

PetroNeft Resources Plc

**Unaudited interim condensed
consolidated financial statements**

For the 6 months ended 30 June 2009



PetroNeft Resources Plc

Unaudited interim condensed consolidated financial statements

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PetroNeft Resources Plc

Group information

Directors¹

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)
Vakha Alviech Sobraliev (Russian citizen)
(Non-Executive Director)
Thomas Hickey
(Non-Executive Director)

Registered Office

One Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland

Secretary

David Sanders

Auditors

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

Business Address

1 Wainsfort Drive
Terenure
Dublin 6W
Ireland

Nominated Advisor

Davy
49 Dawson Street
Dublin 2
Ireland

¹ Irish Citizens unless otherwise stated



PetroNeft Resources Plc

Group information (continued)

Bankers

AIB Bank
1 Lower Baggot Street
Dublin 2
Ireland

Solicitors

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

White & Case
4 Romanov Pereulok
125009
Moscow
Russia

Registered Number

408101

Registrar

Computershare
Heron House
Corrig Road
Sandyford Industrial Estate
Dublin 18
Ireland



PetroNeft Resources Plc

Chairman's Statement

Dear Shareholder,

Major progress achieved

To date, 2009 has seen major progress for PetroNeft. In late 2008 the move to year-round production was put on hold. Since then we have achieved significant cost savings and completed a new, improved agreement for the transportation of our oil to market. Most recently we have raised the necessary funds to bring the Company to first oil in 2010. Year-round production is expected to commence in the third quarter of 2010 with rates expected to reach 4,000 barrels of oil per day ("bopd") by the end of 2010, and reach 12,000 bopd in 2012.

Significant cost savings achieved

In 2008 the total funding requirement for the Phase 1 project to develop the Lineynoye and West Lineynoye oil fields was estimated to be over US\$60 million. Since the project was put on hold in October 2008 we have been working to reduce this funding requirement which led to the reduction of the funding requirement by almost 60% to approximately US\$25 million through the following key savings and efficiencies:

- Weakening of the Russian Rouble against the US Dollar
- Use of only one drilling rig in the first year instead of two
- Revised pipeline route including utilisation of existing facilities at the pipeline tie-in point
- Reduction and modification of field facilities

Transportation Agreement with Imperial Energy

On 26 August 2009 PetroNeft entered into a Crude Oil Transportation and Custody Transfer agreement with Imperial Energy. Under the terms of the agreement, Imperial will accept PetroNeft's crude oil using existing tank facilities at the Kiev-Eganskoye field and transport the crude to its custody transfer point at Zavyalovo for transfer into the Transneft system. The agreement is effective for 25 years and the tariff is subject to adjustments based on the Russian Consumer Price Index.

The overall tariff and associated capital cost structure has material cost and operational advantages for PetroNeft compared to the previous export option to the north. The fact that the new pipeline route is entirely within the Tomsk Oblast, whereas the northern route also entered the Khanty-Mansiysk District, will significantly reduce the various permits and approvals associated with the pipeline. In addition, the new pipeline route from Lineynoye to Kiev-Eganskoye runs adjacent to the Tungolskoye and newly discovered Kondrashevskoye oil fields, creating useful synergies for future phases of development.

The Company will construct the approximately 70km pipeline segment from Lineynoye to Kiev-Eganskoye this coming winter. The Company has already acquired over 90% of the pipe required and this has been in storage at a river port to the north of Licence 61.

Successful financing

PetroNeft successfully raised US\$27.5 million in September 2009 through a placing of new shares with international institutional and private investors. This funding enables the Company to fully execute the Phase 1 project to develop the Lineynoye and West Lineynoye oil fields and become self financing from oil production revenues. As detailed in note 5 below an EGM to approve the placing will be held on 15 October 2009.

It remains the Board's intention to fund the Company with a mixture of debt and equity. Discussions are ongoing with Banks regarding debt finance which could be utilised for business development purposes or to accelerate the appraisal and development programme on Licence 61.

PetroNeft Resources Plc

Chairman's Statement (*continued*)

Business Development

We continue to actively examine a number of acquisition opportunities in the Tomsk region and Russia in general and hope to update shareholders in more detail in the coming months.

Financial results for the period

The net loss for the period was US\$2,390,656 (June 2008: US\$1,421,950). The main reason for the increase in losses relates to a foreign exchange loss of US\$771,814 on US Dollar denominated loans from PetroNeft to its Russian subsidiary Stimul-T whose functional currency is the Russian Rouble.

Revenue from oil sales in the period amounted to US\$518,058 generating a gross profit of US\$127,297.

Corporate

On 31 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.

Conclusion

PetroNeft is now on course to begin year round production in 2010. The commencement of production means that the Group will generate significant surplus cash in the coming years to enable it to expand its reserve base both within Licence 61 and through business development opportunities in Tomsk, Russia and the FSU.

David Golder
Non-Executive Chairman

PetroNeft Resources Plc

Interim Consolidated Income Statement

For the 6 months ended 30 June 2009

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2009 US\$	6 months ended 30 June 2008 US\$	Full year ended 31 December 2008 US\$
Revenue	518,058	-	-
Cost of sales	(390,761)	-	-
Gross profit	127,297	-	-
Administrative expenses	(1,626,148)	(1,315,672)	(4,823,513)
Exchange (loss)/gain on intra group loans	(771,814)	(79,656)	(3,010,932)
Group operating loss	(2,270,665)	(1,395,328)	(7,834,445)
Finance revenue	12,593	46,304	128,487
Loss for the period for continuing operations before taxation	(2,258,072)	(1,349,024)	(7,705,958)
Income tax expense	(132,584)	(72,926)	(206,010)
Loss for the period attributable to equity holders of the parent	(2,390,656)	(1,421,950)	(7,911,968)
Loss per share attributable to ordinary equity holders of the parent:			
Basic and diluted - <i>US dollar cent</i>	(1.04)	(0.74)	(3.81)

PetroNeft Resources Plc

Interim Consolidated Balance Sheet

as at 30 June 2008

	<i>Unaudited</i>		<i>Audited</i>
	30 June 2009 US\$	30 June 2008 US\$	31 December 2008 US\$
Assets			
Non-current Assets			
Oil and gas properties	22,533,643	9,746,883	23,769,980
Property, plant and equipment	2,011,819	2,137,970	1,867,397
Exploration and evaluation assets	17,646,274	31,391,327	18,684,771
Leasehold land payments	185,813	186,110	181,009
	<u>42,377,549</u>	<u>43,462,290</u>	<u>44,503,157</u>
Current Assets			
Trade and other receivables	1,060,361	1,046,106	3,067,736
Cash and cash equivalents	1,287,677	2,064,159	2,168,197
	<u>2,348,038</u>	<u>3,110,265</u>	<u>5,235,933</u>
Total Assets	<u>44,725,587</u>	<u>46,572,555</u>	<u>49,739,090</u>
Equity and Liabilities			
Capital and Reserves			
Called up share capital	2,919,041	2,386,502	2,919,041
Share premium account	57,193,950	41,240,213	57,193,950
Share based payments reserve	2,115,911	1,628,609	1,904,829
Retained loss	(14,671,507)	(5,790,833)	(12,280,851)
Currency translation reserve	(6,824,789)	2,935,283	(5,024,070)
Other reserves	336,000	336,000	336,000
Equity attributable to equity holders of the parent	<u>41,068,606</u>	<u>42,735,774</u>	<u>45,048,899</u>
Non-current Liabilities			
Provisions	239,793	137,292	254,646
Deferred tax liability	679,568	445,634	546,984
	<u>919,361</u>	<u>582,926</u>	<u>801,630</u>
Current Liabilities			
Trade and other payables	2,737,620	3,253,855	3,888,561
	<u>2,737,620</u>	<u>3,253,855</u>	<u>3,888,561</u>
Total Liabilities	<u>3,656,981</u>	<u>3,836,781</u>	<u>4,690,191</u>
Total Equity and Liabilities	<u>44,725,587</u>	<u>46,572,555</u>	<u>49,739,090</u>

PetroNeft Resources Plc

Interim Consolidated Statement of Changes in Equity

For the 6 months ended 30 June 2009

	<i>Unaudited</i>					
	Share Capital US\$	Share Premium US\$	Other reserves US\$	Translation reserve US\$	Retained Losses US\$	Total US\$
At 1 January 2009	2,919,041	57,193,950	2,240,829	(5,024,070)	(12,280,851)	45,048,899
Loss for the period	-	-	-	-	(2,390,656)	(2,390,656)
Currency translation adjustments	-	-	-	(1,800,719)	-	(1,800,719)
Total recognised income and expense	-	-	-	(1,800,719)	(2,390,656)	(4,191,375)
Share-based payment expense	-	-	211,082	-	-	211,082
At 30 June 2009	2,919,041	57,193,950	2,451,911	(6,824,789)	(14,671,507)	41,068,606
At 1 January 2008	2,343,864	40,252,836	1,513,665	1,466,092	(4,368,883)	41,207,574
Loss for the period	-	-	-	-	(1,421,950)	(1,421,950)
Currency translation adjustments	-	-	-	1,469,191	-	1,469,191
Total recognised income and expense	-	-	-	1,469,191	(1,421,950)	47,241
Shares issued on exercise of warrant	41,621	958,379	-	-	-	1,000,000
Share options exercised	1,017	28,998	-	-	-	30,015
Share-based payment expense	-	-	450,944	-	-	450,944
At 30 June 2008	2,386,502	41,240,213	1,964,609	2,935,283	(5,790,833)	42,735,774



PetroNeft Resources Plc

Consolidated Cash Flow Statement

For the 6 months ended 30 June 2009

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2009 US\$	6 months ended 30 June 2008 US\$	Full year ended 31 December 2008 US\$
Loss before taxation	(2,258,072)	(1,349,024)	(7,705,958)
Adjustment to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation and amortisation	79,702	131,583	238,013
Share-based payment expense	211,082	450,944	727,164
Unwinding of fair value discount on decommissioning	-	-	17,062
Deduct finance revenue	(12,593)	(46,304)	(128,487)
Working capital adjustments			
Decrease in trade receivables	2,007,375	2,756,709	475,005
Increase in trade payables	734,585	1,902,707	2,918,821
Income tax paid	-	-	(25,387)
Net cash flows from operating activities	762,079	3,846,615	(3,483,767)
Investing activities			
Purchase of oil and gas properties	(971,997)	(2,938,228)	(15,047,118)
Purchase of property, plant and equipment	(758,971)	-	(1,008,545)
Exploration and evaluation payments	(11,660)	(8,457,836)	(6,744,993)
VAT refund	-	-	3,311,690
Finance revenue	12,593	46,304	128,487
Net cash used in investing activities	(1,730,035)	(11,349,760)	(19,360,479)
Financing activities			
Proceeds from exercise of share options	-	30,015	30,015
Proceeds from exercise of warrant	-	1,000,000	1,000,000
Proceeds from issue of share capital	-	-	17,152,320
Transaction costs of issue of shares	-	-	(666,044)
Net cash received from financing activities	-	1,030,015	17,516,291
Net (decrease) in cash and cash equivalents	(967,956)	(6,473,130)	(5,327,955)
Translation adjustment	87,436	232,994	(808,143)
Cash and cash equivalents at the beginning of the period	2,168,197	8,304,295	8,304,295
Cash and cash equivalents at the end of the period	1,287,677	2,064,159	2,168,197

PetroNeft Resources Plc

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2009

1. Corporate information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2009 were authorised for issue in accordance with a resolution of the Directors on 29 September 2009.

PetroNeft Resources plc (“the Company”, or together with its subsidiaries, “the Group”) is a Company incorporated in Ireland under the Companies Acts, 1963 to 2009. The Company is listed on the Alternative Investment Market (“AIM”) of the London Stock Exchange and the Irish Enterprise Exchange (“IEX”) of the Irish Stock Exchange. The address of the registered office is One Earlsfort Centre, Earlsfort Terrace, Dublin 2. The Company is domiciled in the Republic of Ireland.

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

2. Accounting policies

2.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2009 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 2008 which are available on the Group’s website – www.petroneft.com.

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

2.2 Significant Accounting Policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2008.

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2009 (continued)

3. Cash and cash Equivalents

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

	Unaudited		Audited
	30 June 2009	30 June 2008	31 December 2008
	US\$	US\$	US\$
Cash at bank and in hand	1,287,677	2,064,159	2,168,197
	<u>1,287,677</u>	<u>2,064,159</u>	<u>2,168,197</u>

4. Income tax

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

	Unaudited		Audited
	6 months ended 30 June 2009	6 months ended 30 June 2008	Full year ended 31 December 2008
	US\$	US\$	US\$
Current income tax			
Current income tax charge	-	-	31,734
Deferred income tax			
Relating to origination and reversal of temporary differences	132,584	72,926	174,276
	<u>132,584</u>	<u>72,926</u>	<u>206,010</u>

5. Events after the balance sheet date

On 27 August 2009 the Company announced that it had entered into a 25 year Crude Oil Transportation and Custody Transfer agreement as detailed in the Chairman's statement above.

On 21 September 2009 the Company announced the placing of 120,640,209 new Ordinary Shares at STG£0.14 per Ordinary Share, raising gross proceeds of approximately US\$27.5 million. Of these, 22,922,303 were issued on 24 September 2009 while the remainder, 97,717,906 Ordinary Shares are conditional, inter alia, on admission of such Ordinary Shares to trading on AIM and IEX and upon receiving shareholder approval to complete the Second Tranche Placing at an extraordinary general meeting of the Company to be held on 15 October 2009 ("EGM"). A circular to convene the EGM was issued to shareholders on 22 September 2009.