PetroNeft Resources plc

Annual Report and Accounts 2005

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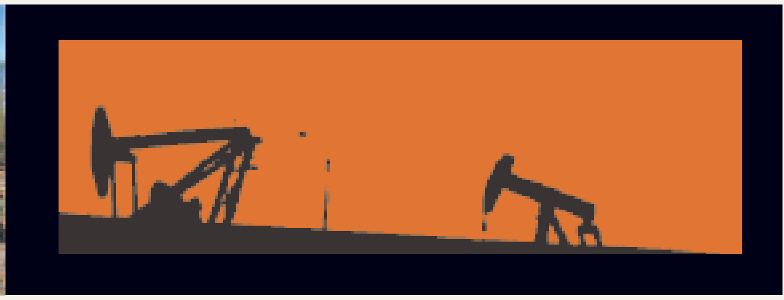
HIGHLIGHTS OF 2005/2006

- Acquisition of Licence 61 for US $5.5 million
- Two known oil fields and over 20 prospects and leads
- Reprocessing and reinterpretation of all previous seismic and well log data
- Acquisition and interpretation of 500 line kms of new seismic data
- Ryder Scott establish 2P reserves at 33.5 million barrels
- P3 reserves estimated at 290 million barrels with exploration upside
- All drilling and seismic contracts in place for 2006/2007 winter season
- US$23.5 million raised in private placing and IPO
- Admission to AIM and IEX Market completed September 2006

CORPORATE INFORMATION



DIRECTORS

G. DAVID GOLDER

DENNIS FRANCIS

DAVID SANDERS

DESMOND BURKE

VAKHA SOBRALIEV

THOMAS HICKEY

REGISTERED OFFICE
c/o O'Donnell Sweeney
One Earlsfort Centre
Earlsfort Terrace
Dublin 2

SECRETARY
David Sanders

NOMINATED ADVISOR
IEX ADVISOR AND BROKER
Davy
49, Dawson Street,
Dublin 2

AUDITORS
LHM Casey McGrath
Chartered Certified Accountants
6 Northbrook Road
Dublin 6
Ireland

P.R. CONSULTANTS
College Hill Associates Ltd.
78 Cannon Street,
London. EC4

BUSINESS ADDRESS
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Mullinahone
Co. Tipperary

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9709 Bellaire Boulevard
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Dublin 2
Ireland

SOLICITORS
O'Donnell Sweeney
One Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland

REGISTERED NUMBER
408101

DATE OF INCORPORATION
15 September 2005

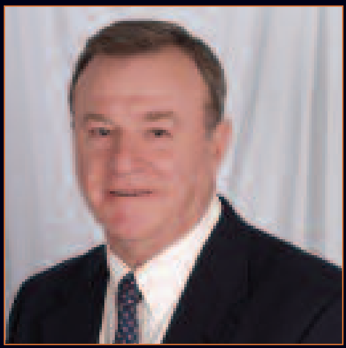
Website: www.petroneft.com
AIM/IEX : PTR/P8ET

DIRECTORS

G. DAVID GOLDER
Non-Executive Chairman

US; Petroleum & Natural Gas Engineer

34 years' industry experience in oil and gas industry with Marathon Oil Company and others. Former Senior Vice President, Marathon Oil Company. Former Executive Vice President –Upstream, Sakhalin Energy Investment Company.



DENNIS FRANCIS
Chief Executive Officer

US; Geophysical Engineer and Geologist

30 years with Marathon Oil Company. Headed Marathon's Business Development Activities in Russia from 1989. Director Sakhalin Energy Investment Company. World wide experience as senior oil executive.

DAVID SANDERS
Executive Director, Company Secretary and General Legal Counsel
US; Lawyer, Engineer

30 years' industry experience. 15 years with Marathon Oil Company. In Russia was involved in, Sakhalin II, Priobskoye, KMOC projects.

DESMOND BURKE
Executive Director of Planning and Investor Relations

Irish; Geologist

30 years' minerals industry experience and 20 years experience in international equity markets.

THOMAS HICKEY
Non-Executive Director

Irish; Accountant and Business Executive

Chief Financial Officer and Director of Tullow Oil plc. Formerly of ABN AMRO Corporate Finance (Ireland) Limited .

VAKHA A. SOBRALIEV
Non-Executive Director

Russian; Mining Engineer and Economics

30 years' experience in West Siberian Petroleum Industry General Director Tomskburneftegaz, LLC -Drilling & Support Services Company in Tomsk Region

Chairman's Statement

Dear Shareholder,

It is with great pleasure that I write to you on the occasion of the publication of the first Annual Report and Accounts of your company and cordially invite you to attend the first Annual General Meeting of the company at the Herbert Park Hotel in Dublin on 10th November 2006, beginning at 11:00 a.m..

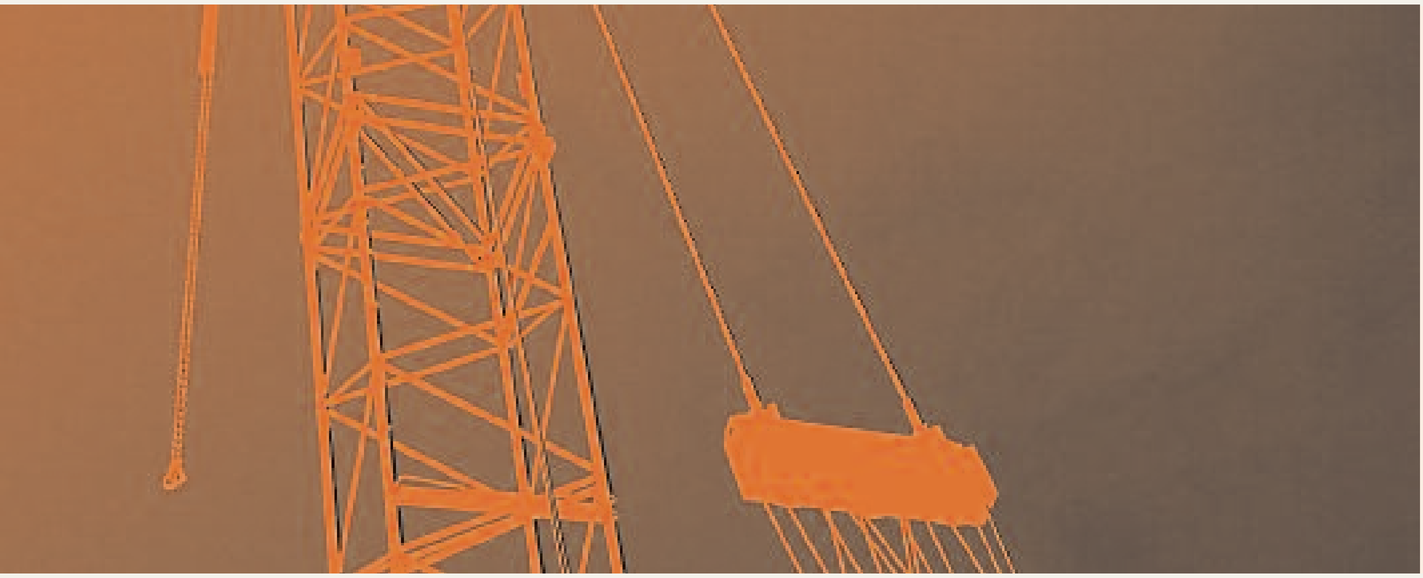
It has been 18 months since the concept of PetroNeft Resources plc was developed and started to become a reality. Now that the company is fully structured and funded, has a clearly defined path to production from the two proven Oil Fields, has an exploration schedule to expand the reserve base, and will achieve Admission to the London AIM and Dublin IEX Markets, I think it is worthwhile to revisit the journey to date.

I do this in recognition of the major objectives achieved over such a short period of time. I do it also in order to thank all of the Directors, management, staff, advisors, consultants and investors, on three continents, who have made this possible. The bases for the success of any company are excellent projects, outstanding staff, and the ability to finance the projects to fruition. These are now in place and we can look forward to an exciting future as we develop the company's assets.

In the beginning, Dennis Francis, now Chief Executive Officer of the company, became aware that Licence 61 in the Tomsk Oblast of the Russian Federation was available for acquisition. Based on his extensive experience in Russia, he was of the opinion that this was one of the best packages of known Oil Fields and prospects to become available in the West Siberian Oil and Gas Basin in a long time. The Licence area was extensive at 4,991 sq. kms, setting up the potential for a "Core Area", with long term production and an extensive exploration base for future discoveries. Mr. Francis, Mr. David Sanders, now General Counsel and Secretary of the company, and Mr. Desmond Burke, now Director of Planning and Investor Relations, set out on a fast track effort to acquire the asset.

Through their wide ranging connections in Ireland, the United States and Russia, they were able to negotiate the acquisition of the Russian Company, Stimul-T, and raise the finances to ensure acquisition of the Licence into that company. Mr. Francis then set about the recruitment of a top class Russian management team and was extremely fortunate to secure the services of Alexey Balyasnikov, Alexander Frenovsky and Nikolai Karpuzov, all highly experienced Russian oil experts.

PetroNeft has achieved much during this period. This would not have been possible without the determination and dedication of the executive management, as well as the valued advice and support of the non-executive directors.



The extensive work completed since acquisition of the Licence is described in the Review of Operations section of this Report. Bringing all of the previous work on the Licence together into a cohesive and comprehensive package, followed by the acquisition and integration of new seismic data, has defined a clear program of work into the future. This program is designed to achieve both early production and the expansion of recoverable reserves through exploration. All programs to date have been completed within budget and on schedule.

The work program for the winter season of 2006/2007 will begin at about the time of the Annual General Meeting. A new seismic survey will commence, mainly on the southern sector of the Licence, as will rig construction to allow the drilling of the delineation well on the Lineynoye Oil Field, beginning in January 2007. A second well on the Tungolskoye Oil Field is planned to commence in February 2007, and a third well, on the high potential West Lineynoye Prospect, should begin in May/June 2007. A full Production Feasibility Study has also commenced and will be completed in July 2007, when a decision to sanction the development project will be made.

As a private company, prior to the placing of shares (Placing) and Admission to the London AIM and Dublin IEX markets, PetroNeft raised a total of US$8 million. The IPO will raised an additional US$15.5 million, which will put the company on a sound financial footing and provide funding for the next year of operations. It will transform the company into one that has a strong Institutional shareholder base which will improve PetroNeft's access to both debt and equity capital, as it continues to develop its business.

The first year of the company's existence has been an exciting time. The next 12 months promises to be equally exciting. By July of 2007 it is hoped that the company will be able to take the decision to begin field and infrastructure development, leading to production in 2008. Taking an exploration asset like Licence 61 to start of production is not an easy task and requires a lot of expertise, hard work and team effort to do well. The company is fortunate to have assembled an experienced management team that has successfully been though this process many times, both inside and outside of Russia.

The drilling of the West Lineynoye Prospect also gives the company a relatively low risk opportunity to triple its proved and probable reserve base from 33.5 million barrels to about 100 million barrels of oil. The amount of leverage that this one well could have on the company's reserve base is rare for the industry and further illustrates the exciting year ahead for PetroNeft.

I look forward to meeting you all at the Annual General Meeting and to the next year of progress for your company.

Sincerely,

G. David Golder
Chairman
20th September 2006

Overview of Operations

GENERAL

PetroNeft Resources plc, through its wholly owned Russian subsidiary Stimul-T, holds 100% interest in Licence 61 in the Tomsk Oblast in Western Siberia. Licence 61 covers an area of 4,991 sq. kms, equivalent in size to about 24 UK North Sea blocks, over the prolific West Siberian Oil and Gas Basin. The Licence contains two proven oil fields, Lineynoye and Tungolskoye, that were discovered by a State Exploration Enterprise in the early 1970s. The Company views the Licence as a "Core Area", with oil production potential over a long period of time from both proven Oil Fields and other identified exploration prospects.

Licence 61 was issued by the Russian Subsoil Agency on 4 May 2005 and is valid until 15 April 2030. The term of the licence may be extended based upon continued production under an approved development plan.

Independent US petroleum consultants Ryder Scott have estimated, on the basis of 14 previously drilled wells and extensive seismic data, that the licence contains oil reserves as shown on Table 1:

Table 1

Lineynoye and Tungolskoye Oil Fields;	
Proved (P1) + Probable (P2)	**33.5 million barrels**
Possible (P3)	**37.1 million barrels**
Total (P1+P2+P3)	**70.6 million barrels**
Twenty Prospects and Five Potential Prospects (Leads);	
Possible (P3)	**253 million barrels**
Exploration Resources (P4)	**100 million barrels**
Total (P1+P2+P3+P4)	**424 million barrels**

The terms Proved, Probable, and Possible reserves (as well as other such terms) in this report conform to the definition approved by the Society of Petroleum Engineers (SPE) and the World Petroleum Congress (WPC). The probable reserves included herein conform to definitions of probable reserves approved by the SPE/WPC using the deterministic methodology and the possible reserves included herein confirm to definitions of possible reserves approved by SPE/WPC using probabilistic methodology.

Turnkey Drilling Contracts are in place to drill three wells starting in the 2006/2007 winter season, with "rig-up" operations commencing in November 2006. Two of these wells will be on proven Oil Fields, Lineynoye and Tungolskoye, to clarify reservoir parameters and flow rates. This data is required to finalise a Development Plan for the two fields.

The third well will be drilled on the high impact/low risk West Lineynoye Prospect with potential for an additional 67 million barrels of oil. It should be noted that the Lineynoye No. 5 well tested oil from 2.3 metres of net pay just above the oil water contact on the eastern end of this prospect in 1974. A successful well here could triple the reserve base of the Company over the next year.

A Feasibility Study is currently underway which will identify ways to optimise the field development plan as well as the export infrastructure for the Licence area. Once the results of the delineation wells are available they will be incorporated in the Feasibility Study to establish an initial Development Plan for the existing fields.

PetroNeft has also contracted to acquire 500 line kms of new CDP-2D seismic, during the 2006/2007 winter season. This, together with all previous data on the Licence, can provide a consistent basis for continued exploration, development and production within the Licence area. This data will also fulfil the Licence obligation to acquire 1,000 line kms of seismic data in the first three years of the Licence.

The company plans to actively develop its business through the acquisition of new Licences and Projects, primarily within the Russian Federation.

West Siberian Oil & Gas Basin Discovered Reserves
144 billion bbls of oil
1,300 TCF gas

Urengoy Gas Field
350 TCF
original reserves

Samotlor Oil Field 27 Billion Bbls origional reserves

Licence 61 (Ryder Scott Evaluation)

Proved and Probable reserves	33.5 million bbls
Possible reserves	290.0 million bbls
Exploration resources	100.0 million bbls

Gas Pipeline
Oil Pipeline
Oil Fields
Gas Fields
Licence 61

After – USGS

Figure 1

WEST SIBERIAN OIL AND GAS BASIN (FIGURES 1 AND 2)

The West Siberian Oil and Gas Basin lies at the heart of the Russian oil and gas industry. The basin covers an area approximately four times the size of France, produces two thirds of Russia's oil, more than 85% of its gas, and is home to almost all of the major Russian upstream operators. Major western oil companies are also active in the region as are a number of successful smaller western companies, including Imperial Energy Corporation and Swedish based Western Siberian Resources.

The initial gas discovery in the Basin, the Berezovo Field, was made in 1953 and brought into production in 1963. The first major oil discovery in the basin, the Samotlor field, was made in 1961, and brought to production in 1964. The latter is now one of the largest Oil Fields in the world, containing an estimated original recoverable reserve of 27 billion barrels of oil.

The largest gas field in the basin is the Urgenoy Field, with estimated total recovery of 350 trillion cubic feet of gas. Total discovered reserves in the basin are estimated at 144 billion barrels of oil and 1,300 trillion cubic feet of gas. The larger Oil Fields were discovered toward the centre of the basin where a stacked series of reservoirs occur. In general, the northern part of the basin is gas rich, while the southern portion is oil rich.

The economies of scale afforded by massive discoveries enabled a rapid pace of development, and production increased from 600,000 barrels of oil per day in 1970 to 7.3 million barrels of oil per day in 1985. However, the fall in oil prices at the end of the 1980s and the collapse of the USSR heralded a significant decline in West Siberian production to 3.9 million barrels a day in 1995. Although declines continued, privatisation led to a renewed focus on exploration and adoption of modern technology. Production has continued to rise from the 2.3 million barrels of oil per day, produced in 2000. Current oil production is estimated at 5.75 million barrels of oil per day.

The continued discovery of very large fields led to an exploration strategy involving widely spaced seismic lines and drilling patterns, which effectively overlooked the potential for smaller discoveries. As a consequence, the smaller discovered oil fields, that have now assumed economic significance, were not developed and a large number of established structures were not drilled. This has led to the current significant opportunity, which PetroNeft was uniquely positioned to take advantage of.

Western Siberia suffers extremely cold winters (down to -40°C), although temperatures rise to around 30°C in the summer months. The area is low lying and this, combined with the weather, presents considerable operational challenges to the oil industry, in particular the transportation of heavy equipment.

For this reason, most of the exploration and development work is carried out during the 7 to 8 month long winter season when the ground is frozen and winter roads can be established.

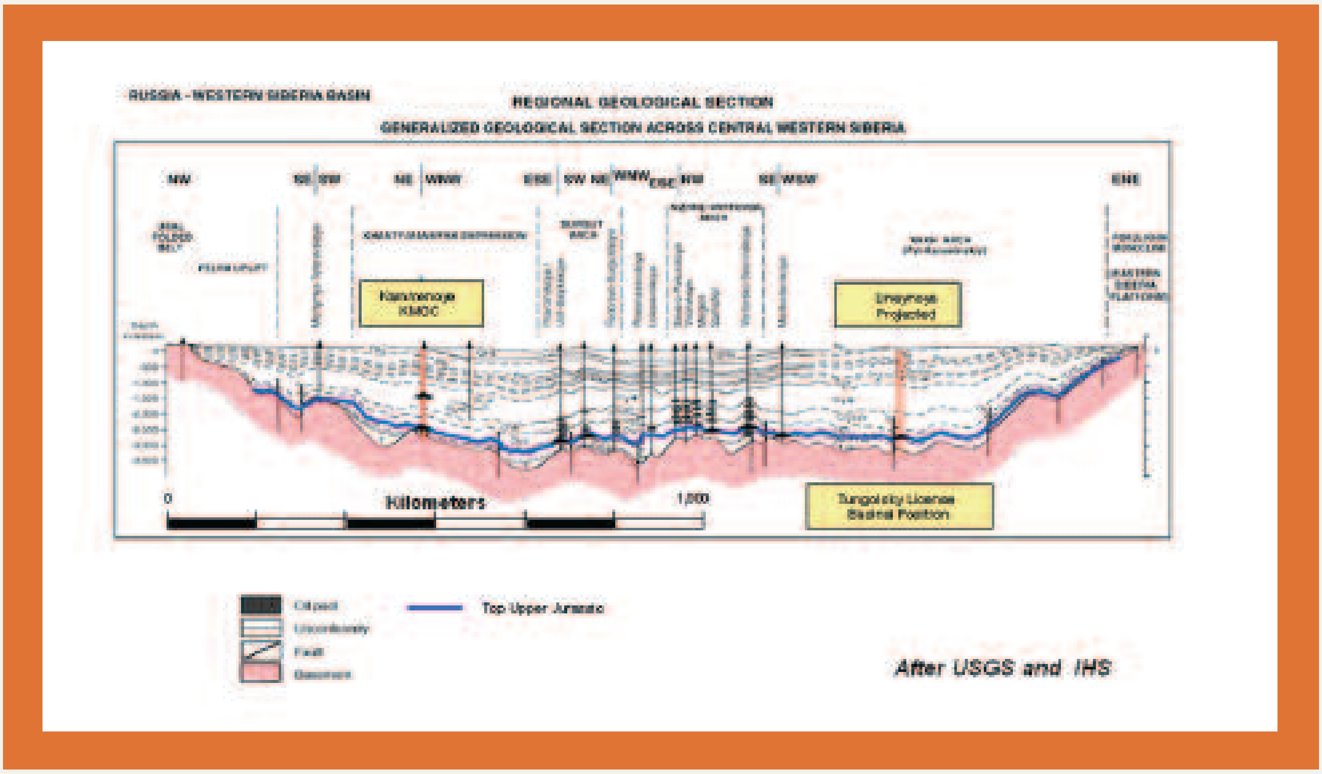


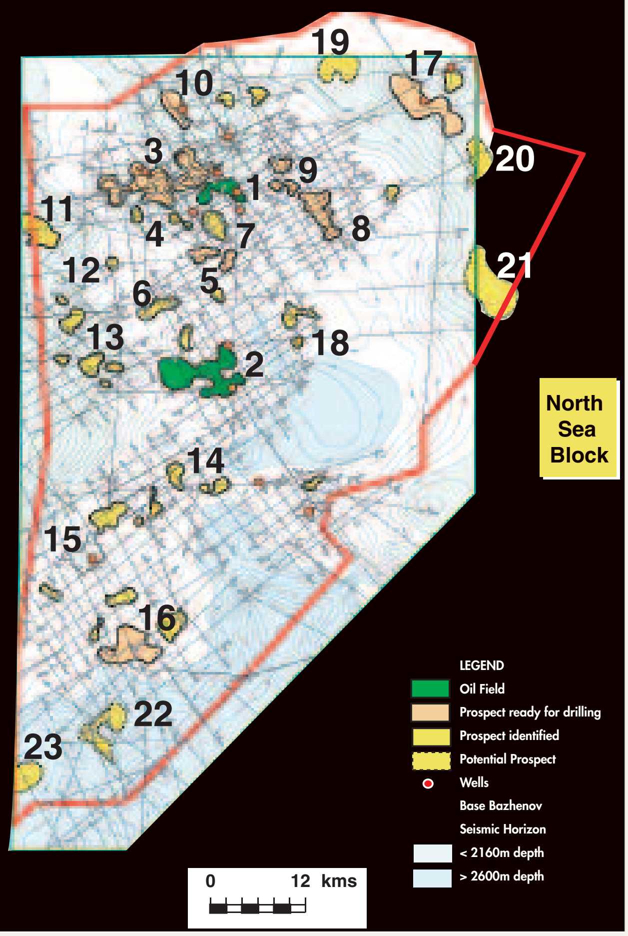
Figure 2

Figure 3

Licence 61 - Oil Fields and Prospects Map

Oil Fields / Prospects / Potential Prospects

Oil Fields	1.	Lineynoye Oil Field
	2.	Tungolskoye Oil Field
Prospects	3.	West Lineynoye
	4.	Lineynoye South & Lower
	5.	Korchegskaya & Upper Korchegskaya
	6.	Korchegskaya West
	7.	Korchegskaya North
	8.	Varyakhskaya
	9.	Varyakhskaya North & Upper
	10.	Emtorskaya Crown (1 of 3)
	11.	Sigayevskaya
	12.	Sigayevskaya East
	13.	Kulikovskaya Group (2 of 6)
	14.	Kusinskiy Group (1 of 3)
	15.	Tuganskaya Group (1 of 4)
	16.	Kirillovskaya (1 of 4)
	17.	Sibkrayevskaya Crown (1 of 2)
	18.	Tungolskoye East
Potential Prospects (Leads)	19.	Emtorskaya North
	20.	Sibkrayevskaya East
	21.	Sobachya
	22.	North Balkinskaya
	23.	West Balkinskaya



Licence 61 (Figure 3)

Licence 61 is located in the southeastern sector of the West Siberian Oil and Gas Basin. The main oil reservoir horizons in the area are Upper Jurassic sandstones, immediately underlying the Bazhenov Shale, which acts as an oil source rock and a seal for the underlying reservoirs (Figure 2). Individual sandstone layers vary from 2 to over 10 meters in thickness. The gross reservoir sandstone varies in thickness from 8 to 20 meters.

Because the Base of the Bazhenov Shale is an excellent regional seismic reflector, the oil bearing structures can be mapped with a high degree of accuracy, making the location of even smaller prospects relatively simple, once there is sufficiently dense coverage of high quality seismic data. PetroNeft's approach has been to ensure that this is the case and that the enormous amount of exploration data, both seismic and well drilling accumulated on the Licence area since the late 1960s, is formatted in the most efficient way for the orderly exploration and development of the known Oil Fields and prospects. With this in place the exploration becomes a relatively straight forward and low tech play in a prolific oil producing area.

History of Exploration on the Licence

Since the late 1960s, when active exploration began on the area, a total of 2,650 line kms of seismic data has been accumulated. PetroNeft has acquired all of this data and has reprocessed and reinterpreted it using modern technology. In addition, a total of 14 wells have been drilled on the Licence. The logs from these wells have been digitised and reinterpreted, giving excellent geological control, particularly in the northern part of the Licence.

Since acquiring the Licence the company has, in the winter season 2005/2006, acquired a further 515 line kms of CDP-2D seismic in the northern part of the Licence. This program was designed largely as "fill-in" on the older seismic data, in order to obtain better definition of the oil bearing structures, enabling optimisation of well locations. The strategy has worked very well, as can be seen in Figures 4 and 5, and has also resulted in the upgrading of P1, P2 and P3 reserves by Ryder Scott (Table 2).

This process will continue during the 2006/2007 winter season when a further 500 line kms of CDP-2D seismic will be acquired, mainly in the southern part of the Licence (Figure 6).

OBJECTIVES AND WORK PROGRAM FOR 2006/2007

THE COMPANY HAS TWO KEY OBJECTIVES FOR LICENCE 61:

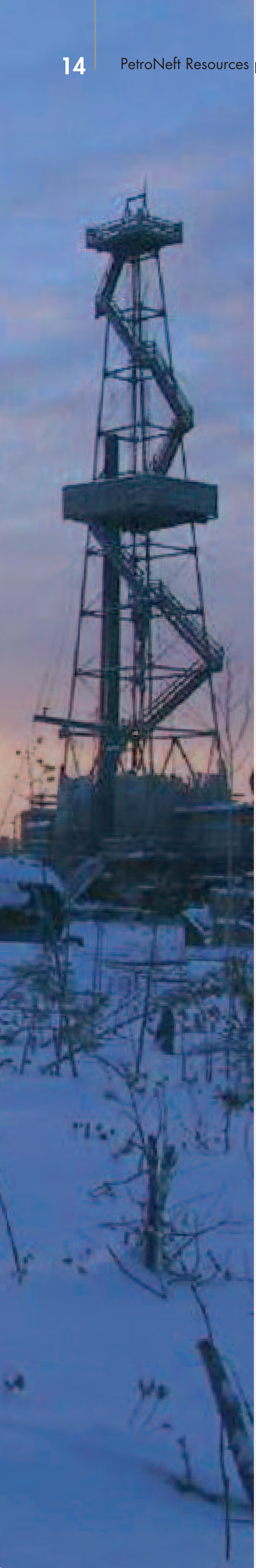
- To develop two proven oil fields to production in the near term.
- To determine the full upside reserve potential of the Licence and expand production from these reserves.

Toward Production

- Two delineation wells on Lineynoye and Tungolskoye Oil Fields to establish reservoir parameters for production
- Feasibility Study on production to be completed in July 2007

Toward Reserve Expansion

- One high value exploration well to be drilled on West Lineynoye Prospect with upside potential for additional 2P of 66.6 million barrels.
- 500 line km seismic survey to define further drilling prospects

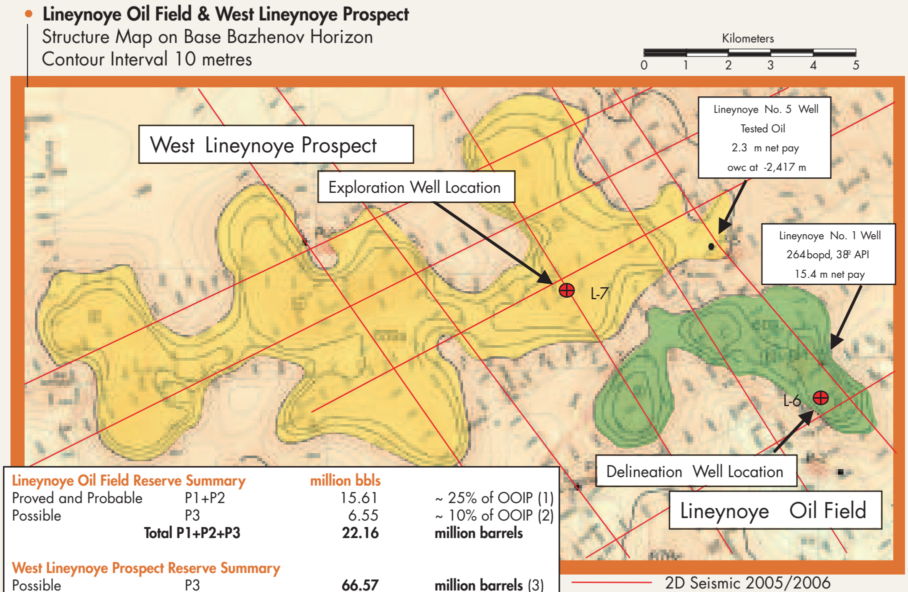


TOWARD PRODUCTION

The two proven oil fields on Licence 61 are Lineynoye and Tungolskoye (Figures 4 and 5). Ryder Scott estimates the reserves at 33.5 million barrels in the Proved and Probable (P1&P2) categories and 37 million barrels in the Possible (P3) category. Both of these fields were drilled and tested in the early 1970s, producing flow rates of about 300 barrels of oil per day. The indicated net pay thickness in the Lineynoye No. 1 discovery well was 15.4 meters in three separate sandstones, and the Tungolskoye No. 1 well showed net pay at 12.9 meters in four sandstone units. The quality of the oil was 38º to 40º API.

During the 2006/2007 winter season, two delineation wells are to be drilled, one on each field, to confirm the reservoir properties and to establish production parameters. The approximate location of the wells is shown on Figures 4 and 5. Mobilisation has already commenced and primary "Rig-up" activities are planned to commence in November 2006, with drilling expected to commence in January 2007 on Lineynoye and February on Tungolskoye. Both wells will be drilled to basement with total depths of about 2,750 metres and 3,100 metres, respectively.

Lineynoye Oil Field & West Lineynoye Prospect
Structure Map on Base Bazhenov Horizon
Contour Interval 10 metres



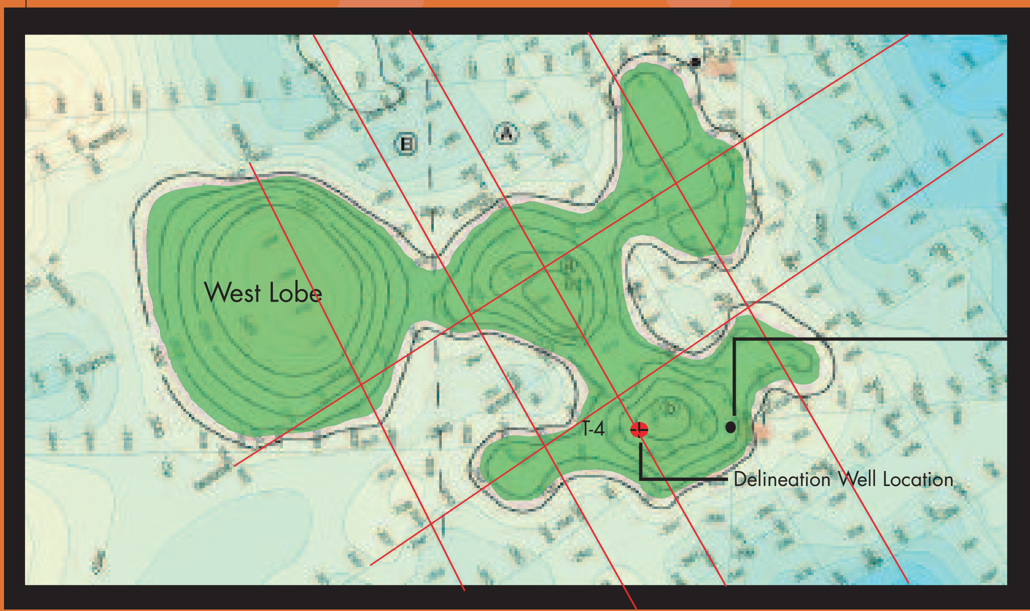
Lineynoye Oil Field Reserve Summary		**million bbls**	
Proved and Probable	P1+P2	15.61	~ 25% of OOIP (1)
Possible	P3	6.55	~ 10% of OOIP (2)
	Total P1+P2+P3	**22.16**	**million barrels**
West Lineynoye Prospect Reserve Summary			
Possible	P3	**66.57**	**million barrels** (3)

(1) OOIP = Original Oil in Place
(2) Incremental Field Possibles due to future technology, infill drilling, oil price, etc.
(3) Recovery ~ 25% of OOIP

Figure 4

The West Lobe of the Tungolskoye Oil Field will be further defined by the 2006/2007 seismic survey for possible drilling during the winter season of 2007/2008. (Figure 5)

Tungolskoye Oil Field
Structure Map on Base Bazhenov Horizon
Contour Interval 10 meters



Proved and Probable	P1+P2	17.92	~ 25% of OOIP (1)
Possible w/o West Lobe	P3	7.44	~ 10% of OOIP (2)
Possible West Lobe	P3	23.10	~ 25% of OOIP
	Total P1+P2+P3	48.46	million barrels

(1) OOIP = Original Oil in Place
(2) Incremental Field Possibles due to future technology, infill drilling, oil price, etc.

Figure 5

The company has contracted the preparation of a Feasibility Study for the development of the Licenced Area. The scope for this study includes full field reservoir modelling to identify ways to optimise the recovery plan for the Lineynoye and Tungolskoye fields, as well as proposing production facilities and export pipeline designs for the entire Licenced Area. In addition, the company is continuing to evaluate infrastructure arrangements with third parties and alternative pipeline options to help to determine the most economic means to bring the Lineynoye and Tungolskoye oil fields and other prospects into production. The company intends to finalise a development plan for the Lineynoye and Tungolskoye fields by summer 2007.

The earliest date for first production is the summer of 2008.

Toward Reserve Expansion and Reclassification

Table 2 shows the Reserve Movement through the various classification categories since the Licence was acquired by the company. All of the work to date, including the reprocessing and reinterpretation of the vintage seismic, the previously drilled wells and the seismic acquired in 2005/2006, has contributed to the expansion of reserves in the Proved/Probable and Possible categories.

On the exploration front, the program for the 2006/2007 includes the drilling of one high potential well on the West Lineynoye Prospect (Figure 4). The upside potential of this well is the movement of 66.7 million barrels of oil to the P1/P2 category from the P3 category.

Drilling is planned to commence on this well in May/June 2007 and results are expected in July 2007.

Reserve Movement versus Work Programme to Date

1st Private Placement $6.55 million						2nd Private Placement $ 8 million - Jan 06		
Licence 61 Potential Reserve Movements versus Work Programme								
after purchase June 05 PetroNeft Screening			after reprocessing seismic/well data Ryder Scott - Nov. 05			after 515 km new seismic May 06 Ryder Scott - September 06		
P1+P2 mm bbls	P3 mm bbls	P4 mm bbls	P1+P2 mm bbls	P3 mm bbls	P4 mm bbls	P1+P2 mm bbls	P3 mm bbls	P4 mm bbls
21.20	154.69	15.57	27.89	155.73	120.49	33.54	290.67	99.90

P1+P2	proved + probable reserves
P3	possible reserves - unrisked - structure confirmed by seismic data
P4	potential reserves - unrisked - requires additional seismic data

Seismic Equipment stored on License 61 for summer 2006

Directors and Management at Lineynoye No. 6 well site which is under construction.

In addition, 500 line kms of CDP-2D seismic data will be acquired, mainly on the southern part of the Licence (Figure 6). The objective of this survey is to better define the structural characteristics of known Prospects and Potential Prospects.

As mentioned above, the West Lobe of the Tungolskoye Oil Field will be further defined by this survey for possible drilling during the winter season of 2007/2008 programme. (Figure 5)

2006/2007 promises to be an exciting year for the company with drilling results expected on a regular basis.

Licence 61 - New Seismic Acquisition

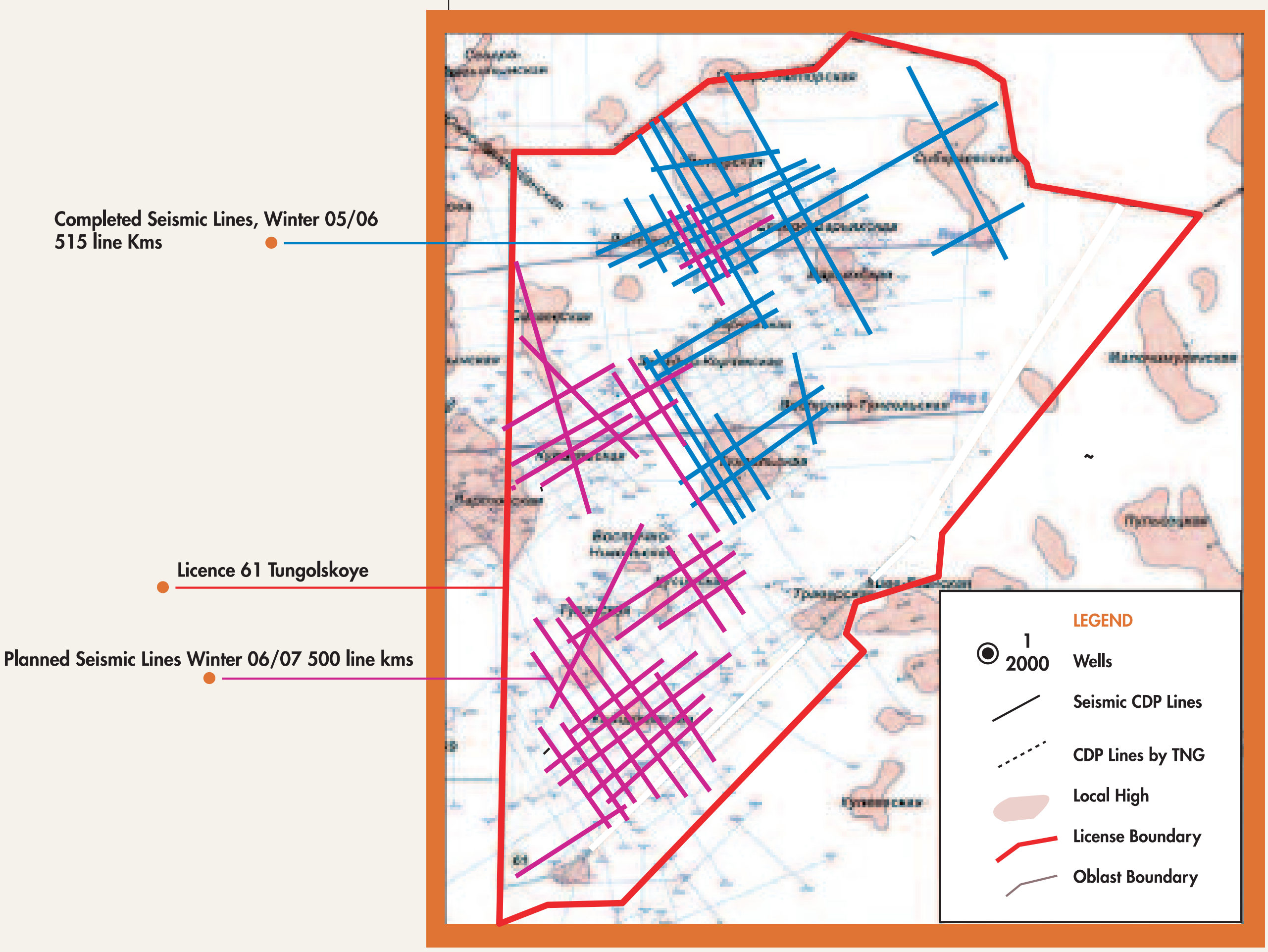


Figure 6

Schedule for 2006/ 2007 winter season

Toward Production

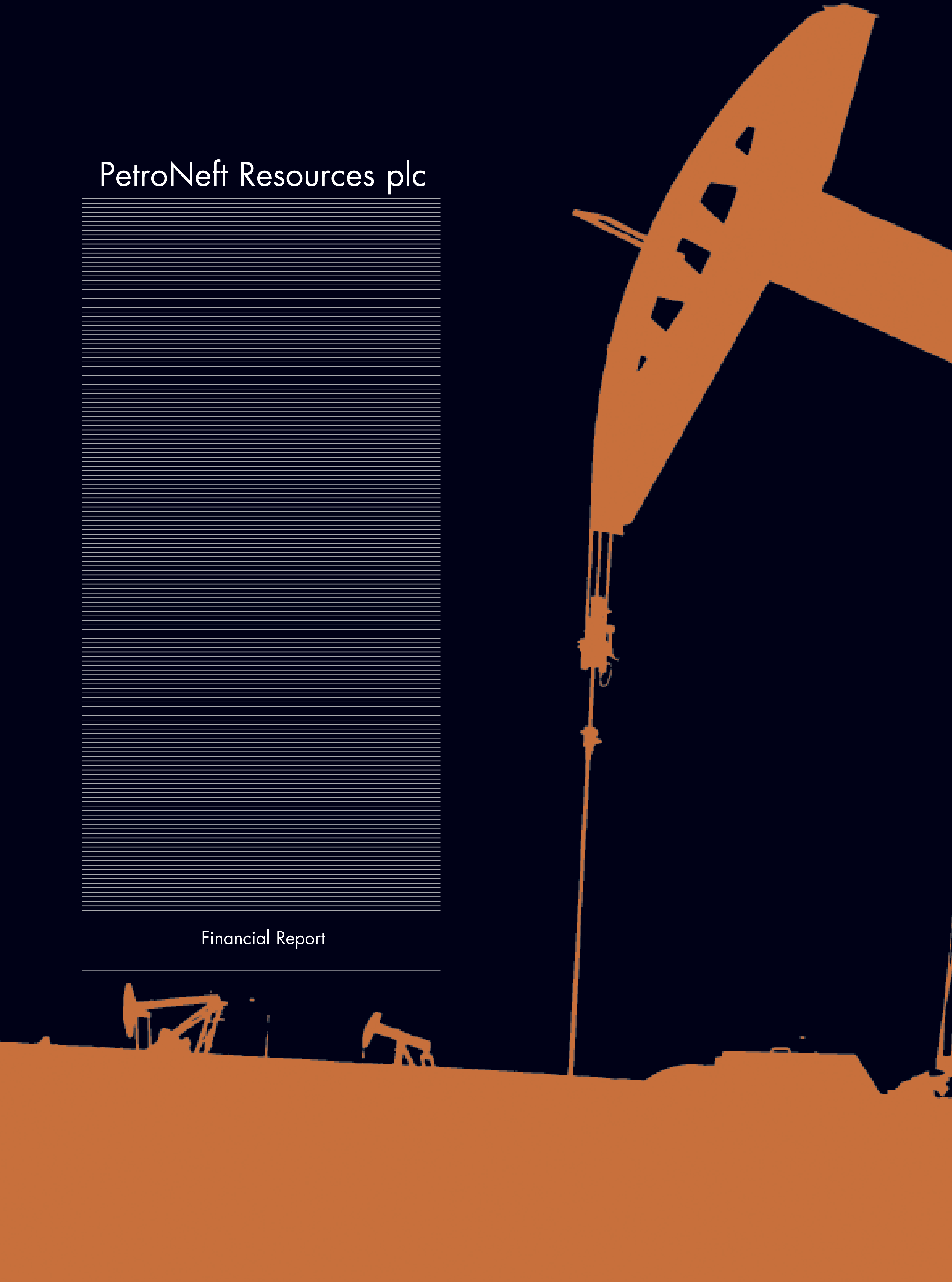
- November 2006 — Rig up construction commences for Lineynoye No. 6 well
- January 2007 — Drilling of Lineynoye No. 6 well to commence
- February 2007 — Drilling of Tungolskoye No. 4 well to commence
- March 2007 — Results of Lineynoye well tests
- April 2007 — Results of Tungolskoye well tests
- July 2007 — Decision to sanction the development project

Toward Reserve Expansion

- October 2006 — Commencement of 500 line km seismic survey
- April/May 2007 — Commencement of West Lineynoye exploration well with upside potential of 66.6 million barrels of oil

PetroNeft Resources plc

Financial Report



Report of Directors

The Directors present their report and the financial statements for the period ended 31 December 2005.

PRINCIPAL ACTIVITY

The principal activities of the group are that of hydrocarbon exploration and appraisal. The group was established to acquire and develop, directly or indirectly, oil and gas exploration, development and production interests in Russia.

RESULTS AND DIVIDENDS

The loss for the period after providing for depreciation and taxation amounted to US$ 260,414 .
The Directors do not recommend payment of a final dividend.

DIRECTORS

In accordance with the Articles of Association, all of the Directors retire at the first AGM of the company and being eligible offer themselves for re-election.

FUTURE DEVELOPMENTS

The main asset of the company is a 100% interest in a 4,991sq km oil and gas Licence in the Tomsk Oblast, held through wholly owned subsidiary, Stimul-T. The Licence contains two previously drilled and tested oil fields, Tungolskoye and Linenoye, which Petroneft has targeted for rapid development. It also estimated that substantial further reserves could be contained in a number of defined exploration prospects on the Licence.

A major seismic survey was completed in early 2006 with the objective of defining drilling locations on the two established oil fields and for an additional high value exploration well on a further prospect. These wells will commence in the 2006/2007 winter season, with the objective of establishing a rapid development plan for oil production on the Licence. Two drilling rigs have been contracted to carry out this work.

DIRECTORS AND THEIR INTERESTS

The Directors and secretary who held office during the period had no interest, other than those shown below, in the shares of the company.

Ordinary shares

Directors	Position	Date of Appointment/Resignation	As at 31 December 2005
G. David Golder	Non-Executive Chairman	Appointed 17 November 2005	2,409,050
Dennis Francis	Chief Executive	Appointed 20 October 2005	19,754,210
David Sanders	Executive Director	Appointed 20 October 2005	4,047,205
Desmond Burke	Executive Director	Appointed 20 October 2005	4,967,204
Vakha Alvievich Sobraliev	Non-Executive Director	Appointed 21 November 2005	14,743,386
Thomas Hickey	Non-Executive Director	Appointed 21 November 2005	250,000
Gerard Ryan	Appointed 15 September 2005	Resigned 20 October 2005.	1
David O'Beirne	Appointed 15 September 2005	Resigned 20 October 2005.	124,001
Secretary			
David Sanders	Appointed 20 October 2005		4,047,205

In the period to 30 June 2006 Vakha Alvievich Sobraliev was allotted 7,371,258 shares in the company. Following this allotment his interest was 22,114,544 Ordinary Shares. In May 2006 Thomas Hickey acquired a further 70,000 shares bringing his total shareholding to 320,000 Ordinary Shares.

As part of the Placing in September 2006, the Directors will subscribe for shares as shown in column 1 below and their current resultant holdings will be as shown in column 2. This subscrption will be at the IPO placing price.

Directors	Shares to be purchased at IPO	Post IPO Subscription Share Holdings	Percentage of Issued Share Capital
David Golder	535,408	2,944,458	1.67%
Dennis Francis	535,407	20,289,617	11.49%
David Sanders	133,400	4,180,605	2.37%
Des Burke	337,000	5,304,204	3.00%
Tom Hickey	265,000	585,000	0.33%
Vakha Sobraliev	535,408	22,650,052	12.82%
			31.68%

SHARE OPTIONS

In addition to the above the Company granted Share Options to the Directors on the 20th September 2006 as follows;

Directors	Number of Options
David Golder	440,000
Dennis Francis	880,000
David Sanders	880,000
Des Burke	660,000
Tom Hickey	440,000
Vakha Sobraliev	440,000

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 per cent or more of the Existing Issued Share Capital and the expected Enlarged Issued Share Capital post IPO are, as follows:

Shareholder	Ordinary Shares Pre IPO Placing	Percentage of Ordinary Shares Pre IPO Placing	Expected Ordinary Shares Post IPO Placing	Expected Percentage of Ordinary Shares Post IPO Placing
RAB Octane Fund Limited	22,523,303	16.7%	36,439,232	20.63%
Davycrest Nominees Limited	15,152,045	11.2%	27,524,929	15.58%

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Director's Report and Financial Statements. The Directors have chosen to prepare accounts for the group in accordance with International Financial Reporting Standards (IFRS).

International Accounting Standard 1 requires that financial statements present fairly for each year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all the applicable International Financial Reporting Standards.

Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Acts 1963 to 2005 and all regulations to be construed as one with those acts. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CORPORATE GOVERNANCE

The Directors are committed to maintaining the highest standards of corporate governance commensurate with the size, stage of development and financial status of the Company.

BOARD:

The Company currently has six Directors, comprising three executive Directors and three non-executive Directors. The Board met formally on 8 occasions during 2005. An agenda and supporting documentation was circulated in advance of each meeting. All the Directors bring independent judgement to bear on issues affecting the Group and all have full and timely access to information necessary to enable them to discharge their duties. The Directors have a wide and varying array of experiences in the industry. Non-executive Directors are not appointed for specific terms. Each non-executive Director comes up for re-election every 3 years and each new Director is subject to election at the next Annual General Meeting following the date of appointment.

The following committees deal with the specific aspects of the Group affairs:

AUDIT COMMITTEE:

This Committee comprises three non-executive Directors. The external auditors have the opportunity to meet with members of the Audit Committee without executive management present at least once a year. The duties of the Committee include the review of the accounting principles, policies and practices adopted in preparing the financial statements, external compliance matters and the review of the Company financial results.

NOMINATIONS COMMITTEE:

Given the current size of the group a Nominations Committee is not considered necessary. The Board reserves to itself the process by which a new Director is appointed.

REMUNERATION COMMITTEE:

This Committee comprises three non-executive Directors. This Committee determines the contract terms, remuneration and other benefits of the executive Directors, Chairman and non-executive Directors.

COMMUNICATIONS:

The Company maintains regular contact with shareholders through publications such as the annual and half-year report and via press releases and the Company's website, www.petroneft.com. The Directors are responsive to shareholder enquiries throughout the year. The Board regards the Annual General Meeting as a particularly important opportunity for shareholders, Directors and management to meet and exchange views.

INTERNAL CONTROL

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

The Company'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. Having made appropriate enquiries the Directors consider that the system of internal financial, operational and compliance controls and risk management operated effectively during the period covered by the financial statements and up to the date on which the financial statements were signed.

The internal control system includes the following key features, which have been designed to provide internal financial control appropriate to the Company's businesses:

- Budgets are prepared for approval by the Board.
- Expenditure and income are compared to previously approved budgets.
- A detailed investment approval process which requires Board approval of all major capital projects and regular review of the physical performance and expenditure on these projects.

BOOKS OF ACCOUNT

The measures taken by the Directors to ensure compliance with the requirements of Section 202, Companies Act 1990, regarding proper books of account 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 books of account of the company are maintained at Modeshill, Mullinahone, Co. Tipperary.

AUDITORS

The auditors, LHM Casey McGrath, have indicated their willingness to continue in office in accordance with the provisions of Section 160(2) of the Companies Act, 1963.

On behalf of the board

Dennis Francis	Desmond Burke
Director	Director
Date: 20 September 2006	Date: 20 September 2006

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PETRONEFT RESOURCES plc

We have audited the financial statements of PetroNeft Resources plc for the period ended 31 December 2005 on pages 28 to 36. These financial statements have been prepared under the accounting policies set out on page 26.

This report is made solely to the company's members as a body in accordance with the requirements of the Companies Acts 1963 to 2005. Our audit work has been undertaken so that we might state to the company's members those matters that we are required to state to them in the audit 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 or the company's members as a body for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 5 the company's Directors are responsible for the preparation of financial statements in accordance with applicable law and International Financial Reporting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with International Financial Reporting Standards and are properly prepared in accordance with the Companies Acts. We also report to you whether in our opinion: proper books of account have been kept by the company; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the Financial statements are in agreement with the books of account.

We report to the shareholders if, in our opinion, any information specified by law regarding Directors' remuneration and Directors' transactions is not given and, where practicable, include such information in our report.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent mis-statement within it.

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the

significant estimates and judgements made by the Directors in the preparation of the financial statements, and whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

INTANGIBLE ASSETS

In forming our opinion, we have considered the adequacy of the disclosures made in Note 7 to the financial statements in relation to the Directors' assessment of the carrying value of the Group's intangible assets, amounting to $6,093,657. Our opinion is not qualified in this respect.

OPINION

In our opinion the financial statements:

- give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the company's affairs as at 31 December 2005 and of its loss and cash flows for the period then ended; and
- have been properly prepared in accordance with the Companies Acts 1963 to 2005 and all regulations to be construed as one with those acts.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The financial statements are in agreement with the books of account.

In our opinion the information given in the Directors' report is consistent with the financial statements.

The net assets of the company, as stated in the Balance Sheet on page 29, are more than half of the amount of its called up share capital and, in our opinion, on that basis there did not exist at 31 December 2005 a financial situation which under Section 40(1) of the Companies (Amendment) Act 1983 may require the convening of an extraordinary meeting of the company.

LHM Casey McGrath
Chartered Certified Accountants
Registered Auditors
6 Northbrook Road
Dublin 6
Ireland

Date: 20 September 2006

Statement of Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

ACCOUNTING CONVENTION

The financial statements are prepared in accordance with International Financial Reporting Standards under the historic cost convention.

In accordance with the provisions of Section 3(2) of the Companies (Amendment) Act 1986 the Profit and Loss of the Company is not presented separately.

DEVELOPMENT COSTS

The Company adopts the successful efforts method of accounting for exploration and appraisal costs. All licence acquisition, exploration and evaluation costs are initially capitalised in cost centres by well, field or exploration area, as appropriate. Directly attributable administration costs and interest payable are capitalised insofar as they relate to specific exploration and development activities. Pre-licence costs are expensed in the period in which they are incurred.

These costs are then written off unless commercial reserves have been established or the determination process has not been completed and there are no indications of impairment.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost or valuation, less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less residual value of each asset over its expected useful life, as follows:

Land and buildings	- Straight Line over 30 years
Office equipment	- 20% Straight line

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profits for the year. Taxable profits differ from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, taxation.

Deferred taxation is measured on an undiscounted basis at the taxation rates that are anticipated to apply in the periods in which the timing differences reverse, based on taxation rates and legislation which are enacted or substantively enacted at the balance sheet date.

FOREIGN CURRENCIES

Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at contract rates where the amounts payable or receivable are covered by forward contracts. Other monetary assets and liabilities are translated into US Dollars at rates of exchange ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). 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.

CONSOLIDATED ACCOUNTS

The Company Financial Statements consolidate the results of the Company and its wholly owned subsidiary Stimul-T from the date of acquisition under the acquisition method.

CONSOLIDATED INCOME STATEMENT

for the period ended 31 December 2005

	Notes	2005 US$
Administrative expenses		(241,331)
Operating loss	1	(241,331)
Interest payable and similar charges	2	(19,083)
Retained loss for the period		(260,414)

Loss per share:	
Basic	.29c
Diluted	.29c

There are no recognised gains or losses other than those disclosed above and there have been no discontinued activities or acquisitions in the current or preceding periods.

On behalf of the board

Dennis Francis
Director
Date: 20 September 2006

Desmond Burke
Director
Date: 20 September 2006

CONSOLIDATED BALANCE SHEET

as at 31 December 2005

	Notes	2005 US$
Non-Current Assets		
Property, plant and equipment	6	169,937
Other intangible assets	7	6,093,657
		6,263,594
Current Assets		
Trade and other receivables	9	451,323
Cash and cash equivalents	10	256,208
		707,531
Total Assets		6,971,125
Equity and Liabilities		
Capital and Reserves		
Called up share capital	13	1,052,260
Share premium account	14	4,861,880
Profit and loss account	14	(260,414)
Equity attributable to equity holders of the parent	16	5,653,726
Current Liabilities		
Trade and other payables	11	1,317,399
Total Liabilities		1,317,399
Total Equity and Liabilities		6,971,125

On behalf of the board

Dennis Francis
Director
Date: 20 September 2006

Desmond Burke
Director
Date: 20 September 2006

GROUP STATEMENT OF CHANGES IN EQUITY

as at 31 December 2005

	2005 Group US$
Loss for the period	(260,414)
Dividends	-
	(260,414)
Net proceeds of equity share issue	5,914,140
	5,653,726

COMPANY BALANCE SHEET

as at 31 December 2005

	Notes	2005 US$
Non-Current Assets		
Property, plant and equipment	6	4,446
Other intangible assets	7	411,851
		416,297
Current Assets		
Trade and other receivables	9	6,367,313
Cash and cash equivalents	10	12,478
		6,379,791
Total Assets		6,796,088
Equity and Liabilities		
Capital and Reserves		
Called up share capital	13	1,052,260
Share premium account	14	4,861,880
Profit and loss account	15	220,238
Equity Shareholders' Funds	16	5,693,902
Current Liabilities		
Trade and other payables	11	1,102,186
Total Liabilities		1,102,186
Total Equity and Liabilities		6,796,088

CASH FLOW STATEMENT

for the period ended 31 December 2005

	Notes	2005 US$
Net loss before interest and income tax		(241,331)
Adjustments for:		
Depreciation for - Property, plant and equipment		910
Operating profit before working capital changes		(240,421)
Increase in trade receivables		(451,323)
Increase in trade payables		1,317,399
Cash generated from operations		625,655
Interest paid		(19,083)
Net cash flow from operating activities		606,572
Investing activities		
Purchase of property, plant and equipment		(170,847)
Purchase of other intangible assets		(6,093,657)
Net cash used in investing activities		(6,264,504)
Cash flows from financing activities		
Proceeds from issue of share capital		5,914,140
Net cash received from financing activities	20	5,914,140
Net increase in cash and cash equivalents	10	256,208
Cash and Cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period		256,208

NOTES ON AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2005

1. Operating loss

	2005
	US$
Operating loss is stated after charging:	
Depreciation of tangible assets	910
Auditors' remuneration	22,000

Fees totalling US$6,000 in respect of non-audit services associated with share issues have been set against share premium.

2. Finance costs

	2005
	US$
On loans and overdrafts	19,083
	19,083

3. Employees

	2005
Number of employees	**Number**
The average monthly numbers of employees (including the directors) during the period was:	5
	5

Employment costs (Including directors)	2005
	US$
Wages and salaries	88,230
	88,230

3.1. Directors' emoluments

	2005
	US$
Remuneration and other emoluments	54,674

4. Earnings per Ordinary Share

Basic earnings per ordinary share amounts are calculated by dividing net loss for the period attributable to ordinary equity holders of the parent by the weighted average number of shares outstanding during the period.

Diluted earnings per ordinary share amounts are calculated by dividing net loss for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued if employee and other share options were converted into ordinary shares.

	2005
Earnings	US$
Net loss attributable to equity shareholders	(260,414)
Effect of dilutive potential ordinary shares	-
Diluted net loss attributable to equity shareholders	(260,414)
Number of Shares	
Basic weighted average number of shares	90,098,470
Dilutive potential ordinary shares	-
Dilutive weighted average number of shares	90,098,470
Loss per share:	
Basic	.29c
Diluted	.29c

5. Income Tax Expense

	2005
	US$
Current year taxation	
Corporation Tax (12.5%)	-

The tax assessed for the period is lower than the standard rate of corporation tax of 12.5%.

The differences are explained below:

Loss on Ordinary Activities before Tax	(260,414)
Loss on Ordinary Activities multiplied by the standard rate of corporation tax of 12.5%	(32,552)
Effects of:	
Depreciation in excess of Capital Allowances for the year	-
Losses available for carry forward	32,552
Tax charge for the year	-

NOTES ON AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2005

6. Tangible assets

Group	Fixtures & fittings	Land and buildings freehold	Total
	US$	US$	US$
Cost			
Additions	4,599	-	4,599
Acquired on acquisition of a subsidiary	6,748	159,500	166,248
At 31 December 2005	11,347	159,500	170,847
Depreciation			
Charge for the period	378	532	910
At 31 December 2005	378	532	910
Net book values			
At 31 December 2005	10,969	158,968	169,937

Company	Fixtures & fittings	Land and buildings freehold	Total
	US$	US$	US$
Cost			
Additions	4,599	-	4,599
At 31 December 2005	4,599	-	4,599
Depreciation			
Charge for the period	153	-	153
At 31 December 2005	153	-	153
Net book values			
At 31 December 2005	4,446	-	4,446

7. Other intangible assets

Group	Development Costs	Total
	US$	US$
Cost		
Additions	516,348	516,348
Acquired on Acquisition of a subsidiary	5,577,309	5,577,309
At 31 December 2005	6,093,657	6,093,657
Net book values		
At 31 December 2005	6,093,657	6,093,657

Company	Development Costs	Total
	US$	US$
Cost		
At 15 September 2005	-	-
Additions	411,851	411,851
Disposals	-	-
At 31 December 2005	411,851	411,851
Net book values		
At 31 December 2005	411,851	411,851

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

8. Subsidiaries

Details of the Company's Subsidiaries at 31 December 2005 are as follows:

Country of Name of Subsidiary	Proportion of registration or incorporation	Proportion of Ownership Interest	Voting power held	Principal Activity
Stimul-T	Russian Federation	100%	100%	Oil and Gas exploration

NOTES ON AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2005

9. Other financial assets

Trade and other receivables:	2005 Group US$	2005 Company US$
Amounts owed by group undertakings	-	6,309,600
Other debtors	57,713	57,713
Prepayments and accrued income	393,610	-
	451,323	6,367,313

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

10. Cash and Cash Equivalents

	2005 Group US$	2005 Company US$
Cash at Bank and in Hand	256,208	12,478
	256,208	12,478

11. Trade and other payables

	2005 Group US$	2005 Company US$
Trade creditors	17,758	-
Other taxes and social welfare costs	64,679	-
Directors' accounts	930,000	800,000
Other creditors	2,776	-
Accruals and deferred income	302,186	302,186
	1,317,399	1,102,186

The Directors consider that the carrying amount of trade payables approximates their fair value.

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

12. Acquisition of subsidiary

	Acquiree's Carrying amount US$	Fair value Adjustment US$	Fair value US$
Net Assets acquired:			
Property, plant and equipment	166,248	-	166,248
Development costs	5,464,104	113,205	
	5,577,309		
Trade and other receivables	437,781	-	437,781
Bank and cash balances	150,995	-	150,995
Trade and other payables	(6,332,333)	-	(6,332,333)
	(113,205)	113,205	-
Total consideration, satisfied by cash			Nil
Net cash inflow arising on acquisition:			
Cash consideration paid			-
Cash and cash equivalents acquired			150,995
			150,995

13. Share capital - Group and Company

	2005 US$
Authorised	
300,000,000 Ordinary shares of €0.01 each	3,503,700
	3,503,700
Allotted, called up and fully paid equity	
90,098,478 Ordinary shares of €0.01 each	1,052,260
	1,052,260

14. Equity Reserves

	Share premium account US$	Profit and loss account US$	Total US$
Premium on issue of shares	4,861,880	-	4,861,880
Retained loss for the period	-	(260,414)	(260,414)
At 31 December 2005	4,861,880	(260,414)	4,601,466

The issue costs of the share placing of US$ 289,294 have been written off against the share premium account.

NOTES ON AND FORMING PART OF THE FINANCIAL STATEMENTS

for the period ended 31 December 2005

15. Profit of holding company

As permitted by Section 3(2) of the Companies (Amendment) Act 1986 the parent company's profit and loss account has not been included in these financial statements. The parent company's loss after tax, including dividends receivable and before dividends payable, was US$ 220,238.

16. Reconciliation of movements in shareholders' funds

	2005 Group US$	2005 Company US$
Loss for the period	(260,414)	(220,238)
Net proceeds of equity share issue	5,914,140	5,914,140
Net addition to shareholders' funds	5,653,726	5,693,902
	5,653,726	5,693,902

17. Capital commitments

	2005 US$
Details of capital commitments at the accounting date are as follows:	
Contracted for but not provided in the financial statements	2,000,000
Authorised by the directors but not yet contracted for	-

The above commitment relates to a contract entered into on 3 August 2005 for Seismic analysis due to be completed in early 2006.

18. Related party transactions

Transactions between PetroNeft Resources plc and its subsidiary Stimul-T have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the group and other related parties are disclosed below.

Dennis Francis is a Director and significant shareholder of PetroNeft Resources plc. During the period, Dennis Francis advanced the group amounts totalling US$ 930,000. Interest of US$ 16,243 was paid on this amount. At the period ended 31 December 2005, PetroNeft Resources plc owed Dennis Francis an amount of US$ 930,000.

In February 2006 Stimul-T entered into a contract with Nizhnevartovskservis ("the Contractor") for the drilling of 3 wells. The contract is a "Turnkey" contract under which the Contractor assumes substantially all liabilities in relation to the health and safety, environmental and other risks associated with drilling operation. The total value of the contract is approximately US$ 9.25 million. Vakha Alvievich Sobraliev, a Director and significant shareholder of PetroNeft Resources plc, is the principal of Nizhnevartovskservis.

19. Events after the Balance Sheet Date

On 1 February 2006 the Company completed a private placement that raised US$8 million through the issue of 45, 046,606 new ordinary shares. The new ordinary shares were allotted and funds received in three tranches, and was completed by 30 June 2006, following which, the Company had 135,145,084 shares in issue. In addition, the Company issued warrants over ordinary shares to the value of US$1 million.

In February 2006 Stimul-T entered into a contract with Nizhnevartovskservis ("the Contractor") for the drilling of 3 wells. The contract is a "Turnkey" contract under which the Contractor assumes substantially all liabilities in relation to the health and safety, environmental and other risks associated with the drilling operation. The total value of the contract is approximately US$9.25 million.

20. Gross Cash Flows

	2005 US$
Returns on investments and servicing of finance	
Interest paid	(2,840)
	(2,840)
Capital expenditure	
Payments to acquire intangible assets	(6,093,657)
Payments to acquire tangible assets	(170,847)
	(6,264,504)
Financing	
Issue of ordinary share capital	5,914,140
	5,914,140

21. Going concern

The financial statements are prepared under the assumption that the Group is a going concern on the basis that the Directors are satisfied that further funding, primarily through share placings, will be available to bring its projects to production.

22. Approval of financial statements

The financial statements were approved by the board on 20 September 2006

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of PetroNeft Resources plc will be held at the Herbert Park Hotel, Ballsbridge, Dublin 4 at 11.00 am on Friday 10th November 2006, for the purposes of considering and, if thought fit, passing, the following Resolutions of which Resolutions numbered 1,2,3,4,6,7 and 8 will be proposed as Ordinary Resolutions and Resolution numbered 9 will be proposed as a Special Resolution.

ORDINARY BUSINESS

1. To receive, consider and adopt the accounts for the year ended 31st December 2005 together with the Directors' and Auditors' reports thereon.
2. To re-elect Mr. Golder as a Director, who retires in accordance with Article 86 of the Articles of Association of the Company.
3. To re-elect Mr. Francis as a Director, who retires in accordance with Article 86 of the Articles of Association of the Company.
4. To re-elect Mr Sanders as a Director, who retires in accordance with Article 86 of the Articles of Association of the Company.
5. To re-elect Mr Burke as a Director, who retires in accordance with Article 86 of the Articles of Association of the Company.
6. To re-elect Mr Hickey as a Director, who retires in accordance with Article 86 of the Articles of Association of the Company.
7. To re-elect Mr Sobraliev as a Director, who retires in accordance with Article 86 of the Articles of Association of the Company.
8. To reappoint LHM Casey McGrath, chartered Certified Accountants as Auditors and to authorise the Directors to fix the remuneration of the Auditors.

SPECIAL BUSINESS

9. That the Directors be and are hereby empowered pursuant to Sections 23 and 24 (1) of the Companies (Amendment) Act, 1983 to allot equity securities (within the meaning of the said Section 23) for cash pursuant to the authority conferred by Article 5(a) of the Articles of Association of the Company as if the said Section 23 does not apply to any such allotment provided that this power shall be limited to the allotment of equity securities;

a) in connection with the exercise of any options or warrants to subscribe granted by the Company;

b) (including, without limitation any shares purchased by the Company pursuant to the provisions of the 1990 Act and held as Treasury Shares) in connection with any offer of securities, open for a period fixed by the Directors, by way of rights, open offer or otherwise in favour of ordinary shareholders and/or any persons having a right to subscribe for or convert securities into ordinary shares in the capital of the Company (including, without limitation, any person entitled to options under any of the

Company's share option schemes or any other person entitled to participate in any of the Company's profit sharing schemes for the time being) and subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to legal or practical problems under the laws of, or the requirements of any recognised body or stock exchange in, any territory; and

c) up to an aggregate nominal value equal to the nominal value of 10% from time to time which authority shall expire on the earlier of the date of the next annual general meeting of the Company held after the date of passing of this Resolution and at the close of business on 10th February 2008 , save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such Offer or Agreement as if the power conferred hereby had not expired.

David E. Sanders
Secretary
for and on behalf of the Board.
C/O O'Donnell Sweeney
One Earlsfort Centre
Earlsfort Terrace
Dublin 2
16th October 2006

ANNUAL GENERAL MEETING 2006 -

FORM OF PROXY

Name ______________________________

Address ______________________________

Shareholder reference number ____________________

I/we appoint the following person (proxy) to vote on my/our behalf at the Annual General Meeting of the Company to be held at 11.00 am on 10th November 2006 at Herbert Park Hotel, Ballsbridge, Dublin 4.

(Please indicate your choice in one box only)

The Chairman of the meeting ○

Please leave this box blank if you wish to select someone other than the Chairman.

Or
The following person:

____

Please leave this box blank if you have selected the Chairman.
Do not insert your own name(s).

To attend and vote on my/our behalf at the annual general meeting of Petroneft Resources plc to be held at 11.00 am on 10th November 2006 at Herbert Park Hotel, Ballsbridge, Dublin 4 and at any adjournment of the meeting. I/we would like my/our proxy to vote on the resolutions proposed at the meeting as indicated on this form. Unless otherwise instructed, the proxy may vote as he or she sees fit or abstain in relation to any business of the meeting.

Insert 'X' in the space provided to indicate how you wish your vote be cast. For more details about each resolution please see the Notice of Annual General meeting on pages 38 and 39 of the Annual Report 2005

Resolution	For	Against
1. To receive, consider and adopt the accounts for the year ended 31st December 2005 together with the Directors' and Auditors' reports thereon.	○	○
2. To re-elect Mr. Golder as a Director	○	○
3. To re-elect Mr. Francis as a Director	○	○
4. To re-elect Mr. Sanders as a Director	○	○
5. To re-elect Mr. Burke as a Director	○	○
6. To re-elect Mr. Hickey as a Director	○	○
7. To re-elect Mr. Sobraliev as a Director	○	○
8. To reappoint LHM Casey McGrath, as Auditors and to authorise the Directors to fix the remuneration of the Auditors.	○	○
9. By way of Special Resolution, to authorise the directors to allot equity securities pursuant to Sections 23 and 24 (l) of the Companies (Amendment) Act, 1983.	○	○

Signature

Any one joint Shareholder may sign

Date

Please Return this form and post in the Business Envelope provided.

Notes

1. A member entitled to attend and vote is entitled to appoint a proxy (who need not be a member of the Company) to attend, speak and vote instead of him.
2. Forms of proxy, to be valid must be lodged with the Company's Registrars, Computershare Investor Services (Ireland) Limited, Heron House, Corrig Road, Sandyford Industrial estate, Dublin 18, no later than 48 hours before the time appointed for the meeting. If the appointer is a corporation, this Form of Proxy must be under its common seal or under the hand of an officer or attorney duly authorised. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote of the other registered holder(s) and for this purpose, seniority shall be determined by the order in which names stand in the register of members.
3. Completion and return of the Form of Proxy will not preclude ordinary shareholders from attending and voting at the meeting should they wish to do so.
4. Pursuant to Regulation 14 of the Companies Act 1990 (Uncertificated Securities) Regulations 1996, only those shareholders on the Register of Shareholders at 11.00 am 08th November 2006 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their names at that time. If the meeting is adjourned by more than 48 hours, then to be so entitled, shareholders must be entered on the Company's Register of Shareholders at the time which is 48 hours before the time appointed for holding the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.
5. This form, which is personalised, may only be used in respect of the shareholder of whom details are shown above. Any alteration to such details, or attempt to use the form in respect of any other shareholder, may render the Form invalid.

ADMISSION CARD

Please retain this section of the form to gain admittance to the meeting

PetroNeft Resources plc Annual General Meeting
11.00 am on Friday 10th November 2006

Shareholder's Signature ______________________________

Signature of Proxy ______________________________

Location of the Annual General Meeting:

Herbert Park Hotel, Ballsbridge, Dublin 4