

PetroNeft Resources Plc

**Unaudited interim condensed
consolidated financial statements**

For the 6 months ended 30 June 2013



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
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Dublin 2
Ireland

Nominated and ESM Adviser

Davy
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Dublin 2
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¹ Irish citizens unless otherwise stated



PetroNeft Resources plc

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Ireland

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United Kingdom

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PetroNeft Resources plc

Chairman's Statement

Dear Shareholder,

I am pleased to report on the activities of the Company for the six months to 30 June 2013 and provide an update on recent activities.

Production and Sales

Production in the six months to 30 June 2013 was 445,949 barrels of oil or an average of 2,464 bopd a 13% increase compared to the same period in 2012 where production was 394,652 barrels of oil or an average of 2,168 bopd. We sold 438,350 barrels of oil in the six months to 30 June 2013 (H1 2012: 403,674 bbls) and achieved an average oil price of \$42.48 (H1 2012: \$43.12). The domestic pricing in the second quarter was lower than expected leading to a reduced gross margin in the period but the price has since recovered with record prices achieved in the third quarter.

Two new oil production wells were drilled at Arbuzovskoye in the first quarter in addition to a water source well to provide water for the water injection system at Arbuzovskoye. While we encountered a number of production difficulties in the early months of 2013, we successfully resolved these issues through a programme of re-perforation of wells at Arbuzovskoye.

We are very encouraged by the stability of production in recent months, which is currently steady at 2,500 bopd. The pressure maintenance programme that commenced at Arbuzovskoye in April 2013 is continuing and is working well. In recent weeks, we have seen some positive impact in the production well nearest to the injection well - similar to the response seen earlier at Lineynoye. This should expand to other nearby production wells in the coming months. Production at Lineynoye also remains very stable with little decline evident. We have also benefitted from strong realised oil prices in recent months.

Development drilling programme – Arbuzovskoye oil field

Two new production wells were drilled at Arbuzovskoye in the first half of 2013 achieving initial rates of 140 bopd and 160 bopd. In March 2013, drilling activities were paused at Arbuzovskoye to allow the commencement of the water injection programme the results of which will help guide future well locations. It is likely that at least three additional wells will ultimately be drilled from Arbuzovskoye Pad 1 to fully exploit the area. The drilling rig remains on site at Arbuzovskoye together with supplies to drill three wells.

Financing

In March 2013, we commenced repayments of US\$650,000 per month to Macquarie Bank Limited and we continue to make these payments from our own resources. The current balance on this facility, net of cash held by Macquarie in the Debt Service Reserve Account, is US\$13.6 million.

To support the Company's development aspirations we appointed financial advisors, Evercore Partners LLP, to assist with negotiations in relation to a potential farmout of up to 50% of Licence 61 and are currently in discussions with a number of parties. We are also in active negotiation with a number of Russian and International banks to refinance the Macquarie debt facility with a longer term arrangement which more appropriately reflects the long term production profile and growth potential of our asset base.

Discussions continue on both the re-financing and planned farmout of Licence 61. We have made good progress on concluding a re-financing of the existing Macquarie Bank facility in recent weeks.

Future drilling programme

Subject to the successful completion of re-financing of the bank debt, or a farmout, plans are in place for re-commencement of drilling operations later this year. This plan includes a delineation well at West Lineynoye, commencement of drilling additional production wells at Arbuzovskoye and, in 2014, delineation wells at Tungolskoye and Sibkrayevskoye, where significant upside potential and near-term developments are possible.

PetroNeft Resources plc

Chairman's Statement (continued)

Financial results for the period

The net loss after tax for the period was US\$10,593,368 (H1 2012: US\$6,990,186). The loss includes a foreign exchange loss of US\$6,376,921 (H1 2012: US\$2,760,623) 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. Net cash flows from operating activities in the period were US\$3,143,193 (H1 2012: US\$4,685,880).

Financial Highlights

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2013 US\$	6 months ended 30 June 2012 US\$	Year ended 31 December 2012 US\$
Revenue	18,624,293	17,646,024	34,581,257
Cost of sales	(16,683,461)	(15,115,280)	(30,134,453)
Gross profit	1,940,832	2,530,744	4,446,804
Gross margin	10%	14%	13%
<i>Administrative expenses</i>			
Overheads	(3,386,091)	(3,548,720)	(6,313,028)
Share-based payment expense	(247,549)	(500,044)	(977,030)
Other foreign exchange gain/(loss)	217,634	83,607	(90,533)
	(3,416,006)	(3,965,157)	(7,380,591)
Foreign exchange (loss)/gain on intra-Group loans	(6,376,921)	(2,760,623)	4,538,236
Finance costs	(1,751,751)	(1,750,892)	(4,216,548)
Loss for the period attributable to equity holders of the Parent	(10,593,368)	(6,990,186)	(4,566,143)
Capital expenditure in the period	3,137,110	8,972,891	14,270,220
Net proceeds of equity share issues	-	-	16,256,115
Bank and cash balance at period end (including restricted cash)	4,130,720	5,715,486	7,939,422
Total debt at period end (undiscounted)	33,900,000	45,000,000	36,500,000

Conclusion

The first half of 2013 was a busy period for the Company. Some production issues were resolved leading to more stable production in recent months.

Since the Annual General Meeting on 11 September we have continued to make good progress on re-financing the Company and I hope to be able to update shareholders in detail on this point in the coming weeks.

David Golder
Non-Executive Chairman

PetroNeft Resources plc

Interim Consolidated Income Statement

For the 6 months ended 30 June 2013

	Note	Unaudited		Audited
		6 months ended 30 June 2013 US\$	6 months ended 30 June 2012 US\$	Year ended 31 December 2012 US\$
<i>Continuing operations</i>				
Revenue		18,624,293	17,646,024	34,581,257
Cost of sales		(16,683,461)	(15,115,280)	(30,134,453)
Gross profit		1,940,832	2,530,744	4,446,804
Administrative expenses		(3,416,006)	(3,965,157)	(7,380,591)
Exchange gain/(loss) on intra-Group loans		(6,376,921)	(2,760,623)	4,538,236
Operating profit /(loss)		(7,852,095)	(4,195,036)	1,604,449
Loss on disposal of oil and gas properties		-	-	(19,231)
Share of joint venture's net loss		(127,267)	(178,264)	(223,472)
Finance revenue		9,291	10,518	77,233
Finance costs	5	(1,751,751)	(1,750,892)	(4,216,548)
Loss for the period for continuing operations before taxation		(9,721,822)	(6,113,674)	(2,777,569)
Income tax expense	6	(871,546)	(876,512)	(1,788,574)
Loss for the period attributable to equity holders of the Parent		(10,593,368)	(6,990,186)	(4,566,143)
Loss per share attributable to ordinary equity holders of the Parent				
Basic and diluted - US dollar cent		(1.64)	(1.68)	(1.03)

Interim Consolidated Statement of Comprehensive Income

For the 6 months ended 30 June 2013

	Unaudited		Audited
	6 months ended 30 June 2013 US\$	6 months ended 30 June 2012 US\$	Year ended 31 December 2012 US\$
Loss for the period attributable to equity holders of the Parent	(10,593,368)	(6,990,186)	(4,566,143)
Currency translation adjustments	(3,395,214)	(1,056,282)	2,406,068
Total comprehensive loss for the period attributable to equity holders of the Parent	(13,988,852)	(8,046,468)	(2,160,075)

PetroNeft Resources plc

Interim Consolidated Balance Sheet

As at 30 June 2013

		<i>Unaudited</i>		<i>Audited</i>
		30 June 2013	30 June 2012	31 December 2012
	<i>Note</i>	US\$	US\$	US\$
Assets				
Non-current Assets				
Oil and gas properties	7	97,483,831	93,862,706	105,097,756
Property, plant and equipment	8	1,464,430	1,710,360	1,696,626
Exploration and evaluation assets	9	26,282,372	25,962,359	28,294,677
Equity-accounted investment in joint venture	10	3,438,283	3,573,728	3,819,142
		<u>128,668,916</u>	<u>125,109,153</u>	<u>138,908,201</u>
Current Assets				
Inventories	11	1,811,156	1,612,014	1,711,417
Trade and other receivables	12	978,403	1,512,656	1,320,032
Cash and cash equivalents	13	130,720	1,715,486	3,939,422
Restricted cash	13	4,000,000	4,000,000	4,000,000
		<u>6,920,279</u>	<u>8,840,156</u>	<u>10,970,871</u>
Total Assets		<u>135,589,195</u>	<u>133,949,309</u>	<u>149,879,072</u>
Equity and Liabilities				
Capital and Reserves				
Called up share capital		8,561,499	5,636,142	8,561,499
Share premium account		136,762,387	122,431,629	136,762,387
Share-based payments reserve		6,513,594	5,591,829	6,266,045
Retained loss		(58,950,664)	(50,781,339)	(48,357,296)
Currency translation reserve		(8,619,657)	(8,686,793)	(5,224,443)
Other reserves		336,000	336,000	336,000
Equity attributable to equity holders of the Parent		<u>84,603,159</u>	<u>74,527,468</u>	<u>98,344,192</u>
Non-current Liabilities				
Provisions		1,644,170	1,655,442	1,843,790
Interest-bearing loans and borrowings	15	14,682,383	14,474,828	14,559,722
Deferred tax liability	6	5,740,566	3,961,350	4,871,227
		<u>22,067,119</u>	<u>20,091,620</u>	<u>21,274,739</u>
Current Liabilities				
Trade and other payables	14	10,102,313	9,635,150	8,909,830
Interest-bearing loans and borrowings	15	18,816,604	29,695,071	21,350,311
		<u>28,918,917</u>	<u>39,330,221</u>	<u>30,260,141</u>
Total Liabilities		<u>50,986,036</u>	<u>59,421,841</u>	<u>51,534,880</u>
Total Equity and Liabilities		<u>135,589,195</u>	<u>133,949,309</u>	<u>149,879,072</u>

PetroNeft Resources plc

Interim Consolidated Statement of Changes in Equity

For the 6 months ended 30 June 2013

	Share capital US\$	Share premium US\$	Share-based payment and other reserves US\$	Currency translation reserve US\$	Retained loss US\$	Total US\$
At 1 January 2012	5,636,142	122,431,629	5,230,985	(7,630,511)	(43,791,153)	81,877,092
Loss for the year	-	-	-	-	(4,566,143)	(4,566,143)
Currency translation adjustments	-	-	-	2,406,068	-	2,406,068
Total comprehensive loss for the year	-	-	-	2,406,068	(4,566,143)	(2,160,075)
New share capital subscribed	2,762,969	14,447,506	-	-	-	17,210,475
Transaction costs on issue of share capital	-	(954,360)	-	-	-	(954,360)
Conversion of debt for new shares issued	162,388	837,612	-	-	-	1,000,000
Share-based payment expense	-	-	977,030	-	-	977,030
Share-based payment expense - Macquarie warrants	-	-	197,230	-	-	197,230
Arawak warrants	-	-	196,800	-	-	196,800
At 31 December 2012	8,561,499	136,762,387	6,602,045	(5,224,443)	(48,357,296)	98,344,192
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 period	-	-	-	-	(10,593,368)	(10,593,368)
Currency translation adjustments	-	-	-	(3,395,214)	-	(3,395,214)
Total comprehensive loss for the period	-	-	-	(3,395,214)	(10,593,368)	(13,988,582)
Share-based payment expense	-	-	247,549	-	-	247,549
At 30 June 2013	8,561,499	136,762,387	6,849,594	(8,619,657)	(58,950,664)	84,603,159

PetroNeft Resources plc

Interim Consolidated Cash Flow Statement

For the 6 months ended 30 June 2013

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2013 US\$	6 months ended 30 June 2012 US\$	Year ended 31 December 2012 US\$
Operating activities			
Loss before taxation	(9,721,822)	(6,113,674)	(2,777,569)
Adjustment to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation	2,730,042	1,933,985	4,637,596
Loss on disposal of oil and gas properties	-	-	19,231
Share loss in joint venture	127,267	178,264	223,472
Share-based payment expense	247,549	500,044	977,030
Finance revenue	(9,291)	(10,518)	(77,233)
Finance costs	5 1,751,751	1,750,892	4,216,548
Working capital adjustments			
Decrease in trade and other receivables	241,470	1,204,750	1,603,422
Decrease in inventories	186,463	447,077	383,541
Increase/(decrease) in trade and other payables	7,589,764	4,805,860	(1,837,731)
Income tax paid	-	(10,800)	(186,675)
Net cash flows received from operating activities	3,143,193	4,685,880	7,181,632
Investing activities			
Purchase of oil and gas properties	(2,670,631)	(11,748,966)	(18,479,654)
Advance payments to contractors	(19,000)	(92,963)	(119,159)
Purchase of property, plant and equipment	(90,317)	(6,219)	(15,529)
Proceeds from disposal of property, plant and equipment	32,275	(1,260,416)	3,549
Exploration and evaluation payments	(171,908)	-	(1,787,260)
Investment in joint venture undertaking	-	-	-
Decrease in restricted cash	-	1,000,000	1,000,000
Interest received	9,291	10,518	52,714
Net cash used in investing activities	(2,910,290)	(12,098,046)	(19,345,339)

PetroNeft Resources plc
Interim Consolidated Cash Flow Statement (continued)

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2013	6 months ended 30 June 2012	Year ended 31 December 2012
	US\$	US\$	US\$
Financing activities			
Proceeds from issue of share capital	-	-	17,210,475
Transaction costs of issue of shares	-	-	(954,360)
Proceeds from loan facilities	-	15,000,000	15,000,000
Transaction costs on loans and borrowings	-	(337,754)	(350,811)
Repayment of loan facilities	(2,600,000)	(5,000,000)	(12,500,000)
Interest paid	(1,436,185)	(1,575,270)	(3,340,504)
Net cash (paid)/received (to)/from financing activities	(4,036,185)	8,086,976	15,064,800
Net (decrease)/increase in cash and cash equivalents	(3,803,282)	674,810	2,901,093
Translation adjustment	(5,420)	10,671	8,324
Cash and cash equivalents at the beginning of the period	3,939,422	1,030,005	1,030,005
Cash and cash equivalents at the end of the period	13 130,720	1,715,486	3,939,422

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2013

1. Corporate information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2013 were authorised for issue in accordance with a resolution of the Directors on 27 September 2013.

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. Going concern

As noted in the 2012 Annual Report in October 2012 a revised borrowing base was agreed with Macquarie Bank Limited ("Macquarie") which amongst other things led to the commencement of monthly repayments of US\$650,000 on 31 March 2013. The Macquarie loan matures in May 2014 at which time a final payment of US\$8.4 million (in addition to the US\$4 million restricted cash held by Macquarie) will be required.

The Company has entered into discussions with a number of parties and is currently pursuing two independent funding strategies. In consultation with major shareholders and finance providers we have concluded that a farmout of up to 50% of Licence 61, while remaining as operator, represents the best way to provide the necessary finance to strengthen the Group's financial position and allow it to realise the full potential of its substantial asset base. In that regard we have contracted Evercore Partners to run a formal process to seek an industry partner to join in the development and exploration of the licence. We have set up an extensive electronic data room and are in discussions with a number of potential partners. Secondly, we are also in discussions with certain Russian and international banks with a view to re-financing the existing debt facilities, however, the farmout option remains the preference of the Board of Directors. The aim of these discussions is to deliver a long term solution to the Group's finances to enable it to fully exploit its portfolio of reserves and prospects.

While, as at the date of approval of these financial statements, no commitment has been received in respect of either a farmout or re-financing, and there can be no certainty that additional funding will ultimately be received, significant progress has been made and the Directors remain confident about the outcome of these discussions and the resilience of the Group despite the pressures outlined above.

The Group has analysed its cash flow requirements through to 31 December 2014 in detail. The monthly repayments from operating cash flows of US\$650,000 to Macquarie commenced in March 2013, however, based on our current cash flow forecasts the Group will need to obtain additional funding in order to repay in full the final amount of US\$8.4 million due in May 2014. The cash flow includes estimates for a number of key variables including timing of cash flows of development expenditure, oil price, production rates, and management of working capital. The Directors believe that the Group's cash flow forecasts represent the Group's best estimate of the results over the forecast period as at the date of approval of the financial statements. As part of the Directors' overall consideration of the appropriateness of going concern, the cash flow is stress tested to assess the potential adverse effect arising from reasonable changes in circumstance. It is recognised that the cash flow impact of these changes could result in further funding being required. In addition, under the revised borrowing base the Group has to remain in compliance with certain financial covenants and lender approvals.

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2013

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

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

3. Accounting policies

3.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2013 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 2012 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 2012.

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 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.

Non-current assets

Assets are allocated based on where the assets are located:

	<i>Unaudited</i>		<i>Audited</i>
	30 June 2013 US\$	30 June 2012 US\$	31 December 2012 US\$
Russia	128,662,026	125,101,637	138,899,550
Ireland	6,890	7,516	8,651
	128,668,916	125,109,153	138,908,201

5. Finance costs

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2013 US\$	6 months ended 30 June 2012 US\$	Year ended 31 December 2012 US\$
Interest on loans	1,625,139	1,673,265	3,890,820
Unwinding of discount on decommissioning provision	126,612	77,627	65,167
Other	-	-	260,561
	1,751,751	1,750,892	4,216,548

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2013

6. Income tax

	<i>Unaudited</i>		<i>Audited</i>
	6 months ended 30 June 2013	6 months ended 30 June 2012	Year ended 31 December 2012
	US\$	US\$	US\$
Current income tax			
Current income tax charge	2,206	61,920	64,105
Income tax on dividends (paid in Russia)	-	10,797	10,799
Total current income tax	2,206	72,717	74,904
Deferred tax			
Relating to origination and reversal of temporary differences	869,340	803,795	1,713,670
Total deferred tax	869,340	803,795	1,713,670
Income tax expense reported in the Consolidated Income Statement	871,546	876,512	1,788,574

PetroNeft Resources plc

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2013

7. Oil and gas properties

	Wells US\$	Equipment and facilities US\$	Pipeline US\$	Total US\$
Cost				
At 1 January 2012	63,611,460	25,557,989	13,315,422	102,484,871
Additions	8,281,792	1,227,254	2,333,384	11,842,430
Disposals	(19,231)	-	-	(19,231)
Translation adjustment	3,485,238	1,383,657	754,214	5,623,109
At 1 January 2013	75,359,259	28,168,900	16,403,020	119,931,179
Additions	1,725,175	1,302,167	24,650	3,051,992
Disposals	-	-	-	-
Translation adjustment	(5,394,916)	(2,076,186)	(1,171,594)	(8,642,696)
At 30 June 2013	71,689,518	27,394,881	15,256,076	114,340,475
Depreciation				
At 1 January 2012	8,711,882	958,420	116,593	9,786,895
Charge for the year	3,706,710	893,632	108,953	4,709,295
Translation adjustment	261,360	61,149	14,724	337,233
At 1 January 2013	12,679,952	1,913,201	240,270	14,833,423
Charge for the period	2,263,383	552,758	60,486	2,876,627
Translation adjustment	(666,470)	(166,498)	(20,438)	(853,406)
At 30 June 2013	14,276,865	2,299,461	280,318	16,856,644
Net book values				
At 30 June 2013	57,412,653	25,095,420	14,975,758	97,483,831
At 31 December 2012	62,679,307	26,255,699	16,162,750	105,097,756

The net book value at 30 June 2013 includes US\$5,952,907 (YE2012: US\$8,369,828) in respect of assets under construction, which are not yet being depreciated.

Expenditure of US\$3,051,992 was incurred mainly in connection with the Arbuzovskoye oil field, primarily relating to production wells and oilfield infrastructure.

PetroNeft Resources plc

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2013

8. Property, Plant and Equipment

	Buildings & leasehold improvements US\$	Plant and machinery US\$	Motor vehicles US\$	Total US\$
Cost				
At 1 January 2012	1,046,723	1,748,682	117,670	2,913,075
Additions	-	15,529	-	15,529
Disposals	-	(3,549)	-	(3,549)
Translation adjustment	55,961	94,062	6,325	156,348
At 1 January 2013	1,102,684	1,854,724	123,995	3,081,403
Additions	-	14,943	70,175	85,118
Disposals	-	(32,275)	-	(32,275)
Translation adjustment	(79,421)	(130,548)	(12,786)	(222,755)
At 30 June 2013	1,023,263	1,706,844	181,384	2,911,491
Depreciation				
At 1 January 2012	146,251	785,981	54,905	987,137
Charge for the year	63,217	250,421	25,698	339,336
Translation adjustment	8,996	45,896	3,412	58,304
At 1 January 2013	218,464	1,082,298	84,015	1,384,777
Charge for the period	31,610	141,172	16,643	189,425
Disposals	-	(19,676)	-	(19,676)
Translation adjustment	(17,444)	(83,064)	(6,957)	(107,465)
At 30 June 2013	232,630	1,120,730	93,701	1,447,061
Net book values				
At 30 June 2013	790,633	586,114	87,683	1,464,430
At 31 December 2012	884,220	772,426	39,980	1,696,626

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9. Exploration and evaluation assets

	Exploration & Evaluation Expenditure US\$
Cost	
At 1 January 2012	24,552,717
Additions	2,412,261
Translation adjustment	1,329,699
At 1 January 2013	28,294,677
Disposals	(25,587)
Translation adjustment	(1,986,718)
At 30 June 2013	26,282,372
Net book values	
At 30 June 2013	26,282,372
At 31 December 2012	28,294,677

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.

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10. 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 2012	3,851,880
Retained loss	(223,472)
Translation adjustment	190,734
	<hr/>
At 1 January 2013	3,819,142
Retained loss	(127,268)
Translation adjustment	(253,591)
	<hr/>
At 30 June 2013	3,438,283

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 2013	6 months ended 30 June 2012	Year ended 31 December 2012
	US\$	US\$	US\$
Sales and other operating revenues	-	-	-
Operating expenses	(35,545)	(105,815)	(196,468)
Exchange loss	(65,450)	(63,427)	8,890
Finance revenue	86	1,380	1,719
Finance costs	(21,377)	(8,338)	(30,437)
Loss before taxation	(122,286)	(176,200)	(216,296)
Taxation	(4,982)	(2,064)	(7,176)
Loss for the period	(127,268)	(178,264)	(223,472)
	<hr/>		<hr/>
	<i>Unaudited</i>		<i>Audited</i>
	30 June 2013	30 June 2012	31 December 2012
	US\$	US\$	US\$
Current assets	108,627	189,733	61,672
Non-current assets	4,273,484	4,243,349	4,647,923
Total assets	4,382,111	4,433,082	4,709,595
	<hr/>		<hr/>
Current liabilities	(51,643)	(33,450)	(29,413)
Non-current liabilities	(892,185)	(825,904)	(861,040)
Total liabilities	(943,828)	(859,354)	(890,453)

PetroNeft Resources plc

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2013

11. Inventories

	<i>Unaudited</i>		<i>Audited</i>
	30 June 2013	30 June 2012	31 December 2012
	US\$	US\$	US\$
Oil stock	1,662,932	1,417,696	1,572,957
Materials	148,224	194,318	138,460
	<u>1,811,156</u>	<u>1,612,014</u>	<u>1,711,417</u>

12. Trade and other receivables

	<i>Unaudited</i>		<i>Audited</i>
	30 June 2013	30 June 2012	31 December 2012
	US\$	US\$	US\$
Russian VAT	16,729	335,395	55,519
Russian profit tax receivable	6,610	-	168,885
Other receivables	156,180	359,750	165,054
Receivable from jointly controlled entity (Note 16)	721,092	647,868	657,492
Advances to and receivables from related parties (Note 16)	7,035	50,702	69,762
Advances to contractors	11,965	42,261	49,397
Prepayments	58,792	76,680	153,923
	<u>978,403</u>	<u>1,512,656</u>	<u>1,320,032</u>

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%.

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Notes to the interim condensed consolidated financial statements

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13. Cash and Cash Equivalents and Restricted Cash

	<i>Unaudited</i>		<i>Audited</i>
	30 June 2013	30 June 2012	31 December 2012
	US\$	US\$	US\$
Cash at bank and in hand	130,720	1,715,486	3,939,422
Restricted cash	4,000,000	4,000,000	4,000,000
	<u>4,130,720</u>	<u>5,715,486</u>	<u>7,939,422</u>

At 30 June 2013 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.

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.

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Notes to the interim condensed consolidated financial statements

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14. Trade and other payables

	<i>Unaudited</i>		<i>Audited</i>
	30 June 2013 US\$	30 June 2012 US\$	31 December 2012 US\$
Trade payables	1,545,374	3,063,278	945,955
Trade payables to jointly controlled entity (Note 16)	182,945	16,768	18,241
Trade payables to related parties (Note 16)	2,011,715	3,113,786	1,947,539
Corporation tax	66,878	69,746	64,105
Oil taxes, VAT and employee taxes	4,936,089	2,318,789	3,221,291
Other payables	186,958	187,785	169,540
Payments received in advance	387,595	-	1,531,204
Accruals	784,759	864,998	1,011,955
	10,102,313	9,635,150	8,909,830

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.

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for the six months ended 30 June 2013

15. Loans and borrowings

Group and Company	Effective interest rate %	Maturity	Unaudited		Audited
			30 June 2013 US\$	30 June 2012 US\$	31 December 2012 US\$
Interest bearing					
<i>Current liabilities</i>					
Macquarie Bank - US\$75,000,000 loan facility	9.79%	31-May-14	18,816,604	29,695,071	21,350,311
Total current liabilities			18,816,604	29,695,071	21,350,311
<i>Non-current liabilities</i>					
Arawak - US\$15,000,000 loan	7.16%	30-May-15	14,682,383	14,474,828	14,559,722
Total non-current liabilities			14,682,383	14,474,828	14,559,722
Total loans and borrowings			33,498,987	44,366,699	35,910,033
Contractual undiscounted liability			33,900,000	45,000,000	36,500,000

Macquarie loan facility

On 28 May 2010 the Group agreed a loan facility agreement for up to US\$30 million with Macquarie to re-finance an existing facility of US\$5 million. In April 2011, PetroNeft signed a revised borrowing base loan facility agreement with Macquarie for up to US\$75 million. The initial borrowing base was set at US\$30 million.

During 2012, pursuant to a borrowing base review, the Group repaid an amount of US\$7.5 million on its outstanding loan balance and in addition an amount of US\$1 million was converted into equity by way of issuing new shares. In addition to this monthly repayments of US\$650,000 commenced on 31 March 2013.

Under the various loan agreements Macquarie was granted 10.1 million warrants at various strike prices and with various expiry dates. There was also a 1% cash arrangement fee associated with the new loan facility in 2011.

Total transaction costs, including share-based payment expense connected with the warrants granted, incurred in the 6 months to June 2013 amounted to US\$Nil (2012: US\$0.2 million) 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.

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 are pledged as a security for the Macquarie loan facility agreement.

During the period the Group was in breach of certain financial covenants and conditions subject to the loan agreement, relating primarily certain financial ratios. These conditions were waived by Macquarie such that the Group was not in breach as at the period-end. However as the waiver did not extend to more than 12 months after the period-end, all of the Macquarie debt is classified as repayable within one year.

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2013

15. Loans and borrowings (continued)

Arawak Energy Russia B.V. loan facility

On 30 May 2012, the Group signed a three-year loan agreement with Arawak for US\$15 million. The loan carries an interest rate of LIBOR plus 6%. In addition, 4,000,000 warrants were granted to Arawak as part of the loan agreement. Total transaction costs incurred in 2012 amounted to US\$0.35 million 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. Interest is payable monthly and the principal is repayable in one instalment on 30 May 2015. The loan is secured on PetroNeft's 50% interest in Russian BD Holdings B.V.

The loan arrangement constitutes a compound financial instrument under IAS 32 *Financial Instruments: Presentation* comprising loans and borrowing and an equity component (warrants). These warrants granted to Arawak should be accounted for separately. Using the split accounting method, a value of US\$0.2 million was allocated to the equity component which has been credited to reserves.

16. Related party disclosures

Transactions between PetroNeft Resources plc and its subsidiaries, Stimul-T, Granite, Pervomayka, Dolomite, WorldAce Investments 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. 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 2013		31 December 2012	
	TBNG US\$	Other companies US\$	TBNG US\$	Other companies US\$
Period ended				
Maximum value of new contracts awarded during the period	-	-	441,264	-
Paid during the period for drilling and other services	1,568,998	78,803	9,834,779	491,339
Amount due to TBNG and related companies at period end	1,961,139	50,576	1,922,796	24,743
Received during the period for sundry goods and services	58,686	-	15,501	-
Amount due from TBNG and related companies at period end	3,755	3,280	66,228	3,534

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16. Related party disclosures (continued)

The Group has an indirect 50% interest in Lineynoye which in turn is 100% owned by the jointly controlled entity Russian BD Holdings B.V. Lineynoye also entered into some transactions with TBNG and related companies as follows:

<i>Period ended</i>	30 June 2013		31 December 2012	
	TBNG US\$	Other companies US\$	TBNG US\$	Other companies US\$
Paid during the period for drilling and related services	-	-	1,375,582	-

The Group provided various goods and services to the jointly controlled entity Russian BD Holdings B.V. and its wholly-owned subsidiary LLC Lineynoye during six months ended 30 June 2013 amounting to US\$88,958 (FY2012: US\$332,424). An amount of US\$721,092 (YE2012: US\$657,492) is outstanding from these entities at 30 June 2013 while an amount of US\$182,945 (YE2012: US\$18,241) is payable.