

PetroNeft Resources Plc

Final Results 2009

PetroNeft Resources Plc

Chairman's Statement

Major progress achieved

Since incorporation, the primary strategy of PetroNeft has been to bring its existing oil fields to production, thereby generating sufficient cash flows to enable the exploration of the many remaining prospects on Licence 61. The development project is now well underway and 2010 is set to be a transformational year for the Group.

A secondary strategy has been the acquisition of new assets, both exploration and producing, that will bring about more rapid expansion of the Group. In December 2009 PetroNeft won a State Auction for a 100% interest in the Ledovy Licence No. 67, also in the Tomsk Region. In January 2010, Arawak Energy Limited ('Arawak') exercised their option under our 2008 Area of Mutual Interest ('AMI') agreement to participate in the Ledovy Licence on a 50:50 basis.

Significant cost savings achieved

In 2008 the total funding requirement for the Phase 1 project to develop the Lineynoye and West Lineynoye oil fields was estimated to be over US\$60 million. Since the project was put on hold in October 2008, we have been successful in reducing the initial funding requirement by almost 60% to approximately US\$25 million through the following key savings and efficiencies:

- Use of only one drilling rig in the first year instead of two.
- Revised pipeline route including utilisation of existing facilities at the pipeline tie-in point.
- Reduction and modification of field facilities.
- Substantial weakening of the Russian Rouble against the US dollar.

Transportation Agreement with Imperial Energy

In August 2009 PetroNeft entered into a 25 year Crude Oil Transportation and Custody Transfer agreement with Imperial Energy ('Imperial'). Under the terms of the agreement, Imperial will accept PetroNeft's crude oil using existing tank facilities at the Kiev-Eganskoye field and transport the crude to its custody transfer point at Zavyalovo for transfer into the Transneft system. This agreement, particularly the inclusion of the use of tank facilities at Kiev-Eganskoye, was a key element in reducing costs associated with the development project.

Construction and commissioning of the approximately 60 km pipeline from Lineynoye to Kiev-Eganskoye will be completed in time for the commencement of year-round production in the third quarter of 2010.

Successful financing

PetroNeft successfully raised US\$27.4 million in September 2009 through a placing of new shares which enabled us to commence the Phase 1 project to develop the Lineynoye and West Lineynoye oil fields and become self-financing.

This funding enabled the Group to enter into contracts for the construction of a 60km pipeline to Imperial Energy's facilities at Kiev-Eganskoye, construction of the necessary field facilities at the Lineynoye oil field and drilling of the first four wells of the 2010 nine well drilling programme. Subsequently the following issues created a potential additional funding requirement:

- On finalising the drilling contract in early 2010 it became clear that the drilling contractor could drill at a much faster pace, taking as little as 18-20 days per well. While this more efficient schedule enabled more rapid production growth, it also necessitated a greater overall investment in advance of first production. Accordingly, PetroNeft had the choice of either delaying drilling or seeking further finance to allow the contractor to drill as many wells as possible before production commenced;
- Also, in December 2009 we had the opportunity to bid for a new licence area, Licence 67, which we successfully acquired at a State Auction at a gross cost of US\$1.42 million, which had not been previously budgeted for;

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- The Board was also keen to recommence exploration and delineation activities in Licence 61. In order for an exploration well to be drilled in 2010 a rig and the materials necessary for drilling the well would need to be moved to site in the winter months of early 2010.

Discussions with a number of international banks had been ongoing over the last number of years, a number of whom have visited our operations in Tomsk. This, combined with the effective execution of our development programme over the winter, enabled us to swiftly negotiate and conclude a US\$5 million facility with Macquarie Bank in March 2010. This agreement gave us the capacity to purchase the necessary materials and mobilise a rig in March 2010 and to enter into negotiations for the drilling of an exploration well at Arbuzovskaya in October 2010.

Future funding of PetroNeft

The accelerated pace of the drilling of the nine planned production wells for 2010 has created an additional funding requirement. Assuming management elects to continue drilling at the current pace, and dependent on the timing of the receipt of Russian VAT refunds and the commencement of production, the total funding requirement could be as high as US\$12 million. The Group has already signed a loan facility with Macquarie Bank Limited ('Macquarie') for up to US\$5 million of which only US\$2 million has been drawn. PetroNeft is in advanced negotiations with Macquarie to refinance this loan with a facility of up to US\$30 million. All credit approvals have been received and the Board expects to execute the facility in the coming weeks. Should it not be possible to agree the refinancing in time to meet operational needs, plans are in place to moderate the pace of drilling and commence production in accordance with the original schedule with five wells (three new and two existing). Subsequently, the remaining wells can be completed using the proceeds of oil sales following the commencement of year round production in the third quarter.

The new facility, once in place, combined with the Group's growing production revenues will give the Group the flexibility to accelerate the exploration and development of Licences 61 and 67. The facility does not require, and the Board does not anticipate, that any incremental equity funding will be required to achieve this objective.

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Chairman's Statement

Key Financial Metrics

	2009 US\$	2008 US\$
Overheads	3,430,687	2,871,339
Share-based payment expense	464,100	727,164
Foreign exchange loss on intra-Group loans	537,683	3,010,932
Other foreign exchange loss	410,056	1,225,010
Administrative expenses	<u>4,842,526</u>	<u>7,834,445</u>
Loss on oil and gas properties	1,552,350	-
Loss for the year attributable to equity holders of the Parent	6,471,552	7,911,968
Capital expenditure in the year	6,153,603	25,475,299
Net proceeds of equity share issues	25,863,882	17,516,291
Bank and cash balance at year-end	15,726,479	2,168,197

Net Loss

The net loss for the year decreased to US\$6,471,552 from US\$7,911,968 in 2008. The main reason for the decrease in losses relates to a decrease of US\$2,473,249 in foreign exchange losses on intra-Group loans. These arose on US Dollar denominated loans from PetroNeft to its wholly owned subsidiaries, Stimul-T and Lineynoye whose functional currency is the Russian Rouble, and on other balances denominated in currencies other than US Dollar. In 2008 this loss arose due to the weakening of the Russian Rouble against the US Dollar in the last six months of the year. Once Stimul-T is earning income from oil sales, some of this income will be in US Dollars and Stimul-T will therefore be capable of repaying its US Dollar denominated debt out of US Dollar income.

The change in direction of our pipeline route meant it was necessary to write off certain costs associated with the previous route. This, combined with a small loss on the sale of excess pipe, gave rise to a loss on oil and gas properties of US\$1,552,350.

Capital Investment

No major capital projects were completed in 2009. However, we entered into a number of major contracts in late 2009 for completion in 2010, principally to:

- Construct a 60km pipeline from Lineynoye oil field to Imperial Energy's facility at Kiev-Eganskoye.
- Construct oil processing, oil storage and crew facilities at the Lineynoye oil field.
- Drill and complete nine new production wells at the Lineynoye oil field.

Russian VAT

Russian VAT refunds continued to take about four months to receive after the end of each VAT quarter. In January 2010 a new law was introduced which should speed up the process and enable receipt of refunds within about three weeks of the quarter end. To date we have not seen this operate in practice, but we are confident that this will be resolved in the coming months.

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Chairman's Statement

Corporate development

We have added a number of senior management positions to the Group this past year and we will add additional positions this coming year, as we move from an exploration to an exploration and production company. These positions are carefully considered and we select candidates who meet both the immediate and long term needs of the Group. We are especially pleased that Karl Johnson has joined the Group as Vice President for Business Development and Operations.

Founding Director, Des Burke, retired from the Company in March 2009 and I would like to thank him for his contribution to the development of PetroNeft and wish him well for the future.

Summary

PetroNeft is now on course to begin year-round production in 2010. The commencement of production means that the Group will generate significant cash in the coming years to enable it to expand its reserve base both through exploration and delineation in current Licence areas and through business development opportunities in Tomsk, Russia and the FSU.

PetroNeft is fortunate to have a highly experienced and dedicated team and this knowledge and experience have enabled us to meet the array of challenges facing the Group in recent years. I am confident that this team, supplemented by new appointments as our business grows, will enable PetroNeft to continue to add shareholder value.

Annual report and AGM

The annual report will be published on the Company's website in the week commencing 24 May 2010. The annual general meeting will be held in Dublin on 23 June 2010.

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

David Golder
Non-Executive Chairman

PetroNeft Resources Plc

Consolidated Income Statement

For the year ended 31 December 2009

	<i>Note</i>	2009 US\$	2008 US\$
Revenue		509,710	-
Cost of sales		<u>(420,566)</u>	<u>-</u>
Gross profit		89,144	-
Administrative expenses		(4,304,843)	(4,823,513)
Loss on oil and gas properties	3	(1,552,350)	-
Exchange loss on intra-Group loans		<u>(537,683)</u>	<u>(3,010,932)</u>
Operating loss		(6,305,732)	(7,834,445)
Finance revenue		173,296	128,487
Finance costs		<u>(20,644)</u>	<u>-</u>
Loss for the year for continuing operations before taxation		(6,153,080)	(7,705,958)
Income tax expense		(318,472)	(206,010)
Loss for the year attributable to equity holders of the Parent		<u>(6,471,552)</u>	<u>(7,911,968)</u>
Loss per share attributable to ordinary equity holders of the Parent:			
Basic and diluted - <i>US dollar cent</i>	4	<u>(2.53)</u>	<u>(3.81)</u>

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009 US\$	2008 US\$
Loss for the year attributable to equity holders of the Parent	(6,471,552)	(7,911,968)
Currency translation adjustments	(770,566)	(6,490,162)
Total comprehensive loss for the year attributable to equity holders of the Parent	<u>(7,242,118)</u>	<u>(14,402,130)</u>

PetroNeft Resources Plc

Consolidated Balance Sheet

As at 31 December 2009

	Note	2009 US\$	2008 US\$
Assets			
Non-current Assets			
Oil and gas properties	5	27,165,261	23,769,980
Property, plant and equipment	6	1,776,108	1,867,397
Exploration and evaluation assets	7	18,217,242	18,684,771
Leasehold land payments		176,825	181,009
		<u>47,335,436</u>	<u>44,503,157</u>
Current Assets			
Trade and other receivables		4,909,915	3,067,736
Cash and cash equivalents		15,726,479	2,168,197
		<u>20,636,394</u>	<u>5,235,933</u>
Total Assets		<u><u>67,971,830</u></u>	<u><u>49,739,090</u></u>
Equity and Liabilities			
Capital and Reserves			
Called up share capital		4,724,013	2,919,041
Share premium account		81,328,170	57,193,950
Share-based payments reserve		2,368,929	1,904,829
Retained loss		(18,752,403)	(12,280,851)
Currency translation reserve		(5,794,636)	(5,024,070)
Other reserves		336,000	336,000
Equity attributable to equity holders of the Parent		<u>64,210,073</u>	<u>45,048,899</u>
Non-current Liabilities			
Provisions		269,654	254,646
Deferred tax liability		826,129	546,984
		<u>1,095,783</u>	<u>801,630</u>
Current Liabilities			
Trade and other payables		<u>2,665,974</u>	<u>3,888,561</u>
		<u>2,665,974</u>	<u>3,888,561</u>
Total Liabilities		<u>3,761,757</u>	<u>4,690,191</u>
Total Equity and Liabilities		<u><u>67,971,830</u></u>	<u><u>49,739,090</u></u>

PetroNeft Resources Plc

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital US\$	Share premium US\$	Other reserves US\$	Currency translation reserve US\$	Retained loss US\$	Total US\$
At 1 January 2008	2,343,864	40,252,836	1,513,665	1,466,092	(4,368,883)	41,207,574
Loss for the year	-	-	-	-	(7,911,968)	(7,911,968)
Currency translation adjustments	-	-	-	(6,490,162)	-	(6,490,162)
Total comprehensive loss for the year	-	-	-	(6,490,162)	(7,911,968)	(14,402,130)
New share capital subscribed	532,538	16,619,782	-	-	-	17,152,320
Transaction costs on issue of share capital	-	(666,044)	-	-	-	(666,044)
Shares issued on exercise of warrant	41,621	958,379	-	-	-	1,000,000
Share options exercised	1,018	28,997	-	-	-	30,015
Share-based payment expense	-	-	727,164	-	-	727,164
At 31 December 2008	2,919,041	57,193,950	2,240,829	(5,024,070)	(12,280,851)	45,048,899
At 1 January 2009	2,919,041	57,193,950	2,240,829	(5,024,070)	(12,280,851)	45,048,899
Loss for the year	-	-	-	-	(6,471,552)	(6,471,552)
Currency translation adjustments	-	-	-	(770,566)	-	(770,566)
Total comprehensive loss for the year	-	-	-	(770,566)	(6,471,552)	(7,242,118)
New share capital subscribed	1,797,899	25,560,368	-	-	-	27,358,267
Transaction costs on issue of share capital	-	(1,494,385)	-	-	-	(1,494,385)
Remuneration and other emoluments paid in shares	7,073	68,237	-	-	-	75,310
Share-based payment expense	-	-	464,100	-	-	464,100
At 31 December 2009	4,724,013	81,328,170	2,704,929	(5,794,636)	(18,752,403)	64,210,073

PetroNeft Resources Plc

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 US\$	2008 US\$
Loss before taxation		(6,153,080)	(7,705,958)
Adjustment to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation and amortisation		215,693	238,013
Share-based payment expense		464,100	727,164
Unwinding of discount on decommissioning provision		20,644	17,062
Loss on disposal of oil and gas properties	5	1,552,350	-
Remuneration and other emoluments paid in shares		75,310	-
Deduct finance revenue		(173,296)	(128,487)
Working capital adjustments			
Decrease in trade and other receivables		1,988,854	475,005
(Decrease)/increase in trade and other payables		(408,533)	2,918,821
Income tax received/(paid)		23,163	(25,387)
		<hr/>	<hr/>
Net cash flows used in operating activities		(2,394,795)	(3,483,767)
Investing activities			
Purchase of oil and gas properties		(5,402,567)	(15,047,118)
Advance payments to purchase oil and gas properties		(2,635,111)	-
Advance payment to purchase License 67		(1,160,556)	-
Purchase of property, plant and equipment		(291,838)	(1,008,545)
Exploration and evaluation payments		(812,550)	(6,744,993)
Proceeds on disposal of oil and gas properties	5	-	-
VAT refunds		-	3,311,690
Finance revenue		137,930	128,487
		<hr/>	<hr/>
Net cash used in investing activities		(10,164,692)	(19,360,479)
Financing activities			
Proceeds from issue of share capital		27,358,267	17,152,320
Transaction costs of issue of shares		(1,494,385)	(666,044)
Proceeds from exercise of share options		-	30,015
Proceeds from exercise of warrant		-	1,000,000
		<hr/>	<hr/>
Net cash received from financing activities		25,863,882	17,516,291
Net increase/(decrease) in cash and cash equivalents		13,304,395	(5,327,955)
Translation adjustment		253,887	(808,143)
Cash and cash equivalents at the beginning of the year		2,168,197	8,304,295
		<hr/>	<hr/>
Cash and cash equivalents at the end of the year		15,726,479	2,168,197

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Notes to the Preliminary Financial Statements

for the year ended 31 December 2009

1. Basis of Accounting and Presentation of Financial Information

While the financial information included in this preliminary announcement has been prepared in accordance with the Group's accounting policies under International Financial Reporting Standards (IFRS) as adopted by the European Union and as issued by the International Accounting Standards Board (IASB), this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to distribute the full financial statements that comply with IFRS in June 2010.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2009 or 2008, but is derived from those accounts. Statutory accounts for 2008 have been delivered to the Registrar of Companies and those for 2009 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified, but the accounts for the year ended 31 December 2008 drew attention to going concern issues by way of emphasis of matter. No such emphasis of matter has been included in the audit report for the year ended 31 December 2009.

Adoption of new IFRS

A number of new IFRS and interpretations of the International Financial Reporting Interpretations Committee became effective for, and have been applied in preparing, the Group's 2009 financial statements. The main changes are described below. Other than these changes, the financial statements have been prepared on a basis consistent with the prior year published financial statements.

IFRS 8 *Operating Segments* replaced IAS 14 *Segment Reporting*. Following a review of its requirements, the Group has concluded that the operating segment determined in accordance with IFRS 8 is the same as the business segment previously identified under IAS 14.

IAS 1 *Presentation of Financial Statements* has been revised and introduces the statement of comprehensive income; it presents all items of recognised income and expense, either in one single statement or two linked statements. The Group has elected to present two statements, the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income.

2. Going Concern

As described in more detail in the Chairman's Statement above, the Board has approved a plan to raise the funding required to meet any shortfall that may arise if more than three production wells are completed before production commences, Russian VAT refunds are delayed or commencement of first production is delayed.

The Group have prepared budgets and forecasts until 31 December 2011 and, based on this, the maximum potential debt requirement is US\$12 million. The Group has already signed an initial working capital facility agreement with Macquarie Bank ('Macquarie') for up to US\$5 million. The Group is in advanced negotiations with Macquarie to refinance this loan with a facility of up to US\$30 million and the Board is confident of a successful conclusion. To date the Directors have not received any indications that suggest that the required financing will not be available on acceptable terms. The Group has examined alternatives should the refinancing not be completed in time to meet operational needs. The Directors are of the opinion that these alternatives are reasonably practicable.

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

3. Loss on oil and gas properties

The loss on oil and gas properties of US\$1,552,350 relates to expenditure connected with the previous pipeline route from Lineynoye to Lukpayskaya in the Khanty-Mansiysk District, 65 km to the north of Licence 61. In August 2009 the Group entered into a new crude oil transportation agreement with Imperial Energy, which meant that the pipeline would now be built on a southerly 60km route to Imperial's facility at Kiev-Eganskoye. Certain costs incurred to date in respect of the engineering and design and permitting associated with the northerly route to Lukpayskaya have therefore been written off. Also included is a US\$168,333 loss on disposal of pipe not required in the new southerly route.

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4. Loss per Ordinary Share

Basic loss per Ordinary Share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the year.

Basic and diluted earnings per Ordinary Share are the same as the potential Ordinary Shares are anti-dilutive.

	2009	2008
	US\$	US\$
Numerator		
Loss attributable to equity shareholders of the Parent for basic and diluted loss	(6,471,552)	(7,911,968)
	<u>(6,471,552)</u>	<u>(7,911,968)</u>
Denominator		
Weighted average number of Ordinary Shares for basic and diluted earnings per Ordinary Share	255,724,257	207,499,468
	<u>255,724,257</u>	<u>207,499,468</u>
Diluted weighted average number of shares		
	<u>255,724,257</u>	<u>207,499,468</u>
Loss per share:		
Basic and diluted - <i>US dollar cent</i>	(2.53)	(3.81)

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

- Employee Share Options – 13,537,000 outstanding options as at 31 December 2009 (2008: 10,072,000) that could potentially dilute basic earnings per share in the future. These potential Ordinary Shares are anti-dilutive for the years ended 31 December 2009 and 2008.

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5. Oil and gas properties

	Oil and gas properties US\$
Cost	
At 1 January 2008	-
Additions	16,767,510
Transfer from exploration and evaluation assets	11,202,901
Transfer from property, plant and equipment	281,243
Translation adjustment	(4,481,674)
	<hr/>
At 1 January 2009	23,769,980
Additions	6,003,466
Disposals	(2,277,934)
Transfer to property, plant and equipment	(10,642)
Translation adjustment	(301,783)
	<hr/>
At 31 December 2009	27,183,087
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Depreciation	
At 1 January 2009	-
Charge for the year	17,826
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At 31 December 2009	17,826
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Net book values	
	<hr/>
At 31 December 2009	27,165,261
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At 31 December 2008	23,769,980
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In accordance with IFRS 6, once commercial viability is demonstrated the capitalised exploration and evaluation costs are transferred to oil and gas properties or intangibles, as appropriate after being assessed for impairment.

Disposals consist of the write-off of expenses in relation to old pipeline routes of US\$1,384,017 and the disposal of part of the pipe acquired in 2008. The cost of the disposed part of pipe was US\$893,917 and it was sold for US\$725,584 resulting in a loss of US\$168,333. The proceeds on the disposal of the pipe were not received in cash but were offset against purchases made during the year, payable to the same party.

Additions are salaries capitalised during the year, acquisition of remaining pipe and pipeline construction works.

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5. Oil and gas properties (continued)

In assessing whether an impairment is required in the carrying value of an asset, its carrying value is compared with its recoverable amount. Assets are tested for impairment either individually or as part of a cash generating unit. The recoverable amount is the higher of the asset's fair value less costs to sell and value-in-use. The impairment calculation is most sensitive to the following assumptions:

- Production volumes.
- Discount rates.
- Commodity prices.

Estimated production volumes are based on detailed data for the fields and take into account development plans for the fields agreed by management as part of the long-term planning process and estimated by Ryder Scott Petroleum Consultants in their report on the Group's reserves. It is estimated that, if all production were to be reduced by 15% for the whole of the next 15 years, this would not be sufficient to reduce the excess of recoverable amount over the carrying amounts of the oil and gas properties to zero. Consequently, management believes no reasonably possible change in the production assumption would cause the carrying amount of oil and gas properties to exceed their recoverable amount.

The Group estimates fair value less costs to sell using a discounted cash flow model. The future cash flows are adjusted for risks specific to the asset and discounted using a pre-tax discount rate of 17%. Management also believes that currently there is no reasonably possible change in discount rate which would cause the carrying amount of the oil and gas properties to exceed their recoverable amount.

It is estimated that if the long-term price of Urals blend crude oil fell by 15% for the whole of the next 15 years, this would not be sufficient to reduce the excess of recoverable amount over the carrying amounts of the oil and gas properties to zero.

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for the year ended 31 December 2009

6. Property, Plant and Equipment

Group	Land and buildings US\$	Plant and machinery US\$	Motor vehicles US\$	Total US\$
Cost				
At 1 January 2008	372,474	1,191,016	74,563	1,638,053
Additions	-	1,157,574	-	1,157,574
Transfer to oil and gas properties	-	(281,243)	-	(281,243)
Translation adjustment	(61,669)	(335,799)	(12,561)	(410,029)
At 1 January 2009	310,805	1,731,548	62,002	2,104,355
Additions	-	61,592	81,217	142,809
Transfer from oil and gas properties	-	10,642	-	10,642
Translation adjustment	(8,164)	(41,743)	2,513	(47,394)
At 31 December 2009	302,641	1,762,039	145,732	2,210,412
Depreciation				
At 1 January 2008	2,023	33,266	11,440	46,729
Charge for the year	19,036	199,582	15,211	233,829
Translation adjustment	(3,315)	(35,980)	(4,305)	(43,600)
At 1 January 2009	17,744	196,868	22,346	236,958
Charge for the year	7,872	174,591	11,220	193,683
Translation adjustment	(65)	3,742	(14)	3,663
At 31 December 2009	25,551	375,201	33,552	434,304
Net book values				
At 31 December 2009	277,090	1,386,838	112,180	1,776,108
At 31 December 2008	293,061	1,534,680	39,656	1,867,397
At 31 December 2007	370,451	1,157,750	63,123	1,591,324

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7. Exploration and evaluation assets

Group	Exploration & Evaluation Expenditure US\$
Cost	
At 1 January 2008	29,415,286
Additions	7,550,215
Transfer to oil and gas properties	(11,202,901)
Russian VAT refund transferred to current assets	(3,311,690)
Translation adjustment	(3,766,139)
At 1 January 2009	18,684,771
Additions	7,328
Translation adjustment	(474,857)
At 31 December 2009	18,217,242
Net book values	
At 31 December 2009	18,217,242
At 31 December 2008	18,684,771
At 31 December 2007	29,415,286

Exploration and evaluation expenditure represents active exploration projects. These amounts will be written off to the Consolidated Income Statement as exploration costs unless commercial reserves are established, or the determination process is not completed and there are no indications of impairment. The outcome of ongoing exploration, and therefore whether the carrying value of these assets will ultimately be recovered, is inherently uncertain.

Prior to 2008, PetroNeft's Russian subsidiaries had not received any refunds of Russian VAT incurred on the work carried out to date. The amount due as at 31 December 2007 was US\$3,311,690 and it had been accounted for at that date as part of exploration and evaluation expenditure as the Group was uncertain whether this amount would be recoverable. This matter was resolved during 2008 and the subsidiaries started receiving Russian VAT refunds in April 2008. All Russian VAT refunds due are now accounted for in current assets.

8. Important Events after the Balance Sheet Date

In January 2010 Licence 67 was registered thereby completing the acquisition. Arawak also exercised their option to participate as a 50% partner in the development, which will be operated by PetroNeft through a jointly controlled entity. The legal agreements and documentation relating to the jointly controlled entity are expected to be completed in June 2010.

In March 2010 PetroNeft signed a working capital facility with Macquarie Bank Limited for up to US\$5 million. Associated with this agreement PetroNeft granted a warrant to acquire 4,700,000 Ordinary Shares at a strike price of £0.30.

PetroNeft Resources Plc

Notes to the Preliminary Financial Statements

for the year ended 31 December 2009

9. Approval of preliminary financial statements

The preliminary financial statements were approved, and authorised for issue, by the Board of Directors on 19 May 2010.