PetroNeft Resources Plc

Unaudited interim condensed consolidated financial statements

For the 6 months ended 30 June 2011

PetroNeft Resources Plc

Unaudited interim condensed consolidated financial statements

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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) *(Executive Director and General Legal Counsel)* Gerry 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
Auditors	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** Cardinal Place 80 Victoria Street London SW1E 5JL United Kingdom
Principal Bankers	**Macquarie Bank Limited** Ropemaker Place 28 Ropemaker Street London EC2Y 9HD United Kingdom	**AIB Bank** 1 Lower Baggot Street Dublin 2 Ireland
	KBC Bank Ireland Sandwith Street Dublin 2 Ireland	
Solicitors	**Eversheds O'Donnell Sweeney** One Earlsfort Centre Earlsfort Terrace Dublin 2 Ireland	
	White & Case 5 Old Broad Street London EC2N 1DW United Kingdom	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,

To date, 2011 has seen further significant progress for PetroNeft. Our exploration programme has resulted in our largest discovery to date at Sibkrayevskaya and drilling results at two of our other targets are due in September. On the production well drilling, while we had a disappointing result at Pad 3 to the south, we have significantly extended the Lineynoye oil field beyond previous estimates to the north of Pad 2 where we continue to encounter encouraging net oil pays in the northern portion of the field. On balance, we expect the Lineynoye field reserves to remain about as predicted earlier, while very substantial reserves will be added at year-end as a result of our 2011 exploration drilling programme.

Production

Production in the six months to 30 June 2011 was 399,327 barrels of oil or an average of 2,182 bopd. During January and February most of the wells were offline in order for the hydraulic fracturing programme to be carried out. This programme achieved good results and provided essential information that will help us optimise the design of these programmes in the future to achieve even better results.

Beginning in October 2011, we plan to carry out a new fracture stimulation programme of about eight wells primarily focussed on new wells at Pad 2. In the first quarter of 2012 we will carry out a further fracture stimulation programme on the remaining wells drilled during 2011 and, depending on the results, we may also re-frac some of the Pad 1 wells that initially had smaller fracture stimulations carried out in early 2011.

Development drilling programme

At the beginning of 2011 we planned to drill 17 new production wells at the Lineynoye oil field, nine at Pad 2 and eight at Pad 3. We now expect to drill a total of 14 or 15 wells this year, all but two of which will be from Pad 2.

At Pad 2 we have now drilled ten wells and expect to drill two or three more before the year end. The principal reasons for adding wells at this location were the thicker than expected net pay encountered and discovering that the field extends further north than expected. At Pad 3 the first two wells encountered thinner net pays than anticipated and we took the decision to suspend drilling from this pad in order to test the two wells over the coming months and re-allocate technical and financial resources to drill additional wells north of Pad 2 where thicker pays have been encountered.

The results at Pad 3 led us to amend our near term production targets at the end of June 2011. While we will lose some reserves from the Pad 3 area when we compile our year end reserve report we are confident that this will be substantially offset by reserve additions north of Pad 2. The results we are achieving from the drilling at Pad 2, combined with updated seismic interpretations that incorporate the drilling results, also indicates that not only are the Lineynoye and West Lineynoye oil fields connected but that the overall Lineynoye field could extend significantly further north and be connected to the Emtorskaya high north of Lineynoye.

Chairman's Statement *(continued)*

Exploration

Five exploration/delineation wells will be drilled in 2011, three at Licence 61 and two at Licence 67. Two have been drilled to date, one of which led to our largest discovery to date at Sibkrayevskaya. The third and fourth wells are in progress and their results should be available shortly.

Licence 61

The Kondrashevskoye No. 2 well was completed in June 2011 and encountered 2.3 m of net pay in the J1 interval, similar to the 2008 discovery well. The well tested high quality 41^{o} API gravity crude oil at a prorated inflow rate of 32 bopd on a short open hole test (without stimulation). As neither Kondrashevskoye well encountered the oil water contact for the field we sidetracked the No. 2 well down-dip to locate the oil water contact and determine the full reserve potential of the field. The reservoir interval of 3 metres in the sidetrack section was slightly thicker than in the vertical well with the top metre of the reservoir being oil bearing. Production casing has been run and cemented in the well so it can be used when the field is developed.

Based on these results, the well has most likely confirmed the existing independent Ryder Scott 2P reserves of 8.1 mmbo attributed to the field and we will now update the reserves with the Russian State Reserve committee in preparation for field development. The exact timing of development will depend upon how the economics of this field compares with other nearby fields, most notably Arbuzovskoye.

The second well in this year's programme was drilled at the Sibkrayevskaya prospect. The well was spudded in July and target depth was reached in early August.

The Sibkrayevskaya No. 372 well was a follow up to well No. 370 which was drilled in 1972. A comprehensive re-interpretation of the vintage well logs and drilling data from the 370 well using digitised logs and modern interpretation tools had indentified potential "missed pay" of 8.4 metres in the Upper Jurassic J1 interval. In the new well, the Upper Jurassic J1 oil reservoir horizon was intersected as expected and encountered 12.3 metres of net pay, exceeding pre-drill estimates. An open hole test was conducted over this interval and tested at a pro-rated inflow of 170 bopd unstimulated. The oil is of good quality with an API gravity of 37 degrees, which is consistent with other fields in Licence 61. The well has now been cased and a programme of drill stem testing is in progress.

Sibkrayevskaya is a very large structure which will require additional seismic and well delineation. The 372 well was drilled in a flank position on the structure and current mapping shows an area of over 50 square kilometres up dip from the oil-down-to level defined in the well. Current indications are that the ultimate recoverable reserves in the field are likely to be significantly larger than the 44 million barrel pre-drill estimate defined by Ryder Scott and the field will certainly be an important commercial development project for PetroNeft. The discovery also extends the area of known oil to the northeast corner of the licence area and improves the prospectivity of other structures in this area.

The final well to be drilled at Licence 61 in 2011 is at North Varyakhskaya. This well was spudded in August and a result is expected in September.

Licence 67

Two exploration wells are planned at Licence 67 in 2011. The first well, at the large Cheremshanskaya prospect, was spudded in late August. The well is targeting three separate horizons at the Upper, Middle and Lower Jurassic zones. Each horizon will be cored, tested and logged separately and initial results are expected in late September with results of lower horizons coming in October.

The second well at Licence 67 is at the Ledovoye oil field to delineate the Upper Jurassic zone but also targeting the Lower Cretaceous horizon. This well will spud in November with results expected in December.

Chairman's Statement *(continued)*

Successful debt refinancing

In March 2011 PetroNeft agreed a revised debt facility with Macquarie Bank. The new loan is a longer term scalable borrowing base facility with increased flexibility at lower cost. Under the three year loan the initial available amount will be US$30 million with potential to increase up to US$75 million through the addition of new discoveries and developments subject to credit approval. The borrowing base will be reviewed every six months. The first review was completed in July 2011 and re-confirmed the US$30 million availability.

Financial results for the period

The net profit after tax for the period was US$3,067,178 (June 2010 loss: US$(5,287,356)). The profit includes a foreign exchange gain of US$5,969,474 on loans denominated in US Dollars, Russian Roubles and Euro from PetroNeft to its Russian subsidiaries Stimul-T and Lineynoye whose functional currency is the Russian Rouble.

Key Financial Metrics	*Unaudited*		*Audited*
	6 months ended 30-Jun-11 US$	6 months ended 30-Jun-10 US$	Year ended 31/12/2010 US$
Revenue	15,974,980	-	5,155,646
Cost of sales	(12,827,718)	-	(4,284,181)
Gross profit	3,147,262	-	871,465
Gross margin	20%	-	17%
Administrative expenses			
Overheads	3,622,312	2,023,132	5,601,591
Share-based payment expense	558,291	207,749	460,500
Foreign exchange (gain)/loss on intra-group loans	(5,969,474)	1,393,741	137,054
Other foreign exchange loss/(gain)	22,951	133,851	(285,038)
	(1,765,920)	3,758,473	5,914,107
Finance revenue	31,493	94,406	126,595
Finance costs	(1,156,829)	(154,095)	(1,356,918)
Income tax expense	(720,668)	(314,416)	(852,429)
Profit/(Loss) for the period attributable to equity holders of the Parent	3,067,178	(5,287,356)	(7,125,394)
Capital expenditure in the period	30,820,764	14,173,486	41,646,953
Net proceeds of equity share issues	-	-	40,793,563
Bank and cash balance at period-end (including restricted cash)	3,736,309	600,098	25,281,881

Chairman's Statement *(continued)*

Tax changes in Russia

In July 2011 President Medvedev signed into law an amendment to the law governing Mineral Extraction Tax ("MET"). The amendment introduces discounted rates of MET for new oil fields with initial recoverable reserves of less than five million tonnes (about 37 million barrels). The standard rate of MET can be reduced by up to 50% depending on the size of the oil field. This new law will significantly enhance the value and cash generation potential of the Arbuzovskoye, Kondrashevskoye, Tungolskoye and Ledovoye oil fields once they are brought into production. For example, production from the Arbuzovskoye oil field will qualify for a 46% discount to the standard rate of MET.

Separately, recent media reports suggest that the highest rate of export duty on crude oil will be reduced from 65% to 60% possibly as early as 1 October 2011. Such a change would further improve the profitability and cash flows from all of our oil fields.

Conclusion

The first half of 2011 has been a busy period for PetroNeft in terms of both production and exploration. While the Lineynoye production rate build up has been slower than desired we have learned key lessons from the work carried out to date and the outlook for growing our production this year and in future years is very good. We are particularly pleased with the extension of the field to the north and the implications this has for the overall size of the field and its connection with other structures.

Now that we are getting in to the heart of our exploration programme for 2011, I look forward to bringing you further good news to supplement the major success already achieved at Sibkrayevskaya where it is likely we have increased Group reserves by at least 50%. On behalf of the Board I would like to thank the management and staff for their tremendous efforts in this period.

David Golder
Non-Executive Chairman

PetroNeft Resources Plc

Interim Consolidated Income Statement

For the 6 months ended 30 June 2011

	Note	*Unaudited* 6 months ended 30-Jun-11 US$	6 months ended 30-Jun-10 US$	*Audited* Year ended 31/12/2010 US$
Continuing operations				
Revenue		15,974,980	-	5,155,646
Cost of sales		(12,827,718)	-	(4,284,181)
Gross profit		**3,147,262**	**-**	**871,465**
Administrative expenses		(4,203,554)	(2,364,731)	(5,777,053)
Exchange profit/(loss) on intra-Group loans		5,969,474	(1,393,741)	(137,054)
Operating profit/(loss)		**4,913,182**	**(3,758,472)**	**(5,042,642)**
Finance revenue		31,493	94,406	126,595
Finance costs	4	(1,156,829)	(154,095)	(1,356,918)
Share-based payment in relation to Macquarie loan		-	(1,154,779)	-
Profit/(Loss) for the period for continuing operations before taxation		**3,787,846**	**(4,972,940)**	**(6,272,965)**
Income tax expense	5	(720,668)	(314,416)	(852,429)
Profit/(Loss) for the period attributable to equity holders of the Parent		**3,067,178**	**(5,287,356)**	**(7,125,394)**
Profit/(Loss) per share attributable to ordinary equity holders of the Parent				
Basic and diluted - *US dollar cent*		**0.74**	**(1.51)**	**(1.97)**

Interim Consolidated Statement of Comprehensive Income

For the 6 months ended 30 June 2011

	Unaudited 6 months ended 30-Jun-11 US$	6 months ended 30-Jun-10	*Audited* Year ended 31/12/2010 US$
Profit/(Loss) for the period attributable to equity holders of the Parent	**3,067,178**	**(5,287,356)**	**(7,125,394)**
Currency translation adjustments	3,130,795	(3,040,984)	(33,696)
Total comprehensive profit/(loss) for the period attributable to equity holders of the Parent	**6,197,973**	**(8,328,340)**	**(7,159,090)**

PetroNeft Resources Plc

Interim Consolidated Balance Sheet
as at 30 June 2011

	Note	Unaudited 30-Jun-11 US$	Unaudited 30-Jun-10 US$	Audited 31-Dec-10 US$
Assets				
Non-current Assets				
Oil and gas properties	6	91,334,153	41,367,597	62,143,801
Property, plant and equipment	7	2,369,291	1,568,566	1,674,216
Exploration and evaluation assets	8	28,494,908	19,943,958	21,391,491
Leasehold land payments		-	174,733	-
		122,198,352	**63,054,854**	**85,209,508**
Current Assets				
Inventories	9	1,679,254	4,199,251	907,947
Trade and other receivables	10	5,072,771	3,503,438	8,064,978
Cash and cash equivalents	11	1,236,309	600,098	22,781,881
Restricted cash	11	2,500,000	-	2,500,000
		10,488,334	8,302,787	34,254,806
Assets held for sale		3,433,968	-	2,020,678
		13,922,302	**8,302,787**	**36,275,484**
Total Assets		**136,120,654**	**71,357,641**	**121,484,992**
Equity and Liabilities				
Capital and Reserves				
Called up share capital		5,636,142	4,726,705	5,624,840
Share premium account		122,431,629	81,404,891	122,082,388
Share-based payments reserve		4,344,830	4,011,115	3,641,064
Retained loss		(22,810,619)	(24,039,759)	(25,877,797)
Currency translation reserve		(2,697,537)	(8,835,620)	(5,828,332)
Other reserves		336,000	336,000	336,000
Equity attributable to equity holders of the Parent		**107,240,445**	**57,603,332**	**99,978,163**
Non-current Liabilities				
Provisions		965,278	467,685	743,670
Interest bearing loans and borrowings	13	14,630,284	-	-
Deferred tax liability		2,352,250	1,122,570	1,636,475
		17,947,812	**1,590,255**	**2,380,145**
Current Liabilities				
Trade and other payables	12	8,932,397	3,966,261	5,401,479
Non interest bearing loans and borrowings	13	2,000,000	-	-
Interest bearing loans and borrowings	13	-	8,197,793	13,725,205
		10,932,397	**12,164,054**	**19,126,684**
Total Liabilities		**28,880,209**	**13,754,309**	**21,506,829**
Total Equity and Liabilities		**136,120,654**	**71,357,641**	**121,484,992**

Interim Consolidated Statement of Changes in Equity

For the 6 months ended 30 June 2011

	Share capital US$	Share premium US$	Other reserves US$	Currency translation reserve US$	Retained loss US$	Total US$
At 1 January 2010	**4,724,013**	**81,328,170**	**2,704,929**	**(5,794,636)**	**(18,752,403)**	**64,210,073**
Loss for the year	-	-	-	-	(7,125,394)	(7,125,394)
Currency translation adjustments	-	-	-	(33,696)	-	(33,696)
Total comprehensive loss for the year	-	-	-	(33,696)	(7,125,394)	(7,159,090)
New share capital subscribed	872,841	42,307,945	-	-	-	43,180,786
Transaction costs on issue of share capital	-	(2,387,223)	-	-	-	(2,387,223)
Share options exercised in year	27,406	813,714	-	-	-	841,120
Remuneration and other emoluments paid in shares	580	19,782	-	-	-	20,362
Share-based payment expense	-	-	460,500	-	-	460,500
Share-based payment expense - Macquarie warrants	-	-	811,635	-	-	811,635
At 31 December 2010	**5,624,840**	**122,082,388**	**3,977,064**	**(5,828,332)**	**(25,877,797)**	**99,978,163**
At 1 January 2011	**5,624,840**	**122,082,388**	**3,977,064**	**(5,828,332)**	**(25,877,797)**	**99,978,163**
Profit for the period	-	-	-	-	3,067,178	3,067,178
Currency translation adjustments	-	-	-	3,130,795	-	3,130,795
Total comprehensive profit for the period	-	-	-	3,130,795	3,067,178	6,197,973
Share options exercised in period	11,302	349,241	-	-	-	360,543
Share-based payment expense			558,291			558,291
Share-based payment expense - Macquarie warrants	-	-	145,475	-	-	145,475
At 30 June 2011	**5,636,142**	**122,431,629**	**4,680,830**	**(2,697,537)**	**(22,810,619)**	**107,240,445**

Interim Consolidated Cash Flow Statement

For 6 months ended 30 June 2011

		Unaudited		*Audited*
		6 months ended 30-Jun-11 US$	6 months ended 30-Jun-10 US$	Year ended 31-Dec-10 US$
Profit/(Loss) before taxation		**3,787,846**	**(4,972,940)**	**(6,272,965)**
Adjustment to reconcile profit/(loss) before tax to net cash flows				
Non-cash				
Depreciation and amortisation		1,597,085	130,785	811,949
Share-based payment expense		558,291	207,749	460,500
Warrant costs		-	1,154,779	-
Unwinding of discount on decommissioning provision		64,846	-	20,787
Deposit paid for pipeline usage		(30,522)	-	342,053
Write off of leasehold land payments		-	-	176,825
Remuneration and other emoluments paid in shares		-	-	20,362
Finance revenue		(31,493)	(94,406)	(126,595)
Finance costs		1,122,505	154,219	994,078
Working capital adjustments				
(Increase)/decrease in trade and other receivables		966,019	(6,875,364)	(3,444,866)
Increase in inventories		(606,526)	-	(808,561)
Increase/(decrease) in trade and other payables		(3,995,097)	468,678	2,944,919
Net cash flows received/(used) from/(in) operating activities		**3,432,954**	**(9,826,500)**	**(4,881,514)**
Investing activities				
Purchase of oil and gas properties		(18,390,893)	(15,268,710)	(32,006,996)
Advance payments to contractors		(1,623,828)	2,285,217	(3,883,284)
Advance payment to purchase License 67		-	1,160,556	-
Purchase of property, plant and equipment		(755,057)	(21,260)	(217,524)
Disposals of property, plant and equipment		-	-	1,154
Exploration and evaluation payments		(5,261,525)	(2,329,289)	(3,736,142)
Investments in assets held for sale		(1,413,290)	-	(2,500,000)
Interest received		31,493	94,406	161,961
Net cash used in investing activities		**(27,413,100)**	**(14,079,080)**	**(42,180,831)**
Financing activities				
Proceeds from issue of share capital		-	-	43,180,786
Transaction costs of issue of shares		-	-	(2,387,223)
Proceeds from exercise of options		360,543	79,413	841,120
Proceeds from loan facilities		17,000,000	9,000,000	16,000,000
Transaction costs on loans and borrowings		(271,743)	-	(584,467)
Repayment of loan facilities		(14,212,000)	-	(1,788,000)
Interest paid		(593,605)	(114,167)	(835,467)
Net cash received from financing activities		**2,283,195**	**8,965,246**	**54,426,749**
Net (decrease)/increase in cash and cash equivalents		**(21,696,951)**	**(14,940,334)**	**7,364,404**
Translation adjustment		151,379	(186,047)	(309,002)
Cash and cash equivalents at the beginning of the period		22,781,881	15,726,479	15,726,479
Cash and cash equivalents at the end of the period	*11*	**1,236,309**	**600,098**	**22,781,881**

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2011

1. Corporate information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2011 were authorised for issue in accordance with a resolution of the Directors on 19 September 2011.

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. Accounting policies

2.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2011 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 2010 which are available on the Group's website – www.petroneft.com.

The annual financial statements as at 31 December 2010 were audited by Ernst and Young in accordance with section 193 of the Companies Act, 1990. The audit report issued by Ernst and Young was unqualified and did not include a reference to any matter to which the auditors drew attention by way of emphasis without qualifying their audit report.

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 2010.

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2011 (continued)

3. 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 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.

Non-current assets
Assets are allocated based on where the assets are located:

	Unaudited		*Audited*
	30-Jun-11	**30-Jun-10**	**2010**
	US$	**US$**	**US$**
Russia	122,186,983	63,043,883	85,200,373
Ireland	11,369	10,972	9,135
	122,198,352	**63,054,854**	**85,209,508**

4. Finance costs

	Unaudited		*Audited*
	30-Jun-11	**30-Jun-10**	**2010**
	US$	**US$**	**US$**
Interest on bank loans	1,122,505	154,897	643,542
Unwinding of discount on decommissioning provision	64,846	(802)	20,787
Discount on deposit paid for pipeline usage (see *below*)	(30,522)	-	342,053
Share-based payment in relation to initial US$5 million loan facility	-	-	350,536
	1,156,829	**154,095**	**1,356,918**

During 2010 the Group paid a deposit of US$400,000 to Nord Imperial for the usage of their pipeline. This deposit will be returned at the end of the contract which is in 2033. In the interim consolidated financial statements this deposit has been discounted and the reversal of a discount of US$30,522 has been taken to finance costs in the current year.

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2011 (continued)

5. Income tax

	Unaudited		*Audited*
	30-Jun-11	30-Jun-10	2010
	US$	US$	US$
Current income tax			
Current income tax charge	4,889	17,977	42,083
Deferred tax			
Relating to origination and reversal of temporary differences	715,779	296,439	810,346
Income tax expense reported in the Consolidated Income Statement	720,668	314,416	852,429

6. Oil and gas properties

	Wells	Equipment and facilities	Pipeline	Total
	US$	US$	US$	US$
Cost				
At 1 January 2010	15,408,490	737,610	11,036,987	27,183,087
Additions	19,999,210	12,816,849	3,244,417	36,060,476
Transfer to property, plant and equipment	-	48,884	-	48,884
Translation adjustment	(194,658)	(49,843)	(107,368)	(351,869)
At 1 January 2011	35,213,042	13,553,500	14,174,036	62,940,578
Additions	13,359,997	11,576,349	-	24,936,346
Translation adjustment	3,313,649	1,441,491	1,267,791	6,022,931
At 30 June 2011	51,886,688	26,571,340	15,441,827	93,899,855
Depreciation				
At 1 January 2010	16,316	1,510	-	17,826
Charge for the year	535,613	217,360	31,590	784,563
Translation adjustment	(1,862)	(2,820)	(930)	(5,612)
At 1 January 2011	550,067	216,050	30,660	796,777
Charge for the period	1,338,045	227,086	101,144	1,666,275
Translation adjustment	73,350	23,963	5,337	102,650
At 30 June 2011	1,961,462	467,099	137,141	2,565,702
Net book values				
At 30 June 2011	49,925,226	26,104,241	15,304,686	91,334,153
At 31 December 2010	34,662,975	13,337,450	14,143,376	62,143,801

The net book value at 30 June 2011 includes US$37,512,574 (31 December 2010: US$17,288,826) in respect of assets which are not yet being depreciated.

Additions are construction works mainly in relation to new production wells, the Central Processing Facility and oilfield infrastructure.

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2011 (continued)

7. Property, Plant and Equipment

	Land and buildings US$	Plant and machinery US$	Motor vehicles US$	Total US$
Cost				
At 1 January 2010	302,641	1,762,039	145,732	2,210,412
Reclassification	800,795	(800,795)	-	-
Additions	1,669	171,706	45,818	219,193
Transfer from oil and gas properties	-	-	(48,884)	(48,884)
Disposals	-	-	(17,869)	(17,869)
Translation adjustment	(5,390)	(13,086)	(1,200)	(19,676)
At 1 January 2011	**1,099,715**	**1,119,864**	**123,597**	**2,343,176**
Additions	-	755,056	-	755,056
Translation adjustment	98,490	114,406	11,085	223,981
At 30 June 2011	**1,198,205**	**1,989,326**	**134,682**	**3,322,213**
Depreciation				
At 1 January 2010	25,551	375,201	33,552	434,304
Charge for the year	64,365	176,496	15,045	255,906
Disposals	-	-	(16,715)	(16,715)
Translation adjustment	(444)	(3,804)	(287)	(4,535)
At 1 January 2011	**89,472**	**547,893**	**31,595**	**668,960**
Charge for the period	34,231	172,203	13,915	220,349
Translation adjustment	8,742	51,746	3,125	63,613
At 30 June 2011	**132,445**	**771,842**	**48,635**	**952,922**
Net book values				
At 30 June 2011	**1,065,760**	**1,217,484**	**86,047**	**2,369,291**
At 31 December 2010	1,010,243	571,971	92,002	1,674,216

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2011 (continued)

8. Exploration and evaluation assets

	Exploration & Evaluation Expenditure US$
Cost	
At 1 January 2010	18,217,242
Additions	5,367,284
Reclassified as assets held for sale	(2,020,678)
Translation adjustment	(172,357)
At 1 January 2011	**21,391,491**
Additions	5,129,362
Translation adjustment	1,974,055
At 30 June 2011	**28,494,908**
Net book values	
At 30 June 2011	**28,494,908**
At 31 December 2010	21,391,491

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

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.

Additions in the six months ended 30 June 2011 relate mainly to drilling of exploration wells in Sibkrayevskaya and North Varyakhskaya prospects, Kondrashevskoye oilfield and exploration works in relation to Licence 61. All expenditure in connection with Licence 67 has been classified as assets held for sale.

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2011 (continued)

9. Inventories

	Unaudited		Audited
	30-Jun-11	30-Jun-10	2010
	US$		US$
Oil stock	1,350,367	22,075	709,890
Materials	328,887	4,177,176	198,057
	1,679,254	4,199,251	907,947

10. Trade and other receivables

	Unaudited		Audited
	30-Jun-11	30-Jun-10	2010
	US$	US$	US$
Russian VAT	2,485,260	2,910,390	3,251,701
Other receivables	511,887	129,887	691,674
Advances to and receivables from related parties (Note 14)	1,415,173	1,162	1,957,647
Advances to contractors	411,404	348,695	1,925,637
Prepayments	249,047	113,304	238,319
	5,072,771	3,503,438	8,064,978

11. Cash and Cash Equivalents and Restricted Cash

	Unaudited		Audited
	30-Jun-11	30-Jun-10	2010
	US$	US$	US$
Cash at Bank and in Hand	1,236,309	600,098	22,781,881
Restricted cash	2,500,000	-	2,500,000
	3,736,309	600,098	25,281,881

At 30 June 2011 and 31 December 2010 restricted cash amounting to US$2.5 million was 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.

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2011 (continued)

12. Trade and other payables

	Unaudited		*Audited*
	30-Jun-11 US$	30-Jun-10 US$	2010 US$
Trade payables	3,826,711	2,862,806	3,858,187
Trade payables to related parties (Note 14)	3,962,422	430,044	614,078
Corporation tax	99,682	78,527	105,569
Other taxes and social welfare costs	60,378	64,276	176,804
Other payables	177,404	94,068	128,099
Accruals and deferred income	805,800	436,540	518,742
	8,932,397	**3,966,261**	**5,401,479**

13. Loans and borrowings

	Effective interest rate %	Maturity	*Unaudited* 30-Jun-11 US$	30-Jun-10 US$	*Audited* 2010 US$
Interest bearing:					
Macquarie Bank - US$30,000,000 loan facility	18.87%	31-Aug-11	-	8,197,793	-
Macquarie Bank - US$30,000,000 loan facility	17.21%	30-Nov-11	-	-	13,725,205
Macquarie Bank - US$75,000,000 loan facility	8.44%	31-May-14	14,630,284	-	-
Non interest bearing:					
Arawak - US$2,000,000 loan	0.00%	31-Dec-11	2,000,000	-	-
			16,630,284	**8,197,793**	**13,725,205**

On 30 March 2010, PetroNeft entered into a US$5 million loan facility with Macquarie Bank (“Macquarie”). As part of this agreement, Macquarie was granted 4.7 million warrants over the ordinary shares of PetroNeft at a strike price of STG£ 30p, exercisable any time up to 28 February 2012. The loan was set to mature on 30 June 2011.

On 28 May 2010 the US$5 million facility was re-financed with a new loan facility agreement for up to US$30 million with Macquarie. Under this agreement Macquarie was granted an additional 1 million warrants at a strike price of STG£ 37.81p exercisable any time up to 28 May 2014 and the possibility to acquire up to an additional 1 million warrants at a strike to be determined based on a 15% premium to the volume weighted average share price up to the date of issue of any additional warrants. There was also a 1% cash arrangement fee associated with this new loan facility.

On 19 August 2010 Macquarie was granted an additional 500,000 warrants at a strike price of STG£ 50.1p in connection with US$30 million facility.

On the basis that Macquarie committed significant technical, engineering and legal resources to negotiating and agreeing the loan facility and subsequent draw downs, the warrants granted to Macquarie were in lieu of arrangement fees. The cost of the warrants fall within the scope of IFRS 2 Share-Based Payments. This share-based payment expense constitutes a transaction cost under IAS 39 Financial Instruments: Recognition and Measurement and is included in the initial carrying amount of the loan facility and amortised over the duration of the loan. The total share-based payment expense in connection with warrants granted to Macquarie during the

13. Loans and borrowings (continued)

year amounted to US$0.8 million of which an amount of US$350,536 was expensed to the income statement on extinguishment of the US$5 million loan facility.

In April 2011 PetroNeft signed a new loan facility agreement with Macquarie Bank Limited for up to US$75 million subject to the satisfaction of conditions precedent primarily related to the perfection of security over certain physical assets of the Group's Russian subsidiaries.

On 6 July 2011 Macquarie was granted additional 500,000 warrants at a strike price of STG£ 41.8p in connection with the US$75 million facility. These are the final warrants due to Macquarie under the loan facility.

Total transaction costs, including share-based payment expense connected with the warrants granted, incurred in 2011 amounted to US$411,386 and are applied against the proceeds. The effective interest rate will be applied to the liability to accrete the transaction costs over the period of the loan.

Borrowing costs relating to drilling of development wells and construction of other oil and gas properties that have been capitalised within oil and gas properties during 2011 amount to US$Nil (2010: US$745,300). The average capitalisation rate employed to determine the amount of borrowing costs eligible for capitalisation was 17.21%. Only borrowing costs incurred up to September 2010 (start of production) were capitalised.

Certain oil and gas properties (wells, central processing facility, pipeline) together with shares in WorldAce Investments Ltd, shares in LLC Stimul T, certain bank accounts and inventories are pledged as a security for the loan facility agreement. The loan is repayable in full in May 2014.

The US$2 million loan from Arawak is an interest free loan to finance operations of LLC Lineynoye prior to the completion of the joint venture agreement relating to Licence 67. It is repayable on the earlier of 31 December 2011 or the date of completion of joint venture agreement at which stage there will be a receivable of an amount likely to exceed the US$2 million loan.

14. Related party disclosures

Transactions between PetroNeft Resources plc and its subsidiaries, Stimul-T, Lineynoye, Granite, Pervomayka, Dolomite, World Ace Investments, Russian BD Holdings B.V. have been eliminated on consolidation. Details of transactions between the Group and other related parties are disclosed below.

In 2009 Stimul-T entered into a contract with LLC Tomskburneftegaz (TBNG) for the drilling of 9 wells in Pad 1 of the Lineynoye oilfield. Under this contract TBNG assumed substantially all liabilities in relation to the health and safety, environmental and other risks associated with drilling operation. The total value of the contract was up to US$9.5 million. Payments of US$259,734 (Full year ("FY") 2010: US$8,243,900) were made during 6 months 2011 in relation to this contract. As at 30 June 2011 the outstanding amount payable to TBNG is US$Nil (Year end ("YE") 2010: US$77,309). Vakha Sobraliev, a Director of PetroNeft, is the principal of TBNG. The contract is complete as at 30 June 2011.

In 2010 Stimul-T entered into a contract with TBNG for the drilling of well #1 of the Arbuzovskaya prospect. Under this contract TBNG assumes substantially all liabilities in relation to the health and safety, environmental and other risks associated with drilling operation. The total value of the contract is US$2.1 million. Payments of US$582,520 were made during 6 months 2011 (FY 2010: US$1,587,817) in relation to this contract. As at 30 June 2011 the outstanding amount payable to TBNG is US$Nil (YE 2010: US$455,587). The contract is complete as at 30 June 2011.

14. Related party disclosures (continued)

In 2010 Stimul-T entered into a contract with TBNG for the drilling of 9 wells in Pad 2 at the Lineynoye oilfield in 2011. Under this contract TBNG assumes substantially all liabilities in relation to the health and safety, environmental and other risks associated with drilling operation. The total value of the contract is up to US$9.8 million. Payments of US$3,431,884 were made during 6 months 2011 (FY 2010: US$1,248,775) in relation to this contract, no advance payments are shown as at 30 June 2011 (YE 2010: US$1,248,775). As at 30 June 2011 the outstanding amount payable to TBNG is US$2,718,148 (YE 2010: US$Nil).

In 2010 Stimul-T entered into a contract with TBNG for the drilling of 8 wells in Pad 3 at the Lineynoye oilfield in 2011. Under this contract TBNG assumes substantially all liabilities in relation to the health and safety, environmental and other risks associated with drilling operation. The total value of the contract is up to US$9.5 million. Payments of US$1,526,402 were made during 6 months 2011 (FY 2010: US$694,954) in relation to this contract, no advance payments are shown as at 30 June 2011 (YE 2010: US$694,954). As at 30 June 2011 the outstanding amount payable to TBNG is US$491,748 (YE 2010: US$Nil).

In 2010 Stimul-T entered into a contract with TBNG for the drilling of well #2 at the Kondrashevskoye oilfield and well #372 at the Sibkraevskaya prospect in 2011. Under this contract TBNG assumes substantially all liabilities in relation to the health and safety, environmental and other risks associated with drilling operation. The total value of the contract is US$5.6 million. Payments of US$2,570,991 were made during 6 months 2011 (FY 2010: US$Nil) in relation to this contract. As at 30 June 2011 the outstanding amount payable to TBNG is US$577,767 (YE 2010: US$Nil).

In 2011 Stimul-T entered into a contract with TBNG for the drilling of well #1 at the North Varyakhskaya prospect in 2011 - 2012. This is a “turnkey” contract. Under this contract TBNG assumes substantially all liabilities in relation to the health and safety, environmental and other risks associated with drilling operation. The total value of the contract is US$2.5 million. Payments of US$870,392 were made during 6 months 2011 (FY 2010: US$Nil) in relation to this contract. As at 30 June 2011 the amount of US$275,160 (YE 2010: US$Nil) is shown as advance payments in relation to this contract.

In 2011 Lineynoye entered into a contract with TBNG for the drilling of well #3 of Cheremshanskaya prospect and well #2bis of Ledovoye oilfield in 2011 – 2012. This is a “turnkey” contract. Under this contract TBNG assumes substantially all liabilities in relation to the health and safety, environmental and other risks associated with drilling operation. The total value of the contract is US$4.6 million. Payments of US$1,270,631 were made during 6 months 2011 (FY 2010: US$Nil) in relation to this contract. As at 30 June 2011 the amount of US$1,099,377 (YE 2010: US$Nil) is shown as advance payments in relation to this contract.

An amount of US$5,901 (FY 2010: US$103,516) was received from TBNG during 6 months 2011 in relation to shared use of helicopter services, where the service provider billed the entire amount to Stimul-T. Balance of US$32,027 (YE 2010: US$5,529) is outstanding from TBNG at 30 June 2011.

An amount of US$8,954 (FY 2010: US$42,091) was received from TBNG during 2010 for fines for not meeting all contract conditions. Balance of US$Nil (YE 2010: US$8,389) is outstanding from TBNG at 30 June 2011. A total of US$6,961 (YE 2010: US$Nil) is outstanding from TBNG in relation to purchase of materials and other minor transactions as at 30 June 2011.

A total of US$4,432 (YE 2010: US$81,182) is outstanding to other parties, related to Vakha Sobraliev, a Director of PetroNeft for repair works on wells and transportation services. The amount of US$1,648 (YE 2010: US$Nil) is shown as advance payments. Payments of US$793,737 (FY 2010: US$444,644) were made to these entities during the year.