PetroNeft Resources Plc

Unaudited interim condensed consolidated financial statements

For the 6 months ended 30 June 2012

PetroNeft Resources Plc

Unaudited interim condensed consolidated financial statements

Table of Contents	***Page***

PetroNeft Resources Plc

Group information

Directors [1]	David Golder (U.S. citizen) *(Non-Executive Chairman)* Dennis Francis (U.S. citizen) *(Chief Executive Officer)* Paul Dowling *(Chief Financial Officer)* David Sanders (U.S. citizen) *(Executive Director and General Legal Counsel)* Gerry Fagan *(Non-Executive Director)* Thomas Hickey *(Non-Executive Director)* Vakha Sobraliev (Russian citizen) *(Non-Executive Director)*
Registered Office and Business Address	20 Holles Street Dublin 2 Ireland
Secretary	David Sanders
Auditors	Ernst & Young Chartered Accountants Harcourt Centre Harcourt Street Dublin 2 Ireland
Nominated and ESM Adviser	Davy 49 Dawson Street Dublin 2 Ireland

[1] *Irish Citizens unless otherwise stated*

PetroNeft Resources Plc

Group information (continued)

Joint Brokers

Davy
49 Dawson Street
Dublin 2
Ireland

Canaccord Genuity
88 Wood street
London
EC2V 7QR
United Kingdom

Principal Bankers

Macquarie Bank Limited
Ropemaker Place
28 Ropemaker Street
London
EC2Y 9HD
United Kingdom

AIB Bank
1 Lower Baggot Street
Dublin 2
Ireland

KBC Bank Ireland
Sandwith Street
Dublin 2
Ireland

Solicitors

Eversheds
One Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland

White & Case
5 Old Broad Street
London
EC2N 1DW
United Kingdom

4 Romanov Pereulok
125009
Moscow
Russia

Registered Number 408101

Registrar

Computershare
Heron House
Corrig Road
Sandyford Industrial Estate
Dublin 18
Ireland

PetroNeft Resources Plc

Chairman's Statement

Dear Shareholder,

The first half of 2012 was a challenging period for PetroNeft. Despite showing early positive results the production achieved from the Pad 2 wells at Lineynoye was far below expectations. More recently, however, the Arbuzovskoye oil field is showing itself to be a very promising oil field with initial rates of over 300 bopd from each of the first two wells drilled on that oil field. Achieving production and cash flow growth from the Arbuzovskoye oil field is the focus of the Company in the near term. On the financing front we agreed a new US$15 million debt facility with Arawak Energy.

Production

Production in the six months to 30 June 2012 was 394,652 barrels of oil or an average of 2,168 bopd. While the production from Pad 2 at Lineynoye was disappointing the production from Pad 1 is encouraging and we have seen the benefit of pressure support from the water injection programme we commenced in mid-2011.

We also brought the Arbuzovskoye No.1 discovery well into production in the first half of 2012 and achieved rates of 350 bopd from it. More recently we have announced the results of the first of up to ten planned production wells at Arbuzovskoye, at an initial rate of 310 bopd. Group production is currently 2,300 bopd.

Development drilling programme – Arbuzovskoye oil field

In the winter months of early 2012, we constructed a 10 km pipeline and utility line to link the Arbuzovskoye oil field to the central processing facility at Lineynoye. We also purchased the necessary materials including casing, diesel and other supplies necessary to drill ten production wells at Arbuzovskoye and transported these to the field using winter roads. In May 2012 we commenced production from the Arbuzovskoye No. 1 well through the pipeline at a rate of 350 bopd. It is currently producing 300 bopd. The necessary infrastructure is now complete, and materials for drilling purchased, so only the construction cost of about US$700,000 remains to be spent on each well.

In August 2012 we commenced drilling of new production wells at the Arbuzovskoye oil field and the first development well, No. 101, has delivered encouraging results. The core and log data indicate that the reservoir is substantially identical to the good quality reservoir in the Arbuzovskaya No. 1 discovery well. The reservoir is made up of coarse grained sandstone at the top and grades to fine grained sandstone to siltstone at the base - these types of sandstones are excellent reservoirs as demonstrated by the flow rates achieved at Arbuzovskaya No. 1. The second new well, No. 102, is drilling ahead at present and we expect to bring it into production by the end of October 2012.

Thereafter, wells are likely to be brought into production in batches of two or three rather than one by one as we need to revert to drilling at a five metre spacing at the surface between well heads due to space constraints at location. Once the last well of a batch is drilled we will bring all wells in the batch into production in quick succession. Our target initial rate for wells on this field is 150 bopd so we are encouraged to have exceeded this in our first two wells. Nevertheless, the 101 well is only the first of 10 planned wells and there may be some variation in flow rates as we look forward to the additional Arbuzovskoye wells coming into production and increasing cash flows.

Lineynoye oil field – Pad 2 studies

Since the results of Pad 2 became apparent in February 2012 we have been working hard to understand the reasons for this result and how to avoid such a result in future. Whilst all the studies are not yet complete we do now have a good understanding of the reasons for the poor results.

In first preparing the plan to develop the Lineynoye oil field we had used, amongst other information, the analysis of the core recovered from the Lineynoye No. 6 delineation well to assess the relative permeability of the reservoir and define parameters for how we expected oil and water to flow at different levels of oil saturation. This indicated that oil should dominate the liquid flow when oil saturations were in the 50% to 60% range.

Chairman's Statement *(continued)*

The wells drilled at Pad 2 were generally lower structurally and closer to the oil-water-contact than the wells at Pad 1. Also at Pad 2 it appears that the reservoir properties were tighter and had lower oil saturations. The combination of relative permeability and fractional flow effects in the reservoir therefore led to much higher water cuts at Pad 2. Unfortunately these issues are not always obvious from the log analysis of individual wells.

Lineynoye oil field – Pad 2 studies; improvements made to future operations
In future we can seek to avoid the issues encountered at Pad 2 by drilling higher on the structures and avoiding potential oil and water transition zones. We will also take more cores in production wells and carry out more extensive transient pressure testing. At Arbuzovskoye we plan to core about three of the first ten wells drilled and will carry out transient pressure testing on each well at an early stage in its life. To date, wells on Arbuzovskoye have performed ahead of expectations.

Exploration

Licence 61
The successful exploration programme in 2011 led to discovery of two new oil fields at Licence 61 including the 50 mmbbl Sibkrayevskoye oil field. In the first half of 2012 we selected a location for a delineation well at Sibkrayevskoye, prepared the site and moved the drilling rig and the necessary supplies to the site. We now hope to drill this delineation well in 2013. We will also need to acquire additional seismic data at Sibkrayevskoye and this is currently planned for the winter of 2013/14.

Licence 67
In February 2012 we completed drilling of the Ledovaya No. 2a well and encountered oil at both the Lower Cretaceous and Upper Jurassic horizons. A modest flow test was achieved from the Upper Jurassic horizon but it was not possible to test the Lower Cretaceous interval for technical reasons. Further testing and analysis is required.

In February we also completed tests of the Cheremshanskoye No. 3 well where we identified three separate oil pools and achieved flow tests from all three. Cheremshanskoye is a large structure and will require further delineation and seismic to fully ascertain the size of the discovery.

We continue to study the results from Ledovoye and Cheremshanskoye and in the coming months we will agree the next steps for Licence 67 with our partner Arawak Energy.

Successful debt financing
In May 2012 PetroNeft agreed a new three year debt facility with Arawak Energy. The loan is secured on PetroNeft's 50% interest in Licence 67 and will be repayable in one lump sum at the end of the three-year loan period in May 2015. The interest payable under the loan will be LIBOR plus 6%, a competitive rate given present market conditions. Under the terms of the loan PetroNeft also granted Arawak 4,000,000 warrants over shares at a strike price of US$0.1345 per share.

Chairman's Statement *(continued)*

Financial results for the period

The net loss after tax for the period was US$6,990,186 (6 months ended 30 June 2011 profit: US$3,067,178). The loss includes a foreign exchange loss of US$2,760,623 (6 months ended 30 June 2011 profit: US$5,969,474) 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$4,685,880 (6 months ended 30 June 2011: US$ 3,432,954).

Key Financial Metrics

	Unaudited		*Audited*
	6 months ended 30 June 2012 US$	6 months ended 30 June 2011 US$	Year ended 31 December 2011 US$
Revenue	17,646,024	15,974,980	29,031,693
Cost of sales	(15,115,280)	(12,827,718)	(25,598,616)
Gross profit	2,530,744	3,147,262	3,433,077
Gross margin	14%	20%	12%
Administrative expenses			
Overheads	(3,548,720)	(3,622,312)	(5,848,021)
Share-based payment expense	(500,044)	(558,291)	(1,108,446)
Other foreign exchange gain/(loss)	83,607	(22,951)	159,244
	(3,965,157)	(4,203,554)	(6,797,223)
Foreign exchange on intra-Group loans	(2,760,623)	5,969,474	(5,114,345)
Impairment of oil and gas properties	-	-	(5,000,000)
Finance revenue	10,518	31,493	59,854
Finance costs	(1,750,892)	(1,156,829)	(2,501,070)
Income tax expense	(876,512)	(720,668)	(1,491,320)
Loss for the period attributable to equity holders of the Parent	(6,990,186)	(3,067,178)	(17,913,356)
Capital expenditure in the period	8,972,891	30,820,764	52,136,170
Bank and cash balance at period end (including restricted cash)	5,715,486	3,736,309	6,030,005

Chairman's Statement *(continued)*

Conclusion

The first half of 2012 was a busy period for the Company. While the Lineynoye production rate build up has been slower than desired we have learned key lessons from the work carried out to date and the outlook for growing our production this year and in future years is good.

The first delineation well at Arbuzovskoye (Well No. 101) displays excellent reservoir characteristics and has proved to be almost identical to the Arbuzovskoye No. 1 discovery well. These wells are now producing at around 300 bopd each, which is an excellent initial rate. We look forward to building on production and cash flow as we drill additional development wells at Arbuzovskoye.

David Golder
Non-Executive Chairman

28 September 2012

Interim Consolidated Income Statement

For the 6 months ended 30 June 2012

	Note	*Unaudited* 6 months ended 30 June 2012 US$	*Unaudited* 6 months ended 30 June 2011 US$	*Audited* Year ended 31 December 2011 US$
Continuing operations				
Revenue		17,646,024	15,974,980	29,031,693
Cost of sales		(15,115,280)	(12,827,718)	(25,598,616)
Gross profit		**2,530,744**	**3,147,262**	**3,433,077**
Administrative expenses		(3,965,157)	(4,203,554)	(6,797,223)
Impairment of oil and gas properties		-	-	(5,000,000)
Exchange (loss)/profit on intra-group loans		(2,760,623)	5,969,474	(5,114,345)
Operating (loss)/profit		**(4,195,036)**	**4,913,182**	**(13,478,491)**
Profit on disposal of subsidiary undertaking		-	-	223,222
Loss on disposal of oil and gas properties		-	-	(391,188)
Share of joint venture's net loss		(178,264)	-	(334,363)
Finance revenue		10,518	31,493	59,854
Finance costs	5	(1,750,892)	(1,156,829)	(2,501,070)
(Loss)/profit for the period for continuing operations before taxation		**(6,113,674)**	**3,787,846**	**(16,422,036)**
Income tax expense	6	(876,512)	(720,668)	(1,491,320)
(Loss)/profit for the period attributable to equity holders of the Parent		**(6,990,186)**	**3,067,178**	(17,913,356)
(Loss)/profit per share attributable to ordinary equity holders of the Parent		**(1.68)**	**0.74**	**(4.30)**
Basic and diluted - *US dollar cent*				

Interim Consolidated Statement of Comprehensive Income

For the 6 months ended 30 June 2012

	Unaudited 6 months ended 30 June 2012 US$	*Unaudited* 6 months ended 30 June 2011 US$	*Audited* Year ended 31 December 2011 US$
(Loss)/profit for the period attributable to equity holders of the Parent	**(6,990,186)**	**3,067,178**	(17,913,356)
Currency translation adjustments	(1,056,282)	3,130,795	(1,802,179)
Total comprehensive (loss)/profit for the period attributable to equity holders of the Parent	**(8,046,468)**	**6,197,973**	**(19,715,535)**

PetroNeft Resources Plc

Interim Consolidated Statement of Financial Position
as at 30 June 2012

	Note	*Unaudited* 30 June 2012 US$	*Unaudited* 30 June 2011 US$	*Audited* 31 December 2011 US$
Assets				
Non-current Assets				
Oil and gas properties	*7*	93,862,706	91,334,153	92,697,976
Property, plant and equipment	*8*	1,710,360	2,369,291	1,925,938
Exploration and evaluation assets	*9*	25,962,359	28,494,908	24,552,717
Equity-accounted investment in joint venture	*10*	3,573,728	-	3,851,880
		125,109,153	**122,198,352**	**123,028,511**
Current Assets				
Inventories	*11*	1,612,014	1,679,254	1,856,813
Trade and other receivables	*12*	1,512,656	5,072,771	2,810,459
Cash and cash equivalents	*13*	1,715,486	1,236,309	1,030,005
Restricted cash	*13*	4,000,000	2,500,000	5,000,000
		8,840,156	10,488,334	10,697,277
Assets held for sale		-	3,433,968	-
		8,840,156	**13,922,302**	**10,697,277**
Total Assets		**133,949,309**	**136,120,654**	**133,725,788**
Equity and Liabilities				
Capital and Reserves				
Called up share capital		5,636,142	5,636,142	5,636,142
Share premium account		122,431,629	122,431,629	122,431,629
Share-based payment reserve		5,591,829	4,344,830	4,894,985
Retained loss		(50,781,339)	(22,810,619)	(43,791,153)
Currency translation reserve		(8,686,793)	(2,697,537)	(7,630,511)
Other reserves		336,000	336,000	336,000
Equity attributable to equity holders of the Parent		**74,527,468**	**107,240,445**	**81,877,092**
Non-current Liabilities				
Provisions		1,655,442	965,278	1,147,988
Interest-bearing loans and borrowings	*15*	14,474,828	14,630,284	-
Deferred tax liability	*6*	3,961,350	2,352,250	3,157,557
		20,091,620	**17,947,812**	**4,305,545**
Current Liabilities				
Trade and other payables	*14*	9,635,150	8,932,397	12,938,593
Non-interest-bearing loans and borrowings		-	2,000,000	-
Interest-bearing loans and borrowings	*15*	29,695,071	-	34,604,558
		39,330,221	**10,932,397**	**47,543,151**
Total Liabilities		**59,421,841**	**28,880,209**	**51,848,696**
Total Equity and Liabilities		**133,949,309**	**136,120,654**	**133,725,788**

Interim Consolidated Statement of Changes in Equity

For the 6 months ended 30 June 2012

	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 2011	**5,624,840**	**122,082,388**	**3,977,064**	**(5,828,332)**	**(25,877,797)**	**99,978,163**
Loss for the year	-	-	-	-	(17,913,356)	(17,913,356)
Currency translation adjustments	-	-	-	(1,802,179)	-	(1,802,179)
Total comprehensive loss for the year	-	-	-	(1,802,179)	(17,913,356)	(19,715,535)
Share options exercised in year	11,302	349,241	-	-	-	360,543
Share-based payment expense	-	-	1,108,446	-	-	1,108,446
Share-based payment expense - Macquarie warrants	-	-	145,475	-	-	145,475
At 31 December 2011	**5,636,142**	**122,431,629**	**5,230,985**	**(7,630,511)**	**(43,791,153)**	**81,877,092**
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 period	-	-	-	-	(6,990,186)	(6,990,186)
Currency translation adjustments	-	-	-	(1,056,282)	-	(1,056,282)
Total comprehensive loss for the period	-	-	-	(1,056,282)	(6,990,186)	(8,046,468)
Share-based payment expense	-	-	500,044	-	-	500,044
Share-based payment expense - Arawak warrants	-	-	196,800	-	-	196,800
At 30 June 2012	**5,636,142**	**122,431,629**	**5,927,829**	**(8,686,793)**	**(50,781,339)**	**74,527,468**

PetroNeft Resources Plc

Interim Consolidated Cash Flow Statement

For the 6 months ended 30 June 2012

		Unaudited		*Audited*
		6 months ended 30 June 2012 US$	6 months ended 30 June 2011 US$	Year ended 31 December 2011 US$
Operating activities				
(Loss)/profit before taxation		**(6,113,674)**	**3,787,846**	**(16,422,036)**
Adjustment to reconcile loss/(profit) before tax to net cash flows				
Non-cash				
Depreciation		1,933,985	1,597,085	4,293,949
Impairment of oil and gas properties		-	-	5,000,000
Loss on disposal of oil and gas properties		-	-	391,188
Profit on disposal of subsidiary undertaking		-	-	(223,222)
Share loss in joint venture		178,264	-	334,363
Share-based payment expense		500,044	558,291	1,108,446
Finance revenue		(10,518)	(31,493)	(59,854)
Finance costs	*5*	1,750,892	1,156,829	2,501,070
Working capital adjustments				
Decrease in trade and other receivables		1,204,750	966,019	3,372,948
Decrease/(increase) in inventories		447,077	(606,526)	(646,118)
Increase/(decrease) in trade and other payables		4,805,860	(3,995,097)	6,285,719
Income tax paid		(10,800)	-	(68,029)
Net cash flows from operating activities		**4,685,880**	**3,432,954**	**5,868,424**
Investing activities				
Purchase of oil and gas properties		(11,748,966)	(18,390,893)	(32,967,288)
Advance payments to contractors		(92,963)	(1,623,828)	(199,568)
Purchase of property, plant and equipment		(6,219)	(755,057)	(570,396)
Exploration and evaluation payments		(1,260,416)	(5,261,525)	(6,629,469)
Investment in assets held for sale		-	(1,413,290)	-
Investment in joint venture undertaking		-	-	(3,850,000)
Decrease/(increase) in restricted cash		1,000,000	-	(2,500,000)
Interest received		10,518	31,493	55,861
Net cash used in investing activities		**(12,098,046)**	**(27,413,100)**	**(46,660,860)**
Financing activities				
Proceeds from exercise of options		-	360,543	360,543
Proceeds from loan facilities		15,000,000	17,000,000	37,000,000
Transaction costs on loans and borrowings		(337,754)	(271,743)	(472,696)
Repayment of loan facilities		(5,000,000)	(14,212,000)	(16,212,000)
Interest paid		(1,575,270)	(593,605)	(1,729,447)
Net cash received from financing activities		**8,086,976**	**2,283,195**	**18,946,400**
Net increase/(decrease) in cash and cash equivalents		**674,810**	**(21,696,951)**	**(21,846,036)**
Translation adjustment		10,671	151,379	94,160
Cash and cash equivalents at the beginning of the period		1,030,005	22,781,881	22,781,881
Cash and cash equivalents at the end of the period	*13*	**1,715,486**	**1,236,309**	**1,030,005**

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2012

1. Corporate information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2012 were authorised for issue in accordance with a resolution of the Directors on 27 September 2012.

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 2011 Annual Report the Lineynoye Pad 2 results meant that certain production and cash flow covenants that were part of the Macquarie facility were not met during, at and post the year-end. While Macquarie waived these covenants at the year-end, it meant that it was not possible to increase the amount available under the borrowing base loan facility. Macquarie supported and agreed to the Arawak additional loan facility and did not seek repayment of their base loan facility as Macquarie prefer to see Arbuzovskoye coming into production as it offers the best option for increasing Group production and cash flows.

Although Macquarie remains a supportive lender and key shareholder, they have indicated, absent any alternative funding option, their preference that the debt be reduced by about US$7.5 million by mid 2013. However they did not seek a repayment out of the proceeds of the Arawak loan facility and remain supportive of the Group's plans to bring the Arbuzovskoye oil field into production this year particularly in light of the recent rates achieved from the Arbuzovskoye No. 1 well. The Board has a plan to bring the Arbuzovskoye oil field into production in the coming months thereby increasing the Group's long-term cash flows. The recent success of the Arbuzovskoye 101 well was a first step in this regard.

The Board remain positive about the resilience of the Group despite the pressures outlined above. The Group has analysed its cash flow requirements through to 31 December 2013 in detail. The cash flow includes estimates for a number of key variables including timing of cash flows of development expenditure, oil price, production rates, and with the ongoing support of its lenders and management of working capital the Directors believe that the Group's cash flow forecasts represent the Group's best estimate of the actual results over the forecast period at the date of approval of the financial statements. The cash flow is stress tested to assess the adverse effect arising from reasonable changes in circumstance. It is recognised that the cash flow impact of these changes could result in additional funding being required. The Group is also in discussions with a range of strategic investors about possible farm-outs, long term off-take agreements and potential equity or asset investments which would strengthen the Group's financial position.

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 these interim condensed consolidated financial statements.

Accordingly, these interim condensed 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.

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2012

3. Accounting policies

3.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2012 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 2011 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 2011.

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2012

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 operating profit or loss in the consolidated financial statements.

Geographical segments

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

Non-current assets

Assets are allocated based on where the assets are located:

	Unaudited		*Audited*
	30 June 2012	**30 June 2011**	**31 December 2011**
	US$	**US$**	**US$**
Russia	125,101,637	122,186,983	123,019,068
Ireland	7,516	11,369	9,443
	125,109,153	**122,198,352**	**123,028,511**

5. Finance costs

	Unaudited		*Audited*
	6 months ended 30 June 2012	**6 months ended 30 June 2011**	**Year ended 31 December 2011**
	US$	**US$**	**US$**
Interest on loans	1,673,265	1,122,505	2,438,971
Unwinding of discount on decommissioning provision	77,627	64,846	62,099
Discount on deposit paid for pipeline usage (see *below*)	-	(30,522)	-
	1,750,892	**1,156,829**	**2,501,070**

During 2010 the Group paid a deposit of US$400,000 to Nord Imperial for the usage of their pipeline. This deposit will be returned at the end of the contract which is in 2033. In the interim consolidated financial statements this deposit has been discounted and the unwinding of a discount of US$5,975 has been taken to finance revenue in the current period (6 months 2011: reversal of discount of US$30,552 was taken to finance costs).

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2012

6. Income tax

	Unaudited		*Audited*
	6 months ended 30 June 2012 US$	6 months ended 30 June 2011 US$	Year ended 31 December 2011 US$
Current income tax			
Current income tax charge	61,920	4,889	7,756
Income tax on dividends (paid in Russia)	10,797	-	-
Adjustment in respect of prior periods	-	-	(37,518)
Total current income tax	72,717	4,889	(29,762)
Deferred tax			
Relating to origination and reversal of temporary differences	803,795	715,779	1,521,082
Total deferred tax	803,795	715,779	1,521,082
Income tax expense reported in the Consolidated Income Statement	876,512	720,668	1,491,320

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2012

7. Oil and gas properties

Group

	Wells US$	Equipment and facilities US$	Pipeline US$	Total US$
Cost				
At 1 January 2011	35,213,042	13,553,500	14,174,036	62,940,578
Transfer from exploration and evaluation assets	2,803,399	111,368	-	2,914,767
Additions	30,033,170	13,846,905	51,406	43,931,481
Disposals	(19,843)	(127,661)	(249,045)	(396,549)
Translation adjustment	(4,418,308)	(1,826,123)	(660,975)	(6,905,406)
At 1 January 2012	**63,611,460**	**25,557,989**	**13,315,422**	**102,484,871**
Additions	**4,547,196**	**1,579,783**	**492,235**	**6,619,214**
Disposals	**(19,525)**	**-**	**-**	**(19,525)**
Translation adjustment	**(2,302,677)**	**(911,057)**	**(450,886)**	**(3,664,620)**
At 30 June 2012	**65,836,454**	**26,226,715**	**13,356,771**	**105,419,940**
Depreciation				
At 1 January 2011	550,067	216,050	30,660	796,777
Charge for the year	3,476,558	816,099	96,576	4,389,233
Impairment	5,000,000	-	-	5,000,000
Depreciation on disposals	(500)	(4,126)	(735)	(5,361)
Translation adjustment	(314,243)	(69,603)	(9,908)	(393,754)
At 1 January 2012	**8,711,882**	**958,420**	**116,593**	**9,786,895**
Charge for the period	**1,601,331**	**424,925**	**47,985**	**2,074,241**
Translation adjustment	**(234,153)**	**(62,201)**	**(7,548)**	**(303,902)**
At 30 June 2012	**10,079,060**	**1,321,144**	**157,030**	**11,557,234**
Net book values				
At 30 June 2012	**55,757,394**	**24,905,571**	**13,199,741**	**93,862,706**
At 31 December 2011	54,899,578	24,599,569	13,198,829	92,697,976

The net book value at 30 June 2012 includes US$27,190,270 (30 June 2011: US$37,512,574) in respect of assets which are not yet being depreciated.

Additions are construction works mainly in relation to oilfield infrastructure and acquisition of construction materials for drilling of wells in Arbuzovskoye oilfield.

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2012

8. Property, Plant and Equipment

Group	Land and buildings US$	Plant and machinery US$	Motor vehicles US$	Total US$
Cost				
At 1 January 2011	1,099,715	1,119,864	123,597	2,343,176
Additions	-	745,073	-	745,073
Translation adjustment	(52,992)	(116,255)	(5,927)	(175,174)
At 1 January 2012	**1,046,723**	**1,748,682**	**117,670**	**2,913,075**
Additions	-	6,218	-	6,218
Translation adjustment	(33,686)	(54,535)	(3,686)	(91,907)
At 30 June 2012	**1,013,037**	**1,700,365**	**113,984**	**2,827,386**
Depreciation				
At 1 January 2011	89,472	547,893	31,595	668,960
Charge for the year	66,787	288,205	27,149	382,141
Translation adjustment	(10,008)	(50,117)	(3,839)	(63,964)
At 1 January 2012	**146,251**	**785,981**	**54,905**	**987,137**
Charge for the period	32,092	129,469	13,046	174,607
Translation adjustment	(7,816)	(34,160)	(2,742)	(44,718)
At 30 June 2012	**170,527**	**881,290**	**65,209**	**1,117,026**
Net book values				
At 30 June 2012	**842,510**	**819,075**	**48,775**	**1,710,360**
At 31 December 2011	900,472	962,701	62,765	1,925,938

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2012

9. Exploration and evaluation assets

	Exploration & Evaluation Expenditure US$
Cost	
At 1 January 2011	21,391,491
Additions	7,459,616
Reclassification to oil and gas properties	(2,914,767)
Translation adjustment	(1,383,623)
At 1 January 2012	**24,552,717**
Additions	2,347,459
Translation adjustment	(937,817)
At 30 June 2012	**25,962,359**
Net book values	
At 30 June 2012	**25,962,359**
At 31 December 2011	24,552,717

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 on-going exploration, and therefore whether the carrying value of these assets will ultimately be recovered, is inherently uncertain.

In accordance with IFRS 6, once commercial viability is demonstrated, the capitalised exploration and evaluation costs are transferred to oil and gas properties or intangibles, as appropriate after being assessed for impairment.

Additions in the six months ended 30 June 2012 relate mainly to exploration wells in Sibkraevskaya and North Varyakhskaya prospects, Kondrashevskoye oilfield.

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.

Equity-accounted investment in joint venture

	Share of net assets US$
At 1 January 2011	-
Subsidiary undertaking becoming joint venture	445,748
Investment	3,850,000
Retained loss	(334,363)
Translation adjustment	(109,505)
At 1 January 2012	**3,851,880**
Loss for the period	(178,264)
Translation adjustment	(99,888)
At 30 June 2012	**3,573,728**

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2012

10. Equity-accounted investment in joint venture (continued)

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)

	Unaudited		*Audited*
	6 months ended 30 June 2012 US$	**6 months ended 30 June 2011 US$**	**Year ended 31 December 2011 US$**
Sales and other operating revenues	-	-	-
Operating expenses	(105,815)	-	(176,278)
Exchange loss	(63,427)	-	(149,640)
Finance revenue	1,380	-	1,408
Finance costs	(8,338)	-	(9,496)
Loss before taxation	**(176,200)**	**-**	**(334,006)**
Taxation	(2,064)	-	(357)
Loss for the period	**(178,264)**	**-**	**(334,363)**

	Unaudited		*Audited*
	30 June 2012 US$	**30 June 2011 US$**	**31 December 2011 US$**
Current assets	189,733	-	3,906,526
Non-current assets	4,243,349	-	532,830
Total assets	**4,433,082**	**-**	**4,439,356**
Current liabilities	(33,450)	-	(581,340)
Non-current liabilities	(825,904)	-	(6,136)
Total liabilities	**(859,354)**	**-**	**(587,476)**

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2012

11. Inventories

	Unaudited		Audited
	30 June 2012 US$	30 June 2011 US$	31 December 2011 US$
Oil stock	1,417,696	1,350,367	1,619,333
Materials	194,318	328,887	237,480
	1,612,014	**1,679,254**	**1,856,813**

12. Trade and other receivables

	Unaudited		Audited
	30 June 2012 US$	30 June 2011 US$	31 December 2011 US$
Russian VAT	335,395	2,485,260	1,802,450
Other receivables	359,750	511,887	77,860
Receivable from jointly controlled entity (Note 16)	647,868	-	520,921
Advances to and receivables from related parties (Note 16)	50,702	1,415,173	47,397
Advances to contractors	42,261	411,404	152,171
Prepayments	76,680	249,047	209,660
	1,512,656	**5,072,771**	**2,810,459**

13. Cash and Cash Equivalents and Restricted Cash

	Unaudited		Audited
	30 June 2012 US$	30 June 2011 US$	31 December 2011 US$
Cash at bank and in hand	1,715,486	1,236,309	1,030,005
Restricted cash	4,000,000	2,500,000	5,000,000
	5,715,486	**3,736,309**	**6,030,005**

At 30 June 2012 restricted cash amounting to US$4 million (30 June 2011: US$2.5 million) was held in a Macquarie Debt Service Reserve Account ("DSRA"). This account is part of the security package held by Macquarie and may be offset against the loan in the event of a default on the loan or by agreement between the parties.

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2012

14. Trade and other payables

	Unaudited		*Audited*
	30 June 2012 US$	**30 June 2011 US$**	**31 December 2011 US$**
Trade payables	3,063,278	3,826,711	7,383,976
Trade payables to jointly controlled entity (Note 16)	16,768	-	-
Trade payables to related parties (Note 16)	3,113,786	3,962,422	4,548,673
Corporation tax	69,746	99,682	7,827
Other taxes and social welfare costs	2,318,789	60,378	117,177
Other payables	187,785	177,404	160,237
Accruals	864,998	805,800	720,703
	9,635,150	**8,932,397**	**12,938,593**

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2012

15. Loans and borrowings

			Unaudited		*Audited*
	Effective interest rate	**Maturity**	**30 June 2012**	**30 June 2011**	**31 December 2011**
	%		**US$**	**US$**	**US$**
Interest bearing < 1 year					
Macquarie Bank - US$30,000,000 loan facility	9.53%	31-May-14	29,695,071	14,630,284	29,628,011
Arawak - US$5,000,000 loan	6.68%	30-Jun-12	-	-	4,976,547
Interest bearing > 1 year					
Arawak - US$15,000,000 loan	6.75%	31-May-15	14,474,828		
Non- interest bearing < 1 year					
Arawak - US$2,000,000 loan	0.00%	31-Dec-11	-	2,000,000	-
			44,366,699	**16,630,284**	**34,604,558**
Contractual undiscounted liability			45,000,000	17,000,000	35,000,000

15. Loans and borrowings (continued)

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 and remains at this level.

Under the various loan agreements Macquarie was granted 6.7 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 6 months 2012 amounted to US$Nil (2011: US$0.6 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.

No borrowing costs were capitalised in the 6 months ended 30 June 2012 and 2011.

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 and non-financial covenants and conditions subject 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 the period-end, such that the Group was not in breach as at the year-end. However as the waiver did not extend to more than 12 months after the year-end, all of the Macquarie debt is classified as repayable within one year.

Arawak Energy Russia B.V. loan facility

The US$5 million loan from Arawak Energy Russia B.V. was a general purpose short-term bridge loan in advance of a larger three year-term loan completed in May 2012. It was repaid in June 2012 out of the proceeds of the new three-year loan. The initial short term bridge loan was unsecured but the new three year term loan signed in May 2012 is secured on PetroNeft's 50% interest in Russian BD Holdings B.V.

On 30 May 2012, PetroNeft signed a three-year loan agreement with Arawak for $15 million. The loan is secured on PetroNeft's 50% interest in Licence 67 and will be repayable in one lump sum at the end of the three-year loan period in May 2015. The interest payable under the loan will be LIBOR plus 6%, a competitive rate given present market conditions. Under the terms of the loan PetroNeft also granted Arawak 4,000,000 warrants over shares at a strike price of US$0.1345 per share.

Total transaction costs relating to the US$15 million loan and incurred in the 6 months ended 30 June 2012 amounted to US$337,754 (6 months 2011: US$Nil) 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.

The existing US$30m facility with Macquarie Bank Limited remains in place and Macquarie has granted permission under the terms of their facility for this additional debt facility with Arawak.

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2012 (continued)

16. Related party disclosures

Transactions between PetroNeft Resources plc and its subsidiaries, Stimul-T, 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 2010 Stimul-T entered into several contracts with TBNG for the drilling of wells at the Lineynoye oilfield, Arbuzovskaya prospect and Kondrashevskoye oilfield. Under these contracts TBNG assumes substantially all liabilities in relation to the health and safety, environmental and other risks associated with drilling operation. The total value of these contracts is US$31.2 million. Payments of US$3,859,858 were made during 6 months 2012 (FY 2011: US$17,691,713) in relation to these contracts. As at 30 June 2012 the outstanding amount payable to TBNG is US$1,582,783 (FY 2011: US$4,363,261).

In 2011 Stimul-T entered into a contract with TBNG for the drilling of well #1 at the North Varyakhskoye prospect. This is a "turnkey" contract. Under this contract TBNG assumes substantially all liabilities in relation to the health and safety, environmental and other risks associated with drilling operation. The total value of the contract is US$2.5 million. Payments of US$Nil were made during 6 months 2012 (FY 2011: US$2,038,585) in relation to this contract. As at 30 June 2012 the outstanding amount payable to TBNG is US$543,443 (YE 2011: US$Nil).

In 2011 Stimul-T entered into a contract with TBNG for the drilling of production wells at pad #1 at the Arbuzovskoye oilfield. 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$15.7 million. Payments of US$Nil were made during 6 months 2012 (FY 2011: US$Nil) in relation to this contract. As at 30 June 2012 the outstanding amount payable to TBNG is US$473,364 (YE 2011: US$Nil).

In 2012 Stimul-T entered into a contract with TBNG for the installation of drilling equipment on well #9 at the Lineynoye oilfield. 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$0.5 million. Payments of US$Nil were made during 6 months 2012 (FY 2011: US$Nil) in relation to this contract. As at 30 June 2012 the outstanding amount payable to TBNG is US$412,914 (YE 2011: US$Nil).

An amount of US$Nil (FY 2011: US$73,883) was received from TBNG during 6 months 2012 in relation to shared use of helicopter services, where the service provider billed the entire amount to Stimul-T, and for the sale of materials and other minor transactions with TBNG. A balance of US$49,376 (YE 2011: US$44,805) is outstanding from TBNG at 30 June 2012.

16. Related party disclosures (continued)

A total of US$75,626 (YE 2011: US$185,412) is outstanding to other parties, related to Vakha Sobraliev, a Director of PetroNeft, for repair works on wells, maintenance works in the oilfield and transportation services. An amount of US$1,326 (YE 2011: US$2,592) is shown as advance payments. Payments of US$282,137 (FY 2011: US$1,292,074) were made to these entities during 6 months 2012.

The Group provided various goods and services to the jointly controlled entity, Russian BD Holdings B.V. its wholly-owned subsidiary LLC Lineynoye, venture during 6 months 2012 amounting to US$250,067 (FY 2011: US$2,165,377), received goods and services during 6 months 2012 amounting to US$16,768 (FY 2011: US$Nil) and provided a loan to RBD in the amount of US$600,000 (FY 2011: US$Nil). The amount of US$647,868 (YE 2011: US$520,921) is outstanding from these entities and the amount of US$16,768 (YE 2011: US$Nil) is payable to these entities at 30 June 2012.
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.

In 2011 Lineynoye entered into a contract with TBNG for the drilling of well No. 3 of the Cheremshanskaya prospect and well No. 2a of the Ledovoye oilfield. This is a "turnkey" contract. Under this contract TBNG assumes substantially all liabilities in relation to the health and safety, environmental and other risks associated with drilling operation. The total value of the contract is US$5.4 million. Payments of US$1,396,631 were made during 6 months 2012 (FY 2011: US$3,461,009) in relation to this contract. As at 30 June 2012 the outstanding amount payable to TBNG is US$Nil (2010: US$549,178).

A total of US$9,104 (YE 2011: US$Nil) is outstanding to TBNG and other parties, related to Vakha Sobraliev, a Director of PetroNeft, for transportation services and other minor works. Payments of US$Nil (FY 2011: US$Nil) were made to these entities during 6 months 2012.