

**PetroNeft Resources Plc**  
**Unaudited interim condensed**  
**consolidated financial statements**

*30 June 2008*



# PetroNeft Resources Plc

## Unaudited interim condensed consolidated financial statements

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# PetroNeft Resources Plc

## Group information

### Directors<sup>1</sup>

David Golder (U.S. citizen)  
*(Non-Executive Chairman)*  
Dennis Francis (U.S. citizen)  
*(Chief Executive Officer)*  
Paul Dowling  
*(Chief Financial Officer, appointed on 29 April 2008)*  
David Sanders (U.S. citizen)  
*(Executive Director and General Legal Counsel)*  
Desmond Burke  
*(Executive Director – Investor Relations and Planning)*  
Vakha Alvievich Sobraliev (Russian citizen)  
*(Non-Executive Director)*  
Thomas Hickey  
*(Non-Executive Director)*

### Registered Office

One Earlsfort Centre  
Earlsfort Terrace  
Dublin 2  
Ireland

### Secretary

David Sanders

### Auditors

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

### Business Address

1 Wainsfort Drive  
Terenure  
Dublin 6W  
Ireland

### Nominated Advisor

Davy  
49 Dawson Street  
Dublin 2  
Ireland

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<sup>1</sup> Irish Citizens unless otherwise stated

# PetroNeft Resources Plc

## Group information (continued)

### Bankers

AIB Bank  
1 Lower Baggot Street  
Dublin 2  
Ireland

JP Morgan Chase Bank  
Texas Market  
Baton Rouge  
Louisiana  
USA

### Solicitors

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

White & Case  
5 Old Broad street  
London  
EC2N 1DW  
United Kingdom

White & Case  
4 Romanov Pereulok  
125009  
Moscow  
Russia

### Registered Number

408101

### Registrar

Computershare  
Heron House  
Corrig Road  
Sandyford Industrial Estate  
Dublin 18  
Ireland

# PetroNeft Resources Plc

## Chairman's Statement

Dear Shareholder,

### Major progress achieved

To date, 2008 has seen considerable progress for PetroNeft. The development of the Lineynoye and West Lineynoye fields has been sanctioned by the Board, with infrastructure currently under construction. Three new wells have been drilled, two of which flowed oil with the third still to be tested in the Lower Jurassic horizon. The Group is continuing to seek acquisition opportunities in the Tomsk region and beyond.

Despite the challenging times in the financial markets PetroNeft undertook a successful equity placing in July 2008 raising US\$17.3 million and entered into a mandate agreement with Standard Bank plc for a debt facility of up to US\$80 million.

### Development sanctioned

Following the successful delineation well at Lineynoye No. 8 the Board sanctioned the development of the Lineynoye and West Lineynoye oil fields. This is already progressing, with almost all of the 62 kilometres of pipe required to complete the export pipeline project already delivered to staging areas close to the fields. Pipeline construction will begin in January 2009. Production drilling pads are nearing completion. The pipeline construction contractor and the production drilling contractor are currently mobilising their equipment to ensure all development operations commence on schedule, in order to achieve year-round production, through the export pipeline, in the second half of 2009.

Another key milestone in the development was the approval by the State Reserves Committee of the reserves for Licence Area 61, in accordance with Russian standards. The C1+C2 recoverable reserves for the Licence area were approved at 74.8 million barrels of oil. This is in alignment with the SPE 2P reserves of 60.6 million barrels. Neither calculation includes the new discovery at Korchegskaya.

### Exploration

Two exploration wells have been drilled at the Korchegskaya and West Korchegskaya prospects. This completes all of the Group's 6 well drilling obligation on the licence.

#### **Korchegskaya No.1**

The Korchegskaya No.1 well successfully encountered oil in the primary target of the J1<sup>1</sup> Upper Jurassic horizon. As the oil water contact has not yet been fully defined at this location a delineation well will be required to better quantify the reserves. Therefore it is likely when our 2008 year end reserves report is finalised that we will see an uplift of about 12 million 2P barrels, with further upside potential once the delineation well has been completed.

#### **West Korchegskaya No.1**

While the primary Jurassic reservoir objective was absent in the West Korchegskaya No. 1 well, a 25 metre sandstone interval, with hydrocarbon potential, has been identified in the Lower Jurassic secondary objective.

Lower Jurassic reservoirs are productive in adjacent blocks, but tend to be low permeability reservoirs. This interval at West Korchegskaya will require further evaluation and testing, including hydraulic fracturing to determine its productive potential. The well has been cased and will be suspended until 2009 when hydraulic fracturing equipment will be available in the field. The Lower Jurassic sequence represents a new and potentially significant source of oil within Licence 61.

This, together with the recently identified potential in the Cretaceous horizons elsewhere in the licence area, has added further upside potential to reserve estimates. As a result we anticipate a material reserve upgrade to 2008 year end Group Possible Reserves (P3).

# PetroNeft Resources Plc

## **Chairman's Statement (*continued*)**

The updated assessment of the licence area, having taken into account the two new potential horizons, will determine the focus of our future exploration program.

### **Successful financing**

The Group successfully raised US\$17.3 million in July 2008 through a placing of new shares with international institutional and private investors, including a number of Directors of the Company. We have also signed a mandate agreement with Standard Bank plc for a facility of up to US\$80 million. While the overall capital markets remain challenging the Group's ability to source funding demonstrates, not only the quality of Licence 61, but also the capital markets' confidence in our ability to continue to deliver solid operational progress and exploration success.

### **Business Development**

In August we entered into an agreement with Arawak Energy Limited, a significant shareholder of the Group, to jointly pursue new opportunities in the West Siberian Oil and Gas basin. PetroNeft is constantly evaluating opportunities in line with our stated objective to expand our portfolio beyond Licence 61.

### **Conclusion**

The Group remains on course to begin year round production in 2009. It has achieved further exploration success and identified potentially significant new exploration opportunities in Licence 61. Management will continue to work towards growing the assets of your Company through achieving production, further exploration and the identification of new projects for acquisition.

David Golder  
Non-Executive Chairman

# PetroNeft Resources Plc

## Interim Consolidated Income Statement for the 6 months ended 30 June 2008

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2008 US\$	6 months ended 30 June 2007 US\$	Full year ended 31 December 2007 US\$
<b>Revenue</b>	-	-	-
Administrative expenses	(1,395,328)	(1,079,540)	(3,416,388)
<b>Group operating loss</b>	<b>(1,395,328)</b>	<b>(1,079,540)</b>	<b>(3,416,388)</b>
Finance revenue	46,304	135,069	465,395
Loss for the year for continuing operations before taxation	(1,349,024)	(944,471)	(2,950,993)
Income tax expense	(72,926)	(72,926)	(252,269)
<b>Loss for the year attributable to equity holders of the parent</b>	<b>(1,421,950)</b>	<b>(1,017,397)</b>	<b>(3,203,262)</b>
 <b>Loss per share attributable to ordinary equity holders of the parent:</b>			
Basic and diluted - US dollar cent	(0.74)	(0.54)	(1.74)

# PetroNeft Resources Plc

## Interim Consolidated Balance Sheet

as at 30 June 2008

	<i>Unaudited</i>		<i>Audited</i>
	30 June 2008 US\$	30 June 2007 US\$	31 December 2007 US\$
<b>Assets</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	<b>11,884,853</b>	654,260	1,591,324
Exploration and evaluation assets	<b>31,391,327</b>	21,042,357	29,415,286
Leasehold land	<b>181,896</b>	-	181,896
	<b>43,458,076</b>	<u>21,696,617</u>	<u>31,188,506</u>
<b>Current Assets</b>			
Trade and other receivables	<b>1,046,106</b>	28,565	3,542,741
Cash and cash equivalents	<b>2,064,159</b>	6,384,348	8,304,295
Leasehold land	<b>4,214</b>	-	4,214
	<b>3,114,479</b>	<u>6,412,913</u>	<u>11,851,250</u>
<b>Total Assets</b>	<b>46,572,555</b>	<u>28,109,530</u>	<u>43,039,756</u>
<b>Equity and Liabilities</b>			
<b>Capital and Reserves</b>			
Called up share capital	<b>2,386,502</b>	2,132,436	2,343,864
Share premium account	<b>41,240,213</b>	25,777,394	40,252,836
Share based payments reserve	<b>1,628,609</b>	670,172	1,177,665
Retained loss	<b>(5,790,833)</b>	(2,183,018)	(4,368,883)
Currency translation reserve	<b>2,935,283</b>	394,688	1,466,092
Other reserves	<b>336,000</b>	336,000	336,000
	<b>42,735,774</b>	<u>27,127,672</u>	<u>41,207,574</u>
<b>Equity attributable to equity holders of the parent</b>			
<b>Non-current Liabilities</b>			
Provisions	<b>137,292</b>	-	131,243
Deferred tax liability	<b>445,634</b>	299,693	372,708
	<b>582,926</b>	<u>299,693</u>	<u>503,951</u>
<b>Current Liabilities</b>			
Trade and other payables	<b>3,253,855</b>	682,165	851,147
Financial liabilities	<b>-</b>	-	477,084
	<b>3,253,855</b>	<u>682,165</u>	<u>1,328,231</u>
<b>Total Liabilities</b>	<b>3,836,781</b>	<u>981,858</u>	<u>1,832,182</u>
<b>Total Equity and Liabilities</b>	<b>46,572,555</b>	<u>28,109,530</u>	<u>43,039,756</u>

# PetroNeft Resources Plc

## Interim Consolidated Statement of Changes in Equity

for the 6 months ended 30 June 2007

	<i>Unaudited</i>					
	Share Capital US\$	Share Premium US\$	Other reserve US\$	Translation reserve US\$	Retained Losses US\$	Total US\$
<b>At 1 January 2008</b>	<b>2,343,864</b>	<b>40,252,836</b>	<b>1,513,665</b>	<b>1,466,092</b>	<b>(4,368,883)</b>	<b>41,207,574</b>
Loss for the period	-	-	-	-	(1,421,950)	(1,421,950)
Currency translation adjustments	-	-	-	1,469,191	-	1,469,191
<b>Total recognised income and expense</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,469,191</b>	<b>(1,421,950)</b>	<b>47,241</b>
New share capital subscribed	42,638	987,377	-	-	-	1,030,015
Share based payment expense	-	-	450,944	-	-	450,944
<b>As at 30 June 2008</b>	<b><u>2,386,502</u></b>	<b><u>41,240,213</u></b>	<b><u>1,964,609</u></b>	<b><u>2,935,283</u></b>	<b><u>(5,790,833)</u></b>	<b><u>42,735,774</u></b>
At 1 January 2007	2,132,436	25,777,394	555,197	269,861	(1,165,621)	27,569,267
Loss for the year	-	-	-	-	(1,017,397)	(1,017,397)
Currency translation adjustments	-	-	-	124,827	-	124,827
<b>Total recognised income and expense</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>124,827</b>	<b>(1,017,397)</b>	<b>(892,570)</b>
New share capital subscribed	-	-	-	-	-	-
Share based payment expense	-	-	450,975	-	-	450,975
<b>At 30 June 2007</b>	<b><u>2,132,436</u></b>	<b><u>25,777,394</u></b>	<b><u>1,006,172</u></b>	<b><u>394,688</u></b>	<b><u>(2,183,018)</u></b>	<b><u>27,127,672</u></b>

# PetroNeft Resources Plc

## Interim Consolidated Cash Flow Statement for the 6 months ended 30 June 2008

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2008 US\$	6 months ended 30 June 2007 US\$	Full year ended 31 December 2007 US\$
Loss before taxation	(1,349,024)	(944,471)	(2,950,993)
<b>Adjustment to reconcile loss before tax to net cash flows</b>			
<i>Non-cash</i>			
Depreciation - Property, plant and equipment	131,583	19,037	42,527
Share based payments charge	450,944	450,975	958,468
Finance Revenue	(46,304)	(135,069)	(465,395)
Finance costs	-	-	-
<i>Working capital adjustments</i>			
Decrease in trade receivables	2,756,709	15,227	85,912
Increase in trade payables	1,902,707	144,652	632,064
Income tax paid	-	-	(106,329)
<b>Net cash flows from operating activities</b>	<b>3,846,615</b>	<b>(449,649)</b>	<b>(1,803,746)</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	(2,938,228)	(231,570)	(1,223,125)
Exploration and evaluation payments	(8,457,836)	(6,051,936)	(16,634,725)
Acquisition of subsidiary	-	-	(186,110)
Finance Revenue	46,304	135,069	465,395
<b>Net cash used in investing activities</b>	<b>(11,349,760)</b>	<b>(6,148,437)</b>	<b>(17,578,565)</b>
<b>Financing activities</b>			
Proceeds from exercise of share options	30,015	-	57,087
Proceeds from issue of share capital	1,000,000	-	15,425,504
Transaction costs of issue of shares	-	-	(795,720)
<b>Net cash received from financing activities</b>	<b>1,030,015</b>	<b>-</b>	<b>14,686,870</b>
Net decrease in cash and cash equivalents	(6,473,130)	(6,598,086)	(4,695,441)
Translation adjustment	232,994	110,118	127,420
Cash and cash equivalents at the beginning of the period	8,304,295	12,872,316	12,872,316
<b>Cash and cash equivalents at the end of the period</b>	<b>2,064,159</b>	<b>6,384,348</b>	<b>8,304,295</b>

# PetroNeft Resources Plc

## Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2008

### 1. Corporate information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2008 were authorised for issue in accordance with a resolution of the directors on 26 September 2008.

PetroNeft Resources plc ("the Company", or together with its subsidiaries, "the Group") is a Company incorporated in Ireland under the Companies Acts, 1963 to 2006. The Company is listed on the Alternative Investments Market ("AIM") of the London Stock Exchange and the Irish Enterprise Exchange ("IEX") of the Irish Stock Exchange. The address of the registered office is One Earlsfort Centre, Earlsfort Terrace, Dublin 2. The Company is domiciled in the Republic of Ireland.

The principal activities of the Group are that of oil and gas exploration, development and production.

### 2. Accounting policies

#### 2.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2008 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2007 which are available on the Group's website – [www.petroneft.com](http://www.petroneft.com).

The interim condensed consolidated financial statements are presented in US dollars ("US\$").

#### 2.2 Significant Accounting Policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

# PetroNeft Resources Plc

## Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2008 (continued)

### 3. Cash and cash Equivalents

For the purpose of the interim consolidated cash flow statement, cash and cash equivalents are comprised of the following:

	Unaudited		Audited
	30 June 2008 US\$	30 June 2007 US\$	31 December 2007 US\$
Cash at Bank and in Hand	2,064,159	6,384,348	8,304,295
	<b>2,064,159</b>	<b>6,384,348</b>	<b>8,304,295</b>

### 4. Income tax

The major components of income tax expense in the interim consolidated income statement are:

	Unaudited		Audited
	6 months ended	6 months ended	Full year ended
	30 June 2008 US\$	30 June 2007 US\$	31 December 2007 US\$
<b>Current income tax</b>			
Current income tax charge	-	-	106,329
<b>Deferred income tax</b>			
Relating to origination and reversal of temporary differences	<b>72,926</b>	72,926	145,940
	<b>72,926</b>	<b>72,926</b>	<b>252,269</b>

### 5. Property, plant and equipment

During the six months ended 30 June 2008, the Group acquired assets with a cost of US\$2,938,228 (2007: US\$231,570).

Following the decision of the Board to sanction the development of the Lineynoye and West Lineynoye oil fields it was necessary to reclassify an amount of US\$6,808,655 from exploration and evaluation assets to property, plant and equipment in accordance with IFRS 6 - *Exploration for and Evaluation of Mineral Resources*. An impairment review of these assets was also carried out and no impairment adjustment was deemed necessary given the net present value of future cash flows expected from the Lineynoye and West Lineynoye oil fields.

### 6. Exploration and evaluation assets

During the six months ended 30 June 2008, the Group spent US\$8,457,836 on exploration and evaluation assets principally relating to the three well drilling program being undertaken in 2008. During the period the Group undertook a pilot production program on two wells. The revenue received from this activity was credited against exploration and evaluation assets as it was deemed to be generated wholly and necessarily as a result of the process of evaluating the commerciality of the oil fields.

# PetroNeft Resources Plc

## Notes to the interim condensed consolidated financial statements for the six months ended 30 June 2008 (continued)

### 7. Share based payment

In February 2008, 2,525,000 share options were granted to management and staff under the Share Option Scheme. The exercise price of the options of STG£0.3615 was equal to the market price of the shares on the date of grant. The options vest in different tranches depending on achievement of year round oil production, length of service of the employee and total shareholder return achieved in the three years ending February 2011 as compared to the constituents of the AIM Oil and Gas index. The fair value of the options granted is estimated at the date of grant using a binomial pricing model, taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted is seven years. The fair value options granted during the six months ended 30 June 2008 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	0%
Expected volatility (%)	60%
Risk-free interest rate (%)	4.4%
Expected life (years)	7

### 8. Events after the balance sheet date

On 18 July 2008 the Company announced the placing of 34,527,141 new Ordinary Shares at STG£0.25 per Ordinary Share, raising gross proceeds of approximately US\$17.3 million. Of these, 19,202,239 were issued on 18 July 2008 while the remainder, 15,324,902 Ordinary Shares were issued on 15 August 2008 following approval of the members at an Extraordinary General Meeting of the Company on 14 August 2008.