

## PetroNeft Resources plc

### Final Results for the Year Ended 31 December 2008

4 June 2009

PetroNeft Resources plc (“PetroNeft” or “the Company”) is pleased to report its preliminary results for the year ended 31 December 2008.

#### Operational Highlights

- 3 wells drilled in 2008
- 16 % increase in 2P reserves to 70 million bbls
- 51% increase in 3P reserves to 529 million bbls
- Board sanction of development of Lineynoye and West Lineynoye oil fields in June 2008
- Production due to commence second half 2010, subject to development financing
- Licence exploration obligations completed

#### Financial Highlights

- Equity placing US\$17.2 million in July 2008
- Capital Expenditure US\$25.5 million
- Discussions with International Banks ongoing regarding development financing
- Reductions in cost of development and funding requirements achieved
- Appointment of Canaccord Adams Limited as joint broker with Davy
- Expanding Institutional shareholder base

**Dennis Francis, CEO of Petroneft commented:**

*“This has been another year of operational success. We have now met all our licence exploration commitments, and our drilling successes have made us certain that, given the necessary project financing, Licence 61 will be a profitable producing asset for a number of years.*

*Outside of Licence 61, we have and remain in contact with a number of parties regarding potential value enhancing transactions. With the stabilisation and positive long term outlook on the oil price, as well as the considerable savings achieved in development costs, we have every reason to look to the future with confidence.”*

## PetroNeft Resources plc

### Final Results for the Year Ended 31 December 2008

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***Forward Looking Statements***

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

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

**PetroNeft Resources Plc**

**Final Results 2008**

# PetroNeft Resources Plc

## Chairman's Statement

Since the formation of PetroNeft in 2005, our primary strategy for building a long term profitable company has been to focus on rapid exploration and early production of oil from Licence 61 in the Tomsk Oblast in Western Siberia. A secondary strategy, as resources allow, is to acquire new assets, both exploration and producing, that will help the Company to grow beyond Licence 61. The worldwide recession and turmoil in the financial and commodities markets in 2008 have slowed, but not stopped, our progress on these strategies. We have built a strong foundation from which to grow as economic conditions improve, based upon sound technical data, a successful and systematic exploration programme, compliance with government requirements, detailed planning for production development and good working relationships with the financial and equity markets.

### Exploration success and further reserve upgrade

Our successful exploration drilling programme on Licence 61 continued in 2008 with the Korchevskaya No.1 discovery at the Kondrashevskoye oil field, the Lineynoye No. 8 delineation well and the discovery of a new but as yet untested Lower Jurassic oil zone in the West Korchevskaya No.1 well. These wells, together with an exciting programme to re-examine and re-interpret the data from the pre-existing exploration wells on Licence 61 to look for by-passed or previously unidentified oil bearing zones have resulted in yet another significant upgrade to PetroNeft's reserves. Our proved and probable (2P) reserves have increased by 16% to 70 million barrels of oil and proved, probable and possible (3P) reserves are now estimated at 529 million barrels of oil, 51% greater than the prior year. The 2008 drilling programme also completely fulfilled our exploration obligations for the full 25 year term of Licence 61, although we will continue to explore in the Licence area for years to come.

Summary of reserves of Licence 61 as per Ryder Scott report dated 31 December 2008:

	Proved	Proved and probable	Proved , probable and possible
	1P	2P	3P
	mmbo	mmbo	mmbo
Lineynoye field	5.69	23.82	28.65
West Lineynoye field	2.71	23.30	29.19
Kondrashevskoye field	.39	8.11	26.10
Tungolskoye field	1.42	14.77	18.91
Total	10.21	70.00	102.85
Upper Jurassic - 24 prospects			207.29
Cretaceous - 10 prospects			156.17
Lower to Middle Jurassic - 11 prospects			63.06
<b>Total</b>	<b>10.21</b>	<b>70.00</b>	<b>529.37</b>

### Oil field development

The successful Lineynoye No. 8 delineation well allowed the Board to sanction the development of the Lineynoye and West Lineynoye fields in June 2008. This would permit the development of 2P reserves of more than 47 million barrels of oil (as estimated by Ryder Scott; the Russian State Reserves Committee estimates about 60 million barrels of oil of comparable C1 + C2 reserves in these fields).

Preparations were nearing completion to mobilise pipeline, drilling and production equipment to begin the development as soon as project financing became available. The funding of the project was delayed in October 2008 by the collapse of the financial markets. The Board is confident that funding will become available later in 2009, however the delay means production will not now commence until 2010 instead of 2009 as previously planned.

# PetroNeft Resources Plc

## Chairman's Statement (*continued*)

We are taking advantage of this delay to seek ways to reduce the cost of the development, both by redesign and by securing some of the lower priced goods and services now available due to a slowing of competing projects and to substantially more favourable rouble/dollar exchange rates. With the cost reductions the project economics should be robust enough to allow development to proceed in the current lower oil price environment, once debt financing becomes available again.

To obtain more reservoir and well performance data from our fields to aid in optimising the project design, we have once again conducted a winter pilot production programme, trucking the oil over winter roads to two small refineries in the Tomsk Oblast. In addition to the Lineynoye No. 6 and No. 7 wells that were produced in early 2008, we have added the original discovery well, Lineynoye No. 1, which was successfully re-entered in 2008 and equipped for production. Lineynoye No. 1 flowed at a stabilised rate of 271 bopd without artificial lift or reservoir stimulation, confirming the original test results from 1972. In addition to gaining valuable well and reservoir performance data, the winter pilot production in early 2009 has paid for all of our operational costs plus a modest profit, while providing additional operating experience for our personnel.

### **Successful equity financing**

PetroNeft successfully raised US\$17.2 million of financing for our development project through a placing in July 2008, prior to most of the market turmoil. The money was raised primarily to satisfy the terms of the mandate with Standard Bank and to enable the purchase of pipe for the pipeline, works associated with field development and general corporate overhead.

### **Board changes**

In April 2008 Paul Dowling, Chief Financial Officer, joined the Board. Paul joined PetroNeft in October 2007 and has already made a significant contribution to the development of the Group. Paul is a Fellow of the Association of Chartered Certified Accountants and a member of the Irish Taxation Institute and has many years experience in corporate finance and financial reporting.

In March 2009 Executive Director Des Burke retired from the Board. Des was a founding Director of PetroNeft and established many of the key relationships with advisers and early investors in the Company as well as being closely involved in the Company's IPO and listing on the AIM and IEX markets in 2006. I would like to note both the Board's and my own personal appreciation of the contribution to PetroNeft made by Des over the past number of years.

### **Cost cutting in 2009**

In January 2009, as part of a review of costs, the current Executive Directors, Dennis Francis, Paul Dowling and David Sanders, as well as all staff in the Group agreed to a voluntary 10% pay cut effective immediately. The Executive Directors also elected to receive some of their remuneration for 2008 by way of shares. These shares will be issued once the close period for the 2008 accounts has passed at the higher of the market price at date of issue or the IPO price of the shares of £0.198. The Board has also agreed to allow Directors elect to have their Directors fees paid in shares. Where this option is exercised by a Director it is binding for a minimum of 12 months. The Group is also working to reduce all other overhead costs.

### **Future funding of PetroNeft**

In order to achieve first production in 2010 the pipeline must be laid in the first quarter of 2010 and drilling of production wells commenced in the first half of 2010. This requires finance to be in place so that contracts can be completed, advance payments made and materials purchased in time for the key winter months when the materials required for the 2010 drilling programme can be moved into place in the most efficient manner.

# PetroNeft Resources Plc

## Chairman's Statement *(continued)*

The Group have prepared budgets and forecasts until 31 December 2010 and, based on this, the current development funding requirement is US\$40 million (including estimated fees and interest costs of US\$5 million). This is significantly lower than the previous requirement of approximately US\$65 million which existed at peak oil prices in mid 2008. The reduction in the funding requirement is due to the weakening of the rouble as compared to the dollar and a softening of rouble prices for oilfield services and equipment across the Tomsk region. Work is also ongoing to optimise the development so as to:

- reduce or modify field facilities where possible;
- delay expenditures where possible;
- reduce costs by utilising existing facilities at the pipeline tie-in point.

Once this optimisation work is complete it is hoped that the final funding requirement will be lower than US\$40 million.

Based on the above the Board have approved a development plan and discussions are ongoing with selected banks, including Standard Bank, in relation to funding. Considering progress to date the Board is confident that it can fund the project wholly or substantially with debt finance. However, should sufficient funding not be available by the fourth quarter of 2009 it is likely that the project would have to be delayed by at least 12 months as the winter season is the only time when the pipeline can be laid. If this was the case then PetroNeft would require US\$3 million to fund its base operations through to 31 December 2010 without any further cost cutting measures. The Board and its advisers believe that this funding could be raised through either the placement of new ordinary shares and/or the sale of some of the stock of pipe that is currently in storage.

In addition to the measures discussed above, the Group is in discussions with potential strategic investors to invest in Licence 61. Such an investment would provide funding for the development project as part of any agreement to invest. The Group is also examining a number of acquisition opportunities for producing assets that would bring both immediate and ongoing positive operational cash flows.

Given the above circumstances the audit report to the financial statements for the year ended 31 December 2008 contains an emphasis of matter paragraph in relation to going concern, however, the opinion is not qualified in any regard.

### **Key Financial Metrics**

	<b>2008</b>	<b>2007</b>
	<b>US\$</b>	<b>US\$</b>
Overheads	<b>2,871,339</b>	2,467,459
Share-based payments expense	<b>727,164</b>	958,468
Foreign exchange loss/(gain) on intra group loans	<b>3,010,932</b>	(386,239)
Other foreign exchange loss/(gain)	<b>1,225,010</b>	(439,127)
Administrative expenses	<b>7,834,445</b>	2,600,561
Exceptional item - write off of survey costs for previous pipeline route	-	815,827
Loss for the year attributable to equity holders of the parent	<b>7,911,968</b>	3,203,262
Capital expenditure in the year	<b>25,475,299</b>	18,043,960
Net proceeds of equity share issues	<b>17,516,291</b>	14,686,870
Bank and cash balance at year-end	<b>2,168,197</b>	8,304,295

# PetroNeft Resources Plc

## Chairman's Statement (*continued*)

### Net Loss

The net loss for the year increased to US\$7,911,968 from US\$3,203,262 in 2007. The main reason for the increase in losses relates to a foreign exchange loss of US\$3,010,932 on US Dollar denominated loans from PetroNeft to its wholly owned subsidiary, LLC Stimul-T whose functional currency is the Russian Rouble. This loss arises due to the weakening of the Russian Rouble against the US Dollar in the last six months of the year. Once LLC Stimul-T is earning income from oil sales some of this income will be in US dollars and LLC Stimul-T will therefore be capable of repaying its US Dollar denominated debt out of US Dollar income.

Overheads increased by 16% to US\$2,871,339 which primarily reflects some additional staff costs as we move towards development of oil fields.

### Capital Investment

Three wells were drilled during 2008 at a cost of approximately US\$10 million. This work programme enabled the sanctioning of the development of the Lineynoye and West Lineynoye oil fields by virtue of the successful Lineynoye No. 8 development well. It also added 8.1 mmbo to our 2P reserves with the discovery of the Kodrashevskoye oil field which is likely to have reserves of up to 20 million barrels once a delineation well can prove the oil water contact of the field. The Russian State Reserves Committee have approved C1+C2 reserves of 19 mmbo in respect of Kondrashevskoye.

### Oil and gas properties

Once the Board sanctioned the development of the Lineynoye and West Lineynoye oil fields, expenditure incurred to date relating to these oil fields was transferred from exploration and evaluation assets to oil and gas properties in accordance with IFRS 6, *Exploration for and Evaluation of Mineral Resources*. Total expenditure amounted to US\$11,202,901 and it was necessary to carry out an impairment review in accordance with IAS 36, *Impairment of Assets*. This review did not result in any impairment to the carrying value of these assets. Expenditure during 2008 in respect of oil and gas properties totalled US\$16,767,510 including US\$9,542,923 in respect of 65 km of pipe.

### Russian VAT

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 costs in non-current assets as the Group was uncertain whether this amount would be recoverable. This matter was resolved during the year and refunds were received for all periods up to 30 June 2008 before the year-end. In March 2009 the refund for the quarter ending 30 September 2008 was received and we now expect to receive future refunds on a timely basis. The Board would like to acknowledge the efforts of our in house finance and legal team in Tomsk for their diligence and perseverance in this matter.

### Planning for the future

While the main objective of the Group remains the development of the northern oil fields on Licence 61, we have not lost sight of our other main objective of securing assets outside of Licence 61 to provide growth for the future. The financial downturn has provided numerous opportunities for new asset acquisitions, both exploration and producing, and we have been actively evaluating and prioritising opportunities to pursue at the appropriate time. In addition we have continuously sought ways to manage our current assets and programmes as cost effectively as possible, to provide the strongest possible base from which to eventually secure and manage a broader portfolio of assets.

The Group has a solid asset base. It is well positioned, having met all of its licence obligations, is debt free and has sufficient cash reserves for 2009. It is also working to increase and diversify its asset base, through a variety of opportunities that are arising, related to the business downturn. The oil and gas industry, just like the financial markets, is cyclical in nature and it is expected that pricing will improve from current levels. PetroNeft has a highly experienced management team and the size of the organisation allows us to be flexible and responsive to changing times in order to take advantage of the opportunities that current circumstances bring.

# PetroNeft Resources Plc

## Chairman's Statement (*continued*)

I am confident that the Group's staff and management will meet the array of challenges we are facing and move forward in 2009 and beyond on both of our strategic focus areas, developing Licence 61 and providing growth for the Group.

### Annual report and AGM

The annual report will be published on the Company's website and posted to shareholders in June 2009. The annual general meeting will be held in Dublin on 14 September 2009.

Finally, I know that I speak for all the management and staff of the Company 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 2008

	<i>Note</i>	<b>2008</b> US\$	<b>2007</b> US\$
Revenue		-	-
Administrative expenses - normal		<b>(4,823,513)</b>	(2,986,800)
Administrative expenses - exceptional		-	(815,827)
Exchange (loss)/gain on intra group loans		<b>(3,010,932)</b>	386,239
<b>Group operating loss</b>		<b>(7,834,445)</b>	(3,416,388)
Finance revenue		<b>128,487</b>	465,395
Loss for the year for continuing operations before taxation		<b>(7,705,958)</b>	(2,950,993)
Income tax expense		<b>(206,010)</b>	(252,269)
<b>Loss for the year attributable to equity holders of the parent</b>		<b>(7,911,968)</b>	(3,203,262)
<b>Loss per ordinary share attributable to ordinary equity holders of the parent:</b>			
Basic and diluted - <i>US dollar cent</i>	<b>3</b>	<b>(3.81)</b>	(1.74)

# PetroNeft Resources Plc

## Consolidated Balance Sheet

as at 31 December 2008

	<i>Note</i>	2008 US\$	2007 US\$
<b>Assets</b>			
<b>Non-current Assets</b>			
Oil and gas properties	4	23,769,980	-
Property, plant and equipment	5	1,867,397	1,591,324
Exploration and evaluation assets	6	18,684,771	29,415,286
Leasehold land payments		181,009	186,110
		<u>44,503,157</u>	<u>31,192,720</u>
<b>Current Assets</b>			
Trade and other receivables		3,067,736	3,542,741
Cash and cash equivalents		2,168,197	8,304,295
		<u>5,235,933</u>	<u>11,847,036</u>
<b>Total Assets</b>		<u><u>49,739,090</u></u>	<u><u>43,039,756</u></u>
<b>Equity and Liabilities</b>			
<b>Capital and Reserves</b>			
Called up share capital		2,919,041	2,343,864
Share premium account		57,193,950	40,252,836
Share-based payment reserve		1,904,829	1,177,665
Retained loss		(12,280,851)	(4,368,883)
Currency translation reserve		(5,024,070)	1,466,092
Other reserves		336,000	336,000
<b>Equity attributable to equity holders of the parent</b>		<u>45,048,899</u>	<u>41,207,574</u>
<b>Non-current Liabilities</b>			
Provisions		254,646	131,243
Deferred tax liability		546,984	372,708
		<u>801,630</u>	<u>503,951</u>
<b>Current Liabilities</b>			
Trade and other payables		3,888,561	851,147
Provisions		-	477,084
		<u>3,888,561</u>	<u>1,328,231</u>
<b>Total Liabilities</b>		4,690,191	1,832,182
<b>Total Equity and Liabilities</b>		<u><u>49,739,090</u></u>	<u><u>43,039,756</u></u>

# PetroNeft Resources Plc

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Share Capital US\$	Share Premium US\$	Other reserves US\$	Translation reserve US\$	Retained Losses US\$	Total US\$
At 1 January 2007	2,132,436	25,777,394	555,197	269,861	(1,165,621)	27,569,267
Loss for the year	-	-	-	-	(3,203,262)	(3,203,262)
Currency translation adjustments	-	-	-	1,196,231	-	1,196,231
<b>Total recognised income and expense</b>	-	-	-	1,196,231	(3,203,262)	(2,007,031)
New share capital subscribed	209,493	15,216,010	-	-	-	15,425,503
Transaction costs on issue of share capital	-	(795,720)	-	-	-	(795,720)
Share options exercised	1,935	55,152	-	-	-	57,087
Share-based payment expense	-	-	958,468	-	-	958,468
<b>At 31 December 2007</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>
<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 year	-	-	-	-	(7,911,968)	(7,911,968)
Currency translation adjustments	-	-	-	(6,490,162)	-	(6,490,162)
<b>Total recognised income and expense</b>	-	-	-	<b>(6,490,162)</b>	<b>(7,911,968)</b>	<b>(14,402,130)</b>
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
<b>At 31 December 2008</b>	<b>2,919,041</b>	<b>57,193,950</b>	<b>2,240,829</b>	<b>(5,024,070)</b>	<b>(12,280,851)</b>	<b>45,048,899</b>

# PetroNeft Resources Plc

## Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 US\$	2007 US\$
Loss before taxation	(7,705,958)	(2,950,993)
<b>Adjustment to reconcile loss before tax to net cash flows</b>		
<b>Non-cash</b>		
Depreciation and amortisation	238,013	42,527
Share-based payment expense	727,164	958,468
Unwinding of fair value discount on decommissioning	17,062	-
Deduct finance revenue	(128,487)	(465,395)
<b>Working capital adjustments</b>		
Decrease in trade receivables	475,005	85,912
Increase in trade payables	2,918,821	632,064
Income tax paid	(25,387)	(106,329)
<b>Net cash flows from operating activities</b>	<b>(3,483,767)</b>	<b>(1,803,746)</b>
<b>Investing activities</b>		
Purchase of oil and gas properties	(15,047,118)	-
Purchase of property, plant and equipment	(1,008,545)	(1,223,125)
Exploration and evaluation payments	(6,744,993)	(16,634,725)
VAT refund	3,311,690	-
Acquisition of subsidiary undertaking	-	(186,110)
Finance revenue	128,487	465,395
<b>Net cash used in investing activities</b>	<b>(19,360,479)</b>	<b>(17,578,565)</b>
<b>Financing activities</b>		
Proceeds from exercise of share options	30,015	57,087
Proceeds from exercise of warrant	1,000,000	-
Proceeds from issue of share capital	17,152,320	15,425,503
Transaction costs of issue of shares	(666,044)	(795,720)
<b>Net cash received from financing activities</b>	<b>17,516,291</b>	<b>14,686,870</b>
Net decrease in cash and cash equivalents	(5,327,955)	(4,695,441)
Translation adjustment	(808,143)	127,420
Cash and cash equivalents at the beginning of the year	8,304,295	12,872,316
<b>Cash and cash equivalents at the end of the year</b>	<b>2,168,197</b>	<b>8,304,295</b>

# PetroNeft Resources Plc

## Notes to the Preliminary Financial Statements

*for the year ended 31 December 2008*

### 1. Basis of Accounting and Presentation of Financial Information

While the financial information included in this preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRS), 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 2009.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2008 or 2007, but is derived from those accounts. Statutory accounts for 2007 have been delivered to the Registrar of Companies and those for 2008 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified, but did draw attention to going concern issues as described in note 2 below by way of emphasis of matter.

The accounting policies applied are consistent with those adopted and disclosed in the Group's annual financial statements for the year ended 31 December 2007.

### 2. Going Concern

As described in more detail in the Chairman's Statement above, the Board has approved a plan to raise the funds required in order to bring sanctioned fields to commercial production and further develop the business. The Group have prepared budgets and forecasts until 31 December 2010 and, based on this, the current development funding requirement is US\$40 million (including estimated fees and interest costs of US\$5 million). The Group is in discussions with selected International Banks, Corporate Finance advisors and potential strategic investors in this regard. Should debt funding or a strategic investment agreement not be available within the required timescale an amount of US\$3 million will be required to enable the Group to fund its base operations for a further 12 months. The options to fund this base requirement include the disposal of some of the 65km of pipe currently held in storage or the raising of funds through a new equity issue. In the event of the sale of the pipe it may not realise its carrying value. The Directors are of the opinion that these alternatives are reasonably practicable should debt funding not be secured.

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

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

# PetroNeft Resources Plc

## Notes to the Preliminary Financial Statements

for the year ended 31 December 2008

### 3. 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.

	<b>2008</b>	<b>2007</b>
	<b>US\$</b>	<b>US\$</b>
<b>Numerator</b>		
Net loss attributable to equity shareholders of the parent for basic and diluted loss	<b>(7,911,968)</b>	(3,203,262)
	<u><b>(7,911,968)</b></u>	<u>(3,203,262)</u>
<b>Denominator</b>		
Weighted average number of ordinary shares for basic and diluted earnings per ordinary share	<b>207,499,468</b>	183,670,598
	<u><b>207,499,468</b></u>	<u>183,670,598</u>
<b>Basic and diluted loss per ordinary share - US dollar cent</b>	<b>(3.81)</b>	(1.74)

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 – 10,072,000 outstanding options as at 31 December 2008 (2007: 7,963,000) that could potentially dilute basic earnings per share in the future. These potential Ordinary Shares are anti-dilutive for the years ended 31 December 2008 and 2007.
- At 31 December 2007, 2,673,498 shares were subject to a warrant which was exercised in June 2008.

# PetroNeft Resources Plc

## Notes to the Preliminary Financial Statements

for the year ended 31 December 2008

### 4. Oil and gas properties

	<b>Oil and gas properties US\$</b>
<b>Cost</b>	
<b>At 1 January 2008</b>	-
<b>Additions</b>	16,767,510
<b>Transfer from exploration and evaluation assets</b>	11,202,901
<b>Transfer from property, plant and equipment</b>	281,243
<b>Translation adjustment</b>	(4,481,674)
<b>At 31 December 2008</b>	<u><u>23,769,980</u></u>

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.

In June 2008, following successful testing of the Lineynoye No. 8 delineation well, the Board of PetroNeft Resources plc sanctioned the development of the Lineynoye and West Lineynoye oil fields. The No. 8 well was required in order to confirm that the fields were commercially viable.

Exploration and evaluation costs of US\$11,202,901 were identified and this amount was transferred to oil and gas properties including an allocation of US\$1,983,440 of the initial cost of acquiring the Licence area. Further expenditure of US\$16,767,510 was incurred in 2008 relating to these fields including US\$9,542,923 on 65 km of pipe required for construction of a pipeline from Lineynoye to Lukpayskaya. The net costs of the pilot production project in early 2008 were allocated to oil and gas properties.

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 annual report on the Group's reserves as at 31 December 2008. 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.

# PetroNeft Resources Plc

## Notes to the Preliminary Financial Statements

for the year ended 31 December 2008

### 4. Oil and gas properties (continued)

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 31%. 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.

### 5. Property, Plant and Equipment

Group	Land and buildings US\$	Plant and machinery US\$	Motor vehicles US\$	Total US\$
<b>Cost</b>				
At 1 January 2007	261,883	24,694	50,467	337,044
Additions	87,249	1,116,377	19,499	1,223,125
Translation adjustment	23,342	49,945	4,597	77,884
<b>At 1 January 2008</b>	<b>372,474</b>	<b>1,191,016</b>	<b>74,563</b>	<b>1,638,053</b>
<b>Additions</b>	<b>-</b>	<b>1,157,574</b>	<b>-</b>	<b>1,157,574</b>
<b>Transfer to oil and gas properties</b>	<b>-</b>	<b>(281,243)</b>	<b>-</b>	<b>(281,243)</b>
<b>Translation adjustment</b>	<b>(61,669)</b>	<b>(335,799)</b>	<b>(12,561)</b>	<b>(410,029)</b>
<b>At 31 December 2008</b>	<b>310,805</b>	<b>1,731,548</b>	<b>62,002</b>	<b>2,104,355</b>
<b>Depreciation</b>				
At 1 January 2007	941	1,395	-	2,336
Charge for the period	969	30,596	10,962	42,527
Translation adjustment	113	1,275	478	1,866
<b>At 1 January 2008</b>	<b>2,023</b>	<b>33,266</b>	<b>11,440</b>	<b>46,729</b>
<b>Charge for the year</b>	<b>19,036</b>	<b>199,582</b>	<b>15,211</b>	<b>233,829</b>
<b>Translation adjustment</b>	<b>(3,315)</b>	<b>(35,980)</b>	<b>(4,305)</b>	<b>(43,600)</b>
<b>At 31 December 2008</b>	<b>17,744</b>	<b>196,868</b>	<b>22,346</b>	<b>236,958</b>
<b>Net book values</b>				
<b>At 31 December 2008</b>	<b>293,061</b>	<b>1,534,680</b>	<b>39,656</b>	<b>1,867,397</b>
At 31 December 2007	370,451	1,157,750	63,123	1,591,324
At 31 December 2006	260,942	23,299	50,467	334,708



# PetroNeft Resources Plc

## Notes to the Preliminary Financial Statements

for the year ended 31 December 2008

### 6. Exploration and evaluation assets

<b>Group</b>	<b>Exploration &amp; evaluation expenditure US\$</b>
<b>Cost</b>	
At 1 January 2007	11,139,043
Additions	16,765,968
Translation adjustment	1,510,275
<b>At 1 January 2008</b>	<b>29,415,286</b>
<b>Additions</b>	<b>7,550,215</b>
<b>Transfer to oil and gas properties</b>	<b>(11,202,901)</b>
<b>Russian VAT refund transferred to current assets</b>	<b>(3,311,690)</b>
<b>Translation adjustment</b>	<b>(3,766,139)</b>
<b>At 31 December 2008</b>	<b>18,684,771</b>
<b>Net book values</b>	
<b>At 31 December 2008</b>	<b>18,684,771</b>
At 31 December 2007	29,415,286
At 31 December 2006	11,139,043

Exploration and evaluation expenditure represents 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 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 the year and the subsidiaries started receiving Russian VAT refunds in April 2008. All Russian VAT refunds due are now accounted for in current assets.

### 7. Approval of preliminary financial statements

The preliminary financial statements were approved, and authorised for issue, by the Board of Directors on 3 June 2009.