

PetroNeft Resources Plc

**Unaudited interim condensed
consolidated financial statements**

For the 6 months ended 30 June 2014



PetroNeft Resources plc

Unaudited interim condensed consolidated financial statements

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Forward Looking Statements

This report contains forward-looking statements. These statements relate to the Group'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 report are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements. These forward-looking statements speak only as at the date of these financial statements.

PetroNeft Resources plc

Group Information

Directors ¹

David Golder (U.S. citizen)
(Non-Executive Chairman)
Dennis Francis (U.S. citizen)
(Chief Executive Officer)
Paul Dowling
(Chief Financial Officer)
David Sanders (U.S. citizen)
(General Legal Counsel)
Gerard Fagan
(Non-Executive Director)
Thomas Hickey
(Non-Executive Director)
Vakha Sobraliev (Russian citizen)
(Non-Executive Director)

Registered Office and Business Address

20 Holles Street
Dublin 2
Ireland

Secretary

David Sanders

Auditor

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

Nominated and ESM Adviser

Davy
49 Dawson Street
Dublin 2
Ireland

¹ Irish citizens unless otherwise stated



PetroNeft Resources plc

Group Information (*continued*)

Joint Brokers

Davy
49 Dawson Street
Dublin 2
Ireland

Canaccord Genuity
88 Wood Street
London
EC2V 7QR
United Kingdom

Principal Bankers

KBC Bank Ireland
Sandwith Street
Dublin 2
Ireland

AIB Bank
1 Lower Baggot Street
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Solicitors

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Dublin 18
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PetroNeft Resources plc

Chairman's Statement

Dear Shareholder,

I am pleased to report on the activities of the Group for the six months to 30 June 2014 and provide an update on recent progress.

Production and Sales

Production in the six months to 30 June 2014 averaged 2,163 bopd, a 12% decrease compared to the same period in 2013 (2,464 bopd) The decrease was as a result of natural decline and the fact that no new production wells have been drilled since February 2013. We sold 391,379 barrels of oil in the six months to 30 June 2014 (H1 2013: 438,350 bbls) and achieved an average oil price of \$44.79 (H1 2013: \$42.48).

Licence 61 Farmout

On 17 April 2014 the Company signed a binding contract with Oil India Limited (OIL) to farmout a 50% non-operated interest in Licence 61. Following shareholder approval in May 2014 and the granting of Russian Regulatory Approval on 30 June 2014 the transaction was completed on 3 July 2014. All debt due to Macquarie and Arawak was subsequently repaid from the initial proceeds of US\$35 million and the Company is now debt-free.

Under the terms of the Licence 61 Farmout, OIL acquired a 50% non-operated interest in Licence 61 in return for a total Investment of up to US\$ 85 million consisting of:

- US\$35 million upfront cash payment, enabling PetroNeft to repay in full its debt due to Macquarie and Arawak,
- US\$45 million of committed exploration and development expenditure on Licence 61 and
- US\$5 million performance bonus, contingent upon average production from the Sibkrayevskoye Field reaching 7,500 bopd within the next 5 years.

Since completion in July 2014, the Joint Venture Working Group made up of OIL and PetroNeft has been formally established and the major work programme and budget items for 2014 and 2015 agreed. Under the terms of the Licence 61 Farmout Agreement, OIL will fund the following work programme from the US\$45 million of committed exploration and development expenditures on Licence 61.

Tungolskoye No. 5 delineation well

This well, the first horizontal well to be drilled on Licence 61, was spudded at the end of August 2014. The well will include a vertical pilot hole followed by a horizontal segment in the reservoir. It is planned to core, test and log the J-1 reservoir in the vertical hole before drilling and testing the horizontal section. The data obtained will be used to finalise the pilot development plan to develop the field and tie-back to the Lineynoye processing facilities. The pilot hole is currently drilling ahead at a depth of 2,500 m. The entire well will take an estimated 60 days to drill and complete. Assuming a successful result, additional horizontal and vertical wells will be drilled at Tungolskoye during 2015 and a pipeline will be constructed to the Lineynoye Central Processing Facility.

Arbuzovskoye development wells

A minimum of three additional development wells will be drilled at Arbuzovskoye Pad 1. A second drilling crew has been mobilised to the field to drill these wells and drilling of the Arbuzovskoye 106 well in the north eastern area of the field has commenced.

Sibkrayevskoye

The Sibkrayevskoye No. 373 delineation well will be drilled following completion of the Tungolskoye No. 5 well. Data from this well along with new seismic data will allow for the development of Sibkrayevskoye starting in 2016. The drilling rig for this well is on location and assembly will commence in October in preparation for drilling which is expected to commence early in 2015.

PetroNeft Resources plc

Chairman's Statement (continued)

Licence 61 Seismic

Acquisition of 1,000 line kms of high resolution 2D seismic data has been approved. This programme is designed to detail the Sibkrayevskoye oil field and large Emtorskaya High where potential by-passed oil has been identified in two wells drilled in the 1970's. It will also further detail three significant leads in the Northern portion of the Licence area. The seismic crew has already mobilised to the field for surveying and line clearing operations. The data acquisition will occur primarily in Q1 2015 with results due in late summer 2015.

Equity raise

In March 2014 the Company undertook a share issue raising approximately US\$5 million net of costs through the issue of 62,325,631 new shares. This enabled PetroNeft to purchase the materials and supplies necessary for the 2014 work programme which were mobilised to the field while winter roads were still in place.

Licence 67

In the first half of 2014 we undertook a 3D seismic programme at Licence 67 to acquire 163 km² of high quality 3D seismic data at the Ledovoye and Cheremshanskoye oil fields on Licence 67. The data is currently being processed and interpreted and we expect to have the final data package by the end of 2014. This will guide our future plans for Licence 67.

Financial results for the period

The net loss after tax for the period was US\$2,728,794 (H1 2013: US\$10,593,368). The loss includes a foreign exchange loss of US\$2,060,685 (H1 2013: US\$6,376,921) on loans denominated in US Dollars and Russian Roubles from PetroNeft to its Russian subsidiaries Stimul-T and Granite Construction whose functional currency is the Russian Rouble. In accordance with IFRS 5, there was no depreciation charge in the period relating to assets held for sale leading to a reduction of US\$2,652,966 in the total depreciation charge as compared to the same period in 2013.

Financial Highlights

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2014 US\$	6 months ended 30 June 2013 US\$	Year ended 31 December 2013 US\$
Revenue	17,527,910	18,624,293	38,687,123
Cost of sales	(13,383,948)	(16,683,461)	(33,551,965)
Gross profit	4,143,962	1,940,832	5,135,158
Gross margin	24%	10%	13%
Administrative expenses			
Overheads	(3,188,146)	(3,386,091)	(6,587,732)
Share-based payment credit/(expense)	11,861	(247,549)	(418,775)
Other foreign exchange loss	54,067	217,634	166,537
	(3,122,218)	(3,416,006)	(6,839,970)
Foreign exchange loss on intra-Group loans	(2,060,685)	(6,376,921)	(6,189,735)
Finance costs	(1,575,918)	(1,751,751)	(3,437,088)
Loss for the period before taxation	(2,709,230)	(9,721,822)	(11,495,885)
Income tax (expense) / credit	(19,564)	(871,546)	2,337,159
Loss for the period attributable to equity holders of the Parent	(2,728,794)	(10,593,368)	(9,158,726)
Capital expenditure in the period	3,002,029	3,137,110	5,263,823
Net proceeds of equity share issues	5,018,194	-	-
Bank and cash balance at period end (including restricted cash)	4,082,923	4,130,720	2,171,778
Total debt at period end (undiscounted)	28,900,000	33,900,000	30,000,000

PetroNeft Resources plc

Chairman's Statement *(continued)*

Conclusion

The first half of 2014 was a turning point for the Company as we agreed the farmout with Oil India Limited allowing us to clear all our debts and to re-start the development of Licence 61. Since then we have agreed a work programme on Licence 61 with our new partner and recommenced drilling. I look forward to updating shareholders on our progress in the near future.

David Golder
Non-Executive Chairman

25 September 2014

PetroNeft Resources plc

Interim Consolidated Income Statement

For the 6 months ended 30 June 2014

	Note	Unaudited		Audited
		6 months ended 30 June 2014 US\$	6 months ended 30 June 2013 US\$	Year ended 31 December 2013 US\$
<i>Continuing operations</i>				
Revenue		17,527,910	18,624,293	38,687,123
Cost of sales		(13,383,948)	(16,683,461)	(33,551,965)
Gross profit		4,143,962	1,940,832	5,135,158
Administrative expenses		(3,122,218)	(3,416,006)	(6,839,970)
Exchange loss on intra-Group loans		(2,060,685)	(6,376,921)	(6,189,735)
Operating loss		(1,038,941)	(7,852,095)	(7,894,547)
Share of joint venture's net loss	11	(121,442)	(127,267)	(235,060)
Finance revenue		27,071	9,291	70,810
Finance costs	5	(1,575,918)	(1,751,751)	(3,437,088)
Loss for the period for continuing operations before taxation		(2,709,230)	(9,721,822)	(11,495,885)
Income tax (expense)/credit	6	(19,564)	(871,546)	2,337,159
Loss for the period attributable to equity holders of the Parent		(2,728,794)	(10,593,368)	(9,158,726)
Loss per share attributable to ordinary equity holders of the Parent				
Basic and diluted - US dollar cent		(0.39)	(1.64)	(1.42)

Interim Consolidated Statement of Comprehensive Income

For the 6 months ended 30 June 2014

	Unaudited		Audited
	6 months ended 30 June 2014 US\$	6 months ended 30 June 2013 US\$	Year ended 31 December 2013 US\$
Loss for the period attributable to equity holders of the Parent	(2,728,794)	(10,593,368)	(9,158,726)
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Currency translation adjustments - subsidiaries	(1,151,236)	(3,141,622)	(3,293,001)
Currency translation adjustments - joint venture	(94,778)	(253,592)	(252,238)
Total comprehensive loss for the period attributable to equity holders of the Parent	(3,974,808)	(13,988,852)	(12,703,965)

PetroNeft Resources plc

Interim Consolidated Balance Sheet

As at 30 June 2014

	Note	Unaudited		Audited
		30 June 2014 US\$	30 June 2013 US\$	31 December 2013 US\$
Assets				
Non-current Assets				
Oil and gas properties	8	-	97,483,831	-
Property, plant and equipment	9	374,149	1,464,430	467,060
Exploration and evaluation assets	10	-	26,282,372	-
Equity-accounted investment in joint venture	11	3,115,624	3,438,283	3,331,844
		3,489,773	128,668,916	3,798,904
Current Assets				
Inventories	12	27,480	1,811,156	30,523
Trade and other receivables	13	799,048	978,403	790,864
Cash and cash equivalents	14	82,923	130,720	116,831
Restricted cash	14	4,000,000	4,000,000	2,054,947
		4,909,451	6,920,279	2,993,165
Assets held for sale	7	125,037,050	-	125,766,570
		129,946,501	6,920,279	128,759,735
Total Assets		133,436,274	135,589,195	132,558,639
Equity and Liabilities				
Capital and Reserves				
Called up share capital	17	9,429,182	8,561,499	8,561,499
Share premium account		140,912,898	136,762,387	136,762,387
Share-based payments reserve		6,672,959	6,513,594	6,684,820
Retained loss		(60,244,816)	(58,950,664)	(57,516,022)
Currency translation reserve		(260,103)	(8,619,657)	(177,021)
Other reserves		336,000	336,000	336,000
Amounts recognised in other comprehensive income and accumulated in equity relating to assets held for sale	7	(9,755,593)	-	(8,592,661)
Equity attributable to equity holders of the Parent		87,090,527	84,603,159	86,059,002
Non-current Liabilities				
Provisions		-	1,644,170	-
Interest-bearing loans and borrowings	16	-	14,682,383	-
Deferred tax liability		125,230	5,740,566	106,674
		125,230	22,067,119	106,674
Current Liabilities				
Trade and other payables	15	2,588,413	10,102,313	1,806,732
Interest-bearing loans and borrowings	16	28,900,000	18,816,604	30,000,000
		31,488,413	28,918,917	31,806,732
Liabilities directly associated with assets held for sale	7	14,732,104	-	14,586,231
		46,220,517	28,918,917	46,392,963
Total Liabilities		46,345,747	50,986,036	46,499,637
Total Equity and Liabilities		133,436,274	135,589,195	132,558,639

PetroNeft Resources plc

Interim Consolidated Statement of Changes in Equity

For the 6 months ended 30 June 2014

	Called up share capital US\$	Share premium account US\$	Share-based payment and other reserves US\$	Currency translation reserve US\$	Currency translation reserve relating to assets held for sale US\$	Retained loss US\$	Total US\$
At 1 January 2013	8,561,499	136,762,387	6,602,045	(5,224,443)	-	(48,357,296)	98,344,192
Loss for the year	-	-	-	-	-	(9,158,726)	(9,158,726)
Currency translation adjustments - subsidiaries	-	-	-	(3,293,001)	-	-	(3,293,001)
Currency translation adjustments - joint venture	-	-	-	(252,238)	-	-	(252,238)
Total comprehensive loss for the year	-	-	-	(3,545,239)	-	(9,158,726)	(12,703,965)
Transfer in relation to assets held for sale	-	-	-	8,592,661	(8,592,661)	-	-
Share based payment expense	-	-	418,775	-	-	-	418,775
At 31 December 2013	8,561,499	136,762,387	7,020,820	(177,021)	(8,592,661)	(57,516,022)	86,059,002
At 1 January 2014	8,561,499	136,762,387	7,020,820	(177,021)	(8,592,661)	(57,516,022)	86,059,002
Loss for the period	-	-	-	-	-	(2,728,794)	(2,728,794)
Share-based payment credit	-	-	(11,861)	-	-	-	(11,861)
Currency translation adjustments - subsidiaries	-	-	-	11,696	(1,162,932)	-	(1,151,236)
Currency translation adjustments - joint venture	-	-	-	(94,778)	-	-	(94,778)
Total comprehensive loss for the period	-	-	(11,861)	(83,082)	(1,162,932)	(2,728,794)	(3,986,669)
New share capital subscribed	867,683	4,308,865	-	-	-	-	5,176,548
Transaction costs on issue of share capital	-	(158,354)	-	-	-	-	(158,354)
At 30 June 2014	9,429,182	140,912,898	7,008,959	(260,103)	(9,755,593)	(60,244,816)	87,090,527

PetroNeft Resources Plc

Consolidated Cash Flow Statement

For the 6 months ended 30 June 2014

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2014 US\$	6 months ended 30 June 2013 US\$	Year ended 31 December 2013 US\$
Operating activities			
Loss before taxation	(2,709,230)	(9,721,822)	(11,495,885)
Adjustment to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation	77,076	2,730,042	5,632,077
Share of loss in joint venture	121,442	127,267	235,060
Share-based payment (credit)/expense	(11,861)	247,549	418,775
Finance revenue	(27,071)	(9,291)	(70,810)
Finance costs	5 1,575,918	1,751,751	3,437,088
Working capital adjustments			
(Increase)/decrease in trade and other receivables	(64,690)	241,470	189,890
Decrease in inventories	70,347	186,463	661,568
Increase in trade and other payables	1,093,363	7,589,764	9,703,801
Income tax received	-	-	167,592
Net cash flows received from operating activities	125,294	3,143,193	8,879,156
Investing activities			
Purchase of oil and gas properties	5,406	(2,670,631)	(4,789,662)
Advance payments to contractors	(36,434)	(19,000)	(76,594)
Purchase of property, plant and equipment	31,452	(90,317)	(83,286)
Proceeds from disposal of property, plant and equipment	-	32,275	12,268
Exploration and evaluation payments	(1,189,207)	(171,908)	(326,918)
Decrease in restricted cash	(1,945,053)	-	1,945,053
Interest received	7,770	9,291	32,819
Net cash used in investing activities	(3,126,066)	(2,910,290)	(3,286,320)
Financing activities			
Proceeds from issue of share capital	5,176,548	-	-
Transaction costs of issue of shares	(158,354)	-	-
Proceeds from loan facilities	1,500,000	-	-
Transaction costs on loans and borrowings	(100,000)	-	-
Repayment of loan facilities	(2,600,000)	(2,600,000)	(6,500,000)
Interest paid	(1,016,384)	(1,436,185)	(2,709,529)
Net cash received/(paid) from/(to) financing activities	2,801,810	(4,036,185)	(9,209,529)
Net decrease in cash and cash equivalents	(198,961)	(3,803,282)	(3,616,693)
Translation adjustment	(11,804)	(5,420)	(14,607)
Cash and Cash Equivalents held for sale	(14,434)	-	(191,291)
Cash and cash equivalents at the beginning of the period	308,122	3,939,422	3,939,422
Cash and cash equivalents at the end of the period	14 82,923	130,720	116,831

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2014

1. Corporate information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2014 were authorised for issue in accordance with a resolution of the Directors on 25 September 2014.

PetroNeft Resources plc ('the Company', or together with its subsidiaries, 'the Group') is a Company incorporated in Ireland. The Company is listed on the Alternative Investment Market ('AIM') of the London Stock Exchange and the Enterprise Securities Market ('ESM') of the Irish Stock Exchange. The address of the registered office and the business address in Ireland is 20 Holles Street, Dublin 2. The Company is domiciled in the Republic of Ireland.

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

2. Important Events after the Balance Sheet Date

On 17 April 2014, the Company entered into a binding agreement with Oil India Limited ("OIL") to farmout a 50% non-operating interest in Licence 61. Under the terms of the Licence 61 Farmout, OIL will make a total Investment of up to US\$85 million consisting of:

- US\$35 million upfront cash payment, enabling PetroNeft to repay in full its existing debts (the Macquarie Debt Facility and the Arawak Loan) and provide cash for working capital purposes.
- US\$45 million of exploration and development expenditure on Licence 61.
- US\$5 million performance bonus, contingent upon average production from the Sibkrayevskoye Field reaching 7,500 bopd within the next five years.

The completion of the Licence 61 Farmout was conditional on shareholder approval, which was granted on 9 May 2014 and on Russian Regulatory approval which was received on 30 June 2014.

On 3 July 2014 the Licence 61 Farmout was completed and the Company repaid all of its outstanding debt to Macquarie (US\$8.4 million) and Arawak (US\$16.5 million). At the date of approval of these financial statements, the Company has no outstanding debt.

Under the terms of the agreement, OIL subscribed for shares in WorldAce Investments Limited ("WorldAce"), the holding company for Stimul-T, the entity which holds Licence 61 and all related assets and liabilities. Following this, PetroNeft and Oil India Limited both hold 50% of the voting shares, and through the joint venture agreement, both parties have joint control of WorldAce with PetroNeft continuing as operator.

As a result of the Licence 61 Farmout the Company is now debt-free as at the date of the approval of these financial statements. The Directors have a reasonable expectation that the Company, and the Group, have adequate resources to further develop its assets and to continue in operational existence for the foreseeable future. For this reason, the Directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2014

3. Accounting policies

3.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2014 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 2013 which are available on the Group's website – www.petroneft.com.

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

3.2 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 2013.

4. Segment information

At present the Group has one reportable operating segment, which is oil exploration and production. As a result, there are no further disclosures required in respect of the Group's reporting segment.

The risk and returns of the Group's operations are primarily determined by the nature of the activities that the Group engages in, rather than the geographical location of these operations. This is reflected by the Group's organisational structure and the Group's internal financial reporting systems.

Management monitors and evaluates the operating results for the purpose of making decisions consistently with how it determines operating profit or loss in the consolidated financial statements.

Geographical segments

All of the Group's sales are in Russia. Substantially all of the Group's capital expenditures are in Russia.

Assets are allocated based on where the assets are located:

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2014	6 months ended 30 June 2013	Year ended 31 December 2013
	US\$	US\$	US\$
Non-current assets			
Russia	3,429,701	128,662,026	3,794,764
Ireland	4,158	6,890	4,140
	3,433,859	128,668,916	3,798,904

PetroNeft Resources plc

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2014

5. Finance costs

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2014 US\$	6 months ended 30 June 2013 US\$	Year ended 31 December 2013 US\$
Interest on loans	1,118,505	1,625,139	3,299,496
Extension fee on Macquarie loan	400,000	-	-
Unwinding of discount on decommissioning provision	57,413	126,612	137,592
	<u>1,575,918</u>	<u>1,751,751</u>	<u>3,437,088</u>

6. Income tax

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2014 US\$	6 months ended 30 June 2013 US\$	Year ended 31 December 2013 US\$
Current income tax			
Current income tax charge	1,008	2,206	480
Total current income tax	<u>1,008</u>	<u>2,206</u>	<u>480</u>
Deferred tax			
Relating to origination and reversal of temporary differences	18,556	869,340	(2,337,639)
Total deferred tax	<u>18,556</u>	<u>869,340</u>	<u>(2,337,639)</u>
Income tax expense reported in the Consolidated Income Statement	<u>19,564</u>	<u>871,546</u>	<u>(2,337,159)</u>

PetroNeft Resources plc

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2014

7. Assets held for sale

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2014 US\$	6 months ended 30 June 2013 US\$	Year ended 31 December 2013 US\$
Assets held for sale			
Oil and gas properties	95,249,570	-	96,023,796
Property, plant and equipment	903,547	-	935,000
Exploration and evaluation assets	27,520,127	-	27,235,454
Inventories	1,147,907	-	1,215,210
Trade and other receivables	201,465	-	165,819
Cash and cash equivalents	14,434	-	191,291
	125,037,050	-	125,766,570
Liabilities directly associated with assets held for sale			
Trade and other payables	10,763,824	-	10,633,142
Deferred tax liability	2,400,000	-	2,400,000
Provisions	1,568,280	-	1,553,089
	14,732,104	-	14,586,231
Amounts recognised in other comprehensive income and accumulated in equity relating to assets held for sale			
Currency translation reserve	9,755,593	-	8,592,661
	9,755,593	-	8,592,661

PetroNeft Resources plc

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2014

8. Oil and gas properties

	Wells US\$	Equipment and facilities US\$	Pipeline US\$	Total US\$
Cost				
At 1 January 2013	75,359,259	28,168,900	16,403,020	119,931,179
Additions	4,038,164	1,017,713	55,611	5,111,488
Transferred to property plant and equipment	-	(155,183)	-	(155,183)
Transferred to exploration and evaluation assets	(864,783)	-	-	(864,783)
Translation adjustment	(5,332,793)	(2,010,516)	(1,159,067)	(8,502,376)
	73,199,847	27,020,914	15,299,564	115,520,325
Transferred to assets held for sale	(73,199,847)	(27,020,914)	(15,299,564)	(115,520,325)
At 31 December 2013	-	-	-	-
Depreciation				
At 1 January 2013	12,679,952	1,913,201	240,270	14,833,423
Charge for the year	4,352,641	1,088,078	115,257	5,555,976
Transferred to property plant and equipment	-	(78,673)	-	(78,673)
Translation adjustment	(654,101)	(139,846)	(20,250)	(814,197)
	16,378,492	2,782,760	335,277	19,496,529
Transferred to assets held for sale	(16,378,492)	(2,782,760)	(335,277)	(19,496,529)
At 31 December 2013	-	-	-	-
Net book values				
At 30 June 2014	-	-	-	-
At 31 December 2013	-	-	-	-

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2014

9. Property, Plant and Equipment

	Buildings & leasehold improvements US\$	Plant and machinery US\$	Motor vehicles US\$	Total US\$
Cost				
At 1 January 2013	1,102,684	1,854,724	123,995	3,081,403
Additions	-	14,551	68,335	82,886
Transferred from oil and gas properties	-	108,427	46,756	155,183
Disposals	-	(39,380)	-	(39,380)
Translation adjustment	(77,679)	(129,353)	(12,148)	(219,180)
	<u>1,025,005</u>	<u>1,808,969</u>	<u>226,938</u>	<u>3,060,912</u>
Transferred to assets held for sale	(1,025,005)	(335,997)	(226,938)	(1,587,940)
At 1 January 2014	-	1,472,972	-	1,472,972
Additions	-	-	-	-
Translation adjustment	-	(37,738)	-	(37,738)
At 30 June 2014	-	1,435,234	-	1,435,234
Depreciation				
At 1 January 2013	218,464	1,082,298	84,015	1,384,777
Charge for the year	61,563	227,083	40,357	329,003
Transferred from oil and gas properties	-	52,512	26,161	78,673
Disposals	-	(27,112)	-	(27,112)
Translation adjustment	(17,311)	(81,280)	(7,898)	(106,489)
	<u>262,716</u>	<u>1,253,501</u>	<u>142,635</u>	<u>1,658,852</u>
Transferred to assets held for sale	(262,716)	(247,589)	(142,635)	(652,940)
At 1 January 2014	-	1,005,912	-	1,005,912
Charge for the period	-	77,076	-	77,076
Translation adjustment	-	(21,903)	-	(21,903)
At 30 June 2014	-	1,061,085	-	1,061,085
Net book values				
At 30 June 2014	-	374,149	-	374,149
At 31 December 2013	-	467,060	-	467,060

PetroNeft Resources plc

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2014

10. Exploration and evaluation assets

Group	Exploration & Evaluation Expenditure US\$
Cost	
At 1 January 2013	28,294,677
Additions	69,449
Transferred from oil and gas properties	864,783
Translation adjustment	(1,993,455)
	<hr/>
	27,235,454
Transferred to assets held for sale	(27,235,454)
At 31 December 2013	<hr/> <hr/>
	-
Net book values	
At 30 June 2014	<hr/> <hr/>
	-
At 31 December 2013	<hr/> <hr/>
	28,294,677

PetroNeft Resources plc

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2014

11. Equity-accounted investment in Joint Venture

PetroNeft Resources plc has a 50% interest in Russian BD Holdings B.V., a jointly controlled entity which holds 100% of LLC Lineynoye, an entity involved in oil and gas exploration and the registered holder of Licence 67. The interest in this joint venture is accounted for using the equity accounting method. Russian BD Holdings B.V. is incorporated in the Netherlands and carries out its activities in Russia.

	Share of net assets US\$
At 1 January 2013	3,819,142
Retained loss for the year	(235,060)
Translation adjustment	(252,238)
At 1 January 2014	3,331,844
Retained loss for the period	(121,442)
Translation adjustment	(94,778)
At 30 June 2014	3,115,624

Summarised financial statement information prepared in accordance with IFRS of the equity-accounted joint venture entity is disclosed below:

Summarised Interim Financial statements of equity-accounted joint venture (50% share)

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2014 US\$	6 months ended 30 June 2013 US\$	Year ended 31 December 2013 US\$
Sales and other operating revenues	-	-	-
Operating expenses	(78,188)	(35,545)	(114,563)
Exchange loss	961	(65,450)	(65,784)
Finance revenue	522	86	184
Finance costs	(44,737)	(21,377)	(45,134)
Loss before taxation	(121,442)	(122,286)	(225,297)
Taxation	-	(4,982)	(9,763)
Loss for the period	(121,442)	(127,268)	(235,060)
	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2014 US\$	6 months ended 30 June 2013 US\$	Year ended 31 December 2013 US\$
Current assets	419,899	108,627	164,066
Non-current assets	6,669,409	4,273,484	4,774,180
Total assets	7,089,308	4,382,111	4,938,246
Current liabilities	(2,023,500)	(51,643)	(376,128)
Non-current liabilities	(1,950,184)	(892,185)	(1,230,274)
Total liabilities	(3,973,684)	(943,828)	(1,606,402)

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Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2014

12. Inventories

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2014 US\$	6 months ended 30 June 2013 US\$	Year ended 31 December 2013 US\$
Oil stock	-	1,662,932	-
Materials	27,480	148,224	30,523
	27,480	1,811,156	30,523

13. Trade and other receivables

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2014 US\$	6 months ended 30 June 2013 US\$	Year ended 31 December 2013 US\$
Russian VAT	-	16,729	-
Russian profit tax receivable	-	6,610	-
Other receivables	57,545	156,180	14,544
Receivable from jointly controlled entity	689,830	721,092	717,190
Advances to and receivables from related parties	-	7,035	-
Advances to contractors	-	11,965	-
Prepayments	51,673	58,792	59,130
	799,048	978,403	790,864

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

Other receivables are non-interest-bearing and are normally settled on 60-day terms.

Amounts owed by subsidiary undertakings are interest-bearing. Interest is charged at rates ranging from 0% to 10%.

PetroNeft Resources plc

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2014

14. Cash and Cash Equivalents and Restricted Cash Group

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2014 US\$	6 months ended 30 June 2013 US\$	Year ended 31 December 2013 US\$
Cash at bank and in hand	82,923	130,720	116,831
Restricted cash	4,000,000	4,000,000	2,054,947
	4,082,923	4,130,720	2,171,778

At 30 June 2014 restricted cash amounting to US\$4 million is being held in a Macquarie Debt Service Reserve Account ("DSRA"). This account is part of the security package held by Macquarie and may be offset against the loan in the event of a default on the loan or by agreement between the parties. These funds were used to part repay the Macquarie debt facility when the loan was repaid in full on 3 July 2014.

Bank deposits earn interest at floating rates based on daily deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

PetroNeft Resources plc

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2014

15. Trade and other payables

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2014 US\$	6 months ended 30 June 2013 US\$	Year ended 31 December 2013 US\$
Trade payables	1,112,674	1,545,374	813,476
Trade payables to jointly controlled entity	-	182,945	-
Trade payables to related parties	-	2,011,715	-
Corporation tax	64,300	66,878	63,292
Oil taxes, VAT and employee taxes	84,502	4,936,089	87,004
Other payables	62,829	186,958	22,745
Payments received in advance	-	387,595	-
Accruals	1,264,108	784,759	820,215
	2,588,413	10,102,313	1,806,732

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

Trade and other payables are non-interest-bearing and are normally settled on 60-day terms.

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

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2014

16. Loans and borrowings

Group and Company	Effective interest rate	Contractual maturity date	Unaudited		Audited
			6 months ended 30 June 2014	6 months ended 30 June 2013	Year ended 31 December 2013
	%		US\$	US\$	US\$
Interest bearing					
<i>Current liabilities</i>					
Macquarie Bank - US\$75,000,000 loan facility	9.79%	7-July-14	12,400,000	18,816,604	15,000,000
Belgrave Naftogaz - US\$16,500,000 loan	7.38%	30-May-15	16,500,000	-	15,000,000
Total current liabilities			28,900,000	18,816,604	30,000,000
<i>Non-current liabilities</i>					
Arawak - US\$15,000,000 loan	7.16%	30-May-15	-	14,682,383	-
Total non-current liabilities			-	14,682,383	-
Total loans and borrowings			28,900,000	33,498,987	30,000,000
Contractual undiscounted liability			28,900,000	33,900,000	30,000,000

Macquarie loan facility

During the period, Macquarie agreed to extend the maturity date of their loan to 7 July 2014 in order to allow the completion of the transaction with Oil India Limited for a fee of US\$400,000. On 3 July 2014 the loan was repaid in full from the proceeds of the Oil India transaction.

Certain oil and gas properties (wells, central processing facility, pipeline) together with shares in WorldAce Investments Ltd, shares in Stimul-T, certain bank accounts and inventories were pledged as a security for the Macquarie loan facility agreement. All of this security was released once the loan was repaid.

Arawak Energy loan facility

The loan was secured on PetroNeft's 50% interest in Russian BD Holdings B.V. In July 2013, pursuant to an internal re-organisation, Arawak Energy Russia B.V. assigned the loan to its sister company Belgrave Naftogas B.V. On 3 July 2014 the loan was repaid in full from the proceeds of the Oil India transaction and the security was released.

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for the six months ended 30 June 2014

17. Share Capital

Allotted, called up and fully paid equity	Number of Ordinary Shares	Called up share capital US\$
At 1 January 2013	644,920,275	8,561,499
Issued in the year	-	-
At 1 January 2014	644,920,275	8,561,499
Issued in the period	62,325,631	867,683
At 30 June 2014	707,245,906	9,429,182

The Company issued 62,325,631 new shares for consideration of US\$5.18 million during the period. The net proceeds of this share issue of US\$5.02 million were used to repay debt, finance expenditure on oil and gas properties, exploration and evaluation costs and corporate overhead.

18. Related party disclosures

Transactions between PetroNeft Resources plc and its subsidiaries have been eliminated on consolidation. Details of transactions between the Group and other related parties are disclosed below.

Vakha Sobraliev, a Director of PetroNeft, is the principal of LLC Tomskburneftegaz ("TBNG") which has drilled production and exploration wells for the Group. Various contracts for drilling have been awarded to TBNG in recent years following competitive tendering processes. All drilling contracts with TBNG are "turnkey" contracts whereby TBNG assumes substantially all liabilities in relation to the health and safety, environmental and other risks associated with drilling operation. As part of this relationship PetroNeft Group companies also occasionally sell sundry goods and services to TBNG. Other companies related to TBNG also provide some services to the Group such as transportation, power management and repairs.

The following is a summary of the transactions:

	30 June 2014		31 December 2013	
	TBNG	Other companies	TBNG	Other companies
	US\$	US\$	US\$	US\$
Period ended				
Maximum value of new contracts awarded during the period	1,849,042	-	-	-
Paid during the period for drilling and related services	142,980	-	1,527,850	-
Paid during the period for other services	-	-	-	128,416
Amount due to TBNG and related companies at period-end	1,758,546	134	1,962,797	138
Received during the period for sundry goods and services	-	-	49,445	-
Amount due from TBNG and related companies at period end	6,611	3,189	6,839	3,283

PetroNeft Resources plc

GLOSSARY

Arawak	Arawak Energy Russia B.V.
bbl	Barrel.
Belgrave Naftogas	Belgrave Naftogas B.V., a member of the Arawak group of companies
bopd	Barrels of oil per day.
Company	PetroNeft Resources plc.
CPF	Central Processing Facility.
Group	The Company and its subsidiary undertakings.
IAS	International Accounting Standard.
IFRS	International Financial Reporting Standard.
km	Kilometres.
km ² / sq km	Square kilometres.
Licence 61	The Group's Exploration and Production Licence in the Tomsk Oblast, Russia. It contains seven known oil fields, Lineynoye, Tungolskoye, West Lineynoye, Arbuzovskoye, Kondrashevskoye, Sibkrayevskoye and North Varyakhskoye and 27 Prospects and Leads that are currently being explored.
Licence 61 Farmout	An agreement whereby Oil India Limited subscribed for shares in WorldAce, the holding company for Stimul-T, the entity which holds Licence 61 and all related assets and liabilities, and following which, PetroNeft and Oil India Limited both hold 50% of the voting shares, and through the shareholders agreement, both parties have joint control of WorldAce with PetroNeft acting as operator
Licence 67	The Group's Exploration and Production Licence in the Tomsk Oblast, Russia. It contains two oil fields, Ledovoye and Cheremshanskoye and several potential prospects.
Lineynoye	Limited Liability Company Lineynoye, a wholly owned subsidiary of Russian BD Holdings B.V., registered in the Russian Federation.
Macquarie	Macquarie Bank Limited.
OIL/ Oil India	Oil India Limited
PetroNeft	PetroNeft Resources plc.
Russian BD Holdings B.V.	Russian BD Holdings B.V., a company owned 50% by PetroNeft and registered in the Netherlands.
Spud	To commence drilling a well.
Stimul-T	Limited Liability Company Stimul-T, a wholly owned subsidiary of WorldAce, based in the Russian Federation.
WorldAce	WorldAce Investments Limited, a company owned 50% by PetroNeft and registered in Cyprus.