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PetroNeft Resources plc

ANNUAL REPORT & ACCOUNTS

FOR THE YEAR ENDED 31ST DECEMBER

2006

Pile Driving for Lineynoye 7 Rig Platform

Sawmill on Lineynoye 7 Drilling Site

Construction of Well Site Facilities and Rig at Lineynoye

In its short history, PetroNeft has already added significant value to its assets and built a strong team with a clear strategy. A primary objective of the Company is to create value for our shareholders by commencing oil production in the Company's "Core Area", Licence 61 in the Tomsk Oblast of the Russian Federation, in 2009.

G. David Golder
Chairman

PetroNeft Resources plc

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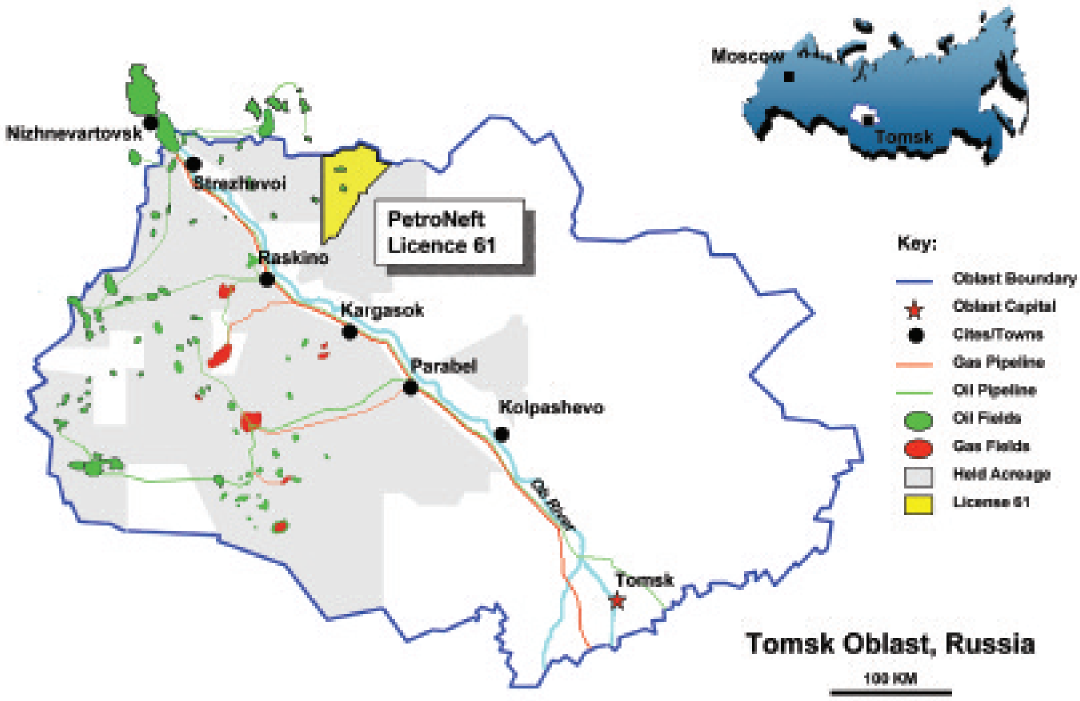
Licence 61 Location Tomsk Oblast, Russia



This report contains Forward-Looking Statements, identified by such words as "believe", "could", "estimate", "intend", "may" and "will". Forward-Looking Statements are based upon current expectations and are subject to change, risks and uncertainties. Shareholders in the United States should be aware that the ordinary shares have not been and will not be registered under the United States Securities Act 1933 as amended.

HIGHLIGHTS OF 2006/2007

FINANCIAL HIGHLIGHTS

- Private placement raising US$8 million completed in February 2006.
- Admission to AIM and IEX Markets completed on September 27, 2006, raising a further US$15.5 million.
- London Broker Natixis appointed as joint Broker with Davy.

OPERATIONAL HIGHLIGHTS

- Drilling completed on Lineynoye No. 6 well, the first of the 2006/2007 three well drilling programme.
- Tungolskoye No. 4 well commenced drilling in May 2007.
- Preliminary Development Feasibility Study, including planned pipeline development and funding requirements on the Lineynoye and Tungolskoye Oil Fields, was completed in February 2007.
- Pipeline Design, Survey and Approvals Contract awarded.
- Acquisition of 540 line kms of new high resolution 2D seismic data was completed on March 15, 2007. A further programme of 500 kms is planned for Winter 2007/2008 season.

CORPORATE INFORMATION

CORPORATE INFORMATION

DIRECTORS

G. DAVID GOLDER

DENNIS FRANCIS

DAVID SANDERS

DESMOND BURKE

VAKHA SOBRALIEV

THOMAS HICKEY

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SECRETARY
David Sanders

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REGISTERED NUMBER
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Website: www.petroneft.com
AIM/IEX : PTR/P8ET

DIRECTORS

G. DAVID GOLDER
Non-Executive Chairman

US; Petroleum & Natural Gas Engineer

34 years' industry experience in oil and gas industry with Marathon Oil Company and others. Former Senior Vice President, Marathon Oil Company. Former Executive Vice President –Upstream, Sakhalin Energy Investment Company.

DENNIS FRANCIS
Chief Executive Officer

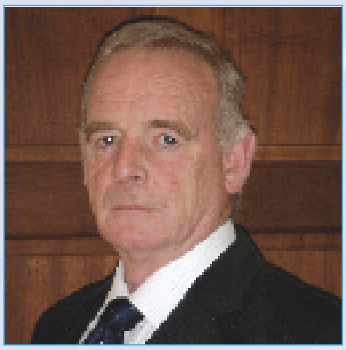
US; Geophysical Engineer and Geologist

30 years with Marathon Oil Company. Headed Marathon's Business Development Activities in Russia from 1989. Director Sakhalin Energy Investment Company. World wide experience as senior oil executive.

DAVID SANDERS
Executive Director, Company Secretary and General Legal Counsel

US; Lawyer, Engineer

30 years' industry experience. 15 years with Marathon Oil Company. In Russia was involved in, Sakhalin II, Priobskoye, KMOC projects.



DESMOND BURKE
Executive Director of Planning and Investor Relations

Irish; Geologist

30 years' Minerals Industry experience and 20 years experience in International Equity Markets.

THOMAS HICKEY
Non-Executive Director

Irish; Accountant and Business Executive

Chief Financial Officer and Director of Tullow Oil plc. Formerly of ABN AMRO Corporate Finance (Ireland) Limited.

VAKHA A. SOBRALIEV
Non-Executive Director

Russian; Mining Engineer and Economics

30 years' experience in West Siberian Petroleum Industry General Director Tomskburneftegaz, LLC - Drilling & Support Services Company in Tomsk Region.

CHAIRMAN'S STATEMENT

G. DAVID GOLDER
Non-Executive Chairman

Dear Shareholder,

I am pleased to report a year of excellent progress for PetroNeft in 2006.

Since PetroNeft's formation in 2005, the Board and Management have worked steadily to maximise the value of the Group's acreage in Western Siberia and to develop the Company's access to long term equity and debt capital to fund its operations and field development plan.

TECHNICAL DEVELOPMENT

The primary objective of the Company is to create value for our shareholders by commencing oil production in the Company's "Core Area", Licence 61 in the Tomsk Oblast of the Russian Federation, in 2009. In order to meet this objective, drilling has commenced on the first two wells of a three well 2006/2007 winter programme which is designed to confirm reservoir parameters and to expand the Company's reserve base. An initial Feasibility Study for the development of the Lineynoye and Tungolskoye Oil Fields has already been completed. This will save time in the funding and development process towards first production.

Over the next several months there will be continuous movement towards this objective. Most notably test results will be completed. Ongoing discussions will continue with finance providers. Contracts will be awarded on infrastructure and approvals. The results of wells will allow us to refine the Feasibility Study to a "Bankable" stage and to progress through the field development's planning and permitting phases later this year and next.

FINANCIAL DEVELOPMENT

Admission to the AIM and IEX markets was key to this, raising $15.5 million in September 2006. The IPO introduced the Company to and increased our profile within international capital markets, which in turn has created numerous valuable relationships which are being actively developed.

In the long term, PetroNeft aims to fund its business through a suitable mixture of debt and equity, enabling an acceleration of development activity thereby maximising returns to shareholders. The wider business environment, both within Russia and on international oil markets, remains positive and supports the Company's development objectives.

EXPLORATION

The Company is focusing exploration on the wider Licence 61 area in order to define and increase our reserve base in the area. Extensive seismic surveys are being used to refine established Prospects and to detect new ones. This winter has seen an additional acquisition of 540 line kms of 2D seismic. This work will lead to additional exploration activity in future years.

Furthermore, we are constantly studying New "Core Areas", both in the Tomsk Region and elsewhere within the Russian Federation, that would add value to PetroNeft by increasing and diversifying the asset base. These must obviously pass the Company's strict screening process before we make any decision on a transaction.

Development of the Company's human resources also continues. Plans are in place to appoint a Chief Financial Officer for the Company in the near future. Our Russian management team in Tomsk has already been strengthened with a number of new appointments in the legal, technical and environmental disciplines.

FORWARD STRATEGY

PetroNeft's strategy is based on a deep understanding of the oil and gas business in Russia, a commitment to the maximisation of local content and employment and the application of rigorous technical, commercial and financial investment screening criteria. Historically, exploration and development activity in Russia has been driven by Major Oil Companies or State Enterprises and targeted towards the discovery and development of large fields. This approach, while effective in respect of major projects, can result in smaller accumulations being overlooked. As a result very attractive opportunities exist for smaller companies who can combine financial strength and technical expertise with local knowledge.

The PetroNeft Board and the Company's regional management has over 150 years experience in doing business in Russia, including a detailed knowledge of geology, field development, environmental, permitting arrangements and commercial opportunities. This has enabled PetroNeft to secure access to high quality acreage and staff, to access services and supplies in a competitive market and to maintain control over the execution of our work programmes. The combination of these skills and the large potential of the Company's acreage means the outlook for 2007 and beyond is very exciting.

CONCLUSION

In its short history, PetroNeft has already added significant value to its assets and built a strong team with a clear strategy. None of this would have been possible without the dedication of our personnel and the support of our shareholders. I offer my gratitude for your confidence in and loyalty to the business and management to date, and hope that you will continue to support the Company for many years to come.

Sincerely,

G. David Golder
Chairman
23rd May 2007

LINEYNOYE NO. 6 – MUD LOGGING UNIT

The Licence contains two proven oil fields, Lineynoye and Tungolskoye, that were discovered in the early 1970s.

GENERAL

PetroNeft's objective of bringing its known oil fields in the Tomsk Oblast of Western Siberia to full pipeline production in 2009 is now the main focus of the Company's operations. This is a complex project management process, involving many individual activities running in parallel, all aiming for project completion in the third quarter of 2009. These activities include seismic surveys and delineation and exploration drilling to fully understand the characteristics of the oil reservoirs, environmental studies on all aspects of the project, pipeline design and route investigation studies, a Feasibility Study to establish the most economical production system, and infrastructure development at the production sites to ensure all weather access in difficult ground conditions. All aspects of the development must pass a rigorous approvals and permitting process under Oblast and Federal Law. Compliance with these laws is a primary aim of the Company.

A further objective of the Company is to expand and reclassify the oil reserves within its 100% owned Licence 61 through drilling and seismic surveys.

THE OIL FIELDS

There are two known oil fields on Licence 61, Lineynoye and Tungolskoye. Both are typical of the perimeter zone of the prolific Western Siberian Oil and Gas Basin, in that they are aerially extensive, low to intermediate permeability fields, contained in gently dipping, four-way dip closed anticlinal structures. The reservoir sediments are Jurassic aged sandstones. These reservoirs typically require water injection, artificial permeability enhancement (such as horizontal wells or fracture stimulation) and properly matched lift systems (electrical submersible or rod pumps) to maximise production rates and recoveries. The source rock for the oil is the overlying Bazhenov Shale, the base of which is an excellent seismic reflector, making for relatively simple identification of the potential oil bearing structures. The oil fields were discovered and drilled by a State Exploration Enterprise in the early 1970s, but were regarded as too small for development at that time. Reserves and Exploration Resources of both oil fields and the extensive Prospects and Potential Prospects on Licence 61, as established by US Petroleum Consultants Ryder Scott, are shown in Table 1.

TABLE 1

Lineynoye and Tungolskoye Oil Fields;	
Proved (P1) + Probable (P2)	**33.5 million barrels**
Possible (P3)	**37.1 million barrels**
Total (P1+P2+P3)	**70.6 million barrels**
Twenty Prospects and Five Potential Prospects (Leads);	
Possible (P3)	**253 million barrels**
Exploration Resources (P4)	**100 million barrels**
Total (P1+P2+P3+P4)	**424 million barrels**

Note – 67 million bbls of the above P3 Reserves are within the West Lineynoye Prospect which will be drilled this season (Lineynoye No. 7 well).

DRILLING

Due to unusually warm weather conditions in Western Siberia this winter there was some delay in getting all necessary equipment to the drill sites per the Company's original schedule. We anticipated using one of the drilling rigs to drill two locations. As a result of the weather delays a third drilling rig was mobilised to drill the Lineynoye No. 7 well to ensure that all three wells are completed on schedule. The positive outcome of this delay is that the Company will have three rigs available (rather than the original two) for minimal additional cost and near to site for the winter 2007/2008 drilling programme.

At time of writing, one delineation well, Lineynoye No. 6, (Figures 1 and 2) has been completed on the Lineynoye Oil Field and flow testing is in progress. Preliminary Electrical Log results are shown in Figure 2, giving a net oil pay of 11.2 metres. The well deviated 190 metres to the southwest during drilling, but structural results are as predicted by the seismic interpretation. An important result is that the data indicates that the oil water contact (owc) is at -2,430.5 metres subsea which is 10 metres lower than the previous conditional owc interpreted for the field. The reservoir zone has been cored (with 99% recovery) and fluid samples taken. Further tests will be carried out to confirm the rock characteristics properties and flow potential for production. The Company is pleased with the test results thus far as we have confirmed or exceeded the reservoir properties used in the Preliminary Feasibility Study at this location.

A second delineation well, Tungolskoye No. 4 is underway on the Tungolskoye Oil Field (Figure 4). Target depth for this well is 3,100 metres with the reservoir depth predicted at 2,490 metres. Test results are expected in July 2007.

West Lineynoye, a high impact prospect, is estimated by Ryder Scott to contain Possible Reserves of approximately 67 million barrels of oil. The third rig which was mobilised to the site for this well is currently being assembled and is now expected to commence drilling in June. The principal target horizons for this well are again the Upper Jurassic sandstone reservoirs, starting at a depth of 2,375 metres. The total planned depth for the well is approximately 2,750 metres and it is anticipated that the well will be drilled, logged and tested within approximately 70 days of commencement.

It should be noted that the Lineynoye No. 5 well tested oil from 2.3 metres of net pay just above the oil water contact on the eastern end of this prospect in 1974. A successful Lineynoye No. 7 well could triple the Proved and Probable reserve base of the Company over the next year.

Once the drilling programme is completed, a full re-evaluation of the reserves on the Licence will be carried out by US Petroleum Consultants Ryder Scott. The results of these wells and the results of the new seismic data (see below), will be used to finalise the Development Feasibility Study and will lead to a development decision in September 2007.

Lineynoye Field Geologic Model

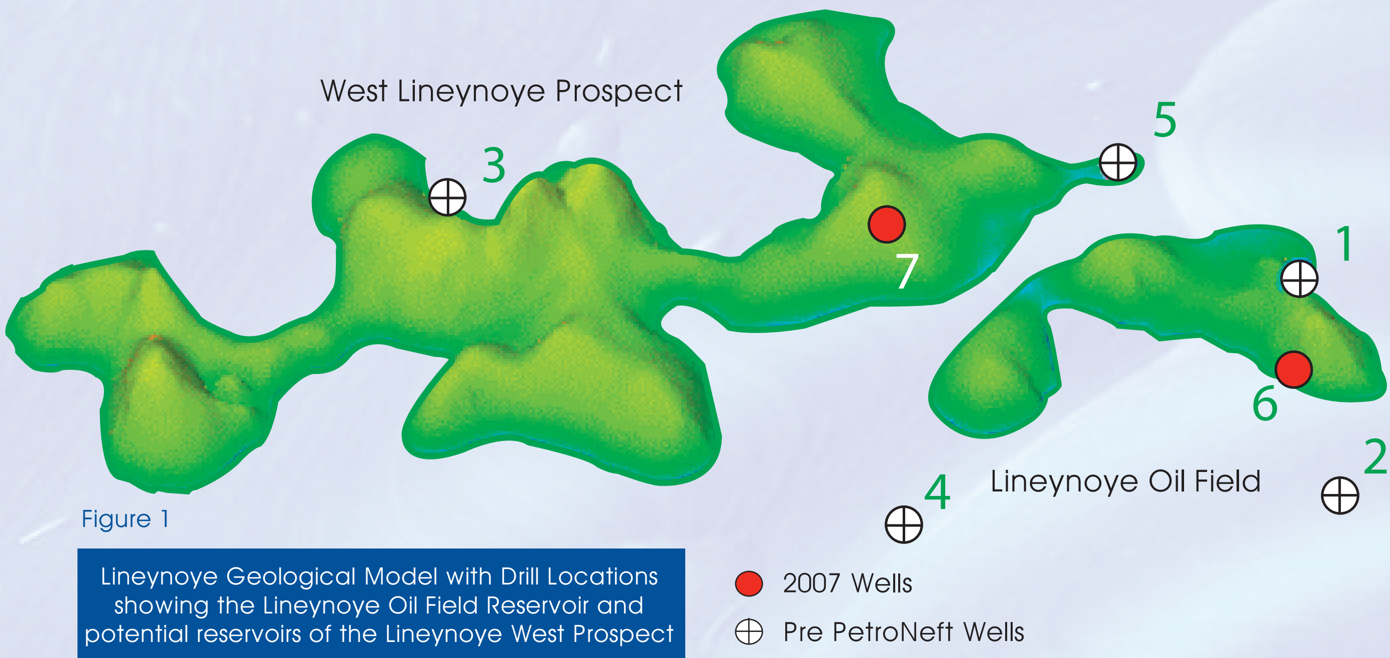


Figure 1

Lineynoye Geological Model with Drill Locations showing the Lineynoye Oil Field Reservoir and potential reservoirs of the Lineynoye West Prospect

Figure 2

Lineynoye No. 6 - Initial Log Interpretation and testing programme

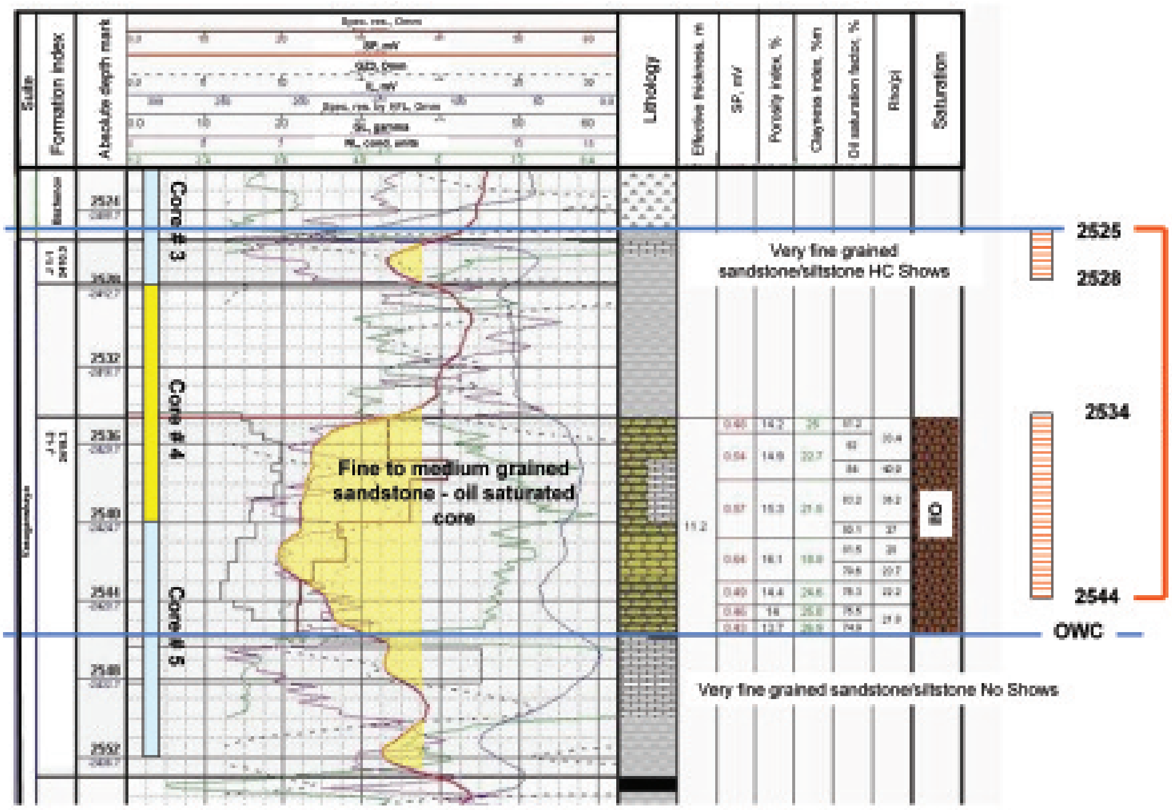
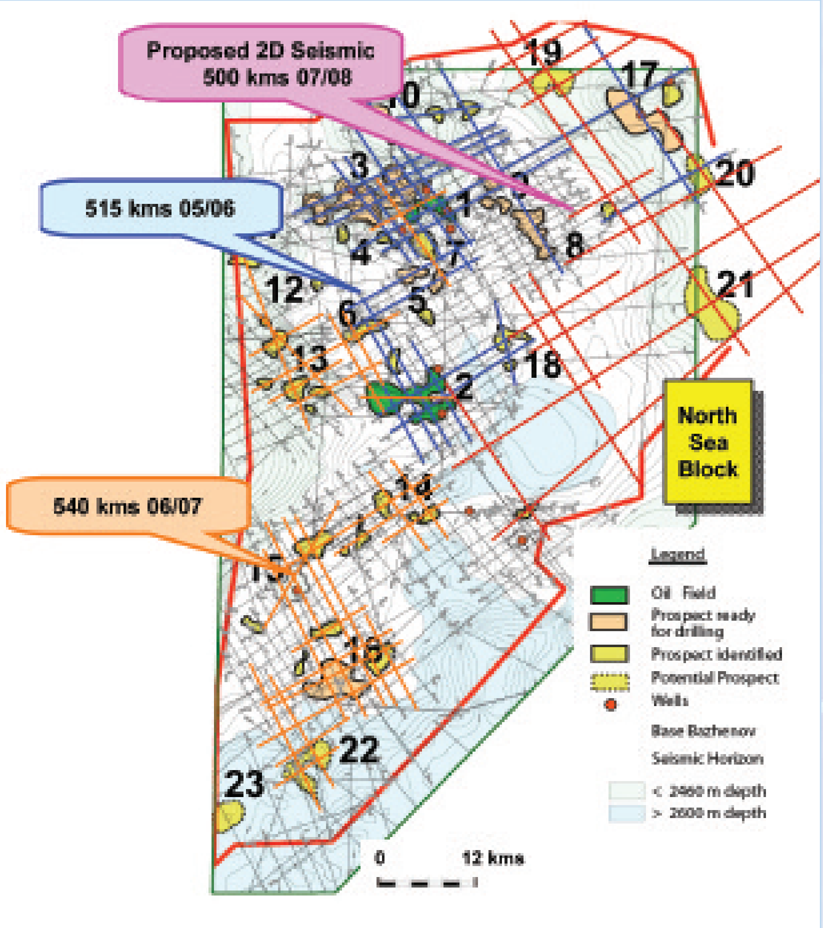


Figure 3

Development of Seismic Coverage over Licence 61.



SEISMIC PROGRAMME

The 2006/2007 winter seismic programme, to acquire an additional 540 kms of high resolution 2D seismic data, was completed on schedule on March 15, 2007. Final results of the programme will be available in June 2007. This programme was designed to upgrade the definition of known prospects and leads on the Licence. The results will be used in designing the 2007/2008 winter drilling programme and will also be used in the Final Development Feasibility Study. The Company has now acquired 1,055 kms of 2D seismic data which fulfils the Licence obligation to acquire 1,000 line kms of seismic data in the first three years of the Licence. A further 500 km survey is planned for 2007/2008 winter season. (Figure 3)

DEVELOPMENT FEASIBILITY STUDY

A Preliminary Feasibility Study for the development of the Lineynoye and Tungolskoye Oil Fields was completed by a Russian Research Institution (SNIIGGMS) in February 2007. The purpose of the study was to evaluate the oil reserves and the economics of the oil fields, and it will be used as part of the approval process required for development in the Tomsk Oblast and the Russian Federation. As stated above, the results of all three wells and some of the current seismic acquisition will be incorporated into a Final Feasibility Study, which will be used for approval of the project and to assist the Company in seeking development financing.

The Company intends to finalise and sanction the development plan for the Lineynoye and Tungloskoye fields by September 2007. A primary objective of the Company is to commence year round oil production via an export pipeline from the Licence 61 "Core Area" in 2009.

INFRASTRUCTURAL DEVELOPMENT

Export Pipeline

In May 2007, the Company entered into a contract with ETC Service LLC for the design, survey and approval of an export pipeline from the Lineynoye and Tungolskoye fields to the Transneft regional pipeline at the Raskino pumping station. The contract also includes the design and approvals for the custody transfer point at the Transneft regional pipeline tie-in point. The award of this contract is a critical step in the ultimate development and commercialisation process in respect of current and potential future discoveries on Licence 61. Award of this contract maintains the development schedule for commencement of construction in the winter of 2008/2009 and first year round production starting in 2009.

All Weather Roads

The Company plans to develop an all weather road system within Licence 61 in order to facilitate easier access and movement of equipment during the production phase of the project and the continuing exploration programme. This will involve the re-building of at least one bridge and the construction of all weather roads.

There will also be continued development of staff housing and catering facilities in the production areas.

BUSINESS DEVELOPMENT

While the Company's primary focus is developing the Licence 61 "Core Area", other business opportunities that can meet the Company's strict technical and commercial screening process are also being sought. The Company's long term business strategy is to leverage its current resources and knowledge base to add reserves to its existing Core Area and to develop other Core Areas in the Former Soviet Union.

CONCLUSION

2007 and 2008 promise to be exciting years for the Company, with drilling results and other development milestones expected on a regular basis. Considering the exploration upside of Licence 61, the existing Proved and Probable reserves, and the Company's strong international and local management team, the future of PetroNeft looks very bright.

Lineynoye No 6
Rig Construction

OBJECTIVES AND WORK PROGRAM FOR 2007/2008

OBJECTIVES

- To develop two proven oil fields to production in the near term.
- To determine the full upside reserve potential of the Licence and expand production from these reserves.

TOWARD PRODUCTION

- Pipeline Design, Survey and Approvals Contract awarded.
- Feasibility Study on production to be completed in third quarter.
- Decision to Sanction Development Project in third quarter.
- Agree Debt Facility for Development Project.
- Tender for Pipeline Procurement and Construction.

TOWARD RESERVE EXPANSION

- Three high value exploration/delineation wells to be drilled on the North Korchegskaya Prospect, the West Lobe of the Tungolskoye Oil Field and West Lineynoye or other prospects, depending on the final interpretation of the 2006/2007 seismic data.
- 500 line kms seismic survey to define further drilling prospects and leads.

Report of Directors

The Directors present their report and the financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activities of the Group are that of hydrocarbon exploration and appraisal. The Group was established to acquire and develop, directly or indirectly, oil and gas exploration, development and production interests in Russia and other countries of the Former Soviet Union (FSU). A detailed business review is included in the operational review.

RESULTS AND DIVIDENDS

The loss for the period after providing for depreciation and taxation amounted to US$993,343 (2005 - US$(260,414)). The Directors do not recommend payment of a final dividend.

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of risks and uncertainties which could have an impact on the Group's long-term performance. Risks and uncertainties facing the Group include but are not limited to:

- Availability and cost of drilling rigs, related services and qualified personnel; the absence of which could lead to delays in the work programme.
- The Group holds cash in Euros but a substantial amount of exploration and development costs are incurred in Russian Rubles and US Dollars. An adverse movement in exchange rates would increase the US Dollar cost of the work programme. However in January 2007 the Group entered into hedging arrangements in respect of its currency risks relating to the 2006/07 drilling program thereby fixing the exchange rates at which it will incur these costs.
- The Group's principal assets are located in Russia and as a result the Group may be subject to political, economic and other uncertainties that could impact the economic viability of the Group's assets.

The Group has a risk management structure in place which is designed to identify, manage and mitigate business risk. Risk assessment and evaluation is an essential part of the Company's internal control system.

DIRECTORS

In accordance with the Articles of Association, Dennis Francis and David Sanders retire by rotation and, being eligible, offer themselves for re-election.

DIRECTORS AND THEIR INTERESTS

The Directors and Secretary who held office during the period had no interest, other than those shown below, in the shares of the Company.

DIRECTORS	POSITION	Ordinary shares As at 30-APR-07	Ordinary shares As at 31-DEC-06	Ordinary shares As at 1-JAN-06
G. David Golder	Non-Executive Chairman	3,165,458	2,944,458	2,409,050
Dennis Francis	Chief Executive	20,289,617	20,289,617	19,754,210
David Sanders*	Executive Director	4,180,605	4,180,605	4,047,205
Desmond Burke	Executive Director	5,304,204	5,304,204	4,967,204
Vakha Alvievich Sobraliev	Non-Executive Director	22,915,047	22,650,052	14,743,386
Thomas Hickey	Non-Executive Director	665,000	585,000	250,000

* Company Secretary

In addition to the above the Company granted Share Options to the Directors during the year as follows

Director	No. of Options	Exercise price
G.David Golder	440,000	€0.295
Dennis Francis	880,000	€0.295
David Sanders	880,000	€0.295
Desmond Burke	660,000	€0.295
Vakha Alvievich Sobraliev	440,000	€0.295
Thomas Hickey	440,000	€0.295

These options will vest subject to the achievement of a number of separate performance conditions, principally associated with the successful appraisal and ultimate development of the Lineynoye and Tungolskoye Fields. The earliest vesting date will be the 27th September 2007, in respect of up to 55% of options.

SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, the names of the persons other than the Directors who, directly or indirectly, are interested in 3% or more of the Issued Share Capital are as follows:

Shareholder	No. of shares held	%
RAB Octane Fund Limited	37,607,377	21.29%
Davycrest Nominees Limited	32,747,683	18.54%
Vidacos Nominees Limited	11,812,803	6.69%

FUTURE DEVELOPMENTS

The main asset of the Company is a 100% interest in an approximately 5,000 km^2 oil and gas licence in the Tomsk Oblast, held through wholly owned subsidiary, Stimul-T. The licence contains two previously drilled and tested oil fields, Tungolskoye and Lineynoye, which PetroNeft has targeted for rapid development. It is also estimated that substantial further reserves could be contained in a number of defined exploration prospects on the Licence.

Turnkey Drilling Contracts are in place to drill three wells as part of the work programme commencing in the winter of 2006/2007. Two of these wells, Lineynoye No. 6 and Tungolskoye No. 4, are delineation wells on the existing fields and the third well, Lineynoye No. 7, is a high impact exploration well on the West Lineynoye Prospect. The drilling results from these three wells will be used to update the Preliminary Feasibility Study as a basis to sanction the Development Project and acquire development financing. The Company's primary objective is to establish a rapid development plan for oil production on the Licence and to achieve year round oil production via an export pipeline in 2009.

A major seismic survey consisting of the acquisition of 540 kms of 2D data was completed in March 2007 with the objective of further defining the structure of the two established oil fields and other prospects and leads. The plan is to utilise the existing drilling rigs to drill three additional high impact exploration/ delineation wells commencing in the winter 2007/2008.

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Director's Report and Financial Statements. The Directors have chosen to prepare accounts for the Group in accordance with International Financial Reporting Standards (IFRS).

International Accounting Standard 1 requires that financial statements present fairly for each year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all the applicable International Financial Reporting Standards.

Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Acts 1963 to 2006 and all regulations to be construed as one with those acts. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CORPORATE GOVERNANCE

The Directors are committed to maintaining the highest standards of corporate governance commensurate with the size, stage of development and financial status of the Group.

BOARD:

The Company currently has six Directors, comprising three executive Directors and three non-executive Directors. The Board met formally on 11 occasions during 2006. An agenda and supporting documentation was circulated in advance of each meeting. All the Directors bring independent judgement to bear on issues affecting the Group and all have full and timely access to information necessary to enable them to discharge their duties. The Directors have a wide and varying array of experiences in the industry. Each year, at the Annual General Meeting, one-third of the Directors shall retire and the Company may fill the office by electing another person or the retiring Director, if willing to act. This year Dennis Francis and David Sanders retire as Directors and put themselves forward for re-election. Any Director appointed by the Board to fill a vacancy during the year is subject to election at the next Annual General Meeting following the date of appointment.

The following committees deal with the specific aspects of the Group affairs:

THE REMUNERATION COMMITTEE

This Committee comprises the three non-executive Directors, G. David Golder, Thomas Hickey and Vakha Sobraliev. It determines the contract terms, remuneration and other benefits of the executive Directors, Chairman and non-executive Directors. The Remuneration Committee met on two occasions during the year.

Remuneration Committee Report

The group's policy on senior executive remuneration is designed to attract and retain people of the highest calibre who can bring their experience and independent views to the policy, strategic decisions and governance of the group.

In setting remuneration levels, the Remuneration Committee takes into consideration the remuneration practices of other companies of similar size and scope. A key philosophy is that staff must be properly rewarded and motivated to perform in the best interests of the shareholders. Bonuses for Executive Directors are based on various performance targets such as shareholder return and individual performance.

Remuneration during the year ended 31 December 2006 was as follows:

	Basic US$	Bonus US$	2006 Total US$	2005 Total US$
Executive Directors				
Dennis Francis	134,834	82,396	217,230	15,730
David Sanders	117,333	75,507	192,840	15,729
Desmond Burke	101,626	44,930	146,556	15,729
	353,793	**202,833**	**556,626**	**47,188**
Non-Executive Directors				
G. David Golder	36,135	-	36,135	3,404
Thomas Hickey	28,538	-	28,538	2,722
Vakha Sobraliev	14,435	-	14,435	1,361
	79,108	-	79,108	7,487
	432,901	**202,833**	**635,734**	**54,675**

AUDIT COMMITTEE:

This Committee comprises the three non-executive Directors, G. David Golder, Thomas Hickey and Vakha Sobraliev. The external auditors have the opportunity to meet with members of the Audit Committee without executive management present at least once a year. The duties of the Committee include the review of the accounting principles, policies and practices adopted in preparing the financial statements, external compliance matters and the review of the Group's financial results.

NOMINATIONS COMMITTEE:

Given the current size of the Group a Nominations Committee is not considered necessary. The Board reserves to itself the process by which a new Director is appointed.

COMMUNICATIONS:

The Group maintains regular contact with shareholders through publications such as the annual and half-year report and via press releases and the Group's website, www.petroneft.com. The Directors are responsive to shareholder enquiries throughout the year. The Board regards the Annual General Meeting as a particularly important opportunity for shareholders, Directors and management to meet and exchange views.

INTERNAL CONTROL

The Directors have overall responsibility for the Group's system of internal control and have delegated responsibility for the implementation of this system to executive management. This system includes financial controls that enable the Board to meet its responsibilities for the integrity and accuracy of the Group's accounting records.

The Group's system of internal financial control provides reasonable, though not absolute assurance that assets are safeguarded, transactions authorised and recorded properly and that material errors or irregularities are either prevented or detected within a timely period. Having made appropriate enquiries the Directors consider that the system of internal financial, operational and compliance controls and risk management operated effectively during the period covered by the financial statements and up to the date on which the financial statements were signed.

The internal control system includes the following key features, which have been designed to provide internal financial control appropriate to the Group's businesses:

- Budgets are prepared for approval by the Board.
- Expenditure and income are compared to previously approved budgets.
- A detailed investment approval process which requires Board approval of all major capital projects and regular review of the physical performance and expenditure on these projects.

BOOKS OF ACCOUNT

The measures taken by the Directors to ensure compliance with the requirements of Section 202, Companies Act 1990, regarding proper books of account are the implementation of necessary policies and procedures for recording transactions, the employment of competent accounting personnel with appropriate expertise and the provision of adequate resources to the financial function. The books of account of the Company are maintained at One Earlsfort Centre, Earlsfort Terrace, Dublin 2.

AUDITORS

The auditors, LHM Casey McGrath, have indicated their willingness to continue in office in accordance with the provisions of Section 160(2) of the Companies Act, 1963.

On behalf of the Board

Dennis Francis	Desmond Burke
Director	Director
Date: 23rd May 2007	Date: 23rd May 2007

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PETRONEFT RESOURCES plc

We have audited the financial statements of PetroNeft Resources Plc for the year ended 31 December 2006 on pages 22 to 34. These financial statements have been prepared under the accounting policies set out on page 20 to 21.

This report is made solely to the Company's members as a body in accordance with the requirements of the Companies Acts 1963 to 2006. Our audit work has been undertaken so that we might state to the Company's members those matters that we are required to state to them in the audit report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company or the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 15 the Company's Directors are responsible for the preparation of financial statements in accordance with applicable law and International Financial Reporting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with International Financial Reporting Standards and are properly prepared in accordance with the Companies Acts. We also report to you whether, in our opinion, proper books of account have been kept by the Company; whether, at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the financial statements are in agreement with the books of account.

We report to the shareholders if, in our opinion, any information specified by law regarding Directors' remuneration and Directors' transactions is not given and, where practicable, include such information in our report.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Report of the Directors, the Chairman's Statement and the Operations Overview. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

INTANGIBLE ASSETS

In forming our opinion, we have considered the adequacy of the disclosures made in Note 8 to the financial statements in relation to the Directors' assessment of the carrying value of the Group's intangible assets, amounting to $10,639,292. Our opinion is not qualified in this respect.

OPINION

In our opinion the financial statements:

- give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Group and Parent Company's affairs as at the 31 December 2006 and of its loss and cash flows for the period then ended.

- have been properly prepared in accordance with the Companies Acts 1963 to 2006 and all regulations to be construed as one with those acts.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Group. The financial statements are in agreement with the books of account.

In our opinion the information given in the Directors' report is consistent with the financial statements.

The net assets of the Company, as stated in the Balance Sheet on page 25, are more than half of the amount of its called up share capital and, in our opinion, on that basis there did not exist at 31 December 2006 a financial situation which under Section 40(1) of the Companies (Amendment) Act 1983 may require the convening of an extraordinary meeting of the Company.

LHM Casey McGrath
Chartered Certified Accountants
Registered Auditors
6 Northbrook Road
Dublin 6
Ireland

Date: 23rd May 2007

Statement of Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

ACCOUNTING CONVENTION

The financial statements are prepared in accordance with International Financial Reporting Standards under the historic cost convention.

In accordance with the provisions of Section 3(2) of the Companies (Amendment) Act 1986 the Profit and Loss of the Company is not presented separately.

DEVELOPMENT COSTS

The Group adopts the successful efforts method of accounting for exploration and appraisal costs. All licence acquisition, exploration and evaluation costs are initially capitalised in cost centres by well, field or exploration area, as appropriate. Directly attributable administration costs and interest payable are capitalised insofar as they relate to specific exploration and development activities. Pre-licence costs are expensed in the period in which they are incurred.

These costs are then written off unless commercial reserves have been established or the determination process has not been completed and there are no indications of impairment.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost or valuation, less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less residual value of each asset over its expected useful life, as follows:

Land and buildings	- Straight Line over 30 years
Furniture and Fittings	- 20% Straight line
Motor Vehicles	- 20% Straight line

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profits for the year. Taxable profits differ from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Groups liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, taxation.

Deferred taxation is measured on an undiscounted basis at the taxation rates that are anticipated to apply in the periods in which the timing differences reverse, based on taxation rates and legislation which are enacted or substantively enacted at the balance sheet date.

FOREIGN CURRENCIES

Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at contract rates where the amounts payable or receivable are covered by forward contracts. Other monetary assets and liabilities are translated into US Dollars at rates of exchange ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

CONSOLIDATED ACCOUNTS

The Group Financial Statements consolidate the results of the Company and its wholly owned subsidiary Stimul-T from the date of acquisition under the acquisition method.

SHARE BASED PAYMENTS

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instrument at the grant date in accordance with IFRS 2. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Further details on how the fair value of equity-settled share based transactions has been determined can be found in note 23.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

SHARE ISSUE EXPENSES AND SHARE PREMIUM ACCOUNT

Costs of share issues are written off against the premium arising on the issues of share capital.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2006

	Note	YEAR ENDED 31 December 2006 US$	PERIOD ENDED 31 December 2005 US$
Administrative expenses		(1,070,950)	(241,331)
Other income		25,262	-
Operating loss	1	(1,045,688)	(241,331)
Interest receivable	3	66,249	
Interest payable and similar charges	2	(13,904)	(19,083)
Retained loss for the period		(993,343)	(260,414)
Loss per share:	5		
Basic		0.75 c	0.29c
Diluted		0.53 c	0.29c

There are no recognised gains or losses other than those disclosed above and there have been no discontinued activities in the current or preceding periods.

On behalf of the Board

Dennis Francis
Director
Date:23rd May 2007

Desmond Burke
Director
Date: 23rd May 2007

CONSOLIDATED BALANCE SHEET

as at 31 December 2006

	Note	AS AT 31 December 2006 US$	AS AT 31 December 2005 US$
Non-Current Assets			
Property, plant and equipment	7	328,521	169,937
Other intangible assets	8	10,639,292	6,093,657
Other assets	10	3,689,480	-
		14,657,293	6,263,594
Current Assets			
Trade and other receivables	11	43,792	451,323
Cash and cash equivalents	12	12,872,316	256,208
		12,916,108	707,531
Total Assets		27,573,401	6,971,125
Equity and Liabilities			
Capital and Reserves			
Called up share capital	15	2,132,436	1,052,260
Share premium account	16	26,048,130	4,861,880
Reserves	16	219,197	-
Profit and loss account	16	(1,253,757)	(260,414)
Equity attributable to equity holders of the parent	18	27,146,006	5,653,726
Current Liabilities			
Trade and other payables	13	427,395	1,317,399
Total Liabilities		427,395	1,317,399
Total Equity and Liabilities		27,573,401	6,971,125

On behalf of the Board

Dennis Francis
Director
Date: 23rd May 2007

Desmond Burke
Director
Date: 23rd May 2007

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2006

	YEAR ENDED 31 December 2006	PERIOD ENDED 31 December 2005
	US$	US$
Loss for the period	(993,343)	(260,414)
Dividends	-	-
	(993,343)	(260,414)
Net proceeds of equity share issue	22,266,426	5,914,140
	21,273,083	5,653,726

COMPANY BALANCE SHEET

as at 31 December 2006

	Note	AS AT 31 December 2006 US$	AS AT 31 December 2005 US$
Non-Current Assets			
Property, plant and equipment	7	3,526	4,446
Other intangible assets	8	425,075	411,851
		428,601	416,297
Current Assets			
Trade and other receivables	11	14,330,217	6,367,313
Cash and cash equivalents	12	12,838,880	12,478
		27,169,097	6,379,791
Total Assets		27,597,698	6,796,088
Equity and Liabilities			
Capital and Reserves			
Called up share capital	15	2,132,436	1,052,260
Share premium account	16	26,048,130	4,861,880
Reserves	16	219,197	-
Profit and loss account		(946,814)	(220,238)
Equity Shareholders' Funds		27,452,949	5,693,902
Current Liabilities			
Trade and other payables	13	144,749	1,102,186
Total Liabilities		144,749	1,102,186
Total Equity and Liabilities		27,597,698	6,796,088

CASH FLOW STATEMENT

for the year ended 31 December 2006

	YEAR ENDED 31 December 2006 US$	PERIOD ENDED 31 December 2005 US$
Net loss before interest and income tax	(1,045,688)	(241,331)
Adjustments for:		
Share based payments charge	219,197	-
Depreciation for - Property, plant and equipment	17,725	910
Operating profit before working capital changes	(808,766)	(240,421)
Decrease/(Increase) in trade receivables	407,531	(451,323)
(Decrease)/Increase in trade payables	(890,004)	1,317,399
Cash generated from operations	(1,291,239)	625,655
Interest received/(paid)	52,345	(19,083)
Net cash flow from operating activities	(1,238,894)	606,572
Investing activities		
Purchase of property, plant and equipment	(176,309)	(170,847)
Purchase of other intangible assets	(4,545,635)	(6,093,657)
Payment for other assets	(3,689,480)	–
Net cash used in investing activities	(8,411,424)	(6,264,504)
Cash flows from financing activities		
Proceeds from issue of share capital	22,266,426	5,914,140
Net cash received from financing activities	22,266,426	5,914,140
Net increase in cash and cash equivalents	12,616,108	256,208
Cash and Cash equivalents at the beginning of the period	256,208	-
Cash and cash equivalents at the end of the period	12,872,316	256,208

	YEAR ENDED 31 Dec. 2006 US$	PERIOD ENDED 31 Dec. 2005 US$

1. OPERATING LOSS

Operating loss is stated after charging/(crediting):		
Depreciation of tangible assets	17,725	910
Net Foreign Exchange Gains	(337,199)	-
Auditors' remuneration (See below)	66,000	22,000
Audit Services		
Statutory Audit	32,500	22,000
Taxation and other services		
Compliance services	33,500	-
Total	66,000	22,000

Further fees totalling US$ 19,500 (2005 - US$6,000) in respect of non-audit services associated with share issues have been set against share premium

2. FINANCE COSTS

On loans and overdrafts	13,904	19,083
	13,904	19,083

3. INTEREST RECEIVABLE

Interest receivable	66,249	-
	66,249	-

4. EMPLOYEES

Number of employees

The average monthly numbers of employees (including the directors) during the period was:

Directors	5	5
Senior Management	3	-
Support Staff	8	-
	16	5

Employment costs (Including directors)	**US$**	**US$**
Wages and salaries	734,440	88,230
Social Insurance costs	17,071	-
	751,511	88,230

4.1. Directors' emoluments

Remuneration and other emoluments	635,734	54,674
	635,734	54,674

5. LOSS PER ORDINARY SHARE

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

Diluted loss per ordinary share amounts are calculated by dividing net loss for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued if employee and other share options were converted into ordinary shares.

	YEAR ENDED 31 Dec. 2006	PERIOD ENDED 31 Dec. 2005
Earnings	**US$**	**US$**
Net loss attributable to equity shareholders	(993,343)	(260,414)
Effect of dilutive potential ordinary shares	-	-
Diluted net loss attributable to equity shareholders	(993,343)	(260,414)
Number of Shares		
Basic weighted average number of shares	132,796,503	90,098,470
Dilutive potential ordinary shares	53,313,755	-
Diluted weighted average number of shares	186,110,258	90,098,470
Loss per share:		
Basic	0.75 c	0.29c
Diluted	0.53 c	0.29c

6. INCOME TAX EXPENSE

Current year taxation		
Corporation Tax (12.5%)	-	-

The tax assessed for the period is lower than the standard rate of corporation tax of 12.5%.
The differences are explained below:

Loss on Ordinary Activities before Tax	(993,343)	(260,414)
Loss on Ordinary Activities multiplied by the standard rate of corporation tax of 12.5%	(124,168)	(32,552)
Effects of:		
Depreciation in excess of Capital Allowances for the year	-	-
Losses available for carry forward	124,168	32,552
Tax charge for the year	-	-

7. TANGIBLE ASSETS

Group	Land and buildings	Fixtures & fittings	Motor vehicles	Total
Cost	**US$**	**US$**	**US$**	**US$**
Additions	-	4,599	-	4,599
Acquired on acquisition of a subsidiary	159,500	6,748	-	166,248
At 1 January 2006	**159,500**	**11,347**	**-**	**170,847**
Additions	**109,813**	**-**	**66,496**	**176,309**
At 31 December 2006	**269,313**	**11,347**	**66,496**	**347,156**
Depreciation				
Charge for the period	532	378	-	910
At 1 January 2006	**532**	**378**	**-**	**910**
Charge for the year	**8,805**	**2,270**	**6,650**	**17,725**
At 31 December 2006	**9,337**	**2,648**	**6,650**	**18,635**
Net book values				
At 31 December 2006	**259,976**	**8,699**	**59,846**	**328,521**
At 31 December 2005	158,968	10,969	-	169,937

Company	Land and buildings	Fixtures & fittings	Motor vehicles	Total
Cost	**US$**	**US$**	**US$**	**US$**
Additions	-	4,599	-	4,599
At 1 January 2006	**-**	**4,599**	**-**	**4,599**
Additions	**-**	**-**	**-**	**-**
At 31 December 2006	**-**	**4,599**	**-**	**4,599**
Depreciation				
Charge for the period	-	153	-	153
At 1 January 2006	-	153		153
Charge for the period	**-**	**920**	**-**	**920**
At 31 December 2006	**-**	**1,073**	**-**	**1,073**
Net book values				
At 31 December 2006	-	**3,526**	-	**3,526**
At 31 December 2005	-	4,446	-	4,446

8. INTANGIBLE ASSETS

Group	Development Costs US$	Total US$
Cost		
Additions	516,348	516,348
Acquired on Acquisition of a subsidiary	5,577,309	5,577,309
At 1 January 2006	**6,093,657**	**6,093,657**
Additions	**4,545,635**	**4,545,635**
At 31 December 2006	**10,639,292**	**10,639,292**
Net book values		
At 31 December 2006	**10,639,292**	**10,639,292**
At 31 December 2005	6,093,657	6,093,657

Company	Development Costs US$	Total US$
Cost		
Additions	411,851	411,851
At 1 January 2006	**411,851**	**411,851**
Additions	**13,224**	**13,224**
At 31 December 2006	**425,075**	**425,075**
Net book values		
At 31 December 2006	**425,075**	**425,075**
At 31 December 2005	411,851	411,851

The amounts for Development costs represent active exploration projects. These amounts will be written off to the 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 Development assets will be ultimately be recovered, is inherently uncertain.

9. SUBSIDIARIES

Details of the Company's Subsidiaries at 31 December 2006 are as follows:

Name of Subsidiary	Country of registration or incorporation	Proportion of Ownership Interest	Proportion of Voting power held	Principal Activity
Stimul-T	Russian Federation	100%	100%	Oil and Gas exploration

10. OTHER NON-CURRENT ASSETS

Group	2006 US$	2005 US$
Prepayments	3,689,480	-
	3,689,480	-

11. TRADE AND OTHER RECEIVABLES

Group	2006 US$	2005 US$
Other debtors	-	57,713
Prepayments	43,792	393,610
	43,792	451,323

Company	2006 US$	2005 US$
Amounts owed by Group undertakings	14,286,425	6,309,600
Other debtors	-	57,713
Prepayments and accrued income	43,792	-
	14,330,217	6,367,313

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

12. CASH AND CASH EQUIVALENTS

Group	2006 US$	2005 US$
Cash at Bank and in Hand	12,872,316	256,208
	12,872,316	256,208

Company	2006 US$	2005 US$
Cash at Bank and in Hand	12,838,880	12,478
	12,838,880	12,478

13. TRADE AND OTHER PAYABLES

Group	2006 US$	2005 US$
Trade creditors	277,671	17,758
Other taxes and social welfare costs	19,053	64,679
Directors' accounts	-	930,000
Other creditors	-	2,776
Accruals and deferred income	130,671	302,186
	427,395	1,317,399

Company	2006 US$	2005 US$
Directors' accounts	-	800,000
Other taxes and social welfare costs	14,077	-
Accruals and deferred income	130,672	302,186
	144,749	1,102,186

The Directors consider that the carrying amount of trade payables approximates their fair value.

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

14. ACQUISITION OF SUBSIDIARY - 2005

	Acquiree's Carrying amount US$	Fair value Adjustment US$	Fair value US$
Net Assets acquired:			
Property, plant and equipment	166,248	-	**166,248**
Development costs	5,464,104	113,205	**5,577,309**
Trade and other receivables	437,781	-	**437,781**
Bank and cash balances	150,995	-	**150,995**
Trade and other payables	(6,332,333)	-	**(6,332,333)**
	(113,205)	113,205	-
Total consideration, satisfied by cash			**Nil**

Net cash inflow arising on acquisition:	
Cash consideration paid	**-**
Cash and cash equivalents acquired	**150,995**
	150,995

15. SHARE CAPITAL - GROUP AND COMPANY

	2006 US$	2005 US$
Authorised		
300,000,000 Ordinary shares of €0.01 each	3,503,700	3,503,700
	3,503,700	3,503,700
Allotted, called up and fully paid equity		
176,625,258 (2005 - 90,098,478) Ordinary shares of €0.01 each	2,132,436	1,052,260
	2,132,436	1,052,260

16. EQUITY RESERVES

2006	Share premium account US$	Profit and loss account US$	Other Reserves US$	Total US$
At 1 January 2006	4,861,880	(260,414)	-	4,601,466
Premium on issue of shares	21,186,250	-	-	21,186,250
Retained loss for the period	-	(993,343)	-	(993,343)
Share based payment charge	-	-	219,197	219,197
At 31 December 2006	26,048,130	(1,253,757)	219,197	25,013,570
2005				
Premium on issue of shares	4,861,880	-	-	4,861,880
Retained loss for the period	-	(260,414)	-	(260,414)
At 31 December 2005	**4,861,880**	**(260,414)**	**-**	**4,601,466**

The issue costs of the share placings of US$1,222,707 (2005 - US$ 289,294) have been written off against the share premium account.

17. LOSS OF HOLDING COMPANY

As permitted by Section 3(2) of the Companies (Amendment) Act 1986 the parent Company's profit and loss account has not been included in these financial statements. The parent Company's loss after tax, including dividends receivable and before dividends payable, was US$726,576 (2005 - (US$220,238)).

18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Group	**2006 US$**	**2005 US$**
Opening shareholders' funds	5,653,726	-
Loss for the period	(993,343)	(260,414)
Share based payment charge	219,197	-
Net proceeds of equity share issue	22,266,426	5,914,140
Net addition to shareholders' funds	21,492,280	5,653,726
Closing shareholders' funds	27,146,006	5,653,726

Company		
Opening shareholders' funds	5,693,902	-
Loss for the period	(726,576)	(220,238)
Share based payment charge	219,197	-
Net proceeds of equity share issue	22,266,426	5,914,140
Net addition to shareholders' funds	21,759,047	5,693,902
Closing shareholders' funds	27,452,949	5,693,902

19. CAPITAL COMMITMENTS

	2006 US$	**2005 US$**
Details of capital commitments at the accounting date are as follows:		
Contracted for but not provided in the financial statements	8,066,482	2,000,000
Authorised by the Directors but not yet contracted for	-	-

The commitments relate to future payments due under drilling, seismic and feasibility study contracts entered into by the Company during 2006 which are due to complete in 2007.

20. RELATED PARTY TRANSACTIONS

Transactions between PetroNeft Resources Plc and its subsidiary Stimul-T have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Dennis Francis is a Director and significant shareholder of PetroNeft Resources Plc. During the period, Dennis Francis advanced the Group amounts totalling US$ 930,000. Interest of US$13,904 was paid on this amount. At 31 December 2006, PetroNeft Resources Plc owed Dennis Francis an amount of US$NIL (2005 - US$ 930,000).

In February 2006 Stimul-T entered into a contract with Nizhnevartovskservis ("the Contractor") for the drilling of 3 wells. The contract is a "Turnkey" contract under which the Contractor 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 approximately US$10.47 million. Vakha Alvievich Sobraliev, a director and significant shareholder of PetroNeft Resources Plc, is the principal of Nizhnevartovskservis. Payments totalling US$4,224,040 were made in 2006.

21. GROSS CASH FLOWS

	Year ended 31 Dec 2006 US$	Period ended 31 Dec 2005 US$
Returns on investments and servicing of finance		
Interest paid	(13,904)	(2,840)
Interest received	66,249	-
	52,345	(2,840)
Capital expenditure		
Payments to acquire intangible assets	(4,545,635)	(6,093,657)
Payments to acquire tangible assets	(176,309)	(170,847)
Payments to acquire other assets	(3,689,480)	-
	(8,411,424)	(6,264,504)
Financing		
Issue of ordinary share capital	22,266,426	5,914,140
	22,266,426	5,914,140

22. GOING CONCERN

The financial statements are prepared under the assumption that the Group is a going concern on the basis that the Directors are satisfied that further funding, primarily through share placings, will be available to bring its projects to production.

23. SHARE BASED PAYMENTS

Under the share option scheme employees of the Group can receive conditional awards of share options depending on their performance, seniority and length of service. Options vest under the scheme subject to various milestones for the Company such as drilling, production and shareholder return.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	2006 Number	2006 WAEP	2005 Number	2005 WAEP
Outstanding as at 1 January	-	-	-	-
Granted During the Year	6,815,000	€0.297	-	-
Exercised During the Year	-	-	-	-
Outstanding at 31 December	6,815,000		-	
Exercisable at 31 December	-		-	

The inputs of the option valuation model were:

Risk free interest rate	3.75% pa
Expected volatility	46%
Dividend yield	0% pa

The Company recognised a total expense of US$ 219,194 (2005:NIL) in respect of Share Options.

24. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board on 23rd May 2007.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of PetroNeft Resources plc will be held at the Herbert Park Hotel, Ballsbridge, Dublin 4 at 11.00 am on Friday 29th June 2007, for the purposes of considering and, if thought fit, passing, the following Resolutions of which Resolutions numbered 1, 2, 3, 4, 5 and 6 will be proposed as Ordinary Resolutions and Resolution numbered 6 will be proposed as a Special Resolution.

ORDINARY BUSINESS

1. To receive, consider and adopt the accounts for the year ended 31st December 2006 together with the Directors' and Auditors' reports thereon.
2. To re-elect Mr. Francis as a Director, who retires by rotation in accordance with Article 83 of the Articles of Association of the Company.
3. To re-elect Mr. Sanders as a Director, who retires by rotation in accordance with Article 83 of the Articles of Association of the Company.
4. To reappoint LHM Casey McGrath, Chartered Certified Accountants as Auditors and to authorise the Directors to fix the remuneration of the Auditors.

SPECIAL BUSINESS

5. That the Authorised Share Capital of the Company be and is hereby increased by €3,000,000 by the creation of 300,000,000 ordinary shares of €0.01 each ranking pari passu in all respect with the existing Ordinary Shares and the Memorandum and Articles of Association of the Company be and are hereby amended accordingly.
6. That the Directors be and are hereby empowered pursuant to Sections 23 and 24 (1) of the Companies (Amendment) Act, 1983 to allot equity securities (within the meaning of the said Section 23) for cash pursuant to the authority conferred by Article 5(a) of the Articles of Association of the Company as if the said Section 23 does not apply to any such allotment provided that this power shall be limited to the allotment of equity securities;

a) in connection with the exercise of any options or warrants to subscribe granted by the Company;

b) (including, without limitation any shares purchased by the Company pursuant to the provisions of the 1990 Act and held as Treasury Shares) in connection with any offer of securities, open for a period fixed by the Directors, by way of rights, open offer or otherwise in favour of ordinary shareholders and/or any persons having a right to subscribe for or convert securities into ordinary shares in the capital of the Company (including, without limitation, any person entitled to options under any of the Company's share option schemes or any other person entitled to participate in any of the Company's profit sharing schemes for the time being) and subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to legal or practical problems under the laws of, or the requirements of any recognised body or stock exchange in, any territory; and

c) up to an aggregate nominal value equal to the nominal value of 10% of the Issued Share Capital of the Company from time to time:

which authority shall expire on the earlier of the date of the next annual general meeting of the Company held after the date of passing of this Resolution and at the close of business on 29th September 2008, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

David E. Sanders
Secretary
for and on behalf of the Board.
C/O O'Donnell Sweeney Eversheds
One Earlsfort Centre
Earlsfort Terrace
Dublin 2
28th May 2007

ANNUAL GENERAL MEETING 2007 -

FORM OF PROXY

Name ______________________________

Address ______________________________

____

____

____

Shareholder reference number ______________________

I/we appoint the following person (proxy) to vote on my/our behalf at the Annual General Meeting of the Company to be held at 11.00am on Friday 29th June 2007 at Herbert Park Hotel, Ballsbridge, Dublin 4.

(Please indicate your choice in one box only)

The Chairman of the meeting ❑ Please leave this box blank if you wish to select someone other than the Chairman.

Or

The following person:

____

Please leave this box blank if you have selected the Chairman.
Do not insert your own name(s).

To attend and vote on my/our behalf at the annual general meeting of PetroNeft Resources plc to be held at 11.00 am on Friday 29th June 2007 at Herbert Park Hotel, Ballsbridge, Dublin 4 and at any adjournment of the meeting. I/we would like my/our proxy to vote on the resolutions proposed at the meeting as indicated on this form. Unless otherwise instructed, the proxy may vote as he or she sees fit or abstain in relation to any business of the meeting.

Insert 'X' in the space provided to indicate how you wish your vote be cast. For more details about each resolution please see the Notice of Annual General meeting on page 35 of the Annual Report 2006

Resolution	For	Against
1. To receive, consider and adopt the accounts for the year ended 31st December 2006 together with the Directors' and Auditors' reports thereon.	❑	❑
2. To re-elect Mr. Francis as a Director	❑	❑
3. To re-elect Mr. Sanders as a Director	❑	❑
4. To reappoint LHM Casey McGrath, as Auditors and to authorise the Directors to fix the remuneration of the Auditors.	❑	❑
5. To increase the Authorised Share Capital of the Company	❑	❑
6. By way of Special Resolution, to authorise the directors to allot equity securities pursuant to Sections 23 and 24 of the Companies (Amendment) Act, 1983.	❑	❑

Signature

Any one joint Shareholder may sign

Date

Please Return this form to
Computershare Investor Services (Ireland) Limited, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18

Notes

1. A member entitled to attend and vote is entitled to appoint a proxy (who need not be a member of the Company) to attend, speak and vote instead of him.
2. Forms of proxy, to be valid must be lodged with the Company's Registrars, Computershare Investor Services (Ireland) Limited, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, no later than 48 hours before the time appointed for the meeting. If the appointer is a corporation, this Form of Proxy must be under its common seal or under the hand of an officer or attorney duly authorised. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote of the other registered holder(s) and for this purpose, seniority shall be determined by the order in which names stand in the register of members.
3. Completion and return of the Form of Proxy will not preclude ordinary shareholders from attending and voting at the meeting should they wish to do so.
4. Pursuant to Regulation 14 of the Companies Act 1990 (Uncertificated Securities) Regulations 1996, only those shareholders on the Register of Shareholders at 11.00 am 27th June 2007 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their names at that time. If the meeting is adjourned by more than 48 hours, then to be so entitled, shareholders must be entered on the Company's Register of Shareholders at the time which is 48 hours before the time appointed for holding the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice.
5. This form, which is personalised, may only be used in respect of the shareholder of whom details are shown above. Any alteration to such details, or attempt to use the form in respect of any other shareholder, may render the Form invalid.

ADMISSION CARD

Please retain this section of the form to gain admittance to the meeting

PetroNeft Resources plc Annual General Meeting
11.00 am on Friday 29th June 2007

Shareholder's Signature ______________________

Signature of Proxy ______________________

Location of the Annual General Meeting:

Herbert Park Hotel, Ballsbridge, Dublin 4