from this field all year round as soon as the infrastructure is in place. This oil was successfully sold at the wellhead for good commercial rates without significant transportation costs. The workover rig was then moved to the C-3 well where the well was successfully re-entered and tested in the Lower Jurassic J-14 reservoir. Testing confirmed gas, and non-commercial quantities of high paraffin condensate/light oil.

Further testing of wells in Licence 67 was suspended in April 2020 due to the fall in global oil prices combined with COVID 19 pandemic. We are now investigating the possibility to re-start the well re-entry program as an early priority when circumstances permit.

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 oil recovered from the Upper Jurassic and indications of oil in the overlying Cretaceous intervals. During 2019 we reviewed available well data and identified the potential to re-enter both the L-2a and L-2 wells to test the Upper Jurassic and overlying Cretaceous intervals, previously missed. These wells lie less than 200 meters from a good quality all season road, so well re-entry operations can occur year-round. This re-entry program was initially scheduled to be completed during the first half of 2020, but like the Cheremshanskoye program was postponed due to a combination of the economic crisis and the COVID outbreak. We are now evaluating the potential to re start this well re-entry program.

Licence 61 and 67 Reserves

Independent reserve consultants Ryder Scott completed an assessment of petroleum reserves on Licence 61 and 67 as at 1 January 2016. As we initiate production from Licence 67, combined with improved knowledge of our assets in Licence 61, we are aiming to generate an update third party assessment of the company's reserves in 2021.

The Ryder Scott reserves report estimates total Proved and Probable ("2P") reserves for Licence 61 at that time at 102.92 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 104.55 mmbbls 3P, 63.9 mmbbls 2P and 16.1 mmbbls P1 as at 1 January 2020 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 mmtons (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 in the near term and Traverskaya and Tuganskaya in the medium term. In the longer term we expect to grow our reserves further with continued exploration and appraisal 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 + West Lineynoye	6.5	12.4	15.4
Arbuzovskoye	1.1	3.6	4.8
Tungolskoye	0.3	2.8	3.6
Sibkrayevskoye	5.8	29.4	29.4
Kondrashevskoye	0.7	1.3	1.6
North Varyakhskoye	0.2	0.4	0.5
Emtorskaya	0	0	31.85
	14.6	**49.9**	**87.15**
Licence 67			
Ledovoye	1.5	14.0	17.4
Total net to PetroNeft	**16.1**	**63.9**	**104.55**

- Licence 61 as at 31 December 2019 (Ryder Scott report as at 1 January 2016, adjusted for 2016-2019 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.

These numbers do not include 19.26 mmbbls (gross) C1+C2 reserves which were audited by GKZ (Russian State Reserves Committee) for the Cheremshanskoye field in Licence 67. Russian State C1+C2 is approximately equivalent to 2P under the PRMS classification system.

Conclusion
Despite the recent considerable challenges the company has experienced due to the macro environment, I believe the work carried out in 2019 which has continued through 2020 has provided solid foundations for the future development of the company and I am increasingly excited by the opportunities that we are working on to deliver improved shareholder value in the future.

I would like to take this opportunity to thank our shareholders for their 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

PetroNeft Resources plc

Financial Review

Review of PetroNeft loss for the year

The loss after taxation for the year was US$6,042,454 (2018: US$7,561,762). The loss included the share of joint venture's net loss in WorldAce Investments of US$7,510,318 (2018: US$6,339,613) which arose mainly due to the loss in margins as Revenues declined from US$31.4 million to US$24.8 million in 2019. In addition, the share of joint venture's net loss in Russian BD Holdings B.V. increased to US$664,455 (2018: US$508,757).

	2019 US$	2018 US$
Continuing operations		
Revenue	1,443,568	1,767,074
Cost of sales	(1,333,339)	(1,559,982)
Gross profit	**110,229**	**207,092**
Administrative expenses	(807,507)	(1,512,817)
Operating loss	**(697,278)**	**(1,305,725)**
Share of joint venture's net loss - WorldAce Investments Limited	(7,510,318)	(6,339,613)
Share of joint venture's net loss - Russian BD Holdings B.V.	(664,455)	(508,757)
Finance Income	4,275,181	4,075,540
Finance costs	(369,950)	(116,825)
Impairment of financial assets - loans and receivables	-	(3,109,501)
Loss for the year for continuing operations before taxation	**(4,966,820)**	**(7,304,881)**
Income tax expense	(1,075,634)	(256,881)
Loss for the year attributable to equity holders of the Parent	**(6,042,454)**	**(7,561,762)**

Revenue
Revenue in 2019 and 2018 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.

Financial Review *(continued)*

In 2019 PetroNeft Group charged a total of US$0.67 million (2018: US$0.85 million) to the joint ventures in respect of management services. PetroNeft also owns a 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 2019 Granite Construction charged the WorldAce Group US$0.76 million (2018: US$0.92 million) in respect of these services.

Administrative expenditure showed a notable reduction year over year of 47%. 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 2019 a total of US$1,278,068 (2018: US$934,041) had been deferred by the Directors and senior management - see Note 26 for details (Of this, a total of $531,268 was settled through director participation in the January 2020 equity issue).

Most of the Finance Income relates to interest receivable on loans to joint ventures. During 2019 PetroNeft recognised interest income of US$3,802,594 (2018: US$3,686,373) on its loans to WorldAce Group and US$469,974 (2018: US$387,686) on its loans to Russian BD Holdings B.V. In 2018, because of early adoption of amendments to IAS 28 in respect of Long-term Interest in Associates and Joint Ventures the Group recognised Financial asset Impairment allowance of US$3,109,501 given the uncertainties relating to WorldAce. The Company considers no additional impairment should be provided in 2019. For more details see Note 16.

Finance Costs

Finance costs relate to interest payable on loans from Petrogrand AB and on a separate convertible loan of US$1.3million concluded on the 24th June 2019. The convertible loan is unsecured, with a maturity date of 31st December 2020. Interest charges on the loan are LIBOR plus 8%. The loan from Petrogrand AB was increased by a further US$500,000 and has a revised maturity date of 15th December 2020. The redemption date can also now be extended at PetroNeft's option provided the company makes a repayment of 20% of the loan on or before 15th December 2020. In such circumstances the final redemption date would be the earliest of (a) 15th December 2021 or (b) the date of completion of the License 61 sale or (c) the date of completion of License 67 sale. Petrogrand AB is also entitled to a share in the proceeds of any sale of assets.

The obligation and liability shall survive the repayment or mandatory repayment of the Petrogrand AB loan and shall continue to be secured by the floating charge over the assets of PetroNeft. The fees will be paid upon the completion of the sale of License 61 or License 67, on or before 31st December 2022. For more details see Note 30

Review of Statement of Financial Position as at 31st December 2019.

Financial assets- loans to joint ventures.

The Statement of Financial Position reports an increase in Financial Assets, loans to joint ventures of US$2,065,912. During the year PetroNeft advanced loans totalling US$980,500 to Russian BD Holdings B.V. Group to support the continued development of the Capex program and the operations. Interest Income from WorldAce Investment Limited of US$3,802,594 and US$469,974 from Russian Holdings B.V. Group was accrued but not paid. The total advances and fee income were offset by the share of losses of PetroNeft's joint venture operations WorldAce Investment Limited of US$ 2,997,107 and Russian BD Holdings B.V. Group of US$ 181,557. For more details see Notes 16 and 26.

Trade and Other Receivables.

There was a significant increase in Trade and Other Receivables. As at 31st December 2019, US$ 1,136,940 (2018: US$249,280). The primary reason for the growth in receivables was the increase in the receivable amounts owning from PetroNeft's Joint Venture businesses, which increased to US$1,005,991, (2018: US$170,627). Of the Joint venture trade receivable outstanding, WorldAce Investments Limited owed US$818,010 (2018: US$130,469) and Russian BD Holdings B.V. Group owed US$187,981 (2018: US$40,158). For more details see notes 18 and 26.

Called Up Share Capital and Share Premium Account.

During 2019 a total of 13,884,594 Ordinary Shares was issued in satisfaction of Directors fees owing to two directors. Total compensation of US$200,000 was settled by issue of shares to Dennis Francis, who had resigned as Director in December 2018. On becoming Chief Executive Officer on March 25th, 2019, PetroNeft settled outstanding Directors fees owed to David Sturt in the sum of €44,806 at a premium to par value of US$ 0.0068. For more details see Note 20.

PetroNeft Resources plc

Financial Review *(continued)*

Interest Bearing Loans and Borrowings:
Movement in Interest Bearing Loans and Borrowings can be accounted for as follows. In March 2019, PetroNeft secured an additional loan amount of US$500,000 from Petrogrand AB, increasing the total principal advances to US$2.5 million. The interest on the increased loan was LIBOR plus 9%. Due for redemption on December 15th 2019, by mutual agreement between the parties it was agreed to extend out the maturity date to 15th December 2020 and on the proviso that interest accrued and not yet paid up to that time would be rolled up into a revised principal sum due of US$2,872,148 and thereafter monthly interest accruing as and from 16th December would be paid within 7 calendar days of month end , for the prior month.

In June 2019, PetroNeft secured loans from a group of 5 lenders, 3 of which are related parties. See note 26 for more details. The total of the loans provided was US$1.3 million. A condition of the loans was that the lenders at any time may convert up to 65% of their loan advance into ordinary equity shares of PetroNeft. The date of maturity of the loans is 31st December 2020. Interest on the loans is LIBOR plus 8%. For more details see Notes 11, 20 and 21.

Key Financial Metrics – WorldAce Group
Because of the equity method of accounting for joint ventures that applies to PetroNeft's interest in WorldAce, listed below are the metrics which 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 2019 US$	WorldAce Group 2018 US$
Continuing operations		
Revenue	24,852,620	31,369,968
Cost of sales	(25,100,495)	(27,772,818)
Gross profit	**(247,875)**	**3,597,150**
Administrative expenses	(2,624,057)	(3,121,826)
Impairment of exploration and evaluation assets	(1,382,769)	-
Operating profit/(loss)	**(4,254,701)**	**475,324**
Write-off of oil and gas properties	-	(4,096,076)
Write-off of exploration and evaluation assets	(1,299,887)	(4,692)
Finance income	57,906	129,424
Finance costs	(9,523,954)	(9,183,206)
Loss for the year for continuing operations before taxation	**(15,020,636)**	**(12,679,226)**
Income tax expense	-	-
Loss for the year	**(15,020,636)**	**(12,679,226)**
Loss for the year	(15,020,636)	(12,679,226)
Other comprehensive income to be reclassified to profit or loss in subsequent years:		
Currency translation adjustments	9,026,423	(15,521,586)
Total comprehensive loss for the year	**(5,994,213)**	**(28,200,812)**
PetroNeft's Share 50%	**(2,997,107)**	**(14,100,406)**

Financial Review *(continued)*

Finance Income

Net Loss – WorldAce Group
PetroNeft's share of the net loss of WorldAce Group for the full year increased from to US$6.3 million to US$7.5 million in 2019. The increase in the loss for the year before taxation can be attributed to a reduction in production of 17%, coupled with a decline in the average price per barrel of 6% in 2019 versus 2018. The margin lost was somewhat mitigated by a cost reduction program resulting in Administrative expenses falling from $3.122M in 2018 to $2.624M in 2018. Of the US$9.47 million in interest payable by WorldAce, US$3.8 million is payable to PetroNeft.

Revenue, Cost of Sales and Gross Margin – WorldAce Group
Gross Revenue from oil sales was US$24.9 million for the year (2018: US$31.4 million). Cost of sales includes depreciation of US$1.94 million (2018: US$2.4 million), which was lower mainly due to lower production. Part of the reason for lower production was due to extensive data acquisition which required shutting down several wells to acquire bottom hole pressure data and injection logging information. This short-term reduction should help to achieve greater results over the lifetime of the field.

The gross margin declined during the year due to lower production volumes and the average price per barrel was 6% weaker in 2019 versus 2018. Operating costs per barrel (cost of sales excluding depreciation and Mineral Extraction Tax) were higher at US$13.82 (2018: US$10.68 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 589,165 barrels of oil (2018: 713,603 barrels) in the year and sold 594,057 barrels of oil (2018: 706,395 barrels) achieving an average oil price of US$41.84 per barrel (2018: US$44.41 per barrel). All oil was sold on the domestic market in Russia.

Finance Costs – WorldAce Group
Gross Finance costs of US$9.5 million (2018: US$9.2 million) mainly relates to interest on loans from PetroNeft and Oil India.

Taxation – WorldAce Group
There is no tax payable in 2019 or 2018.

Current and Future Funding of PetroNeft Group

While there were consolidated net current liabilities at the year-end of US$4.62m (2018: US$2.8m), the Company has consistently demonstrated its ability to secure Shareholder funding and proactively work with its lenders in obtaining loan maturity extensions. In particular, the last equity funding in January 2020 demonstrated the continued support of institutional investors and the Directors. The Company continues to drive its 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 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 15th December 2020 which may be extended by mutual consent if certain milestones are met. The borrower can exercise the option to extend if the borrower pays 20% of the loan balance outstanding on or before the redemption date of 15th December 2020. The revised terms include an extension to the entitlement of the lender to a bonus on the sale of either or both Licence 61 and Licence 67 if they are sold by 31st December 2021 of $2.5M. When this loan was extended in March 2019, this bonus entitlement period was also extended by one year to 31st December 2022.

In June 2019, the Company agreed a new convertible loan for US$1.3 Million with a different group of investors which matures on 31st 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 2 years the asset acquisition market in Russia has seen increased activity, especially for the larger domestic companies, albeit that activity has diminished due to the onset of the Covid 19 pandemic. In the event of a possible sale, it is expected that both loan facilities would be repaid from the proceeds of sale of one of the Licences.

Going Concern

Cash on hand
As at 31st December 2019, PetroNeft Group had on hand cash and cash equivalents of US345,532 (2018: US$801,938). A comprehensive review of all cash inflows and outflows is contained in the Consolidated Statement of Cash Flows on page 41 of the Annual Accounts.

Improving Liquidity in the near term,
In the short term, PetroNeft can bolster its cash holding by increasing production. Deliveries are paid for in advance and ownership transfers when the oil enters the pipeline. PetroNeft continues to enjoy the support of its principal shareholders and lenders, as evidenced by the following fund-raising events. In March 2019 Petrogrand AB, a related party, advanced a further US$500,000 and extended out the redemption date on its total loan facility to 15th December 2020. In June 2019, debt funding of US$1.3 million was supported by shareholders representing over 40% of the Share Register. In addition, the equity funding of US2.12 million in January 2020 was widely supported by both the Directors and institutional investors. Funds raised were at a premium of 58%.

Controlling expenditure.
Since the announcement of the Cost saving program in 2017, PetroNeft has announced continuous improvement in its management of administrative expenses. In 2019, administrative expenses declined by 47%. PetroNeft manages expenditures on an entity level basis and within each entity, by nature of expense and by need. There is active engagement with all stakeholders and continuous cost improvements are sought. During the Covid pandemic payments of key payables was extended, staff took voluntarily pay cuts, in some cases up to 50%. Capex is allocated to projects which generate the quickest payback. Where possible the build out of key projects such as the mini refinery is done in house and accordingly minimize third party fees and overhead.

Proactive Liquidity Management and cost control.
Include the following:

- In 2019, PetroNeft successfully reorganized the company structure in Tomsk and upgraded the local technical talent across geology, engineering, and accounting functions and enabled PetroNeft to arrest the natural decline in some of the core fields, with further opportunities also identified.
- Also, in 2019 PetroNeft significantly increased the amount of data gathering and well monitoring across the well inventory which has been combined with a re-interpretation of the seismic and well data. PetroNeft have gained valuable insights from these studies, which is being integrated into an updated plan for the assets which is described in more detail in the individual field and prospect sections in the Chief Executive's Officer Report.
- PetroNeft invested in infrastructure to support the expected development of its reserve inventory. The infrastructure has capacity for 14,700 barrels per day. Production in 2019 was 1,614 barrels per day.
- Mini refinery will be completed end of quarter 4 2020, enabling significant savings and efficiencies on diesel overhead.
- An active sale process commenced in 2018, with considerable interest shown in key assets. The process and engagement level slowed in 2020 due to the Covid pandemic. PetroNeft still gets expression of interest and when appropriate provides interested parties with access to the Data room. It is expected that interest in the company's assets will improve as our production grows combined with the continued strengthening of the oil price.
- PetroNeft prepares Monthly projected Cashflow statements and monitors actual performance monthly back against forecast. Monthly Cashflow forecasts are prepared to 30th September 2021.
- PetroNeft secures prepayment for its oil deliveries.
- PetroNeft through its subsidiaries and Joint venture companies has successful worked with the local tax authorities in designating its operations as small to medium sized enterprises, thereby minimizing expenditure on both corporate and employment taxes.

Financial Review *(continued)*

Going Concern Conclusion.
The ability to re-finance the Petrogrand loan, the issuance of share capital, the increasing of third party debt and the extension of convertible debt redemption date represents material uncertainties that may cast significant doubt upon the Group's and the Company's ability to continue as a going concern as described in Note 2 to the Consolidated Financial Statements. The Company recognises this risk and is already engaged with all parties to reach a positive outcome for the company.

Focussed Asset Management and Capital Allocation
PetroNeft updates its operational plan, and supported with a detailed capex plan, such that the large potential can be realised in the following:

- Sibkrayevskoye and West Lineynoye fields in Licence 61.
- Cheremshanskoye and Ledovoye oil fields in Licence 67.
- Prospects such as Emtorskaya, which lies north of the Lineynoye field in Licence 61.

PetroNeft manages its workover program to reverse declining production and identify sweet spots in its drilling program. These efforts have seen production increase year over year to July by 7% and July 2020 production volumes exceeding the July 2019 production volumes by 17.8%.

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 shown below and continued on the next page.

	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 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.
	Drilling risk (continued)	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 undertaken.

Financial Review *(continued)*

	Risk Issue	Mitigation
		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 in place to support production up to 14,700 barrels per day, supports 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.
Covid 19	Business interruption	At the start of the pandemic, production was supported by a skeleton crew and crew changes were lengthened. PetroNeft actively worked to manage its cashflow. This included working with its suppliers and key third-party payables in rescheduling payments, staff in Tomsk voluntarily took salary cuts up to 50%. Inventories on hand supported revenues during this time, and prices achieved in a very weak market were at the higher end of the average rates per barrel. All shipments were prepaid in advance. The company enforced strict protocols around HSE, no incidents of Covid 19, to date have been reported at any of its facilities.
Other Risks	HSE incidents	HSE standards set and monitored regularly across the Group.
	Export quota	Equal access to export quotas available for all oil producers using Transneft.
		Conservative assumption in economics - domestic net back price now largely in alignment with export net back.
	Third party pipeline access	25-year transportation agreement in place for Licence 61, several options available for ultimate development of Licence 67.
	Transneft pipeline access	Available capacity and access confirmed.
		East Siberia-Pacific Ocean (“ESPO”) pipeline allows export of oil to Pacific market.

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 as at 10th July 2020 are as follows:

Name of shareholder	Ordinary Shares	Percentage
Natlata Partners Limited	210,078,317	27.21%
Davy Nominees	100,470,827	13.01%
Daria Shaftelskaya	80,780,376	10.46%
Seguro Nominees Limited	50,457,433	6.53%
HSBC Global Custody Nominee (UK)	34,201,130	4.43%
Dennis Francis	28,176,492	3.65%
Mr. Duming Zhai	28,000,000	3.63%

PetroNeft Resources plc

Directors’ Report

for the year ended 31 December 2019

The Directors present herewith their Annual Report and the audited financial statements of PetroNeft (“PetroNeft”, “the Company”, or together with its subsidiaries and joint ventures, “the Group”) for the year ended 31 December 2019.

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 the Financial Review.

Results and Dividends

The loss for the year before tax amounted to US$4,966,820 (2018: US$7,304,881). After a tax charge of US$1,075,634 (2018: US$256,881) the loss for the year amounted to US6,042,454 (2018: US$7,561,762). 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 7, the Chief Executive Officer’s Report on pages 8 to 14 ,the Financial Review on pages 15 to 21. The key financial metrics used by management are set out in the Financial Review on page 15.

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

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

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

Corporate Governance (continued)

h) there should be a dialogue with shareholders based on a mutual understanding of objectives.

PetroNeft satisfies all 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.

In addition to the above mentioned for a more comprehensive review of how PetroNeft conforms with the 10 Quality Code Assurance principles please refer to pages 88-97 of this Annual accounts pack. Alternatively the principles and how PetroNeft implements them, can be found by logging on to the PetroNeft website by clicking on the following link: http://petroneft.com/investor-relations/rule26/.

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.

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.

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

In accordance with Article 89 of the Articles of Association, David Golder and Thomas Hickey are due to retire by rotation at the next AGM and are eligible to offer themselves for re-election. Thomas Hickey has indicated that he does not intend to go forward for re-election.

Directors' Report
for the year ended 31 December 2019 (continued)

Directors, Company Secretary, and their Interests
The Directors and Company Secretary who held office at 31 December 2019 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 31 December 2019	Ordinary Shares As at 1 January 2019
Directors		
David Golder	3,165,458	3,165,458
David Sturt	4,048,005	-
Maxim Korobov†	208,429,458	208,429,458
Thomas Hickey	2,226,283	2,226,283
Company Secretary		
Karl Johnson	932,349	932,349
Paul Dowling*	158,583	158,583

†Shares held via Natlata Partners Limited are held for and on behalf of Maxim Korobov
*Mr. Paul Dowling resigned as Company Secretary on 5th February 2019 and was replaced by Mr. Karl Johnson who resigned on the 3rd May 2020 and who was replaced by Mr. Michael Power on the 3rd May 2020.

In addition to the above, the Directors who held office at 31 December 2019 held the following share options:

Director	Options held as at 1 January 2019	Granted in year	Exercised in year	Lapsed in year	Options held as at 31 December 2019	Exercise price
David Golder	130,000	-	-	130,000	0	£0.065
Thomas Hickey	110,000	-	-	110,000	0	£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 20-21.

Going Concern
The appropriateness of continuing to prepare the financial statements on a going concern basis is discussed in detail in the Finance Review on pages 18-19 in the paragraphs related to the "Current and future funding of PetroNeft" and 19-20 "Going Concern" and in Note 2 to the financial statements on pages 41-42

The circumstances outlined in the Financial 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 Financial 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 2019 (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 operational outcomes and individual performance.

The share option scheme is designed to incentivise performance and loyalty of Directors and key employees. Share option holdings of the Directors are disclosed on page 25.

Directors' Remuneration (US$)

	2019			2018		
Director	**Basic**	**Pension**	**Total**	**Basic**	**Pension**	**Total**
Executive directors						
David Sturt	307,090	22,836	329,926	-	-	
Dennis Francis	-	-	-	496,500*	26,217	522,717
	307,090	22,836	329,926	-	26,217	522,717
Non-executive directors						
David Golder	17,821	-	17,821	17,824	-	17,824
Thomas Hickey	11,235	-	11,235	11,751	-	11,751
Anthony Sacca	11,235	-	11,235	11,751	-	11,751
David Sturt	2,809	-	2,809	11,751	-	11,751
Maxim Korobov	11,235	-	11,235	11,751	-	11,751
	54,335	-	54,335	64,828	-	64,828
Total Directors remuneration	**361,425**	**22,836**	**384,261**	**561,328**	**26,217**	**587,545**

* 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 2019 of US$932,344 (2018: US$607,468).

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 25

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

Important Events after the Balance Sheet Date

At an EGM held in Dublin on 7th January 2020, a resolution was passed by the shareholders which approved the placing and the issue of 107,755,037 Placing Shares at a price of £0.015 each.

The Admission became effective and the dealings in the Placing of the Shares commenced on AIM and Euronext Growth at 8.00 a.m. on 14 January 2020.

On a global level the effects of the Corona pandemic will live with us for a very long time. On a Company level the business was supported throughout by its employees, oil marketing partners, suppliers, and contractors.

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 2019 (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 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

BDO Ireland continue in office in accordance with the provisions of Section 383(2) of the Companies Act 2014.

Approved by the Board on 21st September 2020

David Golder	David Sturt
Director	Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PETRONEFT RESOURCES PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Petroneft Resources Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the financial year ended 31 December 2019, which comprise the Consolidated Income Statement, the Consolidated and the Parent Company Balance Sheet, the Consolidated and the Parent Company Statement of Changes in Equity and the Consolidated and the Parent Company Cash Flow Statements and notes to the financial statements, including the summary of significant accounting policies set out in note 3.

The relevant financial reporting framework that has been applied in the preparation of the Group and the 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').

In our opinion:

- the financial statements give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2019 and of its loss for the financial year then ended;
- the financial statements give a true and fair view of the assets, liabilities and financial position of the Parent Company as at 31 December 2019;
- the financial statements of the Group and the Parent Company have been properly prepared in accordance with IFRSs as adopted by the EU; and
- the financial statements of the Group and the Parent Company have been properly prepared in accordance with the requirement of the Companies Act 2014.

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 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 ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority ('IAASA'), 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 $1.1 million for the financial year ended 31 December 2019, had total assets of $39.1 million and net current liabilities of $4.6 million.

Included in Total assets are financial assets comprising of loans and receivable of $37.6 million from Join Ventures. The recoverability of these loans are dependent on the continued operations and future profitability of the Joint Ventures. For the operations to continue, the Group is highly dependent on continued funding by way of share placements, securing debt financing, successful extension or re-financing of the Petrogrand AB and convertible loans.

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.

In response to this, we:

- obtained an understanding of the Group's and Parent Company's assumptions in the development and approval of the projections used in the cash flow forecasts to support the going concern assumption and assessed the reasonability of these assumptions;
- challenged the key assumptions used in the cash flow forecasts by agreement to historical run rates, expenditure commitments and other supporting documentation;
- assessed the reasonableness of securing funding through share placement and debt financing or re-financing.
- 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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.

Recoverability of financial assets and loans advanced to joint venture undertakings

Key Audit Matter

The Group and Parent Company has a significant loans receivable from joint ventures amounting to $37.6 million (2018: $35.5 million) as at the balance sheet date.

The carrying value of the investment in joint ventures is represented by loans due from joint ventures, WorldAce Investments Limited and Russian-BD Holdings BV. The joint ventures control Licences 61 and 67 for future exploration and development of the Sibkrayevskoye and Cheremshanskoye Oil fields respectively. The recoverability of these loans due from Joint Ventures are dependent on the successful development of the economic reserves and revenue growth or the realisation of the value through sale. There is a risk that these loans due from joint ventures are not recoverable and an impairment should be raised in the financial statements.

As such, we have identified this as a key audit matter.

Related Disclosures

Refer to notes 3.4(a), 3.4(b), 3.5(d), and 16 of the accompanying financial statements.

Audit Response

In response to this:

- We have obtained Management's Impairment assessment in relation to financial assets and loans receivable from JVs which were directly linked to the Oil & Gas impairment models produced for the JVs;
- We have gained an understanding of how management complete the impairment model, including the key assumptions and key controls in the impairment assessment process.
- We have assessed the design and implementation of key controls identified in the impairment process;
- We have assessed whether management has appropriately applied the requirements of the applicable financial reporting framework relevant to the accounting estimate and the methods for completing the impairment assessment are appropriate and have been applied consistently;
- We have assessed the expertise, competence, skills and independence of those involved, including Ryder Scott, in making the key assumptions and estimates including management experts where utilised;
- We have performed a retrospective review of other key assumptions in the model such as production and revenue growth by comparing budget versus actual for the prior year;
- We have agreed cashflow data and capital expenditure amounts to budget and cashflow projections approved by the Board of Directors;
- We have assessed the level of headroom available, in relation to key assumptions in the impairment model ensuring we exercise professional skepticism; and
- We have challenged management regarding the Group and the Parent Company's ability to raise sufficient finance to ensure that the value is recovered.

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, including omissions, in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of a reasonably knowledgeable person taken on the basis of the financial statements. 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:

- For the purpose of our audit we used overall materiality of $430,000 and $400,000 which represents approximately 1.5% of the Group and the Parent Company's net assets respectively.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.
- We chose net assets as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the Group and the Parent Company and is not as volatile as other measures. We selected 1.5% based on our professional judgment, noting that it is also within the range of commonly accepted asset-related benchmarks.

An overview of the scope of our audit

A description of the scope of an audit of financial statements is provided on the IAASA website at https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsiblities_for_audit.pdf.

Our audit approach was developed by obtaining an understanding of the Group and the Parent Company's activities, the key functions undertaken on behalf of the Board and the overall control environment. Based on this understanding we assessed those aspects of the Group and the Parent Company's financial statements which were most likely to give rise to a material misstatement. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

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 2019, 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.

Opinions on other matters prescribed by the Companies Act 2014

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

- in our opinion, the information given in the directors' report is consistent with the financial statements; and
- in our opinion, the directors' report has been prepared in accordance with the Companies Act 2014.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion, the accounting records of the Group and the Parent Company were sufficient to permit the financial statements to be readily and properly audited and the financial statements are in agreement with the accounting records.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act are not made. We have nothing to report in this regard.

Respective responsibilities

Responsibilities of directors for the financial statements

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 for such internal control as they 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 Company's ability to continue as going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA's website at: https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_ auditors_responsiblities_for_audit.pdf. This description forms part of our auditor's report.

The purpose of our audit work and to whom we owe our responsibilities

Our 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.

Other matters which we are required to address

We were appointed by the Board of Directors on 11 November 2019 to audit the financial statements for the financial year ended 31 December 2019.The period of total uninterrupted engagement is therefore one year, covering the financial year ended 2019.

The non-audit services prohibited by IAASA's Ethical Standard were not provided to the Company and we remained independent of the Company in conducting our audit. We have not provided any non-audit services to the Company during the financial year ended 31 December 2019.

Our audit opinion is consistent with the additional report to the Board of Directors we are required to provide in accordance with ISA (Ireland) 260.

Teresa Morahan

Teresa Morahan
for and on behalf of
BDO
Statutory Audit Firm
Dublin
AI223876

21 September 2020

Date

PetroNeft Resources plc

Consolidated Income Statement

For the year ended 31 December 2019

	Note	2019 US$	2018 US$
Continuing operations			
Revenue	5	1,443,568	1,767,074
Cost of sales		(1,333,339)	(1,559,982)
Gross profit		**110,229**	**207,092**
Administrative expenses		(807,507)	(1,512,817)
Operating loss	7	**(697,278)**	**(1,305,725)**
Share of joint venture's net loss - WorldAce Investments Limited	13	(7,510,318)	(6,339,613)
Share of joint venture's net loss - Russian BD Holdings B.V.	14	(664,455)	(508,757)
Finance Income	8	4,275,181	4,075,540
Finance costs	9	(369,950)	(116,825)
Impairment of financial assets - loans and receivables	9	-	(3,109,501)
Loss for the year for continuing operations before taxation		**(4,966,820)**	**(7,304,881)**
Income tax expense	10	(1,075,634)	(256,881)
Loss for the year attributable to equity holders of the Parent		**(6,042,454)**	**(7,561,762)**
Loss per share attributable to ordinary equity holders of the Parent			
Basic - *US dollar cent*	11	**(0.84)**	**(1.07)**
Diluted - *US dollar cent*	11	**(0.77)**	**-**

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 US$	2018 US$
Loss for the year attributable to equity holders of the Parent	**(6,042,454)**	**(7,561,762)**
Other comprehensive income maybe reclassified to profit or loss in subsequent years:		
Currency translation adjustments - subsidiaries	(77,816)	102,440
Share of joint ventures' other comprehensive income - foreign exchange translation differences	4,996,109	(8,456,256)
Total comprehensive loss for the year attributable to equity holders of the Parent	**(1,124,161)**	**(15,915,578)**

PetroNeft Resources plc

Consolidated Statement of Financial Position

As at 31 December 2019

	Note	2019 US$	2018 US$
Assets			
Non-current Assets			
Property, plant, and equipment	12	28,843	38,296
Equity-accounted investment in joint ventures - WorldAce Investments Limited	13	-	-
Equity-accounted investment in joint ventures - Russian BD Holdings B.V.	14	-	-
Financial assets - loans to joint ventures	16	37,591,655	35,525,743
		37,620,498	**35,564,039**
Current Assets			
Inventories	17	18,965	6,547
Trade and other receivables	18	1,136,940	249,280
Cash and cash equivalents	19	345,532	801,938
		1,501,437	**1,057,765**
Total Assets		**39,121,935**	**36,621,804**
Equity and Liabilities			
Capital and Reserves			
Called up share capital	20	9,585,965	9,429,182
Share premium account		141,006,709	140,912,898
Share-based payments reserve		6,796,540	6,796,540
Retained loss		(97,045,707)	(91,003,253)
Currency translation reserve		(32,040,081)	(36,958,374)
Other reserves		379,923	336,000
		28,683,349	**29,512,993**
Non-current Liabilities			
Interest-bearing loans and borrowings	21	-	-
Deferred tax liability	10	4,303,779	3,219,203
		4,303,779	**3,219,203**
Current Liabilities			
Interest-bearing loans and borrowings	21	4,242,849	2,116,825
Trade and other payables	22	1,891,958	1,772,783
		6,134,807	**3,889,608**
Total Liabilities		**10,438,586**	**7,108,811**
Total Equity and Liabilities		**39,121,935**	**36,621,804**

Approved by the Board on 21st September 2020.

David Golder
Director

David Sturt
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	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 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 -	-	-	-	(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**
At 1 January 2019	**9,429,182**	**140,912,898**	**7,132,540**	**(36,958,374)**	**(91,003,253)**	**29,512,993**
Issue of Share Capital *1	156,783	93,811	-	-	-	250,594
Convertible debt option reserve *2	-	-	43,923	-	-	43,923
Loss for the year	-	-	-	-	(6,042,454)	(6,042,454)
Currency translation adjustments - subsidiaries	-	-	-	(77,816)	-	(77,816)
Share of joint ventures' other comprehensive income -	-	-	-	4,996,109	-	4,996,109
Total comprehensive loss for the year	-	-	-	4,918,293	(6,042,454)	(1,124,161)
At 31 December 2019	**9,585,965**	**141,006,709**	**7,176,463**	**(32,040,081)**	**(97,045,707)**	**28,683,349**

*1-During 2019 , a total of 13,884,594 ordinary shares were issued to Directors , Dennis Francis and David Sturt in satisfaction of director's fees outstanding. A total of 10,471,204 ordinary shares was issued to Dennis Francis in satisfaction of $200,000 Director's fees owing, and a total of 3,413,390 ordinary shares was issued to David Sturt in satisfaction of Director's fees owing of €44,806. Shares were issued at a premium to par value.

*2-During 2019 a sum of $1.3 million was raised from a group of 5 investors. An amount of $43,923 relates to the equity component of the convertible debt proceeds.

PetroNeft Resources plc

Consolidated Cash Flow Statement

For the year ended 31 December 2019

	Note	2019 US$	2018 US$
Operating activities			
Loss before taxation		**(4,966,820)**	**(7,304,881)**
Adjustment to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation		23,884	38,936
Share of loss in joint ventures		8,174,773	6,848,370
Foreign Exchange Gains		(28,528)	-
Finance Income	*8*	(4,275,181)	(966,039)
Finance costs	*9*	369,950	116,825
Income tax expense		(7,493)	(30,034)
Working capital adjustments			
Decrease/(Increase) in trade and other receivables		(875,067)	276,593
Decrease/(Increase) in inventories		(11,115)	12,960
Increase in trade and other payables		73,598	192,955
Net cash flows used in operating activities		**(1,521,999)**	**(814,315)**
Investing activities			
Loan facilities advanced to joint venture undertakings		(980,500)	(392,000)
Purchase of Property, Plant and Equipment		(9,720)	
Interest received		2,613	1,481
Net cash used in investing activities		**(987,607)**	**(390,519)**
Financing activities			
Proceeds from the issue of Share Capital		250,594	-
Proceeds from issue of Convertible debt option		43,923	-
Proceeds from loan facilities		1,756,074	**2,000,000**
Net cash received from financing activities		**2,050,591**	**2,000,000**
Net increase/(decrease) in cash and cash equivalents		**(459,015)**	**795,166**
Translation adjustment		2,609	-2,617
Cash and cash equivalents at the beginning of the year		801,938	9,389
Cash and cash equivalents at the end of the year	***19***	**345,532**	**801,938**

PetroNeft Resources plc

Company Statement of Financial Position
As at 31 December 2019

	Note	2019 US$	2018 US$
Non-current Assets			
Property, plant, and equipment	12	-	486
Financial assets - investments in joint ventures and subsidiaries	15	13,848	13,848
Financial assets - loans to joint ventures	16	37,591,655	35,525,743
		37,605,503	**35,540,077**
Current Assets			
Trade and other receivables	18	1,220,339	290,974
Cash and cash equivalents	19	257,916	790,753
		1,478,255	**1,081,727**
Total Assets		**39,083,758**	**36,621,804**
Equity and Liabilities			
Capital and Reserves			
Called up share capital	20	9,585,965	9,429,182
Share premium account		141,006,709	140,912,898
Share-based payment reserve		6,796,540	6,796,540
Retained loss		(128,926,419)	(127,788,793)
Other reserves		379,923	336,000
Equity attributable to equity holders of the parent		**28,842,718**	**29,685,827**
Non-current Liabilities			
Deferred tax liability	10	4,303,779	3,219,203
		4,303,779	**3,219,203**
Current Liabilities			
Interest-bearing loans and borrowings	21	4,242,849	2,116,825
Trade and other payables	22	1,694,412	1,599,949
		5,937,261	**3,716,774**
Total Liabilities		**10,241,040**	**6,935,977**
Total Equity and Liabilities		**39,083,758**	**36,621,804**

The Company reported a loss for the financial year ended 31 December 2019 of US$1.1. million (2018: Loss of US$16.8 million).

Approved by the Board on 21st September 2020.

David Golder
Director

David Sturt
Director

Company Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital US$	Share premium US$	Share-based payment and other reserves US$	Retained loss US$	Total US$
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**
At 1 January 2019	**9,429,182**	**140,912,898**	**7,132,540**	**(127,788,793)**	**29,685,827**
Issue of Share Capital *1	156,783	93,811	-	-	250,594
Convertible debt option reserve *2	-	-	43,923	-	43,923
Loss for the year	-	-	-	(1,137,626)	(1,137,626)
Total comprehensive loss for the year	-	-	-	(1,137,626)	(1,137,626)
At 31 December 2019	**9,585,965**	**141,006,709**	**7,176,463**	**(128,926,419)**	**28,842,718**

*1-During 2019, a total of 13,884,594 ordinary shares were issued to Directors, Dennis Francis and David Sturt in satisfaction of director's fees outstanding. A total of 10,471,204 ordinary shares was issued to Dennis Francis in satisfaction of $200,000 Director's fees owing, and a total of 3,413,390 ordinary shares was issued to David Sturt in satisfaction of Director's fees owing of €44,806. Shares were issued at a premium to par value

*2-During 2019 a sum of $1.3 million was raised from a group of 5 investors. An amount of $43,923 relates to the equity component of the convertible debt proceeds.

PetroNeft Resources plc

Company Cash Flow Statement

For the year ended 31 December 2019

	2019	2018
	US$	US$
Operating Activities		
Loss before taxation	**(69,084)**	**(16,548,537)**
Adjustments to reconcile loss before tax to net cash flows		
Non-cash		
Depreciation of property, plant and equipment	486	900
Impairment of financial assets - investments in joint ventures and subsidiaries	-	279,866
Allowance for doubtful debts on financial assets - loans and receivables	3,178,664	15,699,003
Foreign Exchange Gains	(4,694)	-
Finance income	(4,274,171)	(978,232)
Finance costs	369,950	116,825
Income tax expense	(205)	(81)
Working capital adjustments		
Decrease/(Increase) in trade and other receivables	(865,296)	52,777
Increase in trade and other payables	61,863	329,467
Net cash flows used in operating activities	**(1,602,487)**	**(1,048,012)**
Investing activities		
Loan facilities advances	(980,500)	(392,000)
Return of loan facilities	-	222,061
Interest received	1,603	799
Net cash (used in)/received from investing activities	**(978,897)**	**(169,140)**
Financing activities		
Proceeds from the issue of Share Capital	250,594	-
Proceeds from issue of Convertible debt option	43,923	-
Proceeds from loan facilities	1,756,074	**2,000,000**
Net cash received from financing activities	**2,050,591**	**2,000,000**
Net decrease in cash and cash equivalents	(530,793)	782,848
Translation adjustment	(2,044)	(1,401)
Cash and cash equivalents at the beginning of the year	790,753	9,306
Cash and cash equivalents at the end of the year	**257,916**	**790,753**

Notes to the Financial Statements

For the year ended 31 December 2019

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 Euronext. 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 17, in March 2019 PetroNeft agreed an extension of the loan facility, which was due to mature on 15th December 2019 and an increase of US$500,000 up to US$2.5 million with Swedish company Petrogrand AB, a related party. The revised loan maturity date is 15 December 2020, and maybe extended for a further year if certain milestones are met, at the option of PetroNeft. The loan 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.
In January 2020, the Company completed a successful share issue with both Institutional and other investors. Gross proceeds of US$2.12 million was raised at £0.015 per share at a premium of approximately 58%. The money raised will primarily be used to fund the 2020 capital investment program and demonstrated significant commitment from institutional investors and directors who supported 44% of the placing.

In early 2020, the emergence of the Covid-19 pandemic required the company to make several adjustments to operating procedures, investment decisions and staff HSE protocols to protect its employees, joint venture partners and contractors. Production continued with a reduced level of essential field staff, home working was instituted where practicable, staff voluntarily took pay cuts and the Group actively worked with its suppliers and service providers in rescheduling payments to retain maximum financial flexibility. When the restrictions were partially lifted, the Group resumed full scale production in May, and in the months of June through August saw encouraging production volume increases. Year on year increases from August to July was 7.8% and July 2020 production versus the same period in 2019 increased by 17%. With a rebound in oil prices, the ongoing cost saving program and the Mineral Extraction Tax percentage per barrel produced trending lower in 2019 than 2018, the Group's cashflow improved, enabling it to address payables that had been rescheduled, reverse the temporary salary reduction and engage constructively with joint venture partners, current and potential future lenders and investors to support its ongoing investment plans. The Group continuously monitors the ongoing progress and status of the pandemic to ensure it reacts quickly where required; as part of this process the frequency of Board meetings has increased and Board members are closely involved in material cost and investment decisions as well as regular review of the Group's forecast cashflows, short term liquidity and expenditure plans

The Group has analysed its cash flow requirements through to 30th September 2021 in detail The cash flows are highly dependent on the successful extension or re-financing of the Petrogrand AB loan, Convertible Loan and on future production rates and oil prices achieved in its joint-venture undertaking, WorldAce Investments Limited and future cash flows from LLC LIneynoye (Licence 67) once Cheremshanskoye is producing. In addition, the Group, together with its Joint Venture partner OIL India B.V is actively investigating the opportunity to secure debt in the local Russian market for Stimul-T. Currently the Group is engaging with the convertible loan holders with a view to amending the terms of the convertible and extend the redemptions date. Should the Petrogrand AB loan not be extended or re-financed the Group will need additional funding 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.

Notes to the Financial Statements

For the year ended 31 December 2019

2. Going concern (continued)

In 2018 the Company, in conjunction with its joint venture partners engaged financial advisers to evaluate the disposal of License 61 and/or License 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. Company has signed non-disclosure agreements and opened data rooms in relation to the potential sale or farmout of both Licence 61 and 67. However the timeframe to close such a transaction could be at least six months following binding agreement between the parties. The Board is confident that one of these options will ultimately 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. The judgement is supported by;

- the strong reserve inventory and improvements in operational performance
- the existing infrastructure in place that can support production volumes up to 14,700 bopd
- a very strong investment case
- the continued support of our Joint Venture and oil marketing partners
- the continuous support of our principal shareholders, as evidenced by their support for both debt and equity issues
- the continuous support of our lenders, both convertible and conventional debt

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 were unable to continue as a going concern.

3. Accounting policies

3.1 Basis of Preparation

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

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

Statement of Compliance

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

3.2 Basis of Consolidation

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

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

3. Accounting policies (continued)

3.2 Basis of Consolidation *(continued)*

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2019

3. Accounting policies (continued)

3.3 Business Combination *(continued)*

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. The basis for this judgement is the continued active support of its principal shareholders and the inherent value of the underlying reserves which should generate considerable free cashflow once a targeted development program is rolled out. 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.

(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. The Group recognises liabilities for

3. Accounting policies (continued)

3.4 Significant Accounting Judgements, Estimates and Assumptions

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 business objective. This busines model assessment moves from estimates to judgements 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.

3.5 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 except for 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 2019 and 2018 were:

	2019		2018	
US$1 =	**Closing**	**Average**	**Closing**	**Average**
Russian Rouble	61.905	64.837	69.471	62.743
Euro	0.8901	0.8935	0.8734	0.8488
British Pound	0.7573	0.7839	0.7813	0.7521

3. Accounting policies (continued)

3.5 Summary of Significant Accounting Policies (continued)

(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%.

(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 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 consider 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, and
• those to be measured subsequently at fair value (either through OCI or through profit or loss).

3. Accounting policies (continued)

3.5 Summary of Significant Accounting Policies (continued)

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).

(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 Amortised Cost 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 using an allowance account, and the amount of the loss is disclosed separately in the statement of profit or loss within the Impairment of Financial Assets Loans and Receivables

Debt instruments measured at Amortised Cost 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.

3. Accounting policies (continued)

3.5 Summary of Significant Accounting Policies (continued)

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.

(d) Financial assets (continued)

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

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.

3. Accounting policies (continued)

3.5 Summary of Significant Accounting Policies (continued)

Amortised cost is calculated by considering 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.

(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, if 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.

(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.

3. Accounting policies (continued)

3.5 Summary of Significant Accounting Policies (continued)

(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.

(j) Share capital

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

(k) Taxes

Current income tax

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

Deferred income tax

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

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

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

3. Accounting policies (continued)

3.5 Summary of Significant Accounting Policies (continued)

- 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.

(l) 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.

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

(m) 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”).

3. Accounting policies (continued)

3.5 Summary of Significant Accounting Policies (continued)

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.

(n) Finance 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.

Once identified as a Finance Lease, it is recognised on the Statement of Financial Position as a Lease Liability with a corresponding Right of Use asset.

Short term leases of less than 12 months or low value leases are not recognised on the Statement of Financial Position and are separately disclosed.

3. Accounting policies (continued)

3.5 Summary of Significant Accounting Policies (continued)

(o) Finance Income 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 Income in the income statement.

(p) Employee Costs

Liabilities for wages and salaries, including non-monetary benefits are measured at the amount expected to be paid when the liability is settled. The liability for annual leave is recognised in current provisions in respect of employees' services up to the reporting date and is measured at the amount expected to be paid when the liability is settled. Regardless of the expected timing of settlements, provisions made in respect of employee benefits are classified as a current liability, unless there is an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date, in which case it would be classified as a non-current liability.

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

The following new standards, interpretations and standard amendments became effective for the Group as of 1 January 2019:

• IFRS 16 Leases

• IFRIC 23 Uncertainty over Income Tax Treatments

• Amendments to IFRS 9 Financial Instruments

• Amendments to IAS 19 Employee Benefits

• Amendments to IAS 28 Investments in Associates and Joint Ventures

• Annual Improvements 2015 – 2017 Cycle

The new standards, interpretations and standard amendments did not result in a material impact on the Group's results,

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

New standards

IFRS 17 ''Insurance Contracts'' (effective for annual periods beginning on or after 1 January 2021).

3.7 New accounting pronouncements (continued)

Amendments

- Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018) (effective for annual periods beginning on or after 1 January 2020).
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020)
- Amendment to IFRS 3 Business Combinations (issued on 22 October 2018) (effective for annual periods beginning on or after 1 January 2020)
- IFRS 10 (Amendments) and IAS 28 (Amendments) ''Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date postponed indefinitely).

4. Segment information

The Group has several reporting segments which are shown below. They include segment information on allocation of assets and segment information on revenues by both location and customer.

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 the Group's sales and capital expenditures are in Russia.

Segment Information

Assets are allocated based on where the assets are located:

Non-current assets	2019 US$	2018 US$
Russia	37,620,498	35,563,553
Ireland	-	486
	37,620,498	**35,564,039**

4. Segment information (continued)

Revenues are allocated on where the underlying business and assets are located.

	2019 US$	2018 US$
Revenue- Location		
Russia	1,443,568	1,767,074
	1,443,568	**1,767,074**

	2019 US$	2018 US$
Revenue- Customer		
WorldAce Investments Limited-38% (2018- 41%)	547,617	718,930
Russian BD Holdings B.V- 9% (2018-7%)	130,544	127,929
LLC Stimul T- 53% (2018-52%)	765,407	920,215
	1,443,568	**1,767,074**

5. Revenue

	2019 US$	2018 US$
Revenue		
Management Services	678,161	846,860
Construction Services	765,407	920,214
	1,443,568	**1,767,074**

Most of the revenue from management 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 Lineynoye LLC which comprise 81% (2018: 85%) and 19 % (2018: 15%) respectively. Payment terms are stated at 10 business days after acceptance of the invoice.

Notes to the Financial Statements

For the year ended 31 December 2019

6. Employees

Number of employees	**2019**	**2018**
Group	**Number**	**Number**
The average numbers of employees (including Directors) during the year was:		
Directors	5	6
Senior Management	2	2
Professional staff	5	5
Construction crew employees	24	31
	36	**44**

Number of employees	**2019**	**2018**
Company	**Number**	**Number**
The average numbers of employees (including Directors) during the year was:		
Directors	5	6
Senior Management	2	2
Professional Staff	1	1
	8	**9**

Employment costs (including Directors)	**2019**	**2018**
Group	**US$**	**US$**
Wages and salaries	1,276,237	1,544,818
Social insurance costs	126,790	138,829
Contributions to defined contribution pension plan	47,965	55,963
	1,450,992	**1,739,610**

Employment costs (including Directors)	**2019**	**2018**
Company	**US$**	**US$**
Wages and salaries	907,114	1,167,793
Social insurance costs	29,380	34,324
Contributions to defined Pension Plan	47,965	55,963
	984,459	**1,258,080**

Directors' emoluments	**2019**	**2018**
Group and Company	**US$**	**US$**
Remuneration and other emoluments - Executive Directors	307,090	496,500
Remuneration and other emoluments - non-Executive Directors	54,335	64,828
Pension contributions	22,836	26,217
	384,261	**587,545**

6. Employees (continued)

Directors' Remuneration (US$)

	2019			2018		
Director	**Basic**	**Pension**	**Total**	**Basic**	**Pension**	**Total**
Executive directors						
David Sturt	307,090	22,836	329,926	-	-	
Dennis Francis	-	-	-	496,500*	26,217	522,717
	307,090	22,836	329,926	-	26,217	522,717
Non-executive directors						
David Golder	17,821	-	17,821	17,824	-	17,824
Thomas Hickey	11,235	-	11,235	11,751	-	11,751
Anthony Sacca	11,235	-	11,235	11,751	-	11,751
David Sturt	2,809	-	2,809	11,751	-	11,751
Maxim Korobov	11,235	-	11,235	11,751	-	11,751
	54,335	-	54,335	64,828	-	64,828
Total Directors remuneration	**361,425**	**22,836**	**384,261**	**561,328**	**26,217**	**587,545**

* includes US$146,934 of compensation in respect of retirement. In 2019 the number is US$ Nil

As detailed in Note 26, included in the above are unpaid fees and remuneration due to Directors as at 31 December 2019 of US$932,344 (2018: US$607,648) .

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 23.

Pension contributions to directors during the year relate to 1 director (2018: 1 director).

An amount of US$165,376 (2018: US$174,783) relating to Executive Directors' salaries was re-charged to WorldAce Investments Limited. An amount of US$53,018 (2018: US$48,690) relating to Executive Directors' salaries was re-charged to Russian BD Holdings B.V.

During 2019, a total of 13,884,594 ordinary shares were issued to Directors, Dennis Francis, and David Sturt in satisfaction of director's fees outstanding. A total of 10,471,204 ordinary shares was issued to Dennis Francis in satisfaction of $200,000 Director's fees owing, and a total of 3,413,390 ordinary shares was issued to David Sturt in satisfaction of Director's fees owing of €44,806. Shares were issued based on the open average 5-day market price immediately prior to issue.

7. Operating loss

Operating loss is stated after charging/(crediting):	Note	2019 US$	2018 US$
Included in cost of sales			
Short term lease rentals - equipment		17,614	43,268
Included in administrative expenses			
Foreign exchange (gains)/losses		18,524	(30,842)
Short term lease rentals - land and buildings		28,592	44,589
Depreciation of property, plant, and equipment			
Included in cost of sales		23,394	38,036
Included in administrative expenses		490	900
	12	23,884	38,936
Auditors' remuneration - Group			
-audit of group financial statements		50,372	68,878
-tax advisory services		-	-
-other non-audit services		76,173	25,000
-other assurance services		-	-
		152,779	93,878
Auditors' remuneration - Company			
-audit of entity financial statements		17,250	17,250
-audit of group financial statements		33,122	51,628
-tax advisory services		-	-
-other non-audit services		-	-
-other assurance services		-	-
		50,372	68,878

Notes to the Financial Statements

For the year ended 31 December 2019

8. Finance income

	2019 US$	2018 US$
Bank interest receivable	2,613	1,481
Interest receivable on loans to Joint Ventures	4,272,568	4,074,059
	4,275,181	4,075,540
Loss Allowance	-	(3,109,501)
	4,275,181	**966,039**

The loss allowance in 2018 relates to the expected credit loss associated with the loans to WorldAce Investments Limited. See also Note 16.

The above financial income and expense include the following in respect of assets not at fair value through profit or loss:

Total interest income on financial assets	**4,272,568**	**-966,039**

9. Finance costs

	2019 US$	2018 US$
Interest on loans	369,950	116,825
	369,950	**116,825**

The above financial income and expense include the following in respect of liabilities not at fair value through profit or loss:

Total interest expense on financial liabilities	**369,950**	**116,825**

Notes to the Financial Statements

For the year ended 31 December 2019

10. Income Tax

Group	2019 US$	2018 US$
Current income tax		
Current income tax charge	7,516	12,523
Total current income tax	**7,516**	**12,523**
Deferred tax		
Relating to the origination and reversal of temporary differences	1,068,118	244,358
Total deferred tax	**1,068,118**	**244,358**
Income tax expense reported in the Consolidated Income Statement	**1,075,634**	**256,881**

	2019 US$	2018 US$
Loss before income tax	**(4,966,820)**	(7,304,881)
Accounting loss multiplied by Irish standard rate of tax of 12.5%	(620,852)	(913,110)
Non-deductible expenses	3,617	1,667
Effect of higher tax rates on investment income	534,271	122,279
Tax deductible timing differences	(11,868)	(2,366)
Share of joint ventures' net loss	1,021,847	856,046
Other	294	1,558
Profits taxable at higher rates	6,148	8,046
Taxable losses not utilised	142,177	193,488
Utilisation of previously unrecognised tax losses	-	(10,727)
Total tax expense reported in the Consolidated Income Statement	**1,075,634**	**256,881**

Deferred tax

Group and Company

	2019 US$	2018 US$
Deferred income tax liability		
At 1 January	3,219,203	3,001,617
Expense for the year recognised in the income statement	1,068,118	244,358
Translation adjustment	16,458	(26,772)
At 31 December	**4,303,779**	**3,219,203**

Deferred tax at 31 December relates to the following:	2019 US$	2018 US$
Deferred income tax liability		
Accrued interest income on intra-Group loans	4,303,779	3,219,203
	4,303,779	**3,219,203**

Notes to the Financial Statements

For the year ended 31 December 2019

10. Income tax (continued)

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.

	2019	2018
Numerator	**US$**	**US$**
Loss attributable to equity shareholders of the Parent for basic loss	(6,042,454)	(7,561,762)
	(6,042,454)	**(7,561,762)**
Loss attributable to equity shareholders of the Parent for diluted loss	**(5,953,640)**	**-**
Denominator		
Weighted average number of Ordinary Shares for basic (Note 20)	716,793,942	707,245,906
Diluted number of Ordinary shares for basic	**771,415,791**	**-**
Loss per share:		
Basic - *US dollar cent*	**(0.84)**	**(1.07)**
Diluted - *US dollar cent*	**(0.77)**	**-**

The Company has convertible debt instruments in issue that could potentially dilute basic earnings per Ordinary Share in the future as per Notes 21 and 27. The Employee Share Options Program as per Note 27 are not included as there are no Employee Share Options as of 31st December 2019.

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Notes to the Financial Statements

For the year ended 31 December 2019

12. Property, Plant and Equipment

	Plant and machinery US$
Cost	
At 1 January 2018	992,928
Additions	-
Disposals	(324)
Translation adjustment	(152,799)
At 1 January 2019	**839,805**
Additions	9,720
Disposals	(213,181)
Translation adjustment	83,857
At 31 December 2019	**720,201**
Depreciation	
At 1 January 2018	904,726
Charge for the year	38,936
Disposals	(324)
Translation adjustment	(141,829)
At 1 January 2019	**801,509**
Charge for the year	23,884
Disposals	(222,541)
Translation adjustment	88,506
At 31 December 2019	**691,358**
Net book values	
At 31 December 2019	**28,843**
At 31 December 2018	38,296

Company	Plant and machinery US$
Cost	
At 1 January 2018	32,066
Additions	-
At 1 January 2019	**32,066**
At 31 December 2019	**32,066**
Depreciation	
At 1 January 2018	(30,680)
Charge for the year	(900)
At 1 January 2019	**(31,580)**
Charge for the year	(486)
At 31 December 2019	**(32,066)**
Net book values	
At 31 December 2019	**-**
At 31 December 2018	486

12. Property, Plant and Equipment (continued)

- Petrogrand AB has a floating charge over the assets of the Company.
- At 31st December 2019 and 2018, there was no Property, Plant and Equipment Capital Commitments.

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

PetroNeft has a 50% interest in WorldAce Investments Limited ("WorldAce"), 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 2018	-
Elimination of unrealised profit on intra-Group transactions	(1,174)
Retained loss	(6,339,613)
Translation adjustment	(7,760,793)
Credited against loans receivable from WorldAce Investments Limited (Note 16)	14,101,580
At 1 January 2019	**-**
Elimination of unrealised profit on intra-Group transactions	**-**
Retained loss	**(7,510,318)**
Translation adjustment	**4,513,212**
Credited against loans receivable from WorldAce Investments Limited (Note 16)	**2,997,106**
At 31 December 2019	**-**

The balance sheet position of WorldAce shows net liabilities of US$63,968,289 (2018: US$57,974,076) following a loss in the year of US$15,020,636 (2018: US$12,679,226) together with a positive currency translation adjustment of US$9,026,423 (2018: negative US$15,521,586). PetroNeft's 50% share is included above and results in a negative carrying value of US$27,301,740 (2018: US$24,304,633). 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$27,301,740 (2018: US$24,304,633) 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).

Notes to the Financial Statements

For the year ended 31 December 2019

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

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

Summarised Financial statements of equity-accounted joint venture

	WorldAce Group 2019 US$	WorldAce Group 2018 US$
Continuing operations		
Revenue	24,852,620	31,369,968
Cost of sales	(25,100,495)	(27,772,818)
Gross profit	**(247,875)**	**3,597,150**
Administrative expenses	(2,624,057)	(3,121,826)
Impairment of exploration and evaluation assets	(1,382,769)	-
Operating profit/(loss)	**(4,254,701)**	**475,324**
Write-off of oil and gas properties	-	(4,096,076)
Write-off of exploration and evaluation assets	(1,299,887)	(4,692)
Finance income	57,906	129,424
Finance costs	(9,523,954)	(9,183,206)
Loss for the year for continuing operations before taxation	**(15,020,636)**	**(12,679,226)**
Income tax expense	-	-
Loss for the year	**(15,020,636)**	**(12,679,226)**
Loss for the year	(15,020,636)	(12,679,226)
Other comprehensive income to be reclassified to profit or loss in subsequent years:		
Currency translation adjustments	9,026,423	(15,521,586)
Total comprehensive loss for the year	**(5,994,213)**	**(28,200,812)**
Included in the above numbers are charges for		
Depreciation and Amortisation	**1,936,923**	**2,472,676**

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 strengthened against the US Dollar during the year from RUB69.47:US$1 as at 31 December 2018 to RUB61.905: US$1 as at 31 December 2019.

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

	2019 US$	2018 US$
Non-current Assets		
Oil and gas properties	78,147,884	59,573,374
Property, plant and equipment	374,632	256,222
Exploration and evaluation assets	-	15,609,172
Assets under construction	1,468,233	1,124,614
Intangible Assets	2,178,884	
	82,169,633	**76,563,382**
Current Assets		
Inventories	2,390,999	1,697,552
Trade and other receivables	996,439	760,312
Cash and cash equivalents	30,895	451,692
	3,418,333	**2,909,556**
Total Assets	**85,587,966**	**79,472,938**
Non-current Liabilities		
Provisions	1,833,969	1,147,080
Obligations under finance lease	172,969	-
Interest-bearing loans and borrowings	140,244,130	131,364,194
	142,251,068	**132,511,274**
Current Liabilities		
Interest-bearing loans and borrowings	2,346,265	1,949,586
Obligations under finance lease	41,318	-
Trade and other payables	4,917,604	2,986,154
	7,305,187	**4,935,740**
Total Liabilities	**149,556,255**	**137,447,014**
Net Liabilities	**63,968,289**	**57,974,076**
Non -Current Financial Liabilities	**140,417,099**	**131,364,194**
Current Financial Liabilities	**2,387,583**	**1,949,586**

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

	2019 US$	2018 US$
Details of capital commitments at balance sheet date.		
Contracted for but not provided in the financial statements	**Nil**	**60,710**

Notes to the Financial Statements

For the year ended 31 December 2019

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 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 B.V. (Note 16)	1,216,337
At 1 January 2019	**-**
Elimination of unrealised profit on intra-Group transactions	**-**
Retained loss	**(664,455)**
Translation adjustment	**482,897**
Credited against loans receivable from Russian BD Holdings B.V. (Note 16)	**181,558**
At 31 December 2019	**-**

The balance sheet position of Russian BD Holdings B.V. shows net liabilities of US$4,235,793 (2018: US$3,872,680) following a loss in the year of US$1,328,910 (2018: US$1,017,514) together with a positive currency translation of US$965,794 (2018: negative US$1,390,926). PetroNeft's 50% share is included above and results in a negative carrying value of US$2,117,897 (2018: US$1,936,340). 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$2,117,897 (2018: US$1,936,340) 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).

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.

Summarised Financial statements of equity-accounted joint venture

	2019 US$	2018 US$
Revenue	-	-
Cost of sales	-	-
Gross profit	**-**	**-**
Administrative expenses	(332,635)	(208,512)
Operating loss	**(332,635)**	**(208,512)**
Finance income	1,280	1,040
Finance costs	(997,548)	(810,042)
Loss for the year for continuing operations before taxation	**(1,328,903)**	**(1,017,514)**
Taxation	7	-
Loss for the year	**(1,328,910)**	**(1,017,514)**
Loss for the year	**(1,328,910)**	**(1,017,514)**
Other comprehensive income to be reclassified to profit or loss in subsequent years:		
Currency translation adjustments	965,794	(1,390,926)
Total comprehensive loss for the year	**(363,116)**	**(2,408,440)**
Included in the above numbers are charges for		
Depreciation and Amortisation	**6,676**	**-**

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.

Notes to the Financial Statements

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

	2019 US$	2018 US$
Non-current assets	11,252,892	9,970,961
Current assets	118,311	476,186
Total assets	**11,371,203**	**10,447,147**
Non-current liabilities	14,758,627	12,787,243
Current liabilities	848,369	1,532,584
Total liabilities	**15,606,996**	**14,319,827**
Net Liabilities	**4,235,793**	**3,872,680**
Non -Current Financial Liabilities	**14,745,795**	**12,769,162**
Current Financial Liabilities	**131,337**	**96,730**

Capital commitments

	2019 US$	2018 US$
Details of capital commitments at balance sheet date.		
Contracted for but not provided in the financial statements	**Nil**	**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 2018	-	293,714	293,714
Impairment (Granite Construction)	-	(279,866)	(279,866)
At 31 December 2018	**-**	13,848	13,848
At 31 December 2019	**-**	**13,848**	**13,848**
Net book values			
At 31 December 2019	**-**	**13,848**	**13,848**
At 31 December 2018	-	13,848	13,848

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.

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

Details of the Company's holding in direct and indirect subsidiaries at 31st December 2019 are as follows:

Name of subsidiary	Registered office	Proportion of ownership interest	Proportion of voting power held	Principal activity
LLC Granite Construction	13 Sovpartshkolny Lane, Office 210, Tomsk 634009, Russia	100%	100%	Construction
LLC Dolomite	13 Sovpartshkolny Lane, Office 210, Tomsk 634009, Russia	100%	100%	Oil and gas exploration

Details of the Group's interest in joint ventures at 31st December 2019 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	13 Sovpartshkolny Lane, Office 210, 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	13 Sovpartshkolny Lane, Office 210, 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. owns the other 50% of Russian BD Holdings B.V.

16. Financial assets - loans and receivables

Group	2019 US$	2018 US$
Loans to WorldAce Investments Limited (Note 26)	62,963,635	59,161,041
Loss Allowance (Note 8)	(3,109,501)	(3,109,501)
Less: share of WorldAce Investments Limited loss (Note 13)	(27,301,740)	(24,304,633)
	32,552,394	**31,746,907**
Loans to Russian BD Holdings B.V. (Note 26)	7,157,158	5,715,176
Less: share of Russian BD Holdings B.V. loss (Note 14)	(2,117,897)	(1,936,340)
	5,039,261	**3,778,836**
	37,591,655	**35,525,743**

Company	2019 US$	2018 US$
Loans to WorldAce Investments Limited (Note 26)	62,963,635	59,161,041
Loans to Russian BD Holdings B.V. (Note 26)	7,157,158	5,715,176
Loss Allowance (Note 8)	(3,109,501)	(3,109,501)
Less: Accumulated Share of Joint Venture Losses	(29,419,637)	(26,240,973)
	37,591,655	**35,525,743**

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 2021 at the earliest. The loan is set to mature on 31 December 2025. As at 31 December 2019 the loan was fully drawn down. The realisation of financial assets of $32.5m 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 which tested oil at 450 bopd and demonstrated the potential of License 67.

The realisation of financial assets of US$5 m 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.

As previously advised to shareholders, the Company has been examining development options for Licence 67. The Company previously announce that they will be re-entering the C4 and C3 wells on the Cheremshanskoye field during 2020 with the combined aim of bringing the field into production and at the same time providing crucial reservoir performance data. This will enable the Company to optimise forward development of the field which benefits from a favourable infrastructure location, allowing low cost operations. There is a road running along the eastern edge of the field, plus powerlines running close to the western margin of the field, which should allow the Company to reduce OPEX over the longer term.

16. Financial assets - loans and receivables (continued)

In addition, the Company is also working on plans to re-enter two wells on the Ledovoye field, also in Licence 67, during the periods 2020 and 2021. Should this be successful the Company will be looking to both book additional reserves and promptly start production from the Ledovoye field. Like the Cheremshanskoye field, Ledovoye is ideally located close to existing infrastructure, being only 60m away from a major all-weather road.

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 was deemed prudent in 2018, 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.

17. Inventories

	2019	2018
	US$	US$
Materials	18,965	6,547
	18,965	**6,547**

18. Trade and other receivables

Group	2019	2018
	US$	US$
Receivable from joint ventures (Note 26)	1,005,991	170,627
Prepayments	127,815	17,883
Advances to contractors	1,353	758
Other receivables	1,781	60,012
	1,136,940	**249,280**

Company	2019	2018
	US$	US$
Amounts owed by subsidiary undertakings (Note 26)	222,604	156,866
Amounts owed by other related companies (Note 26)	893,731	83,103
VAT Receivable	27,412	33,123
Prepayments	76,592	17,882
	1,220,339	**290,974**

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%.

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19. Cash and Cash Equivalents

Group	2019 US$	2018 US$
Cash at bank	345,532	801,938
	345,532	**801,938**

Company	2018 US$	2017 US$
Cash at bank	257,916	790,753
	257,916	**790,753**

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

	2019 €	2018 €
Authorised Share Capital		
1,000,000,000 (2018: 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 2018	707,245,906	9,429,182
At 1 January 2019	**707,245,906**	**9,429,182**
Issued during the year	13,884,594	156,783
At 31 December 2019	**721,130,500**	**9,585,965**

21. Loans and Borrowings

Group and Company	Effective interest rate	Contractual maturity date	2019	2018
	%		US$	US$
Interest-bearing				
Current liabilities				
Petrogrand AB	10.59%	15-Dec-20	2,897,958	2,116,825
Natlata Partner Limited	10.14%	31-Dec-20	577,347	-
ADM Consulting	10.16%	31-Dec-20	417,051	-
Daria Shaftelskaya	10.13%	31-Dec-20	246,341	-
Michael Murphy	10.14%	31-Dec-20	52,076	-
David Sturt	10.14%	31-Dec-20	52,076	-
Total current liabilities			4,242,849	2,116,825
Total loans and borrowings			**4,242,849**	**2,116,825**
Contractual undiscounted liability			**4,242,849**	**2,116,825**

Changes in financial liabilities arising from financing activities	2019	2018
	US$	US$
At 1 January	**2,116,825**	**-**
Cash flows	1,799,997	2,000,000
Accrued interest (Note 9)	369,950	116,825
Convertible debt option reserve	(43,923)	-
At 31 December	**4,242,849**	**2,116,825**

Loan facilities.
PetroNeft has entered a convertible loan facility of US$1.3 million with a group of five lenders. The convertible loan, which remains unsecured, matures on 31st December 2020 or on the sale of either Licence 61 or Licence 67. The loan facility will be used for general corporate and ongoing operational purposes and carries an interest rate of USD LIBOR plus 8%. Lenders can elect at any time to convert up to 65% of the outstanding loan to shares at a conversion price of US$0.01547 (1.547 cent).

In 2018 the Company obtained a US$2m secured loan facility from Petrogrand AB. The security attaches to any of the assets of PetroNeft Resources plc. An asset being defined as any present or future assets, revenues, and rights of every description. The security is for any obligation for the repayment of monies owed to Petrogrand AB, be it present, or future, actual or contingent. This loan facility was fully drawn down in 2018 and carries an interest rate of US$ LIBOR plus 9%. In March 2019, the parties agreed a further increase in the facility by US$500,000 and it was agreed that the maturity date would be extended for one year until 15th December 2020, which can be further extended to 15th December 2021, if PetroNeft on or before 15th December 2020, makes a payment of 20% of the loan balance outstanding at that time.

Petrogrand AB is a related party by virtue of Maxim Korobov, until 17th January 2020 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.

22. Trade and other payables

Group	2019 US$	2018 US$
Trade payables	403,835	428,734
Trade and other payables to joint ventures (Note 26)	113,532	104,115
Corporation tax	55,232	55,016
Other taxes and social insurance costs	28,457	42,918
Accruals and other payables	1,290,902	1,142,000
	1,891,958	**1,772,783**

Company	2019 US$	2018 US$
Trade payables	403,400	428,428
Corporation tax	55,232	55,016
Other taxes and social welfare costs	(6,932)	6,056
Accruals and other payables	1,242,712	1,110,449
	1,694,412	**1,599,949**

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 their oil on the domestic market in Russia. There are no

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

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 2019 and 2018, 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 2019 and 2018, 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.

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 2019. 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 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 US$	Effect on pre-tax equity US$
2019	5%	7,187	7,187	5%	21,211	21,211	5%	4,432	4,432
2019	-5%	-7,943	-7,943	-5%	-23,430	-23,430	-5%	-2,570	-2,570
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

Company	Change in USD/RUB	Effect on profit before 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 US$	Effect on pre-tax equity US$
2019	5%	-21,554	-21,554	5%	21,211	21,211	5%	4,432	4,432
2019	-5%	23,837	23,837	-5%	-23,430	-23,430	-5%	-2,570	-2,570
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

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

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, considering its financial position, 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 except for 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.

(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%.

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

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 it is a reasonable prospect that the loans will be recovered is from the proceeds of such a sale. The sale process while still active, has to some extent been curtailed because of Covid 19, and the Company presumes once Covid 19 pandemic is controlled the sale process will continue with renewed interest.

Based on the circumstances described it has been estimated that the ECL on the intra-Group loans is US$3.1 million for 2018. No further ECL are estimated for 2019.

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. No further loss allowance was created in 2019.

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

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

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
2019				**US$**	**US$**	**US$**	**US$**
Group:							
Loans to joint ventures	N/A	N/A	General Impairment Model applies	70,120,793	(29,419,637)	(3,109,501)	37,591,655
Company:							
Loan to subsidiary	N/A	N/A		222,604	-	-	222,604

Cash and cash equivalents

The total amount of US$ 345,532 are cash held in banks. Credit losses are expected to have an immaterial effect on cash and cash equivalents.

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 31st December 2019, the Group, and the Company have outstanding loan facilities as described in Note 21 above.

The expected maturity of the Group and Company's third-party financial assets (excluding prepayments) as at 31st December 2019 and 2018 was less than one month. The expected maturity of the Group and Company's related party financial assets as of 31st December 2019 and 2018 is more than 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 of 31st December 2019 and 2018.

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 1st January 2020. These projections are based on the foreign exchange rates applying on 31st December 2019 (2018: 31st December 2018):

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

Group	*Within 1 year* US$	*Between 1 and 2 years* US$	*Between 2 to 5 years* US$	*After 5 years* US$	*Total* US$
Year ended 31 December 2019					
Interest-bearing loans and borrowings					
- current	**4,259,598**	**-**	**-**	**-**	**4,259,598**
Trade and other payables	**1,808,269**	**-**	**-**	**-**	**1,808,269**
	6,067,867	**0**	**0**	**0**	**6,067,867**
Year ended 31 December 2018					
Interest-bearing loans and borrowings					
- current	2116825	-	-	-	2,116,825
Trade and other payables	1,674,849	-	-	-	1,674,849
	3,791,674	0	0	0	3,791,674

Company	*Within 1 year* US$	*Between 1 and 2 years* US$	*Between 2 to 5 years* US$	*After 5 years* US$	*Total* US$
Year ended 31 December 2019					
Interest-bearing loans and borrowings					
- current	**4,242,849**	**-**	**-**	**-**	**4,242,849**
Trade and other payables	**1,646,112**	**-**	**-**	**-**	**1,646,112**
	5,888,961	**0**	**0**	**0**	**5,888,961**
Year ended 31 December 2018					
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	0	0	0	3,655,702

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$67,461 and Company profit before tax by US$518,549

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 to maximise interest earned.

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

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 considering 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 2019 and 2018. 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 and there is no specific items of financial assets or liabilities stated at 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$32.5 million, which approximates the fair value. The carrying value of the loans to Russian BD in the Group and Company is US$5 million, which approximates the fair value.

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 2019 and 2018, 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 of 31 December 2019 and 2018.

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$1,137,626 (2018: loss of US$16,793,095), which included impairment of investments in joint ventures and subsidiaries of US$ Nil (2018: US$279,866) (Note 15) and an impairment provision on loans and receivables from joint ventures of US$ Nil (2018: US$3,109,501) (Note 16).

25. Future minimum rentals payable under short term leases at the balance sheet date are as follows:

	2019 US$	2018 US$
Land and buildings		
Within one year	2,722	6,369
	2,722	**6,369**

There were no capital commitments as of 31 December 2019 or 31 December 2018.

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 2019 and 2018

Company	Granite Construction US$
Loans	
At 1 January 2018 (Note 18)	**870,373**
Interest accrued in the year	12,873
Loans repaid during the year	(222,061)
Loss Allowance	(381,086)
Translation adjustment	(123,233)
At 1 January 2019 (Note 18)	**156,866**
Interest accrued in the year	-
Loans repaid during the year	-
Loss Allowance	-
Translation adjustment	65,738
At 31 December 2018 (Note 18)	**156,866**
At 31 December 2019 (Note 18)	**222,604**

26. Related party disclosures (continued)

PetroNeft Resources had the following transactions with its Joint Venture Partners in 2019 and 2018.

Related parties - PTR Group with JVs

Group	Russian BD Holdings BV Group US$	WorldAce Investments Limited Group US$
Receivable by PetroNeft Group 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)
Impairment Provision	-	(3,109,501)
Translation adjustment	(16,419)	(6,682)
At 1 January 2019	**3,818,994**	**31,773,261**
Advanced during the year	980,500	-
Transactions during the year	154,521	1,642,624
Interest accrued in the year	469,974	3,802,594
Payments for services made during the year	29,564	(947,209)
Share of joint venture's translation adjustment	(181,558)	(2,997,106)
Translation adjustment	(44,753)	(17,293)
At 31 December 2019	**5,227,243**	**33,256,871**
Balance at 31 December 2018 comprised of:		
Loans receivable (Note 16)	3,778,836	31,746,907
Trade and other receivables (Note 18)	40,158	130,469
Trade Payables (Note 22)	-	(104,115)
	3,818,994	**31,773,261**
Balance at 31 December 2019 comprised of:		
Loans receivable (Note 16)	5,039,261	32,552,394
Trade and other receivables (Note 18)	187,981	818,010
Trade and other payables (Note 22)	-	(113,532)
	5,227,242	**33,256,871**

Notes to the Financial Statements

For the year ended 31 December 2019

Company	Russian BD Holdings BV Group US$	WorldAce Investments Limited Group US$
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)
Allowance for Bad Debt Provision	-	(3,109,501)
Translation adjustment	(4,106)	-
At 1 January 2019	**5,715,176**	**56,134,643**
Advanced during the year	1,265,784	-
Transactions during the year	130,544	547,617
Interest accrued in the year	469,974	3,802,594
Payments for services made during the year	29,564	142,618
Translation adjustment	(333,492)	-
At 31 December 2019	**7,277,550**	**60,627,473**
Balance at 31 December 2018 comprised of:		
Loans receivable (Note 16)	5,715,176	59,161,041
Trade and other receivables	-	83,103
Loss Allowance	-	(3,109,501)
	5,715,176	**56,134,643**
Balance at 31 December 2019 comprised of:		
Loans receivable (Note 16)	7,157,158	62,963,635
Trade and other receivables	120,392	773,339
Loss Allowance	-	(3,109,501)
	7,277,550	**60,627,473**

26. Related party disclosures (*continued*)

Remuneration of key management

Key management comprise the Directors, the Vice Presidents of Business Development and Operations of the Company and the consulting fees paid to HGR Consulting Limited for the services of the former CFO.

Remuneration of key management	**2019 US$**	**2018 US$**
Compensation of key management	898,501	1,064,724
Contributions to defined contribution pension plan	45,564	48,947
Consulting fees (HGR Consulting – see below)	-	324,115
	944,065	**1,437,786**

The following amounts were owed to key management, former CEO Dennis Francis, former CFO Paul Dowling as at 31st December 2019 and 2018:

Remuneration, fees, and expenses due to Directors who were in office during the year	932,344	607,468
Remuneration due to other key management	233,108	133,354
Consulting fees (HGR Consulting – see below)	112,616	193,219
	1,278,068	**934,041**

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

Transactions with HGR Consulting Limited

Paul Dowling was retained as fulltime Secretary and Chief Financial Officer of PetroNeft until 31 January 2019. Thereafter it was agreed he would provide these services on a part time basis. These services continued to be provided through HGR Consulting Limited ("HGR"). Services provided by HGR during 2019 amounted to US$70,576 (2018: US$324,115). An amount of US$112,616 was owed to HGR at 31 December 2019 (2018: US$193,219).

Transactions with Petrogrand AB

Petrogrand AB is a related party by virtue of Maxim Korobov, a director of PetroNeft who resigned as PetroNeft's Company Director on 17th January 2020. 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 had an original maturity date of 31 December 2018. This loan facility was fully drawn down in 2018. In March 2019, the parties had agreed an increase in the facility by US$500,000 and a revised maturity date of 15 December 2020. It was further agreed the revised maturity date could be extended for one year until 15th December 2021 if certain milestones are reached.

The following is the history of this transaction in:

	Petrogrand AB 2019 US$
2018- Loan facility amount	2,000,000
2019- Loan drawdowns during the year	500,000
Interest accrued but not yet paid	397,958
Amount due to Petrogrand AB at 31 December 2019	2,897,958

26. Related party disclosures (*continued*)

New Loan agreed in June 2019

As detailed in Note 21 above 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$)	Interest accrued and not yet paid (US$)	Amount due 31 December 2019 (US$)	Relationship at time of transaction
Natlata Partners LLP.	560,000	17,347	577,347	Ultimate Beneficial owner is Maxim Korobov, former PetroNeft director
Daria Shaftelskaya	240,000	6,341	246,341	Substantial shareholder of PetroNeft and director from 17th January 2020.
David Sturt	50,000	2,076	52,076	PetroNeft director

27. Share-based payment

Share options

The expense recognised for employee services during the year is US$NIL (2018: US$NIL). The Group share-based payment plan is described below. There was no cancellation or modification to the plan during 2019 and 2018.

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.

	2019 Number	2019 WAEP	2018 Number	2018 WAEP
Outstanding as at 1 January	4,270,000	£0.065	5,260,000	£0.065
Granted during the year	-	-	-	-
Forfeited during the year	-	-	(990,000)	£0.065
Expired during the year	(4,270,000)	£0.065	-	-
Outstanding at 31 December	-	-	4,270,000	£0.065
Exercisable at 31 December	-	-	-	-

As no options existed at year end, the exercise price for options outstanding at the year-end is £Nil (2018: £0.065).

The weighted average remaining contractual life for the share options outstanding at 31 December 2019 was Nil years (2018: 0.91 years).

No options were granted in 2019 or 2018.

27. Share-based payment (continued)

The weighted average share price of forfeited options in 2019 was Nil (2018: £0.065).

4,270,000 options expired in 2019 (2018: Nil). The weighted average share price of expired options in 2019 was £0.65. (2018: Nil)

As no options were issued in 2019 or 2018, no valuation was carried out in 2019 or 2018.

Warrants

Share Warrants	2019	2018
Issued	54,621,849	-
	54,621,849	**-**

During 2019 the Company secured debt financing in the sum of US$1.3 million from a group of 5 lenders, 3 of which are related parties as described in Note 26. The loan interest is LIBOR plus 8%. In addition, the Lenders may at their election convert up to 65% of their loan amount into Ordinary Shares at any time up to the Final Maturity date, which is 31st December2020. The conversion price is US$0.01547 per Ordinary Share and the Conversion date occurs within a period of 5 business days of service of the Conversion Notice. If the loan is not repaid by the Final Maturity date, the loan interest increases to LIBOR plus 11%.

28. Accounting policies up to 31 December 2018

There was no change in accounting policies applicable to the comparative period ended 31 December 2018, as the Company and Group adheres to the latest accounting pronouncements and adhere to IFRS standards.

29. Important Events after the Balance Sheet Date

At an extraordinary general meeting held in Dublin on 7 January 2020 it was approved the Placing announced on 12 December 2019 and the issue of 107,755,037 Placing Shares at a price of £0.015 each. Gross proceeds of US$2.12 million was raised at a premium of approximately 58% with both Institutional and other investors. The placement demonstrated significant commitment from directors, supporting 44% of the placing.

The Covid pandemic is a global crisis, and the Company was not immune from its economic impact. These Annual Accounts and Financial Statements report how all the Company's stakeholders supported the operations during these very difficult economic times.

30 Contingent Liability

	2019	2018
	US$	US$
	2,500,000	-
	2,500,000	**-**

In consideration for the loan advances and extending out the repayment period, Petrogrand AB is entitled to receive additional fees in the sum of US$2,500,000. The obligation and liability shall survive the repayment or mandatory repayment of the Petrogrand AB loan and shall continue to be secured by the floating charge. The fees will be paid upon the completion of the sale of License 61 or License 67, on or before 31st December 2022.

31. Approval of financial statements

The financial statements were approved, and authorised for issue, by the Board of Directors on 21st. September 2020.

Corporate Governance Code

Following the recent consultation by the London Stock Exchange, new AIM Rules were published in March 2018. One of the key amendments is in respect of AIM Rule 26 (as set out in AIM Notice 50), which now requires AIM companies to state on their website which recognised corporate governance code they apply and how they have applied that code.

The Board of Directors of PetroNeft Resources Plc is committed, where practicable, to developing and applying high standards of corporate governance appropriate to the Company's size and stage of development. The Board of Directors seeks to apply the QCA Code, revised in April 2018 as devised by the Quoted Companies Alliance.

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies. The QCA Code takes key elements of good governance and applies them in a manner which is workable for the different needs of growing companies.

A revised version of the QCA Code (the "Revised Code") was published in April 2018, based on the 'comply or explain' principle.

The QCA Code is constructed around ten broad principles (accompanied by an explanation of what these principles entail, under 'application') and a set of disclosures. The Code states what is appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures.

The table below sets out the principles, the application recommended by the QCA code. It then sets out how PetroNeft complies with these requirements and departures from code and provides links to appropriate disclosures. These are based upon the recommended disclosures provided in the QCA code.

These disclosures were last reviewed on the 21st September 2020.

Corporate Governance Code *(continued)*

QCA PRINCIPLE	APPLICATION	HOW PETRONEFT COMPLIES	DEPARTURES AND REASONS	LINKS
		DELIVER GROWTH		
1. Establish a strategy and business model which promote long-term value for shareholders	The board must be able to express a shared view of the company's purpose, business model and strategy. It should go beyond the simple description of products and corporate structures and set out how the company intends to deliver shareholder value in the medium to long-term. It should demonstrate that the delivery of long-term growth is underpinned by a clear set of values aimed at protecting the company from unnecessary risk and securing its long-term future.	The Board of Directors has clearly set out vision for PetroNeft for the medium to long term that it regularly sets out in communications with stakeholders. The Board of Directors meet on a regular basis to discuss the strategic direction of the Company, and progress in achieving against its aims. PetroNeft provides detailed disclosure on the Company's business model and strategy in the Annual Report.	None	Annual Report
2. Seek to understand and meet shareholder needs and expectations	Directors must develop a good understanding of the needs and expectations of all elements of the company's shareholder base. The board must manage shareholders' expectations and should seek to understand the motivations behind shareholder voting decisions.	PetroNeft has a Board of Directors with experience in understanding the needs and expectations of its shareholder base. It supplements this board with professional advisers in the form of a Public Relations company, NOMAD, Joint Brokers, Auditor and Company Secretary who provide advice and recommendations in various areas of its communications with shareholders. PetroNeft engages with shareholders in the following way: - The Company website has been designed as a hub to provide information to shareholders and communicate with them. The website is regularly reviewed to ensure the information is up to date and	The Company does not currently have a dedicated investor relations role. The Board feels that this is appropriate given the size and stage of development of the Company.	Annual Report

Corporate Governance Code *(continued)*

QCA PRINCIPLE	APPLICATION	HOW PETRONEFT COMPLIES	DEPARTURES AND REASONS	LINKS
		relevant. The website contains copies of all Company communications and public documents. - The Company provides regular updates to the market via the Regulatory News Service. - The Company's Annual Report provides required information about historical performance, strategy, and objectives of the Company. An Annual General Meeting is held to which all shareholders are invited and may engage with the Board of Directors. - Contact details for the Company are provided on the Company website along with public documents.		
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success	Long-term success relies upon good relations with a range of different stakeholder groups both internal (workforce) and external (suppliers, customers, regulators, and others). The board needs to identify the company's stakeholders and understand their needs, interests, and expectations. Where matters that relate to the company's impact on society, the communities within which it operates or the environment have the potential to affect the company's ability to deliver shareholder value over the medium to long-term, then	Key resources and relationships and on which the business relies are its workforce, suppliers, sub-contractors, shareholders, local community, and regulatory authorities. - Employees are encouraged to raise any concerns they may have with relevant management and are also provided with independent contact should they not want to engage directly with their managers. - The mechanisms for feedback from shareholders have been considered under point (2) above. - Feedback from regulators is provided via the regular framework of reporting and inspections that are carried out and the	The Company does not have a formal feedback mechanism with respect to stakeholder outside the Company. The board will keep this under consideration and put in place procedures when it is felt appropriate. External stakeholders can contact the Company via their key contact, or	

Corporate Governance Code *(continued)*

QCA PRINCIPLE	APPLICATION	HOW PETRONEFT COMPLIES	DEPARTURES AND REASONS	LINKS
	those matters must be integrated into the company's strategy and business model. Feedback is an essential part of all control mechanisms. Systems need to be in place to solicit, consider and act on feedback from all stakeholder groups.	Board received regular feedback on all material findings.	directly via the website, Company's NOMAD or at the AGM.	
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation	The board needs to ensure that the company's risk management framework identifies and addresses all relevant risks in order to execute and deliver strategy; companies need to consider their extended business, including the company's supply chain, from key suppliers to end-customer. Setting strategy includes determining the extent of exposure to the identified risks that the company can bear and willing to take (risk tolerance and risk appetite).	PetroNeft recognises that risk is inherent in all its business activities. Its risks can have a financial, operational, environmental, or reputational impact. The Company's system of risk identification, supported by established governance controls, ensures that it effectively responds to such risks, whilst acting ethically and with integrity for the benefit of all our stakeholders. Once identified, risks are evaluated to establish root causes, financial and non-financial impacts, and likelihood of occurrence. Consideration of risk impact and likelihood is considered to create a prioritised risk register and to determine which of the risks should be considered as a principal risk. The effectiveness and adequacy of mitigating controls are assessed. If additional controls are required, these will be identified, and responsibilities assigned. The Company's management is responsible for monitoring the progress of actions to mitigate key	None	Annual Report

Corporate Governance Code *(continued)*

QCA PRINCIPLE	APPLICATION	HOW PETRONEFT COMPLIES	DEPARTURES AND REASONS	LINKS
		risks. The risk management process is continuous; key risks are reported to the Audit Committee and at least once a year to the full Board.		
MAINTAIN A DYNAMIC MANAGEMENT FRAMEWORK				
5. Maintain the board as a well-functioning, balanced team led by the chair	The board members have a collective responsibility and legal obligation to promote the interests of the company, and are collectively responsible for defining corporate governance arrangements. Ultimate responsibility for the quality of, and approach to, corporate governance lies with the chair of the board. The board (and any committees) should be provided with high quality information in a timely manner to facilitate proper assessment of the matters requiring a decision or insight. The board should have an appropriate balance between executive and non-executive directors and should have at least two independent non-executive directors. Independence is a board judgement. The board should be supported by committees (e.g. audit, remuneration, nomination) that have the necessary skills and knowledge to discharge their duties and responsibilities effectively.	The Board has six directors, four of whom are non-executive. The Board is responsible for the management of the business of the Company, setting its strategic direction and establishing appropriate policies. It is the directors' responsibility to oversee the financial position of the Company and monitor its business and affairs, on behalf of the shareholders, to whom they are accountable. The primary duty of the Board is always to act in the best interests of the Company. The Board also addresses issues relating to internal controls and risk management. The non-executive directors, David Golder, Thomas Hickey, Anthony Sacca, Daria Shaftelskaya are considered independent by the Board. The non-executive directors bring a wide range of skills and experience to the Company, as well as independent judgment on strategy, risk, and performance. The independence of each non-executive director is assessed at least annually.	None	

Corporate Governance Code *(continued)*

QCA PRINCIPLE	APPLICATION	HOW PETRONEFT COMPLIES	DEPARTURES AND REASONS	LINKS
	Directors must commit the time necessary to fulfil their roles.	The Board of Directors meet at least six times a year as a full board. The board has appointed several subcommittees to assist in its activities. The terms of reference of the board committees are reviewed regularly and are available on the Company's website www.petroneft.com The Remuneration Committee consists of David Golder (Committee Chairman), Anthony Sacca and Thomas Hickey. It is responsible for reviewing the performance of the senior executives and for determining their levels of remuneration. The Nomination Committee meets as required to consider the composition of and succession planning for the Board, and to lead the process of appointments to the Board. The Committee Chairman is Thomas Hickey. The other members of the Committee are David Golder and Anthony Sacca. The Audit Committee consists of three non-executive Directors: Anthony Sacca, David Golder, and Thomas Hickey (Committee Chairman). The Executive Directors and Senior Management, attends the committee meetings by invitation. The Audit Committee meets at least three times a year to consider the annual and interim financial statements and the audit plan. The Audit Committee is		

Corporate Governance Code *(continued)*

QCA PRINCIPLE	APPLICATION	HOW PETRONEFT COMPLIES	DEPARTURES AND REASONS	LINKS
		responsible for ensuring that appropriate financial reporting procedures are properly maintained and reported upon, reviewing accounting policies and for meeting the auditors and reviewing their reports relating to the financial statements and internal control systems.		
6. Ensure that between them the directors have the necessary up-to-date experience, skills, and capabilities	The board must have an appropriate balance of sector, financial and public markets skills and experience, as well as an appropriate balance of personal qualities and capabilities. The board should understand and challenge its own diversity, including gender balance, as part of its composition. The board should not be dominated by one person or a group of people. Strong personal bonds can be important but can also divide a board. As companies evolve, the mix of skills and experience required on the board will change, and board composition will need to evolve to reflect this change.	The Board of PetroNeft has been assembled to allow each director to contribute the necessary mix of experience, skills, and personal qualities to deliver the strategy of the company for the benefit of the shareholders over the medium to long term. Full details of the Board Members and their experience and skills can be found by following the link opposite. Together the Board of Directors provide relevant quarrying and mining sector skills, the skills associated with running large public companies, technical skills, country experience and technical and financial qualifications to assist the Company in achieving its stated aims. The Directors keep their skillsets up to date through as required through the range of roles they perform and consideration of technical and industry updates. The Board has not sought external advice on any significant matter, apart from	None	Directors Biographies www.petroneft.com/about/directors/

Corporate Governance Code *(continued)*

QCA PRINCIPLE	APPLICATION	HOW PETRONEFT COMPLIES	DEPARTURES AND REASONS	LINKS
		advice sought in the normal course of business from our auditors, lawyers, and tax compliance advice. No external advisers have been engaged by the Board of Directors, except as noted above. The role of Company Secretary is fulfilled by Michael Power FCA and supports and advises the Board in its function.		
7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement	The board should regularly review the effectiveness of its performance as a unit, as well as that of its committees and the individual directors. The board performance review may be carried out internally or, ideally, externally facilitated from time to time. The review should identify development or mentoring needs of individual directors or the wider senior management team. It is healthy for membership of the board to be periodically refreshed. Succession planning is a vital task for boards. No member of the board should become indispensable.	PetroNeft has yet to carry out a formal assessment of board effectiveness.	PetroNeft has yet to carry out a formal assessment of board effectiveness. The board will keep this under consideration and put in place procedures when it is felt appropriate.	
8. Promote a corporate culture that is based on ethical values and behaviours	The board should embody and promote a corporate culture that is based on sound ethical values and behaviours and use it as an asset and a source of competitive advantage. The policy set by the board should be visible in the actions and decisions of the chief executive and	Refer to corporate governance statement contained within the Directors' Report in the Annual Report for a full description of how the Board promotes a culture based on sound ethical values.	None	Corporate Governance Statement

Corporate Governance Code *(continued)*

QCA PRINCIPLE	APPLICATION	HOW PETRONEFT COMPLIES	DEPARTURES AND REASONS	LINKS
	the rest of the management team. Corporate values should guide the objectives and strategy of the company. The culture should be visible in every aspect of the business, including recruitment, nominations, training, and engagement. The performance and reward system should endorse the desired ethical behaviours across all levels of the company. The corporate culture should be recognisable throughout the disclosures in the annual report, website and any other statements issued by the company			
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board	The company should maintain governance structures and processes in line with its corporate culture and appropriate to its: • size and complexity; and • capacity, appetite, and tolerance for risk. The governance structures should evolve over time in parallel with its objectives, strategy, and business model to reflect the development of the company.	Refer to corporate governance statement for a full description of the Corporate governance structures.	None	Corporate Governance Statement
BUILD TRUST				
10. Communicate how the company is	A healthy dialogue should exist between the board and all its	Historical annual reports and other governance-related material, notices of all	None	Annual Report

Corporate Governance Code *(continued)*

QCA PRINCIPLE	APPLICATION	HOW PETRONEFT COMPLIES	DEPARTURES AND REASONS	LINKS
governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	stakeholders, including shareholders, to enable all interested parties to come to informed decisions about the company. In particular, appropriate communication and reporting structures should exist between the board and all constituent parts of its shareholder base. This will assist: • the communication of shareholders' views to the board; and • the shareholders' understanding of the unique circumstances and constraints faced by the company. It should be clear where these communication practices are described (annual report or website).	general meetings can be found on the website.		

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.
C1	Russian reserves approximately equivalent to SPE standard 1P reserves.
C2	Russian reserves approximately equivalent to SPE probable reserves.
C1+C2	Russian reserves approximately equivalent to SPE standard 2P reserves.
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., formerly called Arawak
bopd	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.
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

GLOSSARY (continued)

Licence 67	The Exploration and Production Licence in the Tomsk Oblast, Russia owned by the joint venture company Russian BD Holdings B.V. It contains two oil fields, Ledovoye and Cheremshanskoye and several potential prospects.
Lineynoye	Limited Liability Company Lineynoye, a wholly owned subsidiary of Russian BD Holdings B.V., registered in the Russian Federation.
m	Metres.
mmbbls	Million barrels.
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


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