

PetroNeft Resources plc

Preliminary Results for the Year Ended 31 December 2010

2010 – A Transformational Year

11 May 2011

PetroNeft Resources plc (“PetroNeft”, “the Company” or “the Group”), (AIM: PTR) owner and operator of Licences 61 and 67, Tomsk Oblast, Russian Federation, is pleased to report its preliminary results for the year ended 31 December 2010.

Operational Highlights

- Year-round production commenced on schedule in Q3 2010
- Group 2P reserves increase 37% to 96.9 mmbbls
- Production reached 3,100 bopd from 9 wells
- Drilling of 17 additional production wells planned for 2011 underway
- Five well exploration programme targeting 120 million barrels of reserves underway

Financial Highlights

- Commencement of oil sales in late Q3 2010
- Capital expenditure of US\$42 million in 2010; a fully-funded US\$53 million spend planned for 2011
- Successful oversubscribed US\$43 million equity placing in October 2010
- Macquarie US\$30 million Loan facility signed in May 2010, improved terms agreed in April 2011

Dennis Francis, CEO of PetroNeft commented:

“2010 was a transformational year which saw PetroNeft evolve from an exploration company to one with both exploration and production. Our proved and probable oil reserves grew by 37% with the addition of two new oil fields to our portfolio.

“2011 is set to be PetroNeft’s busiest year to date with production continuing to grow on the back of 17 new production wells and 120 million barrels of reserve growth targeted by a major five well exploration programme both of which are already underway. We look forward to updating shareholders on progress on both fronts throughout the year.”

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PetroNeft Resources plc

Preliminary Results for the Year Ended 31 December 2010

Forward Looking Statements

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

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

Glossary

1P	Proved reserves according to SPE standards.
2P	Proved and probable reserves according to SPE standards.
3P	Proved, probable and possible reserves according to SPE standards.
AGM	Annual General Meeting.
bfpd	Barrels of fluid per day.
bopd	Barrels of oil per day.
IAS	International Accounting Standard.
IFRIC	IFRS Interpretations Committee.
IFRS	International Financial Reporting Standard.
km	Kilometres.
m	Metres.
mmbbbls	Million barrels.
mmbo	Million barrels of oil.
P1	Proved reserves according to SPE standards.
P2	Probable reserves according to SPE standards.
P3	Possible reserves according to SPE standards.
PetroNeft	PetroNeft Resources plc.
Stimul-T	Limited Liability Company Stimul-T, a wholly owned subsidiary of PetroNeft, based in the Russian Federation.

PetroNeft Resources plc

Preliminary Results 2010

PetroNeft Resources plc

Chairman's Statement

A transformational year

2010 was an important year. PetroNeft achieved its primary goal of bringing its existing oil fields into production having completed the construction of a 60km pipeline and oil processing facilities at the Lineynoye oil field as well as drilling nine new production wells. 2011 will see further development and production growth with the planned addition of 17 new production wells at the Lineynoye oil field.

2010 also saw further exploration success with the discovery of the Arbuzovskoye oil field at Licence 61 and the addition of reserves at Licence 67 which had been acquired following an auction in December 2009. In 2010 proved and probable reserves grew by 37% from 71 million barrels of oil ("mmbbls") to 97 mmbbls. 2011 will see a five well exploration programme target additional reserves of approximately 120 mmbbls net to PetroNeft.

Production

Following the successful completion of a 25 year Crude Oil Transportation and Custody Transfer agreement with Imperial Energy ("Imperial") in August 2009 PetroNeft completed the construction of a 60km pipeline from the Lineynoye oil field to Imperial's facility at Kiev-Eganskoye in the first half of 2010. Oil storage and processing facilities were also constructed at the Lineynoye oil field in 2010 with an initial capacity of 7,400 barrels of fluid per day ("bfpd") which will be added to in 2011 to bring capacity to 14,800 bfpd. These two major construction projects were completed on schedule and largely within budget.

Nine new production wells were also drilled at the Lineynoye oil field and put into production. A programme of hydraulic fracturing was carried out on the nine new wells and production reached 3,100 bopd once this programme was completed and the wells had cleaned up. The Group plans to drill 17 new development wells in 2011. The Group is targeting production in a range of between 7,000 and 8,000 bopd by the end of Q1 2012 when all of these 17 new wells, together with the existing wells, will have been fracture stimulated and returned to production.

Reserves growth

In March 2010 the Board took the decision to drill an exploration well at the Arbuzovskaya prospect in Licence 61. This well was drilled in October and November 2010 and led to the discovery of the Arbuzovskoye oil field. Ryder Scott has assessed that there are 13 mmbbls of proved and probable reserves at Arbuzovskoye. Ryder Scott undertook its first review of Licence 67 which was acquired in January 2010 following a December 2009 state auction. Proved and probable reserves at the Ledovoye field were assessed at 28 mmbbls (14 mmbbls net to PetroNeft).

Successful debt and equity financing

PetroNeft successfully raised US\$43 million in October 2010 through a placing of new shares which enabled the Group to commence the Phase 1 project to develop the Lineynoye and West Lineynoye oil fields and become self-financing.

During 2010 we entered into a US\$30 million debt facility with Macquarie Bank Limited. This facility gave the Group the ability to complete the nine well production drilling programme in 2010 and to drill the Arbuzovskoye exploration well that led to the discovery of a new oil field.

It remains the Board's intention to fund the Company with a mixture of debt and equity for business development purposes and to accelerate the appraisal and development programme on Licences 61 and 67.

PetroNeft Resources plc

Chairman's Statement

Key Financial Metrics

	2010 US\$	2009 US\$
Revenue	5,155,646	509,710
Cost of sales	(4,284,181)	(420,566)
Gross profit	871,465	89,144
Gross margin	17%	17%
<i>Administrative expenses</i>		
Overheads	(5,601,591)	(3,430,687)
Share-based payment expense	(460,500)	(464,100)
Foreign exchange loss on intra-group loans	(137,054)	(537,683)
Other foreign exchange gain/(loss)	285,038	(410,056)
	5,914,107	4,842,526
Finance revenue	126,595	173,296
Finance expense	(1,356,918)	(20,644)
Income tax expense	(852,429)	(318,472)
Loss for the year attributable to equity holders of the Parent	(7,125,394)	(6,471,552)
Capital expenditure in the year	41,646,953	6,153,603
Net proceeds of equity share issues	40,793,563	25,863,882
Bank and cash balance at year-end (including restricted cash)	25,281,881	15,726,479

Net Loss

The net loss for the year increased to US\$7,125,394 from US\$6,471,552 in 2009. The main reason for the increase in losses relates to an increase of US\$2,170,904 in overheads partly due to the addition of new staff at our Tomsk operations during the year and the depreciation charge for non-current assets, constructed during the year.

Revenue, Cost of Sales and Gross Margin

Revenue from oil sales was US\$5,155,646 for the year. A gross margin of 17% was achieved. Cost of sales includes depreciation of US\$530,235. We would expect this margin to improve in future periods as many of the costs will not rise proportionally as production grows. We produced 189,508 barrels of oil in the period and sold 158,295 barrels of oil achieving an average oil price of US\$33 per barrel. All of our oil was sold on the domestic market in Russia.

PetroNeft Resources plc

Chairman's Statement

Finance Costs

Finance costs of US\$1,356,918 relate to interest on bank loans, discount on deposit paid for pipeline usage, arrangement fees in relation to the Macquarie loan facilities and the unwinding of discount on decommissioning provision.

Finance Revenue

Finance revenue of US\$126,595 (2009: US\$173,296) arises from interest earned on bank deposits.

Taxation

The current tax charge arises on interest earned from bank deposits. The deferred tax charge arises on interest earned by PetroNeft on loans to its wholly owned subsidiary Stimul-T.

Capital Investment

Several major capital projects were completed in 2010 and further significant investment is planned in 2011. 2010 projects included:

- Construction of a 60km pipeline from Lineynoye oil field to Imperial Energy's facility at Kiev-Eganskoye.
- Construction of oil processing, oil storage and crew facilities at the Lineynoye oil field.
- Drilled and completed nine new production wells and one water source well at the Lineynoye oil field.
- Drilled one exploration well that led to the discovery of the Arbuzovskoye oil field

In 2011 the Group intends to invest US\$53 million, the largest amount it has ever invested in a single year in the following projects:

- Drill, complete and carry out fracture stimulation on 17 new production wells at Pads 2 & 3 in the Lineynoye oil field
- Double the capacity of the oil processing facilities at Lineynoye from 7,400 bfpd to 14,800 bfpd
- Drill three exploration wells at Licence 61, namely, Kondrashevskoye No. 2, Sibkrayevskaya No. 372 and North Varyakhsкая No. 1.
- Drill two exploration wells at Licence 67, namely, Cheremshanskaya No. 3 and Ledovoye No. 2a. As Licence 67 is 50% owned by Arawak Energy they will contribute 50% of these costs.

PetroNeft Resources plc

Chairman's Statement

Current and future funding of PetroNeft

In May 2010 PetroNeft entered into a loan facility with Macquarie Bank Limited for up to US\$30 million. At peak the maximum drawn on this loan was US\$16 million, however this had been reduced to US\$14.2 million by year-end 2010. In April 2011 a revised facility was agreed for up to US\$75 million with immediate availability of US\$30 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.

In October 2010 PetroNeft raised US\$43 million through a private placing of new ordinary shares. The placing was significantly over subscribed. The placing was co-ordinated by the Group's joint-brokers, Davy and Canaccord Genuity who were assisted by Renaissance Capital. The shares were placed with both new and existing shareholders and the proceeds used to finance the Group's exploration and development programme.

As a result of the equity funding and the Macquarie loan facility the Group's 2011 capital investment programme is fully funded. It is also expected that operating cash flows and the debt capacity of the Group's producing assets will enable the Group to continue investment in 2012 and beyond in order to bring its other oil fields into production.

Business development

The principal near-term objective of the Group remains the development of the northern oil fields on Licence 61. However, we have not lost sight of our longer term objective of securing assets outside of Licence 61 to provide growth for the future.

The acquisition of Licence 67 (Ledovy) was a first step in this growth. This new acreage materially enhances the Company's footprint in the Tomsk Oblast and is in line with our stated growth strategy. PetroNeft was able to win this auction because of its highly experienced management team and ability to be flexible and responsive to the opportunity. In January 2010, Arawak Energy ("Arawak") exercised their option under the August 2008 Area of Mutual Interest Agreement to acquire 50% of Licence 67 and we look forward to working with Arawak to develop this asset. PetroNeft will be the Operator for Licence 67.

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

Corporate development

We have added a number of senior management positions to the Group this past year as we moved from an exploration to an exploration and production company. These positions were carefully considered and we selected candidates who met both the immediate and long term needs of the Group. The headcount has increased from 63 to 144 during 2010 principally due to the increased number of professionals and operatives required to run a producing oil field and the associated facilities.

I would like to welcome all new employees to the Group and thank all of our employees, old and new, for their hard work in 2010 to achieve our goal of getting into production.

Summary

2010 was a transformational year for the Group. The commencement of production means that the Group will generate significant cash in the coming years to enable it to expand its reserve base both through exploration and delineation in current Licence areas and through business development opportunities in Tomsk and further afield in Russia.

PetroNeft is fortunate to have a highly experienced and dedicated team and this knowledge and experience have enabled us to meet the array of challenges facing the Group in recent years. I am confident that this team will enable PetroNeft to continue to add shareholder value.

PetroNeft Resources plc

Chairman's Statement

Annual report and AGM

The annual report will be mailed to shareholders and published on the Company's website later this month. The annual general meeting will be held in Dublin on 22 June 2011.

Finally, I know that I speak for all the Directors, management and staff of the Group in giving sincere thanks to our shareholders, both old and new, for your confidence and continued support through the past year.

David Golder
Non-Executive Chairman

PetroNeft Resources plc

Consolidated Income Statement

For the year ended 31 December 2010

	<i>Note</i>	2010 US\$	2009 US\$
<i>Continuing operations</i>			
Revenue		5,155,646	509,710
Cost of sales		(4,284,181)	(420,566)
Gross profit		871,465	89,144
Administrative expenses		(5,777,053)	(4,304,843)
Loss on oil and gas properties		-	(1,552,350)
Exchange loss on intra-Group loans		(137,054)	(537,683)
Operating loss		(5,042,642)	(6,305,732)
Finance revenue		126,595	173,296
Finance costs		(1,356,918)	(20,644)
Loss for the year for continuing operations before taxation		(6,272,965)	(6,153,080)
Income tax expense		(852,429)	(318,472)
Loss for the year attributable to equity holders of the Parent		(7,125,394)	(6,471,552)
Loss per share attributable to ordinary equity holders of the Parent			
Basic and diluted - <i>US dollar cent</i>	3	(1.97)	(2.53)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 US\$	2009 US\$
Loss for the year attributable to equity holders of the Parent	(7,125,394)	(6,471,552)
Currency translation adjustments	(33,696)	(770,566)
Total comprehensive loss for the year attributable to equity holders of the Parent	(7,159,090)	(7,242,118)

PetroNeft Resources plc

Consolidated Balance Sheet

as at 31 December 2010

	Note	2010 US\$	2009 US\$
Assets			
Non-current Assets			
Oil and gas properties	5	62,143,801	27,165,261
Property, plant and equipment	6	1,674,216	1,776,108
Exploration and evaluation assets	7	21,391,491	18,217,242
Leasehold land payments		-	176,825
		85,209,508	47,335,436
Current Assets			
Inventories		907,947	-
Trade and other receivables		8,064,978	4,909,915
Cash and cash equivalents	8	22,781,881	15,726,479
Restricted cash	8	2,500,000	-
		34,254,806	20,636,394
Assets held for sale	4	2,020,678	-
		36,275,484	20,636,394
Total Assets		121,484,992	67,971,830
Equity and Liabilities			
Capital and Reserves			
Called up share capital		5,624,840	4,724,013
Share premium account		122,082,388	81,328,170
Share-based payment reserve		3,641,064	2,368,929
Retained loss		(25,877,797)	(18,752,403)
Currency translation reserve		(5,828,332)	(5,794,636)
Other reserves		336,000	336,000
Equity attributable to equity holders of the Parent		99,978,163	64,210,073
Non-current Liabilities			
Provisions		743,670	269,654
Deferred tax liability		1,636,475	826,129
		2,380,145	1,095,783
Current Liabilities			
Trade and other payables		5,401,479	2,665,974
Interest bearing loans and borrowings	9	13,725,205	-
		19,126,684	2,665,974
Total Liabilities		21,506,829	3,761,757
Total Equity and Liabilities		121,484,992	67,971,830

PetroNeft Resources plc

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	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 2009	2,919,041	57,193,950	2,240,829	(5,024,070)	(12,280,851)	45,048,899
Loss for the year	-	-	-	-	(6,471,552)	(6,471,552)
Currency translation adjustments	-	-	-	(770,566)	-	(770,566)
Total comprehensive loss for the year	-	-	-	(770,566)	(6,471,552)	(7,242,118)
New share capital subscribed	1,797,899	25,560,368	-	-	-	27,358,267
Transaction costs on issue of share capital	-	(1,494,385)	-	-	-	(1,494,385)
Remuneration and other emoluments paid in shares	7,073	68,237	-	-	-	75,310
Share-based payment expense	-	-	464,100	-	-	464,100
At 31 December 2009	4,724,013	81,328,170	2,704,929	(5,794,636)	(18,752,403)	64,210,073
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	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 (note 9)	-	-	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

PetroNeft Resources plc

Consolidated Cash Flow Statement

For year ended 31 December 2010

	Note	2010 US\$	2009 US\$
Cash flows from operating activities			
Loss before taxation		(6,272,965)	(6,153,080)
Adjustment to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation and amortisation		811,949	215,693
Share-based payment expense		460,500	464,100
Unwinding of discount on decommissioning provision		20,787	20,644
Discount on deposit paid for pipeline usage		342,053	-
Write off of leasehold land payments		176,825	-
Loss on disposal of oil and gas properties		-	1,552,350
Remuneration and other emoluments paid in shares		20,362	75,310
Finance revenue		(126,595)	(173,296)
Other finance costs		994,078	-
Working capital adjustments			
(Increase)/decrease in trade and other receivables		(3,444,866)	1,988,854
Increase in inventories		(808,561)	-
Increase/(decrease) in trade and other payables		2,944,919	(408,533)
Income tax received		-	23,163
Net cash flows used in operating activities		(4,881,514)	(2,394,795)
Investing activities			
Purchase of oil and gas properties		(32,006,996)	(5,402,567)
Advance payments to contractors		(3,883,284)	(2,635,111)
Advance payment to purchase License 67		-	(1,160,556)
Purchase of property, plant and equipment		(217,524)	(291,838)
Disposals of property, plant and equipment		1,154	-
Exploration and evaluation payments		(3,736,142)	(812,550)
Increase in restricted cash		(2,500,000)	-
Interest received		161,961	137,930
Net cash used in investing activities		(42,180,831)	(10,164,692)
Financing activities			
Proceeds from issue of share capital		43,180,786	27,358,267
Transaction costs of issue of shares		(2,387,223)	(1,494,385)
Proceeds from exercise of share options		841,120	-
Proceeds from loans and borrowings		16,000,000	-
Transaction costs on loans and borrowings		(584,467)	-
Payments of loans and borrowings		(1,788,000)	-
Interest paid		(835,467)	-
Net cash received from financing activities		54,426,749	25,863,882
Net increase in cash and cash equivalents		7,364,404	13,304,395
Translation adjustment		(309,002)	253,887
Cash and cash equivalents at the beginning of the year		15,726,479	2,168,197
Cash and cash equivalents at the end of the year	8	22,781,881	15,726,479

PetroNeft Resources plc

Notes to the Preliminary Financial Statements

for the year ended 31 December 2010

1. Basis of Accounting and Presentation of Financial Information

While the financial information included in this preliminary announcement has been prepared in accordance with the Group's accounting policies under International Financial Reporting Standards (IFRS) as adopted by the European Union, this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to distribute the full financial statements that comply with IFRS in May 2011.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2010 or 2009, but is derived from those accounts. Statutory accounts for 2009 have been delivered to the Registrar of Companies and those for 2010 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified.

Adoption of new IFRS

The Group has adopted the following new and amended IFRS and IFRIC interpretations in respect of the 2010 financial year-end:

International Accounting Standards (IAS / IFRSs)		Effective date
IFRS 2	Share-based Payment – Group Cash-settled Share-based Payment Transactions	1 January 2010
Amendment to IFRS 3 and IAS 27	Business Combinations and Consolidated and Separate Financial Statements	1 July 2009
IAS 39	Financial Instruments: Recognition and Measurement – Eligible Hedged items	1 July 2009
Improvements to IFRSs (May 2008) – amendment to IFRS 5 Non-current Asset Held for sale and Discontinued Operations		
Improvements to IFRSs (April 2009) – amendments applicable in respect of the 2010 financial year-end		
IFRS Interpretations Committee		
IFRIC 17	Distributions of Non-Cash Assets to Owner	1 July 2009

The application of the standards and interpretations noted above did not result in material changes in the Group's Consolidated Financial Statements.

PetroNeft Resources plc

Notes to the Preliminary Financial Statements

for the year ended 31 December 2010

2. 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:

	2010 US\$	2009 US\$
Russia	85,200,373	47,327,592
Ireland	9,135	7,844
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	85,209,508	47,335,436

PetroNeft Resources plc

Notes to the Preliminary Financial Statements

for the year ended 31 December 2010

3. Loss per Ordinary share

Basic loss per ordinary share amounts are calculated by dividing net loss for the year attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the year.

Basic and diluted earnings per Ordinary Share are the same as the potential Ordinary Shares are anti-dilutive.

	2010 US\$	2009 US\$
Numerator		
Loss attributable to equity shareholders of the Parent for basic and diluted loss	(7,125,394)	(6,471,552)
	<u>(7,125,394)</u>	<u>(6,471,552)</u>
Denominator		
Weighted average number of Ordinary Shares for basic and diluted earnings per Ordinary Share	361,023,606	255,724,257
Diluted weighted average number of shares	<u>361,023,606</u>	<u>255,724,257</u>
Loss per share:		
Basic and diluted - US dollar cent	<u>(1.97)</u>	<u>(2.53)</u>

The Company has instruments in issue that could potentially dilute basic earnings per Ordinary Share in the future, but are not included in the calculation for the reasons outlined below:

- Employee Share Options – 16,860,000 outstanding options as at 31 December 2010 (2009: 13,537,000) that could potentially dilute basic earnings per share in the future. These potential Ordinary Shares are anti-dilutive for the years ended 31 December 2010 and 2009.
- Warrants – At 31 December 2010, 6,200,000 Ordinary Shares are subject to warrants being exercised. These potential Ordinary Shares are anti-dilutive for the year ended 31 December 2010. There were no warrants outstanding at 31 December 2009.

PetroNeft Resources plc

Notes to the Preliminary Financial Statements

for the year ended 31 December 2010

4. Assets held for sale

In January 2010 Licence 67 was registered thereby completing the acquisition. Under the August 2008 Area of Mutual Interest agreement, Arawak Energy ('Arawak') exercised their option to participate as a 50% partner in the development of License 67, which will be operated by PetroNeft through a jointly controlled entity. The legal agreements and documentation relating to the jointly controlled entity are expected to be completed in June 2011 when the assets held for sale will transfer to the jointly controlled entity. No impairment is expected on these assets upon transfer.

The major classes of assets and liabilities reclassified as held for sale as at 31 December 2010 are as follows:

Assets	2010 US\$
Exploration and evaluation assets	2,020,678
	<u><u>2,020,678</u></u>

5. Oil and gas properties

	Wells US\$	Equipment and facilities US\$	Pipeline US\$	Total US\$
Cost				
At 1 January 2009	13,426,925	715,508	9,627,547	23,769,980
Additions	2,105,146	38,712	3,859,608	6,003,466
Disposals	-	-	(2,277,934)	(2,277,934)
Transfer to property, plant and equipment	(10,816)	174	-	(10,642)
Translation adjustment	(112,765)	(16,784)	(172,234)	(301,783)
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 from property, plant and equipment	-	48,884	-	48,884
Translation adjustment	(194,658)	(49,843)	(107,368)	(351,869)
At 31 December 2010	35,213,042	13,553,500	14,174,036	62,940,578
Depreciation				
At 1 January 2009	-	-	-	-
Charge for the year	16,316	1,510	-	17,826
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 31 December 2010	550,067	216,050	30,660	796,777
Net book values				
At 31 December 2010	34,662,975	13,337,450	14,143,376	62,143,801
At 31 December 2009	15,392,174	736,100	11,036,987	27,165,261

The net book value at 31 December 2010 includes US\$17,288,826 (2009: US\$21,242,291) in respect of assets under construction, which are not yet being depreciated.

Additions are construction works mainly in relation to production wells, Central Procession Facility (CPF) and oilfield infrastructure.

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6. Property, Plant and Equipment

	Land and buildings US\$	Plant and machinery US\$	Motor vehicles US\$	Total US\$
Cost				
At 1 January 2009	310,805	1,731,548	62,002	2,104,355
Additions	-	61,592	81,217	142,809
Transfer from oil and gas properties	-	10,642	-	10,642
Disposals				
Translation adjustment	(8,164)	(41,743)	2,513	(47,394)
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 to oil and gas properties	-	-	(48,884)	(48,884)
Disposals	-	-	(17,869)	(17,869)
Translation adjustment	(5,390)	(13,086)	(1,200)	(19,676)
At 31 December 2010	1,099,715	1,119,864	123,597	2,343,176
Depreciation				
At 1 January 2009	17,744	196,868	22,346	236,958
Charge for the year	7,872	174,591	11,220	193,683
Translation adjustment	(65)	3,742	(14)	3,663
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 31 December 2010	89,472	547,893	31,595	668,960
Net book values				
At 31 December 2010	1,010,243	571,971	92,002	1,674,216
At 31 December 2009	277,090	1,386,838	112,180	1,776,108

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7. Exploration and evaluation assets

	Exploration & Evaluation Expenditure US\$
Cost	
At 1 January 2009	18,684,771
Additions	7,328
Translation adjustment	(474,857)
At 1 January 2010	18,217,242
Additions	5,367,284
Reclassified as assets held for sale (note 4)	(2,020,678)
Translation adjustment	(172,357)
At 31 December 2010	21,391,491
Net book values	
At 31 December 2010	21,391,491
At 31 December 2009	18,217,242

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 2010 relate mainly to drilling of an exploration well in Arbuzovskoye oilfield and the purchase of the license and exploration works in relation to Licence 67. All expenditure in connection with License 67 has been reclassified as assets held for sale at year-end (refer to note 4).

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8. Cash and Cash Equivalents and Restricted Cash

	2010 US\$	2009 US\$
Cash at Bank and in Hand	22,781,881	15,726,479
Restricted cash	2,500,000	-
	<u>25,281,881</u>	<u>15,726,479</u>

At 31 December 2010 restricted cash amounting to US\$2.5 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.

9. Interest-bearing loans and borrowings

	Effective interest rate %	Maturity	2010 US\$	2009 US\$
Macquarie Bank – US\$30,000,000 loan facility	17.21%	30 November 2011	<u>13,725,205</u>	<u>-</u>

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 Stg30p, 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 Stg37.81p 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 Stg50.1p 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 Payment*. 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

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9. Interest-bearing loans and borrowings (continued)

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 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.

Total transaction costs, including share-based payment expense, incurred in connection with the US\$30 million facility amounted to US\$1.0 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.

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 the period amount to US\$745,300 (2009: Nil). 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 OGP items (wells, central processing facility, pipeline), 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.

During the year the Group was in breach of certain financial and non-financial covenants and conditions subsequent to the loan agreement, relating primarily to receipt of certain amount of cash by sale of oil, certain financial ratios and registration of pledge over certain assets of the Group in favour of Macquarie and submitting the documents. These conditions were waived by Macquarie in a letter prior to year-end, such that the Group was not in breach as at the year-end. The Group received another waiver letter post year-end to facilitate the finalisation of the new loan agreement which contains revised financial and non-financial covenants.

10. Related party disclosures

Transactions between PetroNeft Resources plc and its subsidiaries, Stimul-T, Lineynoye, Granite, Pervomayka, Dolomite, World Ace Investments 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 Tomskburneftgaz (TBNG) for the drilling of 9 wells in 2010. 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\$9.5 million. Payments of US\$8,243,900 (2009: US\$1,057,032) were made during 2010 in relation to this contract of which US\$ nil (2009: US\$942,660) are shown as advance payments as at 31 December 2010. As at 31 December 2010 the outstanding amount payable to TBNG is US\$77,309 (2009: nil). Vakha Sobraliev, a Director of PetroNeft, is the principal of TBNG.

In 2010 Stimul-T entered into a contract with TBNG for the drilling of well #1 in Arbuzovskoye oilfield in 2010. 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\$1,587,817 were made during 2010 in relation to this contract. As at 31 December 2010 the outstanding amount payable to TBNG is US\$455,587.

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10. Related party disclosures (continued)

In 2010 Stimul-T entered into a contract with TBNG for the drilling of pad #2 in Lineynoye oilfield in 2011 and 2012. 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\$9.8 million. Payments of US\$1,248,775 were made during 2010 in relation to this contract and are shown as advance payments as at 31 December 2010.

In 2010 Stimul-T entered into a contract with TBNG for the drilling of pad #3 in Lineynoye oilfield in 2011 and 2012. 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\$9.5 million. Payments of US\$694,954 were made during 2010 in relation to this contract and are shown as advance payments as at 31 December 2010.

In 2010 Stimul-T entered into a contract with TBNG for the drilling of well #2 of Kondrashevskoye oilfield and well #372 of Sibkraevskaya area 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. No transactions have taken place in relation to this contract in 2010.

An amount of US\$103,516 (2009: US\$Nil) was received from TBNG during 2010 in relation to shared use of helicopter services, where the service provider billed the entire amount to Stimul-T. Balance of US\$5,529 (2009:US\$Nil) is outstanding from TBNG at 31 December 2010.

An amount of US\$42,091 (2009: US\$Nil) was received from TBNG during 2010 for fines for not meeting all contract conditions. Balance of US\$8,389 (2009: US\$Nil) is outstanding from TBNG at 31 December 2010.

Stimul-T invoiced US\$Nil (2009: US\$15,945) to TBNG for supply of crude oil.

A total of US\$ 81,182 (2009: US\$2,407) is outstanding to other parties, related to Vakha Sobraliev, a Director of PetroNeft for repair works on wells and transportation services. Payments of US\$444,644 (2009: US\$23,066) were made to these entities during the year.

Remuneration of key management

Key management comprise the Directors of the Company, the Vice President of Business Development and Operations, the General Director and the Executive Director of the Russian subsidiary Stimul-T, along with both the Chief Geologist and the Chief Engineer of Stimul-T. Their remuneration during the year was as follows:

Remuneration of key management

	2010 US\$	2009 US\$
Compensation of key management	1,755,774	1,307,504
Contributions to defined contribution pension plan	10,615	9,386
Share-based payment expense	264,099	290,242
	<u>2,030,488</u>	<u>1,607,132</u>

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11. Important Events after the Balance Sheet Date

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.

12. Approval of preliminary financial statements

The preliminary financial statements were approved, and authorised for issue, by the Board of Directors on 10 May 2011.