



PetroNeft Resources plc



Annual Report & Accounts 2007



PetroNeft Resources plc

Annual Report

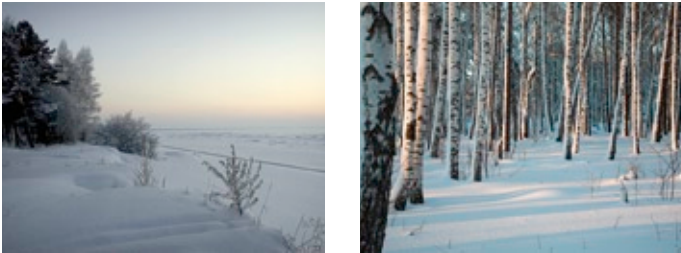
& Accounts 2007

Contents

04	Group information
05	Highlights of 2007 - 2008
06	Chairman's Statement
08	Chief Executive Officer's Report
12	Financial Review
16	Directors' Report
22	Board of Directors
24	Independent Auditors' Report
26	Consolidated Income Statement
27	Consolidated Balance Sheet
28	Consolidated Statement of Changes in Equity
29	Consolidated Cash Flow Statement
30	Company Balance Sheet
31	Company Statement of Changes in Equity
32	Company Cash Flow Statement
33	Notes to the Financial Statements
63	Notice of Annual General Meeting
64	Form of Proxy



Tomsk Oblast, Russia



The Tomsk Oblast lies in the southeastern West-Siberian Plain, in the southwest of the Siberian Federal District. It shares borders with Krasnoyarsk Krai, Tyumen, Omsk, Novosibirsk, and Kemerovo Oblasts. The Ob River, in its middle stream, divides the region into two practically equal parts, crossing it from the south-east to north-west.

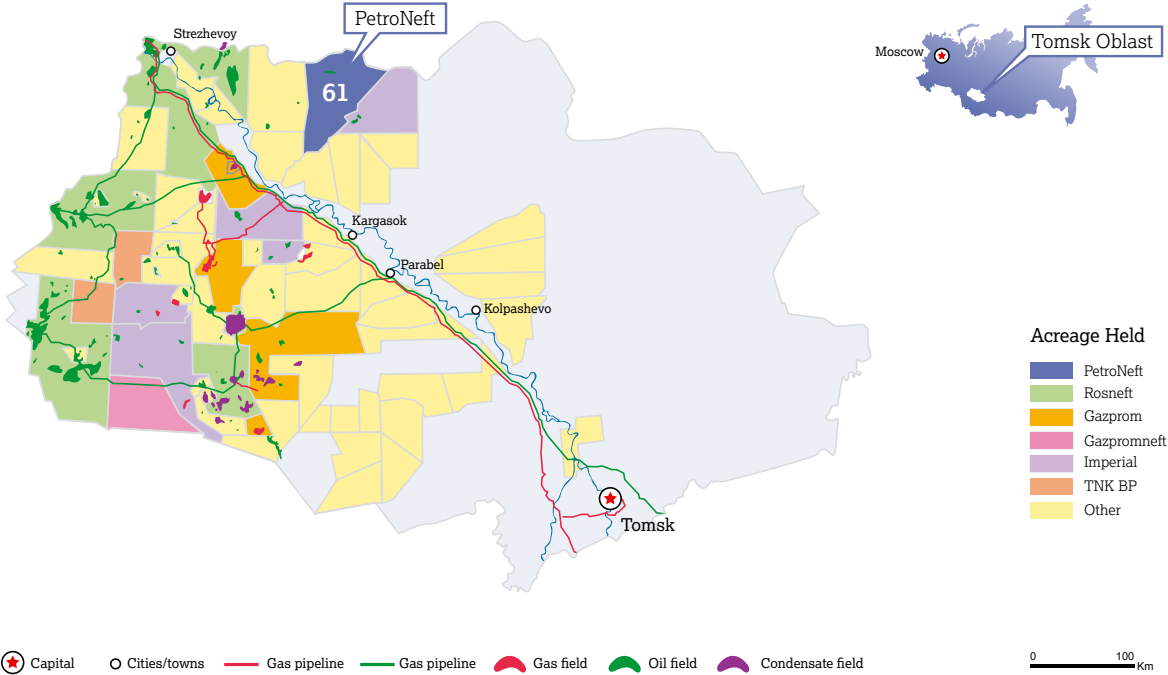
The Oblast has large reserves of natural resources and raw materials. It is rich in ferrous and non-ferrous metals. Forests are among the most significant assets of the Oblast: about 20% of the West Siberian forest resources are located in Tomsk Oblast.

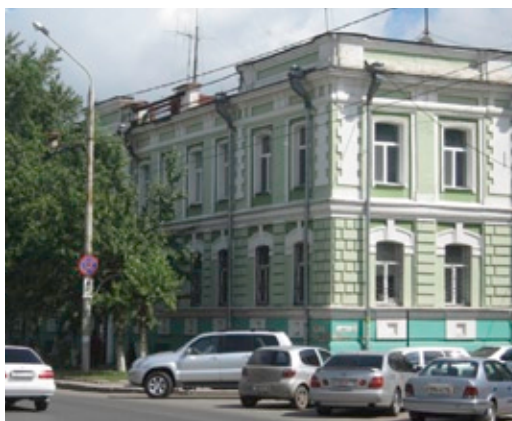
Woodlands cover about 60% of the territory of the Tomsk Oblast. Coniferous species, especially Siberian cedar pine, spruce, silver fir and larch prevail amongst commercial forests. It is often called “the territory of cedars.”

Most of the Oblast’s 316,900 km² territory is covered with taiga woods and swamps. Agriculture lands cover about 5%. The development of the territory began in the early 17th century and Tomsk itself was founded in 1604.

Oil production is carried out mainly in the north-west and in the north of the Oblast, near the settlement of Alexandrovo and in the basin of the Vasyugan River. However, there have been recent discoveries to the east of the Ob River including those by PetroNeft. Oil accounts for 62.1% of export items from the region.

According to the most recent data from the Federal State Statistic Services, there are 1,036,500 residents in the Oblast. About 50% of the population lives in the capital city of Tomsk.





Group Information

Tomsk Office

PetroNeft Resources plc

Directors

David Golder (U.S. citizen)
Non-Executive Chairman

Dennis Francis (U.S. citizen)
Chief Executive Officer

Paul Dowling (Irish citizen)
Chief Financial Officer
(Appointed on 29 April 2008)

David Sanders (U.S. citizen)
Executive Director and General Legal Counsel

Desmond Burke (Irish citizen)
Executive Director – Investor Relations and Planning

Vakha Alvieovich Sobraliev (Russian citizen)
Non-Executive Director

Thomas Hickey (Irish citizen)
Non-Executive Director

Registered Office

One Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland

Secretary

David Sanders

Auditors

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

Business Address

1 Wainsfort Drive
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Dublin 6W
Ireland

Nominated Advisor

Davy
49 Dawson Street
Dublin 2
Ireland

Bankers

AIB Bank
1 Lower Baggot Street
Dublin 2
Ireland

JP Morgan Chase Bank
Texas Market
Baton Rouge
Louisiana
USA

Solicitors

O'Donnell Sweeney Eversheds
One Earlsfort Centre
Earlsfort Terrace
Dublin 2
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5 Old Broad street
London
EC2N 1DW
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White & Case
4 Romanov Pereulok
125009
Moscow
Russia

Registered Number

408101

Registrar

Computershare
Heron House
Corrig Road
Sandyford Industrial Estate
Dublin 18
Ireland

Highlights 2007 - 2008



Operational Highlights

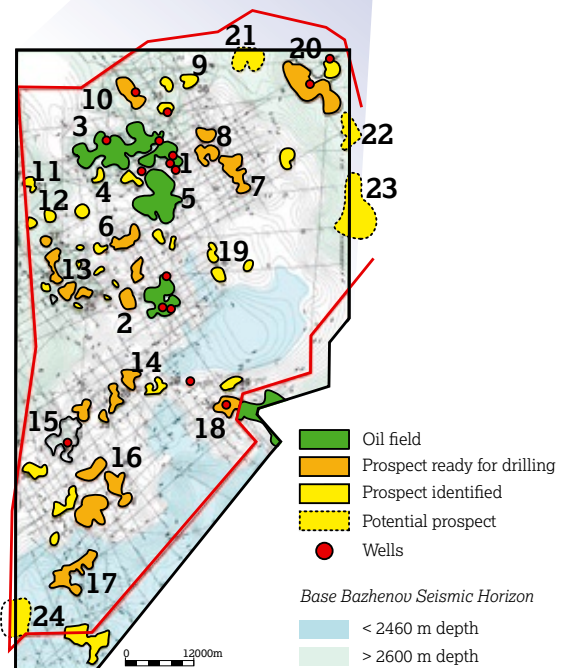
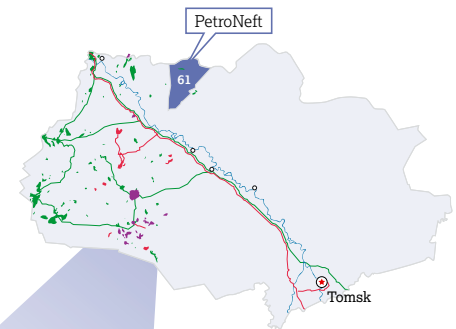
- 5 wells drilled from March 2007 to June 2008
- All oil bearing
- 81% increase in 2P reserves up to 31 December 2007
- Further increase in 2P reserves following 2 successes in 2008
- Board sanction of development in June 2008
- Production due to commence second half 2009

Financial Highlights

- July 2007 equity placing US\$15.4 million
- Capital Expenditure US\$18 million
- Discussions with International Banks at an advanced stage
- Appointment of KBC Peel Hunt as joint broker with Davy
- Expanding Institutional shareholder base

Licence 61

Oil Fields / Prospects / Potential Prospects	
Oil Fields	<ol style="list-style-type: none"> Lineynoye Oil Field Tungolskoye Oil Field West Lineynoye Oil Field Korchegskaya Oil Field
Prospects 25	<ol style="list-style-type: none"> Tungolskoye West Lobe and North Lineynoye Lower Korchegskaya West Varyakhszkaya Varyakhszkaya North & Upper Emtorskaya East (1 of 2) Emtorskaya Crown Sigayevskaya Sigayevskaya East Kulikovskaya Group (2 of 6) Kusinskiy Group (2 of 3) Tuganskaya Group (2 of 4) Kirillovskaya (3 of 4) North Balkinskaya Traverskaya (1 of 2) Tungolskoye East Sibkrayevskaya Crown & North
Potential Prospects (Leads)	<ol style="list-style-type: none"> Emtorskaya North Sibkrayevskaya East Sobachya West Balkinskaya





Chairman's Statement

David Golder
Non-Executive Chairman

Dear Shareholder,

A year of major progress

2007 was an important and busy year for PetroNeft, as it continued to deliver on its objectives for both exploration and first oil production from Licence 61 in the Tomsk Oblast of Western Siberia. It was also a difficult year in that the winter season was short, limiting the time frame within which winter roads could be used to move heavy equipment and maintain planned work schedules. However, due to the dedication of the Group's management and staff, it was a very successful year.

Exploration success and reserve upgrade

On the exploration front, the Group's 2P oil reserves were increased by over 81% to 60.6 mmbo, all of which is high quality oil. This was achieved through the drilling of three wells during the 2006/2007 season. Two of these were delineation wells, one on the Lineynoye oil field and one on the Tungolskoye oil field, both of which intersected the reservoir horizons and encountered oil. The third was the West Lineynoye Prospect exploration well where oil was also discovered, moving considerable reserves from the P3 category into 2P reserve. Mechanical problems were encountered in testing the Tungolskoye No. 4 well and, as the Tungolskoye oil field is not now scheduled to come into production until 2012, this test has been postponed until we have a full production and fracing crew in the area and can carry out this test more economically.

The first two wells in the 2007/2008 season have also added to the discovery success. At our Korchevskaya Prospect, (K-1 well) the well tested at an inflow rate calculated at 125 barrels of oil per day ("bopd"). The delineation well on the West Lineynoye oil field has also flowed oil at an inflow rate calculated at 120 bopd. An exploration well on the West Korchevskaya Prospect will commence in July 2008 as planned.

540 line km of seismic were also completed during the 2006/2007 season, defining additional prospects for future drilling. This seismic data and the current 3 well drilling programme will complete all the seismic acquisition and exploration drilling programme requirements of the Russian Government in respect of Licence 61 for the full 25 year term. The primary remaining requirement is to commence production within two years from the approval of commercial reserves by the State Reserve Committee. This is the current focus of the Company.

Development planning advanced

To begin the transition to a producer, pilot production of oil commenced and first oil sales were achieved in early 2008 as part of reservoir test programmes on the Lineynoye and West Lineynoye oil fields. The Group was added to the official list of Russian oil producing companies and was approved for connection to the Transneft pipeline system. A major advance was the conclusion of a deal, with Russian company Bashneft, to transport oil, via the Khanty Mansiysk Oblast thereby significantly reducing the capital cost of development.



A Development Plan for the Lineynoye and West Lineynoye oil fields has recently been completed and submitted to the Russian authorities. Initial production will be from the Lineynoye oil field, with pipeline construction expected to commence towards the end of 2008 and production drilling commencing in early 2009. First pipeline production is expected in the second half of 2009, with initial rates of approximately 4,000 bopd, rising to 14,000 bopd in 2012.

Successful equity financing

On the financial front, the Group successfully raised US\$15.4m during 2007 to fund its ongoing programmes. Mr. Paul Dowling was appointed as Chief Financial Officer of the Group in October 2007 and to the Board of the Company in April 2008. He has been a major addition to the Group management team and has been expanding the relationships between the Group and the financial markets. The current crisis in the financial markets, both banking and equity, provides a significant challenge to the development of the Group's assets but the Board is confident that this challenge can be overcome and the development and reserve expansion program can be kept on schedule.

Planning for the future

Separately from Licence 61, the Group has been very active in its search for new asset acquisitions, both exploration and producing. It has also been active in seeking ways to manage its current assets to maximise shareholder value. Within the context of the current difficult markets this is an increasingly important focus in developing a broader portfolio of assets for the Group. It is hoped that these efforts will be brought to fruition in the coming year.

While major progress has been made, to achieve the goal of oil production in 2009 is still a considerable ambition. I am confident that the Group's staff and management will continue to meet all the challenges and bring the assets of Licence 61 to production on schedule.

Finally, I am sure that I speak for all the management and staff of PetroNeft in thanking our shareholders, both old and new, for your confidence and support to date.

David Golder
Non-Executive Chairman



Chief Executive Officer's Report

Dennis Francis
Chief Executive Officer

General

Since the formation of PetroNeft in 2005, the primary strategy toward building a long term profitable company has been to focus on early production of oil from Licence 61 in the Tomsk Oblast in Western Siberia. The foundations of the Group are set in high quality technical data, systematic exploration, compliance with government requirements and detailed planning toward this production. The Group has developed a good working relationship with the financial markets in order to fund these developments and has established clear Environmental and Health and Safety policies. A secondary strategy has been the acquisition of new assets, both exploration and producing, that will bring about more rapid expansion of the Group. Both strategies are progressing well and the next year will be an exciting one in terms of Group development.

The recent successes at the Korchevskaya No. 1 exploration well and particularly at the Lineynoye No. 8 delineation well have enabled the Board to sanction the development of Licence 61 commencing with the northerly fields of Lineynoye and West Lineynoye.

Oil Field Development

During the year the Group has continued to advance the established oil fields toward full year-round pipeline production, which is now scheduled to commence in the second half of 2009. Pilot production has already been achieved in early 2008 from the Lineynoye and West Lineynoye fields by way of long term pilot production flow tests from wells drilled in 2007. This oil was trucked via winter roads to a tank farm in Kargasok for further distribution by the buyer.

A major milestone during the year has been the protocol of intent with Bashneft, a producer in the Khanty Mansiysk Oblast, immediately to the north of Licence 61, to receive and process oil from the Group's oil fields and transport to the Transneft export pipeline system, at favourable tariff rates. This focuses the initial production development on the northern oil fields of the Licence, Lineynoye and West Lineynoye, where the main 2P reserves have been established. Korchevskaya, Tungolskoye and any other new discoveries will be developed later, on an incremental basis. To facilitate the development, a Development Plan has been completed recently and is currently going through the approval process with the Russian authorities.

As stated above, the initial focus of development to oil production (Phase 1) is on the Lineynoye and West Lineynoye oil fields. The 2P reserve base of these fields is 45.14 million barrels of oil, as reported by Ryder Scott, with 5.18 million barrels in the P1 category. It is expected that the updated Russian State Reserves Balance for these fields, currently with the Ministry of Natural Resources for approval, will support these numbers. The Plan of Development, as designed by the Tomsk branch of the Siberian Scientific Institute of Geology, Geophysics and Mineral Resources (SNIIGGMS) demonstrates that the economics of Phase 1 are sufficiently robust to support the export pipeline and common field processing facilities. These economics are based on a conservative export oil price of US\$65 per barrel and domestic sales at US\$43 per barrel (including VAT). Additions of production from other oil fields and possible future discoveries, developed on an incremental basis, will enhance these economics.



It should be noted that SNIIGGMS also has the responsibility for obtaining Russian State Reserve Committee approval of reserves and approval of the Development Plan from the Russian Central Development Committee. The Institute has a great deal of experience in preparing such plans and in getting the necessary approvals to proceed with the development. It also has access to vast historical and current records on which to base their economic projections. This production and cost data are essential to the Company's commercial evaluation of the project.

Assuming success with the approval process and that financing can be secured in a timely fashion, a general outline for Phase 1 of the Development Plan will be as follows:

(a) Pipeline development to Bashneft terminal

The first step, which includes the design engineering, soil sampling survey and approvals for the pipeline route and custody transfer point, is underway. The next step will be to purchase the pipe for the pipeline and transport it by river barge to staging areas close to the final pipeline route. Tenders have been received from contractors for the supply of this pipe, and transport will proceed during the summer months, when rivers are navigable. A contract is also being finalised to construct the pipeline and custody transfer point, with completion to be effected by July 2009.

(b) Processing facilities for the oil

Oil processing facilities are already available at the Bashneft terminal and will be used by the Company on a tariff basis.

(c) Infrastructure development at Oil field site

These include the development of production crew accommodation and facilities, the installation of roads, power generation capacity, oil gathering facilities and water injection lines, etc.

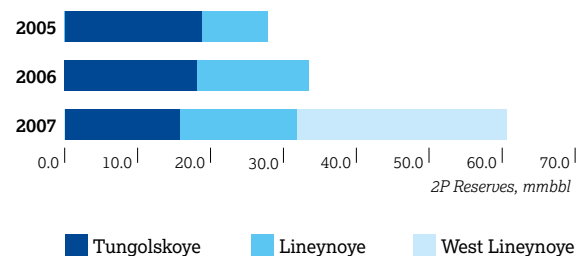
(d) Drilling of production and water injection wells

This will commence in the winter 2008/2009, using two drilling rigs. Approximately nine deviated production and water injection wells will be drilled each year by each rig from a drilling pad. At peak production there will be over 100 production and water injection wells. All producing wells will require hydraulic fracturing and electrical submersible pumps in order to maximise production.

(e) Production

Initial production is planned at approximately 4,000 bopd by the end of 2009, and peaking at 14,000 bopd in 2012.

2P Reserves Movements



	2005	2006	2007
Tungolskoye	18.55	17.92	15.48
Lineynoye	9.34	15.61	16.32
West Lineynoye	-	-	28.82
Total	27.89	33.53	60.62



Exploration and Reserve Expansion

Drilling

Over the last year, all five wells drilled by the Group have intersected oil reservoirs at the predicted horizons. As some pay zones were thinner than expected, the predicted 2P reserve potential of the field was lower than initial expectations. However, West Lineynoye is a significant discovery, as is the recently completed Korchevskaya No.1 well where oil tested at an inflow rate calculated to equal 125 bopd. A further well, Lineynoye No. 8, has recently flowed oil at an inflow rate calculated to equal 120 bopd.

The last exploration well of the 2008 season, West Korchevskaya No. 1, is due to be spudded in July 2008. This prospect is smaller than the targets drilled to date but has potential for 10 million barrels of oil, and will provide valuable stratigraphic information on the northern group of oil fields and potential oil fields that will be the focus of first production.

Once this season's exploration and delineation drilling has been completed, the focus will then turn to production drilling as described above. This is necessary to upgrade as much as possible of the reserve base to P1 category and to start to gear up for production, when the export pipeline is commissioned in 2009. However, given the recent discovery of a new Cretaceous oil reservoir horizon in a neighbouring licence, the Group will drill an exploration well on its Traverskaya Prospect, which adjoins the discovery oil field.



Seismic Surveys

During the Winter Season of 2006/07, 540 line kilometres of high resolution 2D seismic data were acquired. Together with the 515 line kilometres acquired the previous year, the Company has completed its 1,000 kilometre seismic obligation and has moved several prospects and potential prospects into the “ready to drill” category, further enhancing the potential of Licence 61. A significant amount of reserve has also been moved from the P4 exploration resource category, to the P3 possible category.

Summary of reserves of Licence 61 as per Ryder Scott report dated 31 December 2007:

	Proven 1P	Proven and probable 2P	Proven probable and possible 3P
	mmbo	mmbo	mmbo
Lineynoye field	4.286	16.321	22.758
West Lineynoye field	0.895	28.816	44.423
Tungolskoye	1.496	15.485	22.790
	6.677	60.622	89.971
26 prospects	-	-	260.106
	6.677	60.622	350.077

Business Development

With the initial phase of exploration on Licence 61 completed and production development begun in 2008, the Company will, over the coming months, focus on the expansion of its asset portfolio to expand both its exploration and production capacity. A number of opportunities are being examined and if they meet the Company's strict technical and commercial criteria for acquisition, then the Company will attempt to agree terms or bid for the assets.

Corporate and Social Responsibility

The Group is fully committed to high standards of environmental, health and safety management. There are inherent risks in the oil and gas industry and these are managed through policies and practices which stress the need for individual and collective responsibility within our staff structure and with contractors that operate for the Group.

Conclusion

2007 was a year of steady progress on all fronts. Reserves have been increased and moved towards ready for production status. A Plan of Development is now in place. Additional prospects are at the “Ready to Drill” stage. Firm foundations have been laid upon which to build the Group. The main objectives over the next year will be to bring the northern oil fields to pipeline production and to expand the asset base of the Group through the acquisition of new assets.

Dennis Francis
Chief Executive Officer



Financial Review

Paul Dowling
Chief Financial Officer

Since incorporation, PetroNeft has raised over US\$45 million, acquired 1,055 line kilometres of 2D seismic data and drilled 3 wells up to 31 December 2007 which have established 60.6 million barrels of 2P reserves. A core element of the Group's strategy is to bring these reserves to commercial development and establish a long-term production business for the Group. This development, which will cost approximately US\$75 million, will be funded by an appropriate mix of debt and equity. We are currently in detailed discussions with a range of international banks in this regard and will update shareholders in due course when a deal has been agreed.

Three wells were drilled during 2007 at a cost of approximately US\$13 million. This work program added 27.1 mmbbl to our 2P reserves as audited by Ryder Scott Petroleum Consultants at 31 December 2007, at a cost of under 50 cents per barrel. Similar 2P assets have changed hands for more than US\$2 per barrel in recent transactions, which demonstrates the value created by our exploration to date.

In July 2007, PetroNeft raised US\$15.4 million from international institutional investors to finance the three well drilling program for 2007/08. The program consists of one delineation well on last year's discovered oil field, West Lineynoye, and two exploration wells on the Korchevskaya and West Korchevskaya prospects. Shareholders will have seen recent announcements regarding the first two of these three wells, Korchevskaya No. 1 and Lineynoye No.8, where we have again encountered oil.

In December 2007, the Group entered into a protocol of intent with Bashneft to tie into their pipeline at the Lukpayskaya pumping station which is 60 km from the Lineynoye oil field. Not only does this mean that the route of our pipeline is 90km shorter than the previous option, with a less complicated route, in that there is no major river crossing, but it brings significant savings in capital expenditure, thereby reducing considerably the financing requirements for the coming years. While we will be paying a tariff to Bashneft for use of their pipeline, we have agreed a cost sharing arrangement with them that is capped and will not exceed the Transneft tariff for a similar pipeline segment.

In December 2007, PetroNeft also purchased a site for a Mini-Refinery at the Transneft pipeline Pervomayka pumping station in the Kolpashevo District for US\$186,000. The site has had some site clearance and preliminary ground works carried out by the previous owner and an off-take flange for the Transneft pipeline connection is already in place. This purchase gives us a viable option, but not an obligation, to participate in downstream activities in the future, where better margins and tax regimes apply. At present the Board has made no commitment to commence work at this site. The priority for the coming year is to complete the export pipeline to Lukpayskaya and commence year round production from Lineynoye and West Lineynoye oil fields.



Key financial metrics

	2007 US\$	As Restated (Note 24) 2006 US\$
Administrative expenses	2,600,561	632,790
Exceptional item – write off of survey costs for previous pipeline route	815,827	-
Loss for the year	3,203,262	650,340
Capital expenditure in the year	18,043,960	8,099,598
Net proceeds of equity share issue	14,686,870	22,407,690
Bank and cash balance at year end	8,304,295	12,872,316

Net Loss

The net loss for the year increased to US\$3,203,262 from US\$650,340, as restated, in 2006. The main reason for the increase in losses was an exceptional item in respect of the write off of costs to date under a contract to survey our previously proposed pipeline route to the pumping station at Raskino. More details are provided in Note 5 to the financial statements. General and administrative expenses rose primarily as a result of the continued growth and development of the business, including the appointment of a CFO and the opening of a Dublin office. Administration costs also include a share based payments expense, which is a non-cash item, of US\$958,468 in the current year (2006 – US\$219,197).

Prior year adjustment

As described in more detail in note 24, following a review of the Group's accounting policies, an adjustment to the prior year financial statements was considered appropriate in respect of the functional currency of the Group's Russian subsidiaries, the valuation in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" of a warrant granted in February 2006 and deferred taxation. An adjustment was also necessary in respect of share issue costs that had previously been offset against share premium, which it was subsequently deemed should have been expensed.

The net impact of these adjustments was to reduce the loss for the year ended 31 December 2006 by US\$343,003 from US\$993,343, as previously reported, to a restated loss of US\$650,340.

Finance Revenue

Finance Revenue of US\$465,395 arises from bank interest received on bank deposits. The Group had raised funds at IPO in September 2006 and again in July 2007 and held the money on deposit earning interest until it was required by our operations. Disciplined management of our budgeting process allowed us to place funds on deposit for longer terms, thereby increasing the interest rate obtained.





Taxation

The current and deferred tax charge arises on finance revenue earned.

Capital Investment

Capital Expenditure in the year amounted to US\$18,043,960, which principally relates to the three wells drilled during the year, seismic work and the building of roads and facilities at the various well sites.

Principal risks and uncertainties

In accordance with the Companies Acts 1963 to 2006, the principal risks and uncertainties affecting the Group are detailed in the Directors' Report.

Investor Relations

During 2007, the directors held regular meetings with analysts and institutional investors and the fund raising in July 2007 widened the base of institutional investors in the Company. In February 2008, we hosted analysts and bankers in Tomsk, which included a trip to the field and presentations from our various technical partners in Tomsk.

The target for 2008 is to continue our program of meetings and specifically to get more analyst coverage in order to further increase our visibility within the investment community.

In March 2008, our London based Co-Broker, Natixis Bleichroeder made the decision to close its equity sales operation in London. We have therefore recently appointed KBC Peel Hunt as London broker in addition to our Nomad and Co-Broker Davy. We are confident that KBC Peel Hunt's sales team will further widen our shareholder base.

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 at 16 June 2008 are as follows:

Shareholder	No. of shares held	%
RAB Octane Fund Limited	36,439,232	18.98%
Davycrest Nominees Limited	32,747,683	18.54%
Vidacos Nominees Limited	11,812,683	6.69%
JP Morgan Asset Management (UK) Limited	7,558,500	3.91%

Paul Dowling
Chief Financial Officer



Directors' Report

for the year ended 31 December 2007

Board of Directors

PetroNeft Resources plc

The Directors present herewith their Annual Report and the audited financial statements of PetroNeft Resources plc (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2007.

Principal Activity

The principal activities of the Group are that of oil and gas exploration, development and production. 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. A detailed business review is included in the Chief Executive Officer's Report and in the Financial Review.

Results and Dividends

The loss for the year before tax amounted to US\$2,950,993 (2006 – (US\$504,445) as restated – see note 24). After a tax charge of US\$252,269 (2006: US\$145,895) the loss for the year amounted to US\$3,203,262 (2006: (US\$650,340) as restated). The directors do not recommend payment of a dividend. Accordingly, an amount of US\$3,203,262 has been debited to reserves.

Review of the Development and Performance of the Business

In compliance with the requirements of the Companies Acts, 1963 to 2006, a fair review of the performance and development of the Group's business during the year, its position at the year end and its future prospects is contained in the Chief Executive Officer's Report on pages 8 to 11. The key performance indicators used by management are set out in the Financial Review on pages 12 to 15.

Corporate Governance

The Company is not subject to the Combined Code on Corporate Governance applicable to companies listed on the Dublin or London Stock Exchange. The Company does, however, intend, in so far as is practicable and desirable, given the size and nature of the business and the constitution of the Board, to comply with the Corporate Governance Guidelines for AIM Companies (the "QCA Guidelines") as published by the Quoted Companies Alliance (the "QCA").

The QCA Guidelines were devised by the QCA, in consultation with a number of significant institutional small company investors, as an alternative corporate governance code applicable to AIM companies. An alternative code was proposed because the QCA considered the Combined Code on Corporate Governance to be inappropriate to many AIM companies.

The QCA Guidelines state that "the purpose of good corporate governance is to ensure that the company is managed in an efficient, effective and entrepreneurial manner for the benefit of all shareholders over the longer term." The guidelines set out a code of best practice for AIM companies. Those guidelines require, among other things, that:

- a) certain matters be specifically reserved for the Board's decision;
- b) the Board should be supplied in a timely manner with information (including regular management financial information) in a form and of a quality appropriate to enable it to discharge its duties;
- c) the Board should, at least annually, conduct a review of the effectiveness of the company's system of internal controls and should report to shareholders that they have done so;
- d) the roles of chairman and chief executive should not be exercised by the same individual or there should be a clear explanation of how other Board procedures provide protection against the risks of concentration of power within the company;
- e) a company should have at least two independent non-executive directors on the Board and should not be dominated by one person or group of people;
- f) all directors should be submitted for re-election at regular intervals subject to continued satisfactory performance;
- g) the Board should establish audit, remuneration and nomination committees; and
- h) there should be a dialogue with shareholders based on a mutual understanding of objectives.

Major corporate decisions of the Group are subject to Board approval. The Board are supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. These matters include approval of the Group's general commercial strategy, financial statements, Board membership, significant acquisitions and disposals, major capital expenditures and risk management and treasury policies. The Company holds regular Board meetings throughout the year.

In accordance with the QCA Guidelines, the Board has established audit and remuneration committees, as described below, and utilises other committees as necessary in order to ensure effective governance.

Audit Committee

The members of the Audit Committee are Thomas Hickey, David Golder and Vakha Sobraliev. It is chaired by Thomas Hickey. The Audit Committee's responsibilities include, among other things, reviewing interim and year end financial statements, accounting principles, policies and practices, internal controls, and overseeing the relationship with the external auditor, including the planned scope and results of their audit.

Remuneration Committee

The members of the Remuneration Committee are David Golder, Thomas Hickey and Vakha Sobraliev. It is chaired by David Golder. The Remuneration Committee's responsibilities include, among other things, determining the policy on remuneration provided, however, that no director shall be directly involved in any decisions as to their own remuneration.

Nomination 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.

The recent appointment of Paul Dowling as an Executive Director to the board means that the percentage of Non-Executive Directors on the Board is now lower than 50%. It is the intention of the Board to appoint another Independent Non-Executive Director to the board to redress this balance.

The Group has adopted a model code for Directors' dealings that is appropriate for an AIM company. The Group complies with Rule 21 of the AIM Rules relating to Directors' dealings and will take all reasonable steps to ensure compliance by the Directors and the Group's applicable employees and their relative associates.

Shareholder Communication

Shareholder communication is given high priority by the Group. The Group has ongoing meetings between its senior executives, institutional shareholders, analysts and brokers. These meetings, which are governed by procedures designed to ensure that price sensitive information is not divulged, are designed to facilitate a two way dialogue based upon the mutual understanding of objectives. The annual general meeting (“AGM”) affords individual shareholders the opportunity to question the Chairman and the Board, and their participation is welcomed.

The Chairman aims to ensure that the Chairmen of the Audit Committee and Remuneration Committee are available at the AGM to answer questions. In addition, major shareholders can meet with the Chairman or executive and non-executive directors on request.

The Board is kept apprised of the views of shareholders, and the market in general, through feedback from the meetings programme and results presentations. Analysts’ reports on the Company are also circulated to the Board on a regular basis. The Group’s website, www.petroneft.com, is also a key communication tool with all shareholders. News releases are made available on the website immediately after release to the stock exchange.

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.

Directors

The present Directors are listed on page 4, and, unless otherwise indicated, have served throughout the year. In accordance with the Articles of Association, David Golder and Desmond Burke retire by rotation and being eligible offer themselves for re-election. Paul Dowling, having been appointed to the Board on 29 April 2008 also retires in accordance with the Articles of Association and being eligible offers himself for re-election.

Directors, Company Secretary and their Interests

The directors and secretary who held office during the year had no interest, other than those shown below, in the shares of the Company.

Directors and Secretary	Ordinary shares As at 31 Dec 2007	Ordinary shares As at 1 Jan 2007
David Golder	3,165,458	2,944,458
Dennis Francis	20,388,843	20,289,617
David Sanders	4,205,605	4,180,605
Desmond Burke	5,304,204	5,304,204
Vakha Alviech Sobraliev	23,014,273	22,650,052
Thomas Hickey	896,226	585,000

Paul Dowling, Chief Financial Officer, was appointed to the Board on 29 April 2008 and he held 48,000 ordinary shares at the date of his appointment.

In addition to the above the Directors hold the following share options:

Directors	Options held As at 1 Jan 2007	Granted in Year	Exercised in Year	Options held As at 31 Dec 2007	Exercise Price
David Golder	440,000	-	-	440,000	€ 0.295
Dennis Francis	880,000	-	-	880,000	€ 0.295
Paul Dowling	-	400,000	-	400,000	€ 0.420
David Sanders	880,000	-	-	880,000	€ 0.295
Desmond Burke	660,000	-	-	660,000	€ 0.295
Vakha Alviech Sobraliev	440,000	-	-	440,000	€ 0.295
Thomas Hickey	440,000	-	132,000	308,000	€ 0.295

Details of the terms and conditions of the option scheme are included in note 28 to the financial statements.

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 the following:

- 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's exploration and development operations require substantial capital expenditures. The Group may be unable to obtain the necessary capital or financing on satisfactory terms or otherwise, which could materially adversely affect the business, prospects and financial condition of the Group.
- The Group's future debt instruments may have substantial restrictions and financial covenants, and it may have difficulty obtaining credit, which could adversely affect its operations and limit its ability to pursue certain projects, including the development to production of Licence 61, while adversely affecting its liquidity.
- The Group benefits from maintaining good relations with the Federal and Regional government and governmental agencies in Russia. Failure to maintain such good relations could have an adverse impact on PetroNeft's business and operations and the prospects of the Group.
- Certain governmental approvals and authorisations are necessary in order to carry out various activities of the Group, including those related to the exploration and exploitation of hydrocarbons; delays or failures in obtaining such approvals and/or authorisations could materially and adversely affect operations.
- Oil prices fluctuate widely, and lower prices for an extended period of time are likely to have a material adverse impact on the Group's business.
- The Group's operations are subject to significant hazards and risks inherent in exploration and production, transportation, processing, and refining and marketing operations and could expose the Group to potentially significant losses, costs or liabilities.
- Drilling for and producing hydrocarbons are high-risk activities with many uncertainties that could adversely affect the Group's financial condition or results of operations.
- The Group may incur significant costs, including capital expenditures, over the next several years to comply with various environmental and health and safety regulations.

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

Financial Risk Management

The Board sets the treasury policies and objectives of the Group, which include controls over the procedures used to manage financial risk. The Group's activities expose the Group to a variety of financial risks including foreign currency, commodity price, credit, liquidity and interest rate risks. These financial risks are managed by the Group under policies approved by the Board. Details of the Group's financial risk management policies are set out in detail in Note 23 to the consolidated financial statements.

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.

The share option scheme is designed to incentivise performance and loyalty of Directors and key employees. Options vest when certain operational and total shareholder return targets are met. Share option holdings of the Directors are disclosed on page 19.

Director's remuneration during the year was as follows:	2007 US\$	2006 US\$
Remuneration and other emoluments	842,441	601,264
Share based payments expense relating to the Directors	460,125	119,440
	<u>1,302,566</u>	<u>720,704</u>



PetroNeft Resources plc
Board of Directors with Russian Senior Management Team

Back Row

Desmond Burke
Alexander Frenovsky - Executive Director LLC Stimul-T
Alexey Balyasnikov - General Director LLC Stimul-T

Middle Row

Nikolay Karapuzov - Chief Geologist LLC Stimul-T
David Sanders
Vakha A. Sobraliev
Thomas Hickey

Front Row

David Golder
Dennis Francis
Paul Dowling

Statement of Directors' Responsibilities in respect of the Financial Statements

Company law in the Republic of Ireland requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period.

In preparing these financial statements of the Group, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable;
- comply with applicable International Financial Reporting Standards as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Acts, 1963 to 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 1 Wainsfort Drive, Terenure, Dublin 6W.

Going Concern

In preparing the consolidated financial statements the Directors consider it appropriate to continue to use the going concern assumption on the basis that the Board have approved a plan to raise an appropriate mix of debt and equity capital and the Group are at an advanced stage of discussions with International Banks and Corporate Finance advisors in this regard. The Directors believe that this will enable the Group to continue in operational existence for the foreseeable future and meet its obligations as they fall due.

Important Events after the Balance Sheet Date

On 19 June 2008 RAB Octane Fund Limited, the holder of a warrant over 2,673,498 shares in the Company indicated their intention to exercise the warrant and have paid the US\$ 1 million exercise price.

Auditors

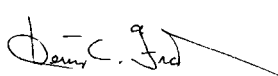
LHM Casey McGrath, Chartered Certified Accountants, resigned as auditors during the year. Ernst & Young, Chartered Accountants, were appointed as auditors in their place and have indicated their willingness to continue in office in accordance with the provisions of Section 160(2) of the Companies Act, 1963.

Annual General Meeting

Your attention is drawn to the Notice of Meeting set out on page 63.

Your Directors believe that the Resolutions to be proposed at the Meeting are in the best interests of the Company and its shareholders as a whole and, therefore, recommend you to vote in favour of the Resolutions. Your Directors intend to vote in favour of the Resolutions in respect of their own beneficial holdings of Ordinary Shares.

Approved by the board on 27 June 2008.



Dennis Francis
Director



Paul Dowling
Director

Board of Directors



- | | | |
|---|---|---|
| 1 | 2 | 3 |
| 4 | 5 | 6 |
| 7 | | |

1. David Golder
2. Dennis Francis
3. Paul Dowling
4. David Sanders
5. Thomas Hickey
6. Desmond Burke
7. Vakha A. Sobraliev

David Golder

Non-Executive Chairman

Aged 60. Mr. Golder has been Non-Executive Chairman of the Company since 2005. He is also Chairman of the Remuneration Committee and a member of the Audit Committee. He has over 38 years experience in the petroleum industry and was formerly Senior Vice President of Marathon Oil Company (“Marathon”), retiring in 2003. From June 1996 to 1999, Mr. Golder was seconded from Marathon to Sakhalin Energy Investment Company where he was Executive Vice President – Upstream. Located in Moscow, he managed all upstream activities which focused on the oil development and company infrastructure aspects of the Sakhalin II Project onshore and offshore Sakhalin Island. Mr. Golder is a member of the Society of Petroleum Engineers. He has a BSc degree in Petroleum & Natural Gas Engineering from Pennsylvania State University and has completed the Program for Management Development at Harvard University.

Dennis Francis

Chief Executive Officer and Executive Director

Aged 59. Mr. Francis has been Chief Executive Officer and an Executive Director of the Company since its formation in 2005. He has over 37 years experience in the petroleum industry and was with Marathon for 30 years. From 1990, Mr. Francis was USSR/FSU task force manager responsible for developing new opportunities for Marathon in Russia. Marathon and its partners ultimately won the first Russian competitive tender which was to develop the Sakhalin II Project offshore Sakhalin Island. He is a member of the American Association of Petroleum Geologists and Society of Exploration Geophysicists. He has a BSc degree in geophysical engineering and an MSc degree in geology both from the Colorado School of Mines. He has also completed the program for management development at Harvard University.

Paul Dowling

Chief Financial Officer and Executive Director

Aged 36. Mr. Dowling joined the Company on 1 October 2007 and was appointed to the Board of Directors on 29 April 2008. He has 17 years experience in the areas of accounting, auditing, taxation, financial reporting, AIM/IPO reporting, corporate restructuring, corporate finance and acquisitions/disposals. Most recently he was a Partner in the accounting firm, LHM Casey McGrath, located in Dublin. Mr. Dowling is a fellow of the Association of Chartered Certified Accountants (ACCA) and a member of the Irish Taxation Institute. He currently represents the ACCA with the Consultative Committee of Accountancy Bodies - Ireland (CCAB-I).

Dr. David Sanders

General Legal Counsel,

Executive Director and Company Secretary

Aged 59. Dr. Sanders has been General Legal Counsel, Executive Director and Company Secretary of the Company since its formation in 2005. He is an attorney of law and has over 32 years experience in the petroleum industry, including 14 years of doing business in Russia and three years in the oil and gas litigation division of the law firm of Fulbright & Jaworski LLP. In 1988, Dr. Sanders joined Marathon where he analysed and reviewed joint venture agreements for worldwide production until his assignment in 1991 to the negotiating team for the Sakhalin II Project in Russia. Dr. Sanders has a degree in electronics from Pennsylvania Institute of Technology, a liberal arts degree from the University of Houston and a doctorate of jurisprudence from South Texas College of Law. He is a member of the State Bar of Texas and of the American Bar Association.

Thomas Hickey

Independent Non-Executive Director

Aged 39. Mr. Hickey has been a Non-Executive Director of the Company since 2005. He is Chairman of the Audit Committee and a member of the Remuneration Committee. He has been Chief Financial Officer and a director of Tullow Oil plc since 2000. During this time Tullow has grown via a number of significant acquisitions. Prior to joining Tullow Oil plc he was an Associate Director of ABN AMRO Corporate Finance (Ireland) Limited. In this role, he advised public and private companies in a wide range of industry sectors in the areas of fund raising, stock exchange requirements, mergers and acquisitions, flotations and related transactions. Mr. Hickey is a Commerce graduate of University College Dublin and a Fellow of the Irish Institute of Chartered Accountants.

Desmond Burke

Executive Director of Planning and Investor Relations

Aged 61. Mr. Burke has been an Executive Director of the Company since its formation in 2005. He has over 30 years of experience as an exploration geologist and as an executive of publicly quoted companies in Ireland, Canada and Australia. From 1983 to 1993, he was managing director of Burmin Exploration and Development plc ("Burmin"), a Company that was admitted to trading on the Exploration Securities Market ('ESM') of the Irish Stock Exchange in 1987. From 1995 to 2000, Mr. Burke was managing director of Ormonde Mining plc, which was admitted to trading on the ESM in 1996 and on the Vancouver Stock Exchange in 1998. Mr. Burke graduated from University College Dublin with a BSc in geology, botany and zoology and an MSc in mineral exploration from the University of London Imperial College.

Vakha A. Sobraliev

Non-Executive Director

Aged 53. Mr. Sobraliev has been a Non-Executive Director of the Company since 2005. He is a member of both the Audit and Remuneration Committees. He has over 30 years experience operating and managing energy service companies and state operating units exploring for and exploiting oil resources in the Western Siberian Oil Basin. Mr. Sobraliev is currently a shareholder and General Director of Tomskburneftgaz LLC, an oil and gas well drilling and services company operating in Western Siberia. From 1975 to 2000, Mr. Sobraliev worked for Tomskneft and Strezhevoy Drilling Boards in various drilling and economic capacities including chief engineer and chief accountant. He has degrees in mining engineering and economics from Tomsk Polytechnic Institute and the Tomsk State University respectively. Mr. Sobraliev is a resident of Tomsk, Russia.

Independent Auditors' Report

Independent Auditors' Report to the members of PetroNeft Resources plc

We have audited the Group and Parent Company financial statements (the "financial statements") of PetroNeft Resources plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statement of Changes in Equity, and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' 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 and 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

The directors are responsible for the preparation of the financial statements in accordance with applicable Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' Responsibilities.

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 and have been properly prepared in accordance with the Companies Acts, 1963 to 2006. We also report to you our opinion as to: whether proper books of account have been kept by the Company; whether, at the balance sheet date, there exists a financial situation which may require 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 Company Balance Sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and other transactions is not disclosed 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 Chairman's Statement, the Chief Executive Officer's Report, the Financial Review and the Directors' Report. 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 audit 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 of whether the accounting policies are appropriate to the Group's and 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.

Opinion

In our opinion the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of affairs of the Group and of the Company as at 31 December 2007, and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2006.

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 Company. The Company Balance Sheet is in agreement with the books of account.

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

In our opinion, the Company balance sheet does not disclose a financial situation which under section 40(1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Company.

Emphasis of matter

In forming our opinion, which we have not qualified, we have considered the adequacy of the disclosures made in Note 2 to the financial statements concerning the Group's ability to continue as a going concern. We note that at the date of signing the consolidated financial statements, the Directors are of the view that the Group does not have sufficient funds to enable it to bring its assets into production in 2009 unless additional finance is raised. These conditions, which are further explained in Note 2 to the financial statements, indicate the existence of a material uncertainty which may cast doubt about the Group's ability to continue as a going concern.

In forming our opinion, we also considered the adequacy of the disclosures made in Note 3.2(a) to the financial statements concerning the recoverability of the carrying value of the Group's exploration and evaluation assets of US\$29,415,286.

The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern or the exploration and evaluations assets were not recoverable.

In view of the significance of these uncertainties, we consider that they should be drawn to your attention. Our opinion is not qualified in these respects.

Ernst & Young
Chartered Accountants and Registered Auditors
Dublin

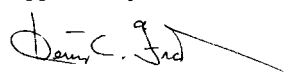
27 June 2008

Consolidated Income Statement

for the year ended 31 December 2007

	Note	2007 US\$	As Restated (note 24) 2006 US\$
Revenue		-	-
Administrative expenses - normal		(2,600,561)	(632,790)
- exceptional	5	(815,827)	-
Operating loss	6	(3,416,388)	(632,790)
Finance revenue	7	465,395	66,249
Finance costs	8	-	(13,904)
Gain on derivative financial instruments	9	-	76,000
Loss for the year for continuing operations before taxation		(2,950,993)	(504,445)
Income tax expense	11	(252,269)	(145,895)
Loss for the year attributable to equity holders of the parent		(3,203,262)	(650,340)
Loss per share attributable to ordinary equity holders of the parent	12		
Basic and diluted- US dollar cent		(1.74)	(0.49)

Approved by the board on 27 June 2008.



Dennis Francis
Director



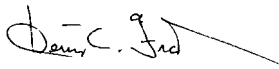
Paul Dowling
Director

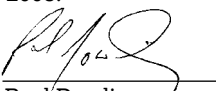
Consolidated Balance Sheet

as at 31 December 2007

	Note	2007 US\$	As Restated (note 24) 2006 US\$
Assets			
Non-current Assets			
Property, plant and equipment	13	1,591,324	334,708
Exploration and evaluation assets	14	29,415,286	11,139,043
Leasehold land payments	16	181,896	-
		<u>31,188,506</u>	<u>11,473,751</u>
Current Assets			
Trade and other receivables	18	3,542,741	4,014,892
Cash and cash equivalents	19	8,304,295	12,872,316
Leasehold land payments		4,214	-
		<u>11,851,250</u>	<u>16,887,208</u>
Total Assets		<u>43,039,756</u>	<u>28,360,959</u>
Equity and Liabilities			
Capital and Reserves			
Called up share capital	22	2,343,864	2,132,436
Share premium account		40,252,836	25,777,394
Share based payments reserve		1,177,665	219,197
Retained loss		(4,368,883)	(1,165,621)
Currency translation reserve		1,466,092	269,861
Other reserves		336,000	336,000
		<u>41,207,574</u>	<u>27,569,267</u>
Equity attributable to equity holders of the parent		<u>41,207,574</u>	<u>27,569,267</u>
Non-current Liabilities			
Provisions	21	131,243	-
Deferred tax liability	11	372,708	226,767
		<u>503,951</u>	<u>226,767</u>
Current Liabilities			
Trade and other payables	20	851,147	564,925
Provisions	21	477,084	-
		<u>1,328,231</u>	<u>564,925</u>
Total Liabilities		<u>1,832,182</u>	<u>791,692</u>
Total Equity and Liabilities		<u>43,039,756</u>	<u>28,360,959</u>

Approved by the board on 27 June 2008.


 Dennis Francis
 Director


 Paul Dowling
 Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2007

	Share Capital US\$	Share Premium US\$ <i>As restated (note 24)</i>	Other ¹ reserve US\$ <i>As restated (note 24)</i>	Translation reserve US\$ <i>As restated (note 24)</i>	Retained Losses US\$ <i>As restated (note 24)</i>	Total US\$ <i>As restated (note 24)</i>
At 1 January 2006 <i>(as previously stated)</i>	1,052,260	4,861,880	-	-	(260,414)	5,653,726
Effect of prior year adjustment	-	-	-	813	(254,867)	(254,054)
Restated balance	1,052,260	4,861,880	-	813	(515,281)	5,399,672
Loss for the year	-	-	-	-	(650,340)	(650,340)
Currency translation adjustments	-	-	-	269,048	-	269,048
Total recognised income and expense	-	-	-	269,048	(650,340)	(381,292)
New share capital subscribed	1,080,176	22,454,187	-	-	-	23,534,363
Transaction costs on issue of share capital	-	(1,126,673)	-	-	-	(1,126,673)
Derivative financial instrument	-	(412,000)	336,000	-	-	(76,000)
Share based payments expense	-	-	219,197	-	-	219,197
At 31 December 2006	2,132,436	25,777,394	555,197	269,861	(1,165,621)	27,569,267
At 1 January 2007 <i>(as previously stated)</i>	2,132,436	26,048,130	219,197	-	(1,253,757)	27,146,006
Effect of prior year adjustment	-	(270,736)	336,000	269,861	88,136	423,261
Restated balance	2,132,436	25,777,394	555,197	269,861	(1,165,621)	27,569,267
Loss for the year	-	-	-	-	(3,203,262)	(3,203,262)
Currency translation adjustments	-	-	-	1,196,231	-	1,196,231
Total recognised income and expense	-	-	-	1,196,231	(3,203,262)	(2,007,031)
New share capital subscribed	209,493	15,216,010	-	-	-	15,425,503
Transaction costs on issue of share capital	-	(795,720)	-	-	-	(795,720)
Share options exercised	1,935	55,152	-	-	-	57,087
Share based payments expense	-	-	958,468	-	-	958,468
At 31 December 2007	2,343,864	40,252,836	1,513,665	1,466,092	(4,368,883)	41,207,574

¹Includes movement on warrants and share based payments expenses (refer to notes 9 and 28).

Consolidated Cash Flow Statement

for the year ended 31 December 2007

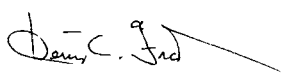
	Note	2007 US\$	As Restated (note 24) 2006 US\$
Loss before taxation		(2,950,993)	(504,445)
Adjustment to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation of property, plant and equipment		42,527	1,845
Share based payments expense		958,468	219,197
Movement in fair value of financial liabilities		-	(76,000)
Finance revenue		(465,395)	(66,249)
Finance costs		-	13,904
Working capital adjustments			
Decrease/(increase) in trade and other receivables		85,912	(587,065)
Increase/(decrease) in trade and other payables		632,064	(669,338)
Income tax paid		(106,329)	-
Net cash flows from operating activities		(1,803,746)	(1,668,151)
Investing activities			
Purchase of property, plant and equipment		(1,223,125)	(158,075)
Exploration and evaluation payments		(16,634,725)	(7,941,523)
Acquisition of subsidiary		(186,110)	-
Finance revenue		465,395	66,249
Net cash used in investing activities		(17,578,565)	(8,033,349)
Financing activities			
Proceeds from exercise of share options		57,087	-
Proceeds from issue of share capital		15,425,503	23,534,363
Transaction costs of issue of shares		(795,720)	(1,126,673)
Finance costs		-	(13,904)
Net cash received from financing activities		14,686,870	22,393,786
Net (decrease)/increase in cash and cash equivalents		(4,695,441)	12,692,286
Translation adjustment		127,420	158,083
Cash and Cash equivalents at the beginning of the period		12,872,316	21,947
Cash and cash equivalents at the end of the period	19	8,304,295	12,872,316

Company Balance Sheet

as at 31 December 2007

	Note	2007 US\$	As Restated (note 24) 2006 US\$
Non-current Assets			
Property, plant and equipment	13	6,464	3,526
Financial assets	15	<u>30,161,546</u>	<u>8,473,166</u>
		<u>30,168,010</u>	<u>8,476,692</u>
Current Assets			
Trade and other receivables	18	8,025,309	7,250,589
Cash and cash equivalents	19	<u>5,077,802</u>	<u>12,838,880</u>
		<u>13,103,111</u>	<u>20,089,469</u>
Total Assets		<u>43,271,121</u>	<u>28,566,161</u>
Equity and Liabilities			
Capital and Reserves			
Called up share capital	22	2,343,864	2,132,436
Share premium account		40,252,836	25,777,394
Share based payment reserve		1,177,665	219,197
Retained loss		(1,586,406)	(270,381)
Other reserves		<u>336,000</u>	<u>336,000</u>
Equity attributable to equity holders of the parent		<u>42,523,959</u>	<u>28,194,646</u>
Non-current Liabilities			
Deferred tax liability	11	372,708	226,767
Current Liabilities			
Trade and other payables	20	<u>374,454</u>	<u>144,748</u>
Total Liabilities		<u>747,162</u>	<u>371,515</u>
Total Equity and Liabilities		<u>43,271,121</u>	<u>28,566,161</u>

Approved by the board on 27 June 2008.



 Dennis Francis
 Director



 Paul Dowling
 Director

Company Statement of Changes in Equity

for the year ended 31 December 2007

	Share Capital US\$	Share Premium US\$ <i>As restated (note 24)</i>	Other ¹ reserve US\$ <i>As restated (note 24)</i>	Retained Losses US\$ <i>As restated (note 24)</i>	Total US\$ <i>As restated (note 24)</i>
At 1 January 2006 (<i>as previously stated</i>)	1,052,260	4,861,880	-	(220,238)	5,693,902
Effect of prior year adjustment	-	-	-	242,824	242,824
Restated balance	1,052,260	4,861,880	-	22,586	5,936,726
Loss for the year	-	-	-	(292,967)	(292,967)
Total recognised income and expense	-	-	-	(292,967)	(292,967)
New share capital subscribed	1,080,176	22,454,187	-	-	23,534,363
Transaction costs on issue of share capital	-	(1,126,673)	-	-	(1,126,673)
Derivative financial instrument	-	(412,000)	336,000	-	(76,000)
Share based payments expense	-	-	219,197	-	219,197
At 31 December 2006	2,132,436	25,777,394	555,197	(270,381)	28,194,646
At 1 January 2007 (<i>as previously stated</i>)	2,132,436	26,048,130	219,197	(946,814)	27,452,949
Effect of prior year adjustment	-	(270,736)	336,000	676,433	741,697
Restated balance	2,132,436	25,777,394	555,197	(270,381)	28,194,646
Loss for the year	-	-	-	(1,316,025)	(1,316,025)
Total recognised income and expense	-	-	-	(1,316,025)	(1,316,025)
New share capital subscribed	209,493	15,216,010	-	-	15,425,503
Transaction costs on issue of share capital	-	(795,720)	-	-	(795,720)
Share options exercised	1,935	55,152	-	-	57,087
Share based payments expense	-	-	958,468	-	958,468
At 31 December 2007	2,343,864	40,252,836	1,513,665	(1,586,406)	42,523,959

¹ Includes movement on warrants and share based payments expenses (refer to notes 9 and 28).

Company Cash Flow Statement

for the year ended 31 December 2007

		2007	As Restated (note 24) 2006
	Note	US\$	US\$
Loss before taxation		(1,063,756)	(147,072)
Adjustment to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation of property, plant and equipment		1,884	920
Share based payments charge		648,686	157,841
Movement in fair value of financial liabilities		-	(76,000)
Finance revenue		(1,048,805)	(649,659)
Finance costs		-	13,904
Working capital adjustments			
Increase in trade receivables		(630,436)	(476,449)
Increase/(decrease) in trade and other payables		229,706	(957,438)
Income tax paid		(106,329)	-
Net cash flows from operating activities		(1,969,050)	(2,133,953)
Investing activities			
Purchase of property, plant and equipment		(4,822)	-
Capital contributions to subsidiaries		(21,192,488)	(7,840,459)
Acquisition of subsidiary		(186,110)	-
Finance revenue		465,395	66,249
Net cash used in investing activities		(20,918,025)	(7,774,210)
Financing activities			
Proceeds from exercise of share options		57,087	-
Proceeds from issue of share capital		15,425,503	23,534,363
Transaction costs of issue of shares		(795,720)	(1,126,673)
Finance costs		-	(13,904)
Net cash received from financing activities		14,686,870	22,393,786
Net (decrease)/increase in cash and cash equivalents		(8,200,205)	12,485,623
Translation adjustment		439,127	340,779
Cash and Cash equivalents at the beginning of the period		12,838,880	12,478
Cash and cash equivalents at the end of the period	19	5,077,802	12,838,880

Notes to the Financial Statements

for the year ended 31 December 2007

1. General information on the Company and the Group

PetroNeft Resources plc (“the Company”, or together with its subsidiaries, “the Group”) is a Company incorporated in Ireland under the Companies Acts, 1963 to 2006. The Company is listed on the Alternative Investments Market (“AIM”) of the London Stock Exchange and the Irish Enterprise Exchange (“IEX”) of the Irish Stock Exchange. The address of the registered office is One Earlsfort Centre, Earlsfort Terrace, Dublin 2. The Company is domiciled in the Republic of Ireland.

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

2. Going Concern

In order to meet the Group’s stated target of bringing its assets into production in 2009 the Board have approved a plan to raise an appropriate mix of debt and equity capital to fund the necessary capital expenditure. The Group are at an advanced stage of discussions with International Banks and Corporate Finance advisors in this regard and the Directors are confident that sufficient debt and equity funding will be available. Accordingly, the Directors consider it appropriate to continue to use the going concern assumption in preparing the consolidated financial statements.

3. Accounting Policies

3.1 Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in US dollars (“US\$”).

(a) Statement of Compliance

The consolidated financial statements of PetroNeft Resources plc and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”). In addition to complying with its legal obligation to comply with IFRS as adopted for use in the EU, the Group has also complied with IFRS as issued by the International Accounting Standards Board (“IASB”).

In accordance with the provisions of Section 148(8) of the Companies Act, 1963 and Section 7(1A) of the Companies (Amendment) Act, 1986 the Income Statement of the Company is not presented separately.

(b) Basis of Consolidation

The consolidated financial statements comprise the financial statements of PetroNeft Resources plc and its subsidiaries as at 31 December each year.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

3.2 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

(a) Judgements

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have a significant effect on amounts recognised in the financial statements.

Exploration and evaluation expenditure

Exploration and evaluation expenditure represents 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 these assets will ultimately be recovered, is inherently uncertain.

Going Concern

In order to meet the Group's stated target of bringing its assets into production in 2009 the Board have approved a plan to raise an appropriate mix of debt and equity capital to fund the necessary capital expenditure. The Group are at an advanced stage of discussions with International Banks and Corporate Finance advisors in this regard and the Directors are confident that sufficient debt and equity funding will be available. Accordingly, the Directors consider it appropriate to continue to use the going concern assumption in preparing the consolidated financial statements.

Impairment of non financial assets

The Group assesses whether there are any indicators of impairment for all non financial assets at each reporting date. When value in use calculations are undertaken, management must estimate the future expected cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

The Group has capitalised intangible exploration and evaluation assets in accordance with IFRS 6, which are evaluated for indicators of impairment. Any impairment review, where required, involves significant judgment related to matters such as recoverable reserves, production profiles, oil and gas prices, development, operating and offtake costs and other matters. The carrying amount of intangible exploration and evaluation assets at 31 December 2007 is US\$29,415,286 (2006 - US\$11,139,043).

(b) Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Financial liabilities at fair value through profit or loss

The Group measures the cost of financial liabilities (share warrants) at fair value. Estimating fair value requires determining the most appropriate valuation model for the financial liability, which is dependent on the terms and conditions of the financial liability. This also requires determining the most appropriate inputs to the valuation model and making assumptions about them. The model and assumptions used are discussed in Note 9.

3.2 Significant Accounting Judgements, Estimates and Assumptions (continued)

(b) Estimates and Assumptions (continued)

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model; including the expected life of the option, volatility and dividend yield, and making assumptions about them. The model and assumptions used are discussed in Note 28.

Decommissioning costs

Decommissioning costs will be incurred by the Group at the end of the operating life of certain of the Group's facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results. Refer to Note 21 for details of this reserve and related assumptions.

3.3 Summary of Significant Accounting Policies

(a) Foreign currencies

The consolidated financial statements are presented in US Dollars, which is the Group's reporting currency. The US dollar is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items are translated using the exchange rates ruling as at the date of the initial transaction.

The assets and liabilities of foreign operations are translated into US dollars at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

(b) Business Combinations and Goodwill

On the acquisition of a subsidiary, the purchase method of accounting is used whereby the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities on the basis of fair value at the date of acquisition. Those petroleum reserves and resources that are able to be reliably valued are recognised in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which in management's opinion, values cannot be reliably determined, are not recognised. When the cost of acquisition exceeds the fair values attributable to the Group's share of the identifiable net assets the difference is treated as purchased goodwill. If the fair value attributable to the Group's share of the identifiable net assets exceeds the cost of acquisition, the difference is immediately recognised in the income statement.

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

3.3 Summary of Significant Accounting Policies (continued)

(b) Business Combinations and Goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

(c) Exploration, evaluation and development expenditure

Exploration, evaluation and development expenditure is accounted for using the successful efforts method of accounting.

Pre-license costs

Pre-license costs are expensed in the period in which they are incurred.

Exploration and evaluation costs

Payments to acquire the legal right to explore and costs directly associated with an exploration well are capitalised at cost as an intangible asset until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If oil is not found, the exploration expenditure is written off as a dry hole. If extractable oil is found and, subject to further appraisal activity, which may include the drilling of further wells, is likely to be developed commercially, the costs continue to be carried as an intangible asset. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When proved reserves of oil are determined and development is sanctioned, the relevant expenditure is transferred to property, plant and equipment after impairment is assessed and any resulting impairment loss is recognised.

Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within property, plant and equipment and depreciated from the commencement of production.

(d) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Land is measured at cost, as it has an unlimited useful life and therefore is not depreciated.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period the asset is de-recognised.

(e) Leases

Leasehold land payments are upfront payments to acquire long-term leasehold interests in land. These payments are stated at cost and amortised on a straight-line basis over the respective period of the leases.

(f) Financial assets - investment in subsidiaries

Investments in subsidiaries are stated at cost and are reviewed for impairment if there are indications that the carrying value may not be recoverable.

3.3 Summary of Significant Accounting Policies (continued)

(g) Cash and cash equivalents

Cash and cash equivalents on the balance sheet comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less.

(h) Financial assets

Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

The Group does not have held-to-maturity investments or available-for-sale financial assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are de-recognised or impaired, as well as through the amortisation process.

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the assets is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are de-recognised when they are assessed as uncollectible.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

3.3 Summary of Significant Accounting Policies (continued)

(j) De-recognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is de-recognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset.

Financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same provider on substantially different terms, or the terms of an existing liability are substantially modified, such as exchanges or modification, is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(k) Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognised, but are disclosed where an inflow of economic benefits is probable.

Decommissioning provision

A decommissioning provision is recognised when the Group has an obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant and equipment or in exploration and evaluation expenditure. The amount recognised is the estimated cost of decommissioning, discounted to its present value. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment or in exploration and evaluation expenditure. The unwinding of the discount on the decommissioning provision is included as a finance cost.

3.3 Summary of Significant Accounting Policies (continued)

(l) Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

3.3 Summary of Significant Accounting Policies (continued)

(l) Taxes (continued)

Deferred income tax (continued)

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(m) Impairment of property, plant and equipment and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets may be impaired. 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.

(n) Share based payments

Employees (including senior executives) of the Group receive remuneration in the form of share based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

Equity-settled transactions

The cost of equity-settled transactions with employees, for awards granted after 7 November 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in Note 28.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting, irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

3.3 Summary of Significant Accounting Policies (continued)

(o) Share issue expenses

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

(p) Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, or whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

3.4 Standards issued but not yet effective

(a) IFRS 8 Operating Segments

This IFRS replaces IAS 14 Segment Reporting and adopts a management approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segment. The standard is effective for financial years beginning on or after 1 January 2009. The Group does not expect this new standard to significantly affect the current disclosure on segment reporting.

(b) IAS 23 Borrowing Costs

A revised IAS 23 Borrowing Costs ("IAS 23") was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in IAS 23, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred prior to this date that have been expensed.

(c) IFRIC 11 Group and Treasury Share Transactions

IFRIC Interpretation 11 Group and Treasury Share Transactions ("IFRIC 11") addresses the appropriate accounting for share-based payment arrangements in a group. It provides guidance on the recognition of such awards as either equity or cash settled arrangements dependent on the entity within the group that grants the award. IFRIC 11 is effective for periods beginning on or after 1 March 2007. The group do not consider that this will impact the consolidated financial statements.

(d) IFRIC 12 Service Concession Arrangements

IFRIC Interpretation 12 Service Concession Arrangements ("IFRIC 12") was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. IFRIC 12 applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence IFRIC 12 will have no impact on the Group.

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

3.4 Standards issued but not yet effective (continued)

(e) IFRIC 13 Customer Loyalty Programmes

IFRIC Interpretation 13 Customer Loyalty Programmes (“IFRIC 13”) was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that award credits are fulfilled. The Group expects that this interpretation will have no impact on the Group’s financial statements as no such schemes currently exist.

(f) IFRIC 14 - IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group has no defined benefit schemes and hence this interpretation will have no impact on the financial position or performance of the Group.

(g) IFRS 2 Share-based Payments – Vesting Conditions and Cancellations

This amendment to IFRS 2 Share based payments was published in January 2008 and becomes effective for financial years beginning on or after 1 January 2009. The Standard restricts the definition of “vesting condition” to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share based payments.

(h) IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied prospectively and will affect future acquisitions and transactions with minority interests.

(i) IAS 1 Revised Presentation of Financial Statements

The revised IAS 1 Presentation of Financial Statements was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will present one or two statements.

3.4 Standards issued but not yet effective (continued)

(j) Amendments to IAS 32 and IAS 1 Puttable Financial Instruments

Amendments to IAS 32 and IAS 1 were issued in February 2008 and become effective for annual periods beginning on or after 1 January 2009. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect these amendments to impact the financial statements of the Group.

4. Segment information

The Group's primary format for segment reporting is business segments and the secondary format is geographical segments. 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. At present the Group has one reportable operating segment, which is oil exploration. As a result, there are no further disclosures required in respect of the Group's primary reporting segment.

The Group also has only one geographical segment, which is Russia.

Secondary reporting format – Geographical segments

The Group has no sales. Substantially all of the Group's capital expenditures are in Russia.

	2007 US\$	<i>As Restated</i> (Note 24) 2006 US\$
Total Assets		
<i>Total assets are allocated based on where the assets are located:</i>		
Russia	37,915,033	15,467,435
Ireland	5,119,259	12,882,648
United States	5,464	10,876
	43,039,756	28,360,959

5. Administrative expenses - Exceptional

The exceptional item of US\$815,827 relates to amounts due to an independent contractor in respect of surveying and engineering work on a proposed pipeline route to the Raskino pumping station. In December 2007, the Group entered into a protocol of intent with Russian company, Bashneft, to connect a pipeline from the Group's licence area to Bashneft's Lukpayskaya pumping station, a route some 90 km shorter than original route to Raskino. Some of the work carried out by the independent contractor will be used in the design and engineering of field facilities and the new pipeline route, however the amount charged to the income statement relates to those works that are not transferable to the revised route.

A provision of US\$477,084 relating to the amounts payable under the above contract is disclosed at Note 21.

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

6. Operating loss

	2007 US\$	<i>As Restated</i> <i>(Note 24)</i> 2006 US\$
Operating loss is stated after charging:		
<i>Included in administration expenses</i>		
Depreciation of property, plant and equipment	42,527	1,845
Net Foreign Exchange Gains	(825,366)	(884,941)
Minimum lease payments recognised as an operating lease expense	96,518	35,836
Auditors' remuneration (See below)	117,975	81,000
	<hr/>	<hr/>
Audit Services		
Statutory Audit	107,975	51,000
Taxation and other services		
Compliance and other services	10,000	30,000
	<hr/>	<hr/>
Total	117,975	81,000
	<hr/>	<hr/>

7. Finance revenue

	2007 US\$	2006 US\$
Bank interest receivable	465,395	66,249
	<hr/>	<hr/>
	465,395	66,249
	<hr/>	<hr/>

8. Finance costs

	2007 US\$	2006 US\$
On loans and overdrafts	-	13,904
	<hr/>	<hr/>
	-	13,904
	<hr/>	<hr/>

9. Gain on derivative financial instruments

	2007	<i>As Restated</i>
	US\$	<i>(Note 24)</i>
		2006
		US\$
Gain on derivative financial instruments	-	76,000
	<u>-</u>	<u>76,000</u>
	<u>-</u>	<u>76,000</u>

On 1 February 2006, the Company granted a warrant to subscribe for ordinary shares (the “warrant”) in the Company. The warrant entitles the holder to subscribe for such number of shares equal to US\$1 million divided by the price of an ordinary share at the commencement of dealings of Ordinary Shares on AIM (the “Admission Price”) on the following terms:

- the exercise price of the warrant will be the Admission Price;
- the exercise period will commence on Admission and expire two years after Admission; and
- the warrant will be exercisable in whole or part.

Therefore, at 1 February 2006 the warrant was classified as a liability.

On 27 September 2006, following the Company’s Initial Public Offering, the liability is de-recognised. On that date, the fair value of the warrant, amounting to US\$336,000, is credited to other reserves. The movement of US\$76,000 between the date of issuance and de-recognition is recognised as a gain in the Income Statement.

The Company engaged an external independent firm of valuation experts to calculate the fair value of the warrant as at the date of grant and of de-recognition.

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

10. Employees

	2007 Number	2006 Number
Number of employees		
The average monthly numbers of employees (including the directors) during the period was:		
Directors	6	5
Senior Management	5	3
Support Staff	18	8
	<u>29</u>	<u>16</u>
	2007 US\$	2006 US\$
Employment costs (including directors)		
Wages and salaries	1,440,519	795,030
Social welfare costs	149,729	78,273
Share based payments expense	958,468	219,197
	<u>2,548,716</u>	<u>1,092,500</u>

10.1. Directors' emoluments

	2007 US\$	2006 US\$
Remuneration and other emoluments	842,441	601,264
Share based payments expense	460,125	119,440
	<u>1,302,566</u>	<u>720,704</u>

11. Income Tax

The tax expense comprises:

	2007 US\$	<i>As Restated</i> (Note 24) 2006 US\$
Current income tax		
Current income tax charge	106,329	-
Deferred tax		
Relating to origination and reversal of temporary differences	145,940	145,895
Income tax expense reported in the income statement	<u>252,269</u>	<u>145,895</u>

Reconciliation of the total tax charge

The tax assessed for the year differs from that calculated by applying the standard rate corporation tax in the Republic of Ireland of 12.5%. The differences are explained below:

	2007 US\$	<i>As Restated</i> (Note 24) 2006 US\$
Loss before income tax	<u>(2,950,993)</u>	<u>(504,445)</u>
Accounting loss multiplied by Irish standard rate of tax of 12.5%	(368,874)	(63,056)
Share based payments expense	119,808	27,400
Effect of higher tax rates on investment income	131,101	81,207
Non-deductable expenses	284,962	79,861
Taxable deductible timing differences	(305,500)	(82,915)
Other	28,479	(51,606)
Losses available at higher rates	(333,309)	(142,604)
Taxable losses not utilised	695,602	297,608
Total tax expense reported in the income statement	<u>252,269</u>	<u>145,895</u>

Deferred income tax

Deferred income tax at 31 December relates to the following:

	2007 US\$	<i>As Restated</i> (Note 24) 2006 US\$
Deferred income tax liability		
Accrued interest income	372,708	226,767
	<u>372,708</u>	<u>226,767</u>

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

11. Income Tax (continued)

The Group has tax losses which arose in Russia that are available for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets, which expire in 8 to 10 years, of US\$1,204,883 (2006: US\$446,786) have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group and they have arisen in subsidiaries that have been loss making for some time.

Factors that may affect future tax charges

The Group expects to commence oil production in Russia in the future. Such production is likely to result in taxable profits in Russia, where the applicable tax rate is 24%.

12. 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 warrants and employee share options were converted into ordinary shares.

	2007 US\$	<i>As Restated</i> (Note 24) 2006 US\$
Numerator		
Net loss attributable to equity shareholders of the parent for basic and diluted loss	(3,203,262)	(650,340)
	<u>(3,203,262)</u>	<u>(650,340)</u>
Denominator		
Basic weighted average number of shares	183,670,598	132,796,503
Diluted weighted average number of shares	<u>183,670,598</u>	<u>132,796,503</u>
Loss per share:		
Basic and diluted - <i>US dollar cent</i>	(1.74)	(0.49)

Basic and diluted EPS are the same as the potential ordinary shares are anti-dilutive.

Dilutive potential ordinary shares of 10,765,000 (2006: 9,485,000) comprise outstanding share options and shares subject to a warrant (Note 9), which was outstanding at the year-end.

On 19 June 2008, the Company was notified of the warrant holder's intention to exercise the warrant for 2,673,498 ordinary shares (Note 29).

13. Property, plant and equipment

Group

	Land and buildings US\$	Plant and machinery US\$	Motor vehicles US\$	Total US\$
Cost				
At 1 January 2006	159,167	10,156	-	169,323
Additions (<i>as restated</i>)	95,615	13,586	48,874	158,075
Translation adjustment (<i>as restated</i>)	7,101	952	1,593	9,646
At 1 January 2007 (<i>as restated</i>)	261,883	24,694	50,467	337,044
Additions	87,249	1,116,377	19,499	1,223,125
Translation adjustment	23,342	49,945	4,597	77,884
At 31 December 2007	372,474	1,191,016	74,563	1,638,053
Depreciation				
At 1 January 2006	-	435	-	435
Charge for the year	911	934	-	1,845
Translation adjustment	30	26	-	56
At 1 January 2007	941	1,395	-	2,336
Charge for the year	969	30,596	10,962	42,527
Translation adjustment	113	1,275	478	1,866
At 31 December 2007	2,023	33,266	11,440	46,729
Net book values				
At 31 December 2007	370,451	1,157,750	63,123	1,591,324
At 31 December 2006 (<i>as restated</i>)	260,942	23,299	50,467	334,708
At 31 December 2005 (<i>as restated</i>)	159,167	9,721	-	168,888

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

13. Property, plant and equipment (continued)

Company

	Plant and machinery US\$
Cost	
At 1 January 2006	4,599
Additions	-
At 1 January 2007	4,599
Additions	4,822
At 31 December 2007	9,421
Depreciation	
At 1 January 2006	153
Charge for the year	920
At 1 January 2007	1,073
Charge for the period	1,884
At 31 December 2007	2,957
Net book values	
At 31 December 2007	6,464
At 31 December 2006	3,526
At 31 December 2005	4,446

14. Exploration and evaluation assets

Group

	Exploration & evaluation expenditure US\$ <i>As Restated</i> <i>(Note 24)</i>
Cost	
At 1 January 2006	6,209,210
Additions	4,264,815
Translation adjustment	665,018
At 1 January 2007	11,139,043
Additions	16,765,968
Translation adjustment	1,510,275
At 31 December 2007	29,415,286
Net book values	
At 31 December 2007	29,415,286
At 31 December 2006	11,139,043
At 31 December 2005	6,209,210

14. Exploration and evaluation assets (continued)

Exploration and evaluation expenditure represents 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 these assets will ultimately be recovered, is inherently uncertain.

15. Financial assets

Company

	Investment in Subsidiaries US\$ As Restated (Note 24)
Cost	
At 1 January 2006	571,351
Advances to subsidiary undertakings	7,840,459
Capital contribution in respect of share based payment expense	61,356
At 1 January 2007	8,473,166
Advances to subsidiary undertakings	21,192,488
Capital contribution in respect of share based payment expense	309,782
Acquisition of subsidiary undertakings (Note 17)	186,110
At 31 December 2007	30,161,546
Net book values	
At 31 December 2007	30,161,546
At 31 December 2006	8,473,166
At 31 December 2005	571,351

Details of the Company's subsidiaries at 31 December 2007 are as follows:

Name of subsidiary	Registered Office	Proportion of ownership interest	Proportion of voting power held	Principal Activity
LLC Stimul-T	147, Prospekt Lenina, Tomsk, 634009, Russia	100%	100%	Oil and Gas exploration
LLC Lineynoye	147, Prospekt Lenina, Tomsk, 634009, Russia	100%	100%	Construction
LLC Pervomayka	Pobedy, Kolpashevo, Tomsk, 634460, Russia	100%	100%	Property Holding

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

16. Leasehold land payments

	2007 US\$	2006 US\$
Acquired on acquisition (<i>Note 17</i>)	186,110	-
Transferred to current	(4,214)	-
Net book value at 31 December	<u>181,896</u>	<u>-</u>

Leasehold land payments relate to a lease held by LLC Pervomayka. The term of the lease expires in 2052.

17. Business combinations

Acquisitions in 2007

On 17 December 2007, the Company acquired 100% of the voting shares of LLC Pervomayka, an unlisted non-trading company based in Russia. The preliminary fair value of the identifiable assets and liabilities of LLC Pervomayka as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were:

	Fair value recognised on acquisition US\$	Previous carrying value US\$
Leasehold land	186,110	4,500
Net assets	<u>186,110</u>	<u>4,500</u>
Goodwill arising on acquisition	-	-
Consideration, satisfied by cash	<u>186,110</u>	-

The initial fair values are provisional due to the timing of the acquisition. The review of the fair value of the assets and liabilities acquired will be completed within 12 months of the acquisition date at the latest and any changes to the initial fair value will be adjusted in the consolidated financial statements for the year ending 31 December 2008.

As LLC Pervomayka is non-trading, it has not made any contribution to the net loss of the Group.

18. Trade and other receivables

Group	2007	<i>As Restated</i>
	US\$	2006 US\$
Other receivables	131,701	-
Prepayments	3,411,040	4,014,892
	3,542,741	4,014,892
Company		<i>As Restated</i>
	2007	2006
	US\$	US\$
Amounts owed by subsidiary undertakings	7,983,851	7,206,797
Prepayments and accrued income	41,458	43,792
	8,025,309	7,250,589

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

Other receivables are non-interest bearing and are normally settled on 60-day terms.

Amounts owed by subsidiary undertakings are interest-bearing. Interest is charged at rates ranging from 6% to 10%.

19. Cash and cash equivalents

Group	2007	2006
	US\$	US\$
Cash at bank and in hand	8,304,295	12,872,316
	8,304,295	12,872,316
Company		
	2007	2006
	US\$	US\$
Cash at bank and in hand	5,077,802	12,838,880
	5,077,802	12,838,880

Cash at banks earns interest at floating rates based on daily deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

20. Trade and other payables

Group

	2007 US\$	<i>As Restated</i> <i>(Note 24)</i> 2006 US\$
Trade payables	417,417	415,692
Other taxes and social welfare costs	79,987	14,077
Other payables	46,919	-
Accruals	306,824	135,156
	<u>851,147</u>	<u>564,925</u>

Company

	2007 US\$	<i>As Restated</i> <i>(Note 24)</i> 2006 US\$
Trade payables	1,602	-
Other taxes and social welfare costs	35,188	14,077
Other payables	46,919	-
Accruals	290,745	130,671
	<u>374,454</u>	<u>144,748</u>

The directors consider that the carrying amount of trade and other payables approximates their fair value.

Trade and other payables are non-interest bearing and are normally settled on 60-day terms.

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

21. Provisions

21.1. Decommissioning costs – Non current

	2007 US\$
At 1 January	-
Additions	131,243
At 31 December	<u>131,243</u>

21. Provisions (continued)

21.1. Decommissioning costs – Non current (continued)

The decommissioning provision represents the present value of decommissioning costs relating to the Russian oil interests, which are expected to be incurred up to 2030. These provisions have been created based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability.

These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil prices, which are inherently uncertain.

21.2. Onerous contract – Current

	2007 US\$
At 1 January	-
Additions (<i>see note 5</i>)	<u>477,084</u>
At 31 December	<u>477,084</u>

22. Share capital - Group and Company

	2007 €	2006 €
Authorised		
600,000,000 (2006 - 300,000,000) Ordinary shares of €0.01 each	6,000,000	3,000,000
	<u>6,000,000</u>	<u>3,000,000</u>
	Number of shares	Called up share capital US\$
Allotted, called up and fully paid equity		
At 1 January 2006	90,098,478	1,052,260
Issued in the year	86,526,780	1,080,176
At 1 January 2007	<u>176,625,258</u>	<u>2,132,436</u>
Issued in the year	15,199,137	209,493
Share options exercised in the year	132,000	1,935
At 31 December 2007	<u>191,956,395</u>	<u>2,343,864</u>

The proceeds of the share issues in 2006 and 2007 were used to finance exploration and evaluation costs and corporate overhead.

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

23. Financial risk management objectives and policies

The Group and Company's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to provide finance for the Group and Company's operations. The Group has various other financial assets and liabilities such as receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, primarily forward currency contracts. The purpose is to manage the currency risks arising from the Group and Company's operations and its sources of finance.

It is, and has been throughout 2007 and 2006 the Group and Company's policy that no trading in derivatives be undertaken.

The main risks arising from the Group and Company's financial instruments are foreign currency risk, credit risk, liquidity risk, interest rate risk and capital risk. Management reviews and agrees policies for managing each of these risks which are summarised below.

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward exchange contracts where appropriate.

At the years ended 31 December 2007 and 31 December 2006, the Group had no outstanding forward exchange contracts.

Foreign currency sensitivity analysis

The Group's principal currency exposures arise in the currencies of Russian Rouble, Euro, UK Sterling and US Dollar. The Group has an exposure to US dollars because the functional currency of its Russian subsidiaries is Russian Roubles. A change in the US dollar:Russian rouble exchange rate will therefore result in a foreign exchange gain or loss on the US dollar denominated balances in these subsidiaries.

In accordance with IFRS 7, the impact of foreign currencies has been determined based on the balances of financial assets and liabilities at 31 December 2007. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and largely result from trade payables and receivables, and adjusts their translation at the period end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the US dollar strengthens 5% against the relevant currency. For a 5% weakening of the US dollar against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

If the US dollar had gained/(lost) 5% against all currencies significant to the Group at 31 December 2007 loss would have been US\$253,744 higher/(lower) (2006: US\$641,528 lower/(higher)) and net equity would have been US\$415,068 higher/(lower) (2006: US\$643,200 lower/(higher)).

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. As the Group does not, as yet, have any sales to third parties, this risk is limited.

The Group and Company's financial assets comprise receivables and cash and cash equivalents. The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Group and Company's exposure to credit risk arise from default of its counterparty, with a maximum exposure equal to the carrying amount of cash and cash equivalents in its consolidated balance sheet.

23. Financial risk management objectives and policies (continued)

Credit risk (continued)

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are connected entities.

Liquidity risk management

Liquidity risk is the risk that the Group will not have sufficient funds to meet liabilities. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group and Company's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Cash forecasts are regularly produced to identify the liquidity requirements of the Group. To date, the Group has relied on shareholder funding to finance its operations. The Group had no borrowing facilities at 31 December 2007.

The Group and Company's financial liabilities (excluding the warrant, refer to Note 9) as at 31 December 2007 and 31 December 2006 were all payable on demand.

The expected maturity of the Group and Company's financial assets (excluding prepayments) as at 31 December 2007 and 31 December 2006 was less than one month.

The Group expects to meet its other obligations from operating cash flows with an appropriate mix of funds, equity instruments and debt financing (refer to Note 2). The Group further mitigates liquidity risk by maintaining an insurance programme to minimise exposure to insurable losses.

Other than the warrant (refer to Note 9), the group had no derivative financial instruments as at 31 December 2007 and 31 December 2006.

Interest rate risk

The Group and Company's exposure to the risk of changes in market interest rates relates primarily to the Group and Company's holdings of cash and short term deposits.

It is the Group and Company's policy as part of its disciplined management of the budgetary process to place surplus funds on short term deposit in order to maximise interest earned.

The effect of a 10% fall in interest rates obtainable on cash and short term deposits would be to reduce profit before tax by US\$46,540.

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust its capital structure, the Group may adjust or issue new shares or raise debt. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006. The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained losses as disclosed in the consolidated statement of changes in equity.

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

23. Financial risk management objectives and policies (continued)

Fair values

The carrying amount of the Group and Company's financial assets and financial liabilities is a reasonable approximation of the fair value.

Hedging

At the year ended 31 December 2007 and 31 December 2006, the Group had no outstanding contracts designated as hedges.

24. Prior Year Adjustments

As a result of the matters noted below, the historic financial statements of the Group and Company have been restated.

Other Financial Liability – Group and Company

On 1 February 2006, the Company granted a warrant to subscribe for ordinary shares in the Company. The warrant satisfied the definition of a liability at the date of grant and it was necessary to recognise a liability for its fair value at that date. The proceeds from the grant of the warrant should have been classified as a financial liability. However, the proceeds of US\$412,000 were included within share premium.

On 27 September 2006, following the Company's Initial Public Offering, the liability is de-recognised. On that date, the fair value of the warrant, amounting to US\$336,000, is credited to other reserves. The movement of US\$76,000 between the date of issuance and de-recognition is recognised as a gain in the Income Statement.

As this financial instrument was not reflected in the financial statements for the year ended 31 December 2006, it is necessary to restate the comparatives.

Equity Transaction Costs – Group and Company

In the prior year, transaction costs relating to the Company's admission to the AIM and IEX markets amounting to US\$141,264 were offset against share premium. Management subsequently determined that this amount should have been recognised as an expense in the Income Statement and have restated the comparatives to reflect this change in treatment.

Change in Functional Currency - Group

Historically financial statements for the Company's wholly owned Russian subsidiaries were prepared and consolidated on the basis that the US dollar was the functional currency for all group companies. Following a review of all group companies' functional currencies the Directors have determined that the Russian Rouble is, and always was, the functional currency that most accurately portrays the economic substance of the underlying events and circumstances of the Russian subsidiaries and thereby achieves the objectives of foreign currency translation.

This resulted in the recognition of a foreign exchange gain of US\$554,162 in the consolidated income statement for the year ended 31 December 2006, the majority of which related to the foreign exchange gain on a US dollar intercompany loan recorded in the Russian subsidiary's accounts.

It was also necessary to create a currency translation reserve with a credit of US\$269,048 relating to 2006. The corresponding entries have been posted against the non-liquid assets and liabilities of the Russian subsidiaries to reflect the fact that these assets and liabilities have been retranslated at the closing foreign exchange rate - in prior years these assets and liabilities were translated at the rate that prevailed at the date of the transaction.

24. Prior Year Adjustments (continued)

Interest on Inter-company loan - Company

During the year the Company recognised interest income in respect of inter-company loans advanced to its wholly owned Russian subsidiary, LLC Stimul-T. However, the Company did not record the interest income in respect of 2006 and 2005. As a result it was necessary to restate the 2006 financial statements to reflect interest income of US\$583,410. Retained earnings at 1 January 2006 were also restated by a credit of US\$323,697 to reflect interest receivable for the year ended 31 December 2005.

Deferred tax – Group and Company

Both the Group and Company financial statements for the year ended 31 December 2006 were restated to recognise a deferred tax liability of US\$226,767 (2005: US\$80,904) in respect of the restated interest on inter-company loans.

Share-based payments - Company

During 2007, the Company booked a capital contribution to its subsidiaries in respect of the share-based payments that were attributable to the employees of those subsidiaries. The Company restated the prior year financial statements for capital contributions in respect of share-based payments relating to those years. Consequently, the 2006 loss before tax was decreased by US\$61,356 with a corresponding increase in investment in subsidiaries.

Reclassifications

Certain of the prior year comparatives have been reclassified to conform with the current year classification. The following are the significant reclassifications that have been made:

Group

- Other assets, of US\$3,689,480 which were included in non-current assets in 2006, have been reclassified to prepayments in current assets as they relate to amounts paid in advance to contractors for work to be performed within one year on the Group's exploration and evaluation assets.

Company

- Reclassification of an inter-company balance of US\$7,986,735 to Investment in subsidiaries as this amount represented a contribution to assets in the accounts of LLC Stimul-T and is not repayable.
- Reclassification of an amount of US\$425,075 from development costs in intangibles to investment in subsidiaries as these amounts represented acquisition costs incurred by the Company during the course of the acquisition of LLC Stimul-T and the Company's investment in the ordinary share capital of LLC Stimul-T in 2005.

25. Loss of holding Company

As permitted by Section 148(8) of the Companies Act 1963 and Section 7(1A) of the Companies (Amendment) Act 1986 the parent company's income statement has not been included in these financial statements. The parent company's loss after tax was US\$1,316,025 (2006 - (US\$292,967) as restated).

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

26. Capital commitments

26.1. Details of capital commitments at the balance sheet date are as follows:

	2007 US\$	2006 US\$
Contracted for but not provided in the financial statements	<u>7,395,527</u>	<u>8,066,482</u>
Authorised by the directors but not yet contracted for	<u>-</u>	<u>-</u>

The commitments relate to future payments due under drilling contracts entered into by the Group during 2007 which are due to complete in 2008.

26.2. Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2007 US\$	2006 US\$
Within 1 year	<u>68,954</u>	<u>57,778</u>
After one year but not more than five years	-	3,590
More than five years	-	-
	<u>68,954</u>	<u>61,368</u>

27. Related party disclosures

Transactions between PetroNeft Resources Plc and its subsidiary LLC Stimul-T have been eliminated on consolidation. 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. In 2006, Mr. Francis advanced the Group amounts totalling US\$ 930,000. Interest of US\$13,904 was paid on this amount. The loan was repaid in full to Mr. Francis in 2006.

In February 2006, LLC Stimul-T entered into a contract with Nizhnevartovskservis ("NVS") for the drilling of 3 wells. The contract is a "Turnkey" contract under which NVS 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 was approximately US\$11.98 million. Vakha Alviech Sobraliev, a director and significant shareholder of PetroNeft Resources Plc, is the principal of NVS. Payments totalling US\$6,024,003 were made in 2007 (2006 – US\$4,216,698).

In 2007, LLC Stimul-T entered into a contract with Tomskburgneftegaz ("TBNG") for the drilling of 3 wells. The contract is a "Turnkey" contract under which 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 was approximately US\$10.47 million. Vakha Alviech Sobraliev, a director and significant shareholder of PetroNeft Resources Plc, is the principal of TBNG. Payments totalling US\$3,084,232 were made in 2007.

27. Related party disclosures (continued)

Remuneration of key management

Compensation of key management personnel amounted to US\$1,074,568 and US\$735,018 for the years ended 31 December 2007 and 31 December 2006, respectively, which corresponds to short-term employee benefits. No post-retirement and termination benefits are paid to key management. The share-based payment expense pertaining to key management amounted to US\$663,845 and US\$164,131 for the years ended 31 December 2007 and 31 December 2006, respectively. Key management comprise the directors of the Company, the Chief Financial Officer, a director of the Russian subsidiary LLC Stimul-T, the General Director of LLC Stimul-T and the Chief Geologist.

Transactions with subsidiaries

The Company had the following transactions with its subsidiaries during the years ended 31 December 2007 and 31 December 2006:

- The Company made contributions to the assets of LLC Stimul-T in the amounts of US\$20,849,110 and US\$7,901,815 during the years ended 31 December 2007 and 31 December 2006 respectively.
- The Company earned interest on loans to LLC Stimul-T in the amounts of US\$583,410 and US\$583,410 during the years ended 31 December 2007 and 31 December 2006 respectively. All interest on loans to LLC Stimul-T remains outstanding.
- The Company made contributions to the assets of LLC Lineynoye in the amount of US\$653,160 during the year ended 31 December 2007.

28. Share based payments

The expense recognised for employee services during the year is US\$958,468 (2006: US\$219,197). The group share-based payment plan is described below. There were no cancellations or modifications to any of the plans during 2007 and 2006.

Under the group share option plan employees of the Group can receive conditional awards of share options depending on their performance, seniority and length of service. The options typically vest in 4 instalments and are subject to a mix of vesting conditions such as various milestones for the Company such as drilling, production and shareholder return. The maximum term for options is 7 years. There are no cash settlement alternatives.

Movement in the year

The fair value of the options is estimated at the grant date using an option pricing model considering the terms and conditions upon which the instruments were granted. The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	2007 Number	2007 WAEP	2006 Number	2006 WAEP
Outstanding as at 1 January	6,815,000	€0.297	-	-
Granted During the Year	1,280,000	£0.32	6,815,000	€0.297
Exercised During the Year	(132,000)	€0.295	-	-
Outstanding at 31 December	<u>7,963,000</u>	<u>€0.297 / £0.32</u>	<u>6,815,000</u>	<u>€0.297</u>
Exercisable at 31 December	<u>2,044,500</u>	<u>€0.297 / £0.32</u>	<u>-</u>	<u>-</u>

Notes to the Financial Statements (continued)

for the year ended 31 December 2007

28. Share based payments (continued)

The range of exercise prices for options outstanding at the year end is €0.295 (US\$0.434) to £0.32 (US\$0.642) (2006: €0.295 (US\$0.389) to €0.297 (US\$0.391)).

The weighted average remaining contractual life for the share options outstanding as at 31 December 2007 was 5.8 years (2006: 5.9 years).

The weighted average fair value of options granted during the year was £0.32 (2006: €0.297).

The weighted average share price of the exercised options at the date of exercise was €0.38.

The following table lists the inputs to the models used for the years ended 31 December 2007 and 31 December 2006:

Grant Month	2007 December	2006 November	2006 September
Dividend yield	0%	0%	0%
Expected volatility	45%	48%	48%
Risk free interest rate	5%	3.71%	3.62%
Expected life of option	7	7	7
Share price	£0.32	€0.42	€0.30
Model used	Binomial / Monte Carlo	Binomial / Monte Carlo	Binomial / Monte Carlo

The expected life of the options is based on the expectation of management and is not necessarily indicative of exercise patterns that may occur. The expected volatility was determined based on historical data of peer companies, and reflects the assumption that historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The fair value is measured at the grant date.

29. Subsequent events

On 19 June 2008 RAB Octane Fund Limited, the holder of a warrant over 2,673,498 shares in the Company indicated their intention to exercise the warrant and have paid the US\$ 1 million exercise price.

30. Approval of financial statements

The financial statements were approved, and authorised for issue, by the board of directors on 27 June 2008.

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 26th September 2008, for the purposes of considering and, if thought fit, passing, the following Resolutions of which Resolutions numbered 1, 2, 3, 4 and 5 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 2007 together with the Directors' and Auditors' reports thereon.
2. To re-elect Mr. Golder 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. Burke as a Director, who retires by rotation in accordance with Article 83 of the Articles of Association of the Company.
4. To re-elect Mr. Dowling as a Director, who retires in accordance with Article 86 of the Articles of Association of the Company.
5. To reappoint Ernst & Young, Chartered Accountants as Auditors and to authorise the Directors to fix the remuneration of the Auditors.

Special Business

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:

each of (a), (b) and (c) above being separate powers, which powers 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 26th December 2009, 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 powers 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

Date: 27 June 2008

AGM Form of Proxy

Please Return this form to:

Computershare Investor Services (Ireland) Limited,
Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.

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 26th September 2008 at Herbert Park Hotel, Ballsbridge, Dublin 4.

(Please indicate your choice in one box only)

The Chairman of the meeting:

OR The following person:

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 11.00am on Friday 26th September 2008 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.

Notes to the AGM Form of Proxy

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 24th September 2008 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.

Please indicate your voting intention by marking 'X' in the relevant box alongside each resolution. For more details about each resolution please see the Notice of Annual General meeting on page 63 of the Annual Report 2007

Resolution	For	Against
1. To receive, consider and adopt the accounts for the year ended 31st December 2007 together with the Directors' and Auditors' reports thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mr. Golder as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. Burke as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. Dowling as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
5. To reappoint Ernst & Young, Chartered Accountants as Auditors and to authorise the Directors to fix the remuneration of the Auditors.	<input type="checkbox"/>	<input type="checkbox"/>
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.	<input type="checkbox"/>	<input type="checkbox"/>

Sign
→
Here

In the case of joint holdings, any one joint holder may sign

Date

Admission Card

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

PetroNeft Resources plc Annual General Meeting

11.00am on Friday 26th September 2008

Shareholder's Signature _____

Signature of Proxy _____

Location of AGM:

Herbert Park Hotel, Ballsbridge, Dublin 4.

Glossary

AGM	Annual General Meeting
AIM	Alternative Investment Market of the London Stock Exchange
bbbl	Barrel
bopd	Barrels of oil per day
Company	PetroNeft Resources plc
CSR	Corporate and Social Responsibility
Group	Company and its subsidiary undertakings
IAS	International Accounting Standard
IEX	Irish Enterprise Exchange of the Irish Stock Exchange
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
km	Kilometres
KPI	Key Performance Indicator
Licence 61	The Group's Exploration and Production Licence in the Tomsk Oblast, Russia
mmbbl	Million barrels
mmbo	Million barrels of oil
PetroNeft	PetroNeft Resources plc
Spud	To commence drilling a well
sq km	Square kilometres
TSR	Total Shareholder Return
VAT	Value Added Tax
WAEP	Weighted Average Exercise Price