PetroNeft Resources plc

ANNUAL REPORT AND ACCOUNTS 2009

Годовой Отчет 2009

PetroNeft Resources plc is a public company registered in Ireland.

THE GROUP WAS ESTABLISHED in 2005 to develop oil and gas assets in Russia and the FSU and was admitted to the London AIM and Dublin ESM Markets in 2006. The main assets of the Group are two oil and gas licences in the Tomsk Oblast in Russia.

TIMELINE	2009 Sep	Oct	Nov	Dec	2010 Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
FUNDING	US$27 million Funding															
PIPELINE	Transport pipe to southern staging area			Start of pipeline construction			Completion of pipeline construction/ start of commissioning				Finish pipeline commissioning					
DEVELOPMENT				Mobilisation of production drilling rig			Commencement of development drilling				Start year-round pipeline production					
EXPLORATION						Mobilisation of Arbuzovskaya drilling rig								Arbuzovskaya well #1 results		

New pipeline route

Forward Looking Statements

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

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

FINANCIAL HIGHLIGHTS

- 58% reduction in funding requirement.
- US$27 million equity placing.
- Initial US$5 million debt facility signed in March 2010.
- New US$30 million debt facility nearing completion.

OPERATIONAL HIGHLIGHTS

- New pipeline route approved.
- Pipeline almost complete.
- New Licence acquired.
- First production well successful.
- Year-round production to commence in third quarter of 2010.
- Exploration programme to re-commence.

CRUDE OIL TRANSPORTATION and Custody Transfer agreement signed with Imperial Energy. This 25 year deal allows PetroNeft to use Imperial's pipeline to transport our oil to the Transneft system.

01

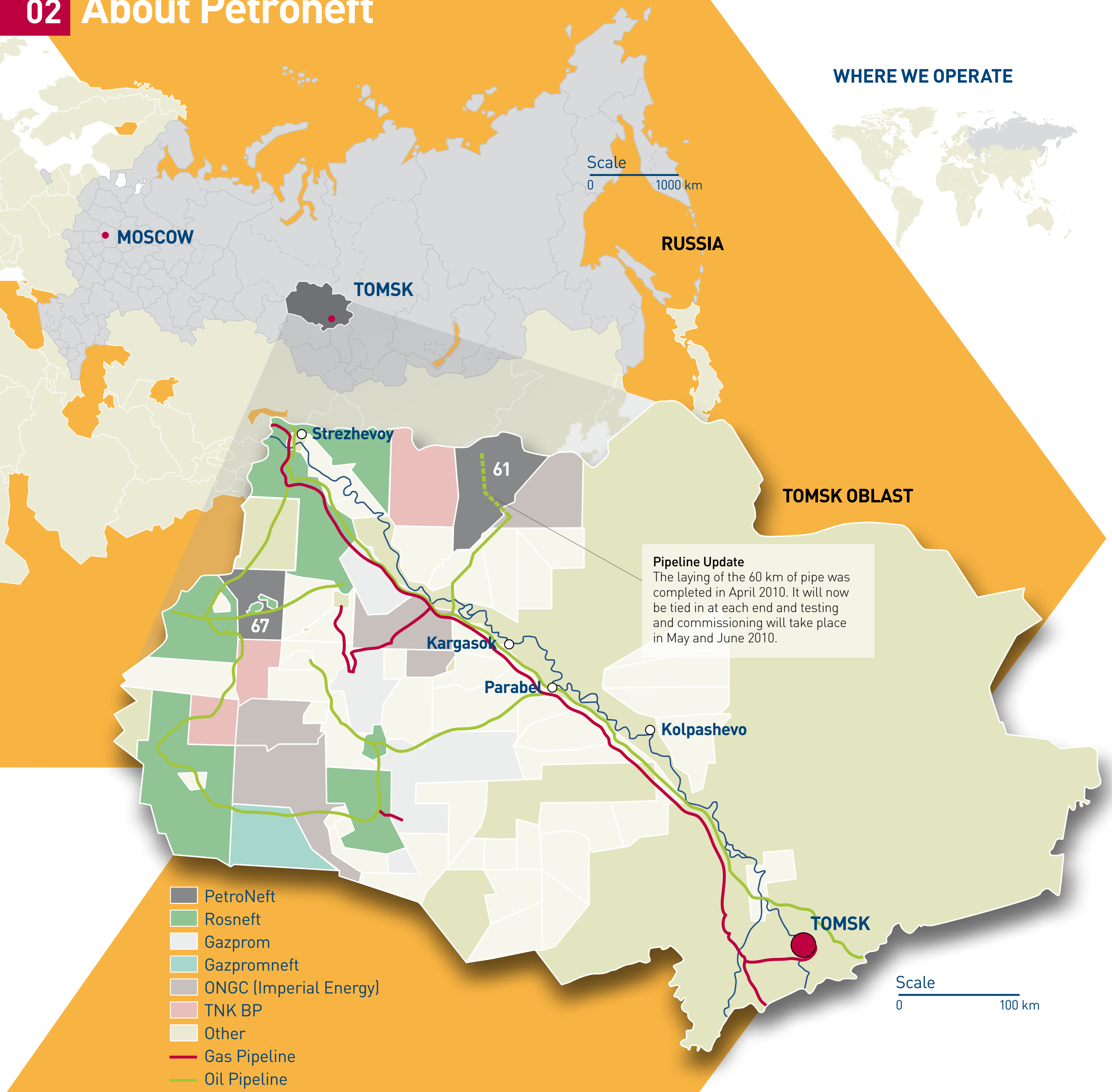
Introduction

12

Review of the year

26

Governance/Accounts



Expanding asset base...


Sawmill in operation at Lineynoye oil field preparing timber for use in construction of new buildings.

THE TOMSK OBLAST lies in the south-eastern West Siberian plain. The West Siberian oil and gas basin is the largest oil and gas basin in the world in terms of area and second largest to the Middle East in terms of reserves. The Tomsk Oblast has large reserves of natural resources and raw materials. With production of approximately 210,000 bopd, oil accounts for 62.1% of exports from the region. Oil production is carried out mainly in the north-west and in the north of the Oblast. There have been recent discoveries to the east of the Ob River including those by PetroNeft.

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

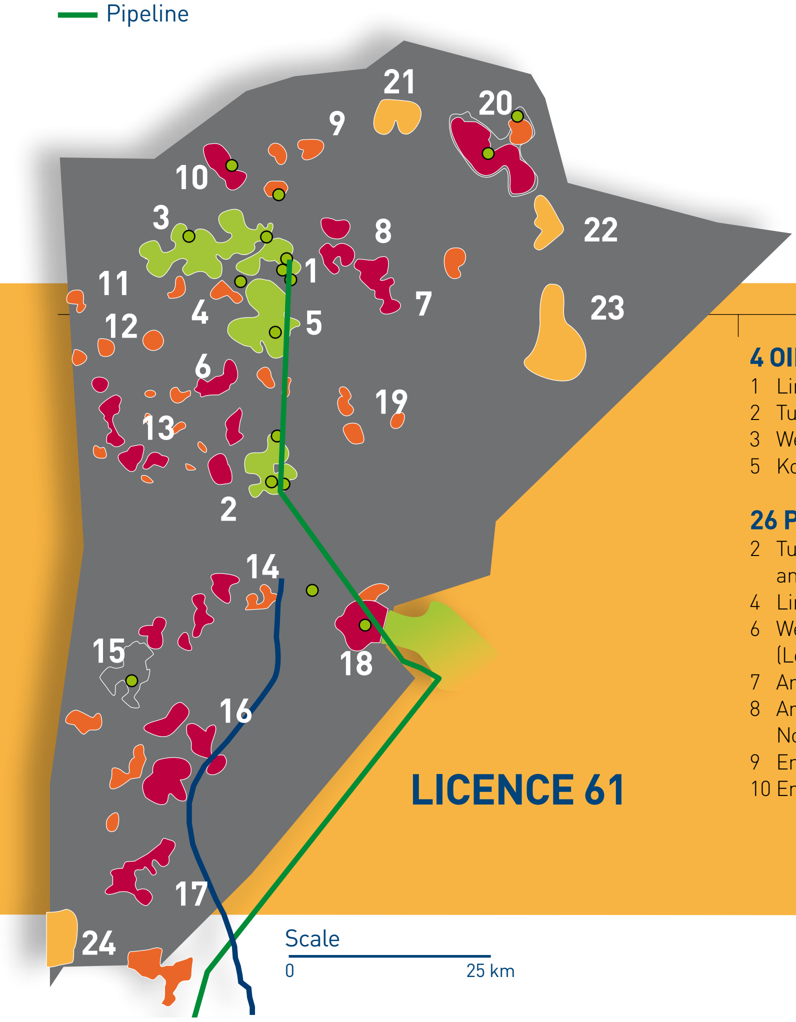
Production drilling rig at Lineynoye oil field.

IN DECEMBER 2009 a new Licence was acquired at a State Auction in the Tomsk region. Licence 67 will be developed jointly with Arawak Energy Limited.

04 About Petroneft (continued)

- Oil field
- Prospect ready for drilling
- Prospect identified
- Potential prospects
- Wells
- All-weather road
- Pipeline

AS WELL AS FOUR discovered oil fields in Licence 61 there are 26 additional prospects to be explored. Licence 67 also has a number of prospects including some structures with wells that have tested oil.



4 OIL FIELDS
1 Lineynoye Oil Field
2 Tungolskoye Oil Field
3 West Lineynoye Oil Field
5 Kondrashevskoye Oil Field

26 PROSPECTS
2 Tungolskoye West Lobe and North (2)
4 Lineynoye Lower
6 West Korchegskaya (Lower Jurassic)
7 Arbuzovskaya
8 Arbuzovskaya North and Upper (2)
9 Emtorskaya East
10 Emtorskaya Crown
11 Sigayevskaya
12 Sigayevskaya East
13 Kulikovskaya Group (2)
14 Kusinskiy Group (2)
15 Tuganskaya Group (3)
16 Kirillovskaya (4)
17 North Balkinskaya
18 Traverskaya
19 Tungolskoye East
20 Sibkrayevskaya

4 POTENTIAL PROSPECTS
21 Emtorskaya North
22 Sibkrayevskaya East
23 Sobachya
24 West Balkinskaya

EXPLORATION OF LICENCE 61 2010/11

At least three exploration/delineation wells will be drilled in this period commencing in October 2010 at the following locations:

- Arbuzovskaya (No. 7 on above map).
- Kondrashevskoye (No. 5 on above map).
- Sibkrayevskaya (No. 20 on above map).

The first well will be the Arbuzovskaya No. 1 well at the Arbuzovskaya (formerly Varyakhskaya) prospect located 10 kilometres east of the Lineynoye oil field. There are three identified structures at Arbuzovskaya which contain approximately 30 million barrels of P3 potential reserves based on Ryder Scott's best estimate (P50). The No. 1 well will be located on the largest of the three structures.

In winter 2010/11, two rigs will be mobilised in order to drill a high impact exploration well at the Sibkrayevskaya prospect and a delineation well at the Kondrashevskoye oil field. Potential by-passed pay has been identified at Sibkrayevskaya whereas Kondrashevskoye has the potential for further upside above the 8 million barrels of 2P reserves currently identified at this field.

FURTHER EXPLORATION OF LICENCE 61

In 2010 a feasibility study will consider the possibility of using the all weather road in the southern end of Licence 61 to gain access to potential drill locations on the Tuganskaya, Traverskaya, Kirillovskaya and Balkinskaya prospects. Should this be feasible it would be possible to use a mobile rig to conduct a five to seven well exploration programme in 2011/12.

- Drilled Structure with oil show or test
- Drilled Structure with no oil shows reported
- Undrilled Structure or Stratigraphic Trap
- Excluded area with producing oil fields

LICENCE 67

DRILLED STRUCTURES

1 Cheremshanskaya
2 Ledovoye
3 Ledovoye Cretaceous
4 Sklonovaya
5 North Pionerskaya
6 Bolotninskaya

IDENTIFIED PROSPECTS AND LEADS

7 Levo-Ilyakskaya
8 Syglynigaiskaya
9 Grushevaya
10 Grushevaya non-anticlinal trap
11 Malostolbovaya
12 North Cheremshanskaya
13 Nizhenolomovaya Terrasa
14 Baikalskaya
15 Malo Cheremshanskaya
16 East Chermshanskaya
17 Zyryano-Pekhskiy

Scale
0 25 km

LICENCE SUMMARY

- 25 year exploration and production licence.
- To be developed 50:50 with Arawak.
- PetroNeft to operate.
- Auction price US$1.42 million.
- 55 million barrels of C3 Russian Registered Reserves.

2010 WORK PROGRAMME

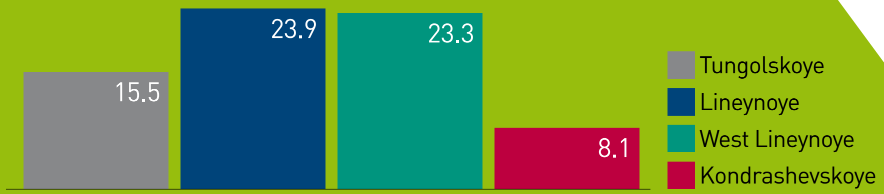
The first stage in the appraisal of Licence 67 is the reprocessing of vintage well and seismic data. Well log data from 22 wells within and around Licence 67 will be digitised and reprocessed. 4,300 km of 2D seismic acquired in over 15 different surveys in the 1980s and 1990s will be reprocessed using common parameters and reanalysed using modern software.

The reprocessing work has commenced and should be completed in the fourth quarter of 2010 and will help determine the work programme for 2011 and beyond.

It is important to note that most of the early exploration wells drilled in the 1970's were drilled on structures delineated by single trace analog seismic data acquired in the 1950s. The modern 2D seismic data was acquired after the wells were drilled.

06 Petroneft Reserves

2P Reserves Total: 70.8

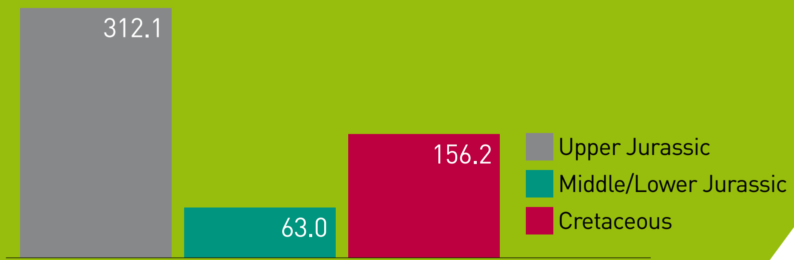


SPE 2P RESERVE (MILLION BARRELS)

- 2P reserves are as estimated by Ryder Scott, Petroleum Consultants, each year and conform to the definitions approved by the Society of Petroleum Engineers ('SPE') Petroleum Resources Management System ('PRMS') rules.
- Oil water contact is not defined at Kondrashevskoye – reserves could approach 20 million bbls if the oil water contact is at the spill point of structure, which is common for fields in the region.
- Russian C1 + C2 Reserves equal 95.06 million bbls as approved by the Russian State Reserves Committee in January 2009.

READY to produce

3P Reserves Total: 531.3



SPE 3P RESERVE (MILLION BARRELS)

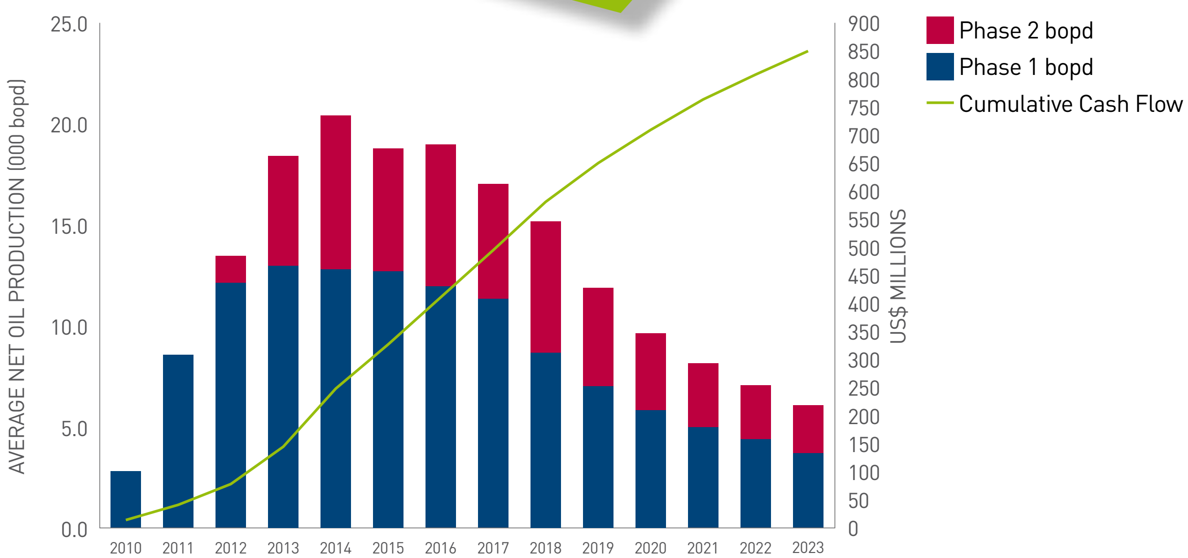
- 3P reserves are as estimated by Ryder Scott, Petroleum Consultants, each year and conform to the definitions approved by the Society of Petroleum Engineers ('SPE') Petroleum Resources Management System ('PRMS') rules.
- All reserves above refer to Licence 61 as Ryder Scott has not yet reported on Licence 67.

SINCE ACQUIRING LICENCE 61 in 2005, proved and probable reserves have grown by 151% to 70 million barrels. This has been achieved through a systematic programme of reprocessing and interpreting old seismic data and well logs, acquiring new 2D seismic data and drilling six exploration/delineation wells. This detailed process led to the discovery of two new oil fields, the sanctioning of the development of the Lineynoye and West Lineynoye oil fields and the identification of 26 further prospects for exploration.

Drilling the first of nine production wells at the Lineynoye oil field.

WE ARE NOW ON TRACK to commence oil production in the third quarter of 2010. We expect to reach 4,000 bopd by the end of 2010 with 8,000 bopd in 2011 and 12,000 bopd in 2012.

PETRONEFT PRODUCTION AND CASH FLOW

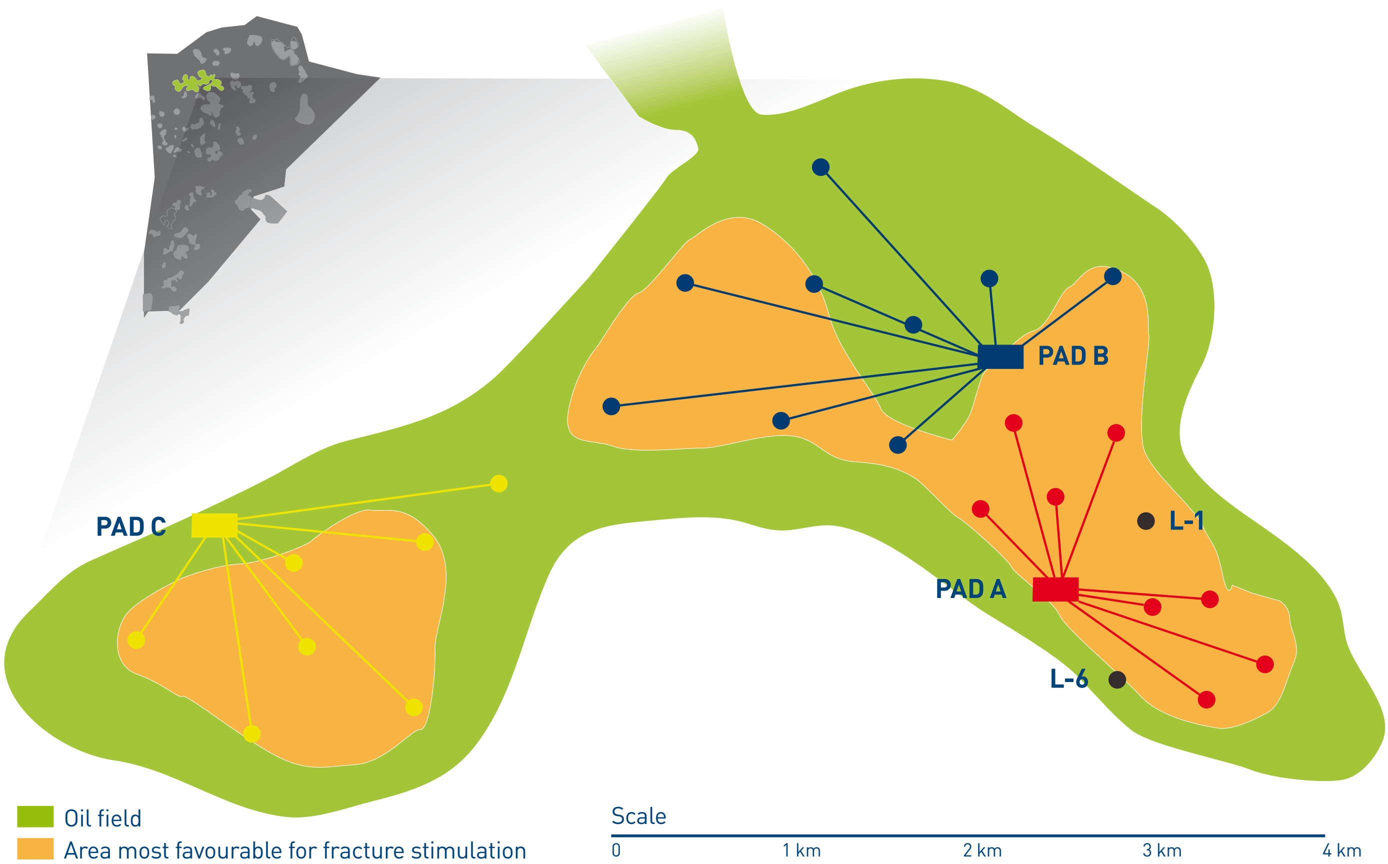


The forecast is based on the company's 2P reserves of 70.0 million bbls.
The reserves remaining after 2023 are 6.6 million bbls.
Source: Petroleum Consultants Report by Ryder Scott Company, January 1, 2010, Company estimates.

08 Licence 61 development plan

PHASE 1 OF THE DEVELOPMENT of Licence 61 will develop the Lineynoye and West Lineynoye oil fields. In 2012 It is expected that Phase 2 will commence with the development of the Tungolskoye and Kondrashevskoye fields. These fields will be tied into the Lineynoye to Kiev Eganskoye pipeline.

LINEYNOYE FIELD DEVELOPMENT SCHEMATIC



In 2010 nine new production wells will be drilled at Pad A located at the Lineynoye oil field close to the location of the Lineynoye No. 1 and Lineynoye No. 6 wells. The wells will be drilled using the same rig which is mounted on rails.

At the surface, wells will be five metres apart. However, as deviated wells are being drilled they will be approximately 500 metres apart in the reservoir.

In 2011 we plan to utilise two drilling rigs. The rig currently drilling at Pad A will be moved to Pad B and a second rig will be located in the West Lineynoye oil field close to the location of the Lineynoye No. 8 delineation well which was drilled in 2008.

Tank construction

1 Tank being delivered in kit form by truck.
2 Base for tank laid out on steel pile/concrete foundation.
3 Walls of tank being unrolled and welded in place.
4 Final welding of tank.

Construction of oil processing and storage facilities is well underway. This picture was taken on 6 May 2010.

Questions and Answers

Dennis Francis, Chief Executive Officer, and Paul Dowling, Chief Financial Officer, answer some key questions about our business:

Q. STRATEGY:

A central part of PetroNeft's near-term strategy is to target pipeline production on a year-round basis in 2010. Should the Company achieve this objective, what are the next milestones to be reached?

A. The first milestone will be to reach our production target of 4,000 bopd by the end of 2010. This will be a key metric for the market and for shareholder value as it will enable the Company to become self-funding and clearly demonstrate our operational capability and asset quality. Our production targets for subsequent years are to reach 8,000 bopd by the end of 2011 and 12,000 bopd during 2012.

Outside the development of our existing oil fields, we have a large inventory of exploration prospects to follow up on, both within Licence 61 and within our new Licence 67. We expect to drill a minimum of 3 exploration/delineation wells within Licence 61 over the next 18 months, commencing with an exploration well in the Arbuzovskaya prospect in October 2010. This exciting programme has the potential to materially enhance our oil reserves and future production potential.

The recent appointment of Karl Johnson as Vice President of Business Development and Operations also signals our clear commitment to expand the business further, either through corporate acquisition or via the Russian Licence auction process.

Q. STRATEGY – LICENCE 67:

Last year, you stated an objective of acquiring new 'Core Exploration and Production Areas'. The successful auction win late last year of Licence 67 gives the company new acreage in a proven oil and gas area. How similar is it to Licence 61 and can we expect a parallel development to take place?

A. We were very pleased to acquire Licence 67 in December and with the decision of Arawak Energy Limited ('Arawak') to partner with us in its development (PetroNeft will be Operator). Development of Licence 67 will mirror the methodical and technically focused approach we have taken with Licence 61 over the last few years.

In 2010 we will reprocess over 4,300 km of 2D seismic lines and well logs for 22 wells located within and around the Licence area. This work is being conducted by Tomsk Geophysics Company who are part of the Integra Group and who have vast experience in the Tomsk region.

The results of this reprocessing project will give us a more comprehensive picture of the fields and prospects in the Licence area and dictate the work programme for 2011 and beyond. This work programme is likely to include acquisition of new 2D seismic, drilling of new exploration/delineation wells and possibly the workover of some of the existing wells in the Licence area. Under the terms of the Licence we are obliged to commence the acquisition of 750 km of new 2D seismic within two years and to spud an exploration well within three years. However, we would expect to meet these obligations ahead of schedule.

Q. POLITICAL CLIMATE:

What are the challenges of operating in Russia?

A. There is no doubt that the biggest challenge is meeting the approval, reporting and permitting process of a large and occasionally bureaucratic government. Our Board of Directors have many years of experience operating in Russia and our Tomsk team are both highly experienced and highly respected locally. PetroNeft strives to be considered as a 'well intentioned', fully compliant organisation by authorities in the areas where we operate and a good corporate citizen by stakeholders generally. This means that in addition to obeying laws, meeting our Licence obligations and paying our taxes, we respect our employees, the environment and the community around us. Our experience has been that both Regional and Federal authorities have welcomed and supported our activities.

Dennis Francis

Paul Dowling

Q. INVESTMENT CASE FOR RUSSIA:

In light of the previous question can you summarise why an investor would want to invest in the Russian oil and gas industry?

A. Russia has the largest oil and gas reserve base in the world after the Middle East. The political regime is stable and the fiscal policy, which has evolved through years of legislation, is stable and provides comparatively attractive returns for investors. Many of our peer companies have disappeared this past year via consolidation, poor management, or unforeseen problems brought on by the financial crisis. This leaves PetroNeft as one of the few remaining Russia-focussed oil and gas companies listed on a western stock exchange. We take pride in the experience and make-up of our board and management team and the corporate governance policies that we have put in place. It takes a lot of hard work and perseverance, but we have proven that you can succeed if you do business in the right way. The key is hiring the right people – talented Russians – and then operating as a Russian company in the Russian system.

Q. TAX INCENTIVES:

Have there been any recent changes to the tax regime in Russia?

A. On 1 January 2009 the exemption from Mineral Resources Tax (MRT) rose from US$9 per barrel to US$15 per barrel. Since then, there has been some speculation about this exemption rising to US$25 per barrel or the introduction of a 30% discount on Mineral Resources Tax for smaller fields which, depending on the definition, PetroNeft's fields would be likely to qualify for. More recently there has been speculation that MRT would be abolished and replaced with a higher profits tax which would mean the tax was more relevant to the individual circumstances of each company. Any of these modifications, if approved, would be highly valuable for PetroNeft.

In January 2010 a change to the VAT legislation was introduced which is designed to speed up VAT refunds. To date it has taken about four months to receive VAT refunds from our quarterly VAT returns. The new system would mean that the refund would be paid within three weeks of a quarter's end. However, at the date of signing the annual report, practical implementation of this is not complete.

Q. FUNDING:

In September 2009, PetroNeft announced a US$27.4 million placing which left the Company funded through to year-round production. Now that the financial crisis appears to have eased, what is the Company's attitude to debt financing?

A. The funds raised from shareholders in September 2009 provided enough funds to build the 60km pipeline from Lineynoye to Kiev-Eganskoye, build the processing facilities at the Lineynoye oil field and drill the first four of nine development wells planned for 2010.

Since then we have announced a US$5 million facility with Macquarie Bank which allowed us to enter into a contract for the drilling of an exploration well at Arbuzovskaya in October 2010. This required the advance purchasing of materials and the payment for the mobilisation of the drilling rig in March 2010. This is an initial facility which we expect to refinance in the coming months. We are in negotiations with several banks with a view to a larger long-term/multi-year facility that will provide working capital, allow us to accelerate our exploration programme in 2011 and provide a base for business development activities.

It has also become apparent that the drilling contractor for the nine development wells in 2010 is likely to drill these wells at a faster pace than that budgeted for, which means that more wells will have been drilled before production commences in the third quarter of 2010. This may lead to an additional funding requirement before production commences and the facilities mentioned above are designed to deal with this.

Q. CULTURE:

What is PetroNeft's policy in relation to environmental protection and health and safety? What is the Company's record?

A. The Board of Directors take these issues very seriously and receives a report at all Board meetings in relation to environmental protection and health and safety matters. In Tomsk, we have a full time environmental engineer and a full time industrial safety engineer on staff. They are responsible for implementing the necessary policies, procedures, training and legal requirements related to our operations. PetroNeft has an excellent record with no significant issues to date. More detail is given in the HSE report on pages 20 and 21.

Chairman's Statement

"PetroNeft is now on course to begin year-round production in 2010."

MAJOR PROGRESS ACHIEVED

Since incorporation, the primary strategy of PetroNeft has been to bring its existing oil fields to production, thereby generating sufficient cash flows to enable the exploration of the many remaining prospects on Licence 61. The development project is now well underway and 2010 is set to be a transformational year for the Group.

A secondary strategy has been the acquisition of new assets, both exploration and producing, that will bring about more rapid expansion of the Group. In December 2009 PetroNeft won a State Auction for a 100% interest in the Ledovy Licence No. 67, also in the Tomsk Region. In January 2010 Arawak exercised their option under our 2008 Area of Mutual Interest ('AMI') agreement to participate in the Ledovy Licence on a 50:50 basis.

SIGNIFICANT COST SAVINGS ACHIEVED

In 2008 the total funding requirement for the Phase 1 project to develop the Lineynoye and West Lineynoye oil fields was estimated to be over US$60 million. Since the project was put on hold in October 2008, we were successful in reducing the initial funding requirement by almost 60% to approximately US$25 million through the following key savings and efficiencies:

- Use of only one drilling rig in the first year instead of two.
- Revised pipeline route including utilisation of existing facilities at the pipeline tie-in point.
- Reduction and modification of field facilities.
- Substantial weakening of the Russian Rouble against the US Dollar.

TRANSPORTATION AGREEMENT WITH IMPERIAL ENERGY

In August 2009 PetroNeft entered into a 25 year Crude Oil Transportation and Custody Transfer agreement with Imperial Energy ('Imperial'). Under the terms of the agreement, Imperial will accept PetroNeft's crude oil using existing tank facilities at the Kiev-Eganskoye field and transport the crude to its custody transfer point at Zavyalovo for transfer into the Transneft system. This agreement, particularly the inclusion of the use of tank facilities at Kiev-Eganskoye, was a key element in reducing costs associated with the development project.

Construction and commissioning of the approximately 60 km pipeline from Lineynoye to Kiev-Eganskoye will be completed in time for the commencement of year-round production in the third quarter of 2010.

SUCCESSFUL FINANCING

PetroNeft successfully raised US$27.4 million in September 2009 through a placing of new shares which enabled us to commence the Phase 1 project to develop the Lineynoye and West Lineynoye oil fields and become self-financing.

More recently, we entered into an interim US$5 million debt facility with Macquarie Bank Limited. This facility gave us the ability to sign contracts for the drilling of an exploration well later this year at the Arbuzovskaya prospect and thereby mobilise the rig and materials to site in March 2010. This loan will be replaced with a larger facility in the coming months and discussions are well advanced with a number of banks in this regard. It remains the Board's intention to fund the Company with a mixture of debt and equity for business development purposes and to accelerate the appraisal and development programme on Licences 61 and 67.

BUSINESS DEVELOPMENT

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

The acquisition of Licence 67 (Ledovy) was a first step in our growth beyond Licence 61. This new acreage materially enhances the Company's footprint in the Tomsk Oblast and is in line with our stated growth strategy. PetroNeft was able to win this auction because of its highly experienced management team and ability to be flexible and responsive to the opportunity. In January 2010 Arawak exercised their option under the August 2008 Area of Mutual Interest agreement to acquire 50% of Licence 67 and we look forward to working with Arawak to develop this asset. PetroNeft will remain as Operator for Licence 67.

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

David Golder
Non-Executive Chairman

CORPORATE DEVELOPMENT

We have added a number of senior management positions to the Group this past year and we will add additional positions this coming year, as we move from an exploration to an exploration and production company. These positions are carefully considered and we select candidates who meet both the immediate and long term needs of the Group. We are especially pleased that Karl Johnson has joined the Group as Vice President for Business Development and Operations.

Founding Director, Des Burke, retired from the Company in March 2009 and I would like to thank him for his contribution to the development of PetroNeft and wish him well for the future.

AWARD FOR GROUP CHIEF GEOLOGIST

In March 2010 Dr. Nikolay Karapuzov, Chief Geologist of PetroNeft, was awarded the title 'Honored Explorationist', the highest award of the Ministry of Natural Resources of the Russian Federation. The order, which was signed by the Minister of Natural Resources, Yuri Trutnev, notes that Dr. Karapuzov has been rewarded "for his long conscientious service and his notable personal contribution to the development of mineral resources of the Russian Federation". The Board would like to congratulate Nikolay on this award. It is a testimony not only to his professionalism and dedication, but also to his foresight in developing the resource base in the Tomsk Oblast.

SUMMARY

PetroNeft is now on course to begin year-round production in 2010. The commencement of production means that the Group will generate significant cash in the coming years to enable it to expand its reserve base both through exploration and delineation in current Licence areas and through business development opportunities in Tomsk, Russia and the FSU.

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

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

Karl Johnson, Vice President of Business Development and Operations.

Dr. Nikolay Karapuzov receiving the award as 'Honored Explorationist' from Alexander Komarov, head of TomskNedra.

Chief Executive Officer's Report

Dennis Francis
Chief Executive Officer

GENERAL

2009 saw major progress for PetroNeft. We have achieved significant cost savings and completed a new improved agreement for the transportation of our oil to market. In September we raised the necessary funds to let us begin development to achieve first oil in 2010 from Licence 61. Year-round production is expected to commence in the third quarter of 2010, with rates expected to reach 4,000 barrels of oil per day (bopd) by the end of 2010, and reach 12,000 bopd in 2012.

In December the Company won the State Auction for Licence 67 (Ledovy) in the Tomsk Region. This Licence will be developed jointly with our partner Arawak Energy Limited through a jointly controlled entity.

We believe the Ledovy Licence has significant potential and the Company is very excited about this acquisition, which is in line with our business strategy and clearly meets our strict technical and economic criteria.

LICENCE 61 – OIL FIELD DEVELOPMENT

In 2009 we focused on optimising the Phase 1 development plan in order to reduce the funding requirement.

A major element of the previous development plan had been the construction of a custody transfer point at BashNeft's facilities at Lyukpayskoe in the Khanty-Mansiysk District, 65 km to the north of Licence 61. This would have cost at least US$10 million to construct. Consequently, reducing or removing these costs became a key focus. In August 2009 a 25 year agreement was signed with Imperial whereby Imperial will accept PetroNeft's crude oil using existing tank facilities at the Kiev-Eganskoye field and transport the crude to its Custody Transfer Point at Zavyalovo for transfer into the Transneft system.

The overall tariff and associated capital cost reduction associated with using Imperial's tank and custody transfer facilities has significant cost and operational advantages for PetroNeft compared to the previous export option to the north. The fact that the new pipeline route is entirely within the Tomsk Oblast, whereas the northern route also entered the Khanty-Mansiysk District, significantly reduced the various permits and approvals associated with the pipeline. In addition, the new pipeline route from Lineynoye to Kiev-Eganskoye runs adjacent to the Tungolskoye and newly discovered Kondrashevskoye oil fields, creating useful synergies for future phases of development.

"In 2009 we focused on optimising the Phase 1 development plan in order to reduce the funding requirement."

PIPELINE FROM LINEYNOYE TO KIEV-EGANSKOYE

Pipeline Infrastructure

- Length 60 km.
- Diameter 273 mm.
- 9 pipeline isolation valves.
- 3 helicopter pads.
- 2 pipeline Ts for future connections.

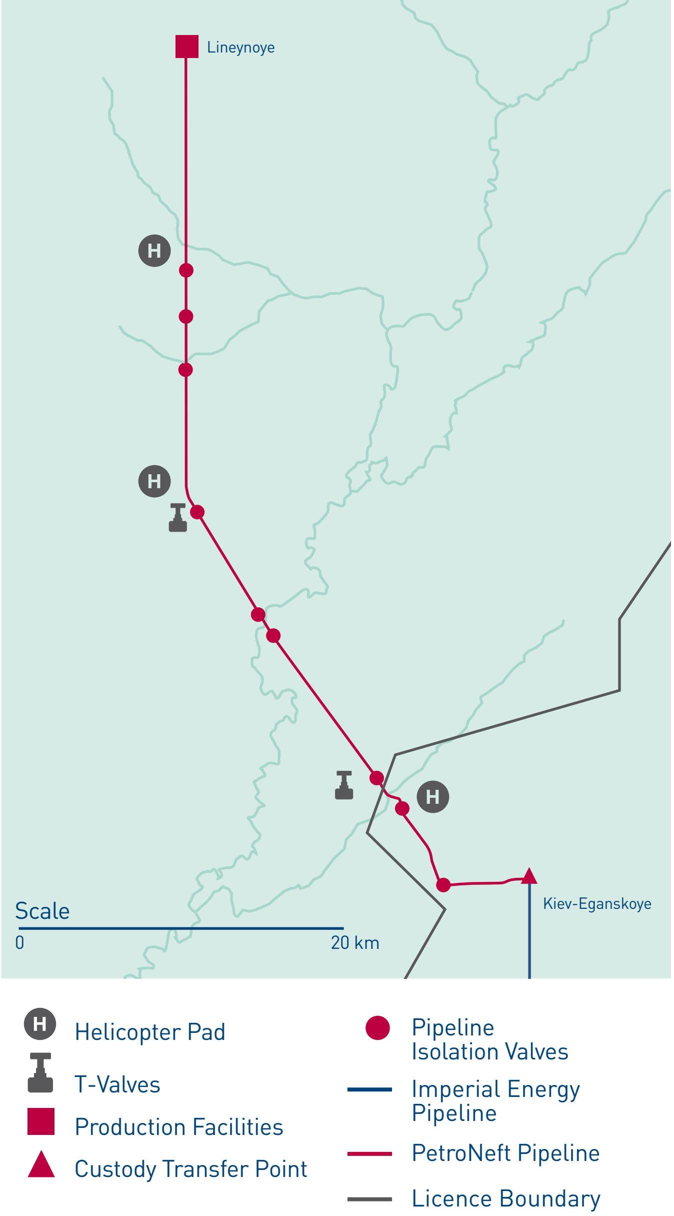
Pipeline Monitoring Procedure

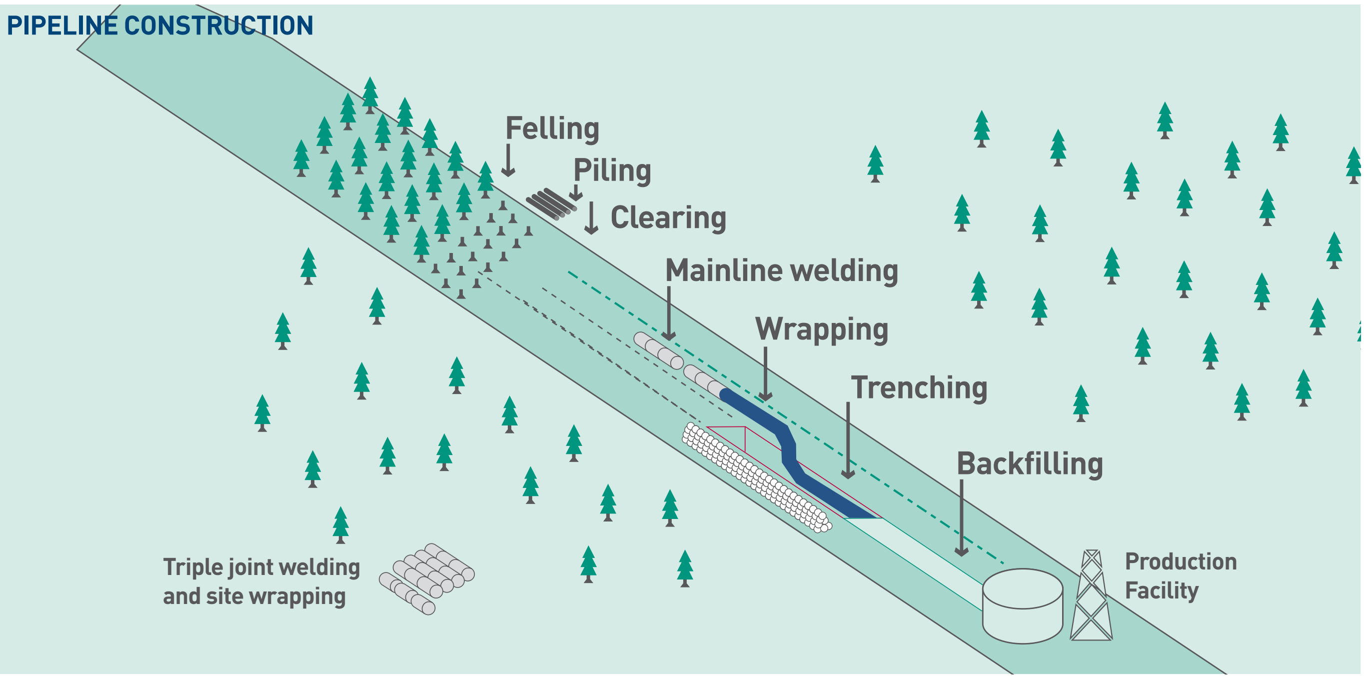
- The Company has an Emergency Response Plan in place and approved by the Russian authorities in event of an emergency.
- There is a pipeline inspection monitoring programme in place that includes ongoing monitoring of and control of oil flow and pressure changes in the pipeline.
- There is also a weekly visual inspection programme of the entire pipeline route. In the event of a shut-down there are 9 isolation valves located along the pipeline to mitigate any emergency.

Another key element to reduce the funding requirement was the decision to utilise just one production drilling rig in the first year. Based on a schedule of commencing drilling in April 2010 and drilling one new well every 30 days we were able to limit funding to the first four of the nine production wells to be drilled in 2010. The balance of the investment would be financed from cash flows generated by the commencement of production with the four new wells and the existing Lineynoye No. 1 and Lineynoye No. 6 wells.

Pilot production on the Lineynoye and West Lineynoye fields was continued in the first quarter of 2009 with the addition of the Lineynoye No. 1 well. Lineynoye No. 1 flowed at a stabilised rate of 271 bopd without the aid of artificial lift or reservoir stimulation which confirmed the test results achieved in 1972. This oil was trucked to buyers in the Tomsk region while winter roads were available to truck the oil. The fact that the pilot production of the Lineynoye No. 1 and Lineynoye No. 6 wells showed no evidence of decline or water production gave us confidence that the wells at our Pad A location, the location of planned 2010 development wells, would not need to be fracture stimulated immediately. We therefore amended the development plan to defer hydraulic fracturing of wells until

PIPELINE ROUTE





the winter of 2010/2011 thereby removing the requirement to fund a fracture stimulation programme before income from production has commenced. It will also ultimately reduce the costs of hydraulic fracturing as the crew and equipment can now be mobilised by winter road and we can fracture stimulate all wells together rather than in batches of two or three.

2009 also saw a softening of Rouble prices for major items such as drilling, steel and materials costs as well as a significant weakening of the Russian Rouble, all of which contributed to the reduction of the overall funding requirement.

The combination of all of the above meant that the funds required to get the project to a point where it became self-funding was reduced from over US$60 million to US$25 million. At this point the Board took the decision to raise these funds entirely with equity as, while some debt was available, the terms of the debt were not acceptable.

The initial focus of the development project (Phase 1) will be the Lineynoye and West Lineynoye oil fields. The 2P reserve base of these fields is 47.2 million barrels of oil, as reported by Ryder Scott, with 8.4 million barrels in the P1 category. The Russian State Reserves Balance for these fields contains registered C1 + C2 reserves of 59.9 million barrels including 13.4 million barrels in the C1 category.

A general outline and status for Phase 1 of the Development Plan is as follows:

Pipeline Development to Imperial's Kiev-Eganskoye Field

The design engineering, soil sampling survey and environmental studies for the pipeline and new 60km pipeline route have been completed. In October 2009 the Group awarded the pipeline construction contract to the Tomsk company, TomskGasStroy (TGS). TGS moved the pipe, that was stored at a staging site on the Vakh River to the north of Licence 61, by barge to a staging site at Ust-Tym, on the Ob River to the south of Licence 61. Welding of triple joints and site wrapping of the pipe was completed at Ust-Tym in December 2009. Construction of the pipeline commenced in January 2010 and was completed in April 2010. Testing and commissioning will be conducted in May and June 2010.

"Initial production is planned to commence in the third quarter of 2010 with a rate of 4,000 bopd achieved by the end of 2010."

Processing Facilities for the Oil

Oil processing and storage facilities are simple and of standard design for the region. The initial requirements are limited and have been designed and timed to carefully align with the development needs and to defer expenditures that are not needed early on. The process of clearing trees and preparing the facilities site for construction commenced in December 2009. Procurement is complete and all major materials have been moved to site. Construction has commenced and the facilities will be completed in time for commencement of production.

Infrastructure Development at Oil Field Site

These include the development of production crew accommodation and facilities, the installation of roads, power generation capacity and oil gathering facilities, etc. All necessary materials and equipment have been moved to site and construction is underway and will be finished in time for commencement of production in the third quarter of 2010.

Drilling of Production Wells

Drilling commenced in March 2010, using one platform drilling rig. The schedule allows for 30 days for drilling each well. However, it is possible that wells can be drilled in as little as 18 days. From 2011 two rigs will be used. Approximately nine deviated production 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. The drilling programme has been designed around the Russian BU 3000 EUK production drilling rig which is cost efficient and technically proven in the area. All producing wells will require hydraulic fracturing and electrical submersible pumps in order to maximise production.

The drilling contract for the first nine wells on the initial production pad was awarded to Tomskburneftegaz (TBNG) following a competitive tender process involving six drilling contractors. Drilling commenced in March 2010 approximately three weeks ahead of schedule. At the date of signing the annual report, two production wells have been drilled and the third well is underway. Preliminary log analysis from the first two wells indicates that the reservoir structure and properties are in line with expectations.

Production

Initial production is planned to commence in the third quarter of 2010 with a rate of 4,000 bopd achieved by the end of 2010, rising to 8,000 bopd by the end of 2011 and to 12,000 bopd in 2012.

LICENCE 61 – EXPLORATION, DELINEATION AND RESERVE EXPANSION

The financial crisis slowed the progress of further exploration and delineation of Licence 61. However, this will recommence in the fourth quarter of 2010 with the drilling of an exploration well at Arbuzovskaya. This will be followed in 2011 by at least two further wells, likely to be a delineation well at Kondrashevskoye and an exploration well at Sibkrayevskaya.

We have a significant portfolio of prospects in the southern portion of the Licence, of which many have potential in multiple horizons including the Cretaceous. An all weather road is available through a significant portion of this part of the Licence and crosses over some prospects. We have initiated a feasibility study to ascertain what prospects we could access via the all weather road, with the intention of undertaking a five to seven well exploration programme using a mobile rig. This study should be completed by the end of 2010 and pad preparation could commence in 2011 with a view to a 2011-2012 drilling programme.

BUSINESS DEVELOPMENT

The Group actively pursues opportunities in the Tomsk Region and Russia in general. These include potential corporate acquisitions and participating in State Auctions.

This work came to fruition in December 2009 with the acquisition of Licence 67 at a State Auction in the Tomsk region. The gross bid consideration was 42 million Roubles (US$1.42 million).

LICENCE 67 (LEDOVY)

This new acreage materially enhances the Group's footprint in the Tomsk Oblast and is an important step forward in its stated growth strategy. While there was a very short time frame and minimal amount of data available before the auction, the Group was able to quickly make a comprehensive evaluation of the block and win the auction due to the past knowledge and relationships of its Tomsk staff. Highlights of Licence 67 are as follows: ›

- Ledovy is located in the main oil bearing region of the Tomsk Oblast.
- The Licence is surrounded by proven and producing oil and gas fields and is located close to existing road, power and pipeline infrastructure.
- Russian registered C3 (possible) resources are 55 million barrels in 3 prospects.
- There is believed to be significant upside within existing discoveries – two structures have previously tested oil but require further appraisal.
- Discoveries have potential to form the basis of a future development project.
- Modest initial three year work commitment involves reprocessing old well and seismic data, acquisition of 750 km of new seismic data and drilling of one well.

Infrastructure

The Vasyugan-Raskino oil pipeline and electric power lines run through the middle of the Licence area. There is a paved road that runs to Strezhevoy through the north-western tip of the Licence area. The pipeline has the potential to accommodate production from any incremental discoveries in the Licence.

Brief History

Exploration on the Ledovy Licence began in the 1950s with a total of eight wells being drilled on large prospects identified by vintage seismic data. Modern 2D seismic data was subsequently acquired from 1980 to 2001. Russian registered C3 (possible) resources are currently 55 million barrels.

PetroNeft has reviewed the drilled and currently mapped undrilled structures and believes that there is significant upside within existing discoveries, potentially by-passed pay and new exploration prospects within the Block. Two producing oil fields, Grushevoye and Lomovoye, containing about 90 million barrels of C1+C2 reserves are located within the Licence area, but are excluded from the Licence. However, two existing drilled structures, Ledovoye and Sklonavaya, included in the Licence area have previously tested oil but have not to date been assigned reserves. PetroNeft believes that these discoveries have potential to form the basis of a future development project on the Licence, but also intends to pursue an active exploration programme.

Licence and Work Programme

The Licence is an exploration and production licence for 25 years but can be extended based on an agreed work programme. The minimum work commitments are to re-analyse the data from old wells and seismic surveys, acquire 750 km of new 2D seismic and drill one well within three years.

The planned 2010 work programme will focus on the overall re-evaluation of all the previous data on the Licence area with modern technology. Log data from 22 wells and 4,300 km of 2D seismic data from within and around Licence 67 will be reprocessed. The results of this evaluation will be used to acquire 750 km of new seismic data, which will help to determine the exploration priorities for the Licence area. It is also possible that some of the old wells could become re-entry candidates. This analysis will also be part of the 2010 work programme.

Arawak Area of Mutual Interest

The Licence is within Western Siberia and thus falls within the 2008 Area of Mutual Interest agreement between PetroNeft and Arawak. Under this agreement, Arawak have exercised their option to take a 50% interest in the Licence and finance 50% of all costs including the acquisition cost. PetroNeft will remain as operator of the Licence.

HEALTH, SAFETY AND ENVIRONMENTAL

The Group is fully committed to high standards of Health, Safety and Environmental (HSE) management. More details of our HSE activities are included in the HSE report on pages 20 and 21.

Laying out the pipe for construction of the Lineynoye-Kiev Eganskoye pipeline.

Distance marker along the completed pipeline route.

PERSONNEL

The Company recently made two important senior management appointments.

In November 2009, Valery Solovyev, was appointed to the Group as Chief Engineer. Valery has over 30 years experience in the development of oil and gas fields having held previous positions in companies such as Imperial Energy and Tomskneft. He is located in the Tomsk office.

In January 2010, Karl Johnson joined the Company as Vice President of Business Development and Operations after a 27 year career with Marathon Oil. Karl has a strong background in Business Development, Operations and Economics. He also has extensive Russian experience having lived and worked in both Moscow and Yuzhno-Sakhalinsk.

CONCLUSION

2009 has been a year of significant progress for PetroNeft. We entered the year with the Lineynoye development project on hold due to the financial crisis and no clear view on when oil prices would firm and liquidity would return to the financial markets. The Group had a solid asset base and people were working hard to cut costs and optimise the development. We signed the crude oil transportation agreement with Imperial in August, which further reduced the funding requirements to US$25 million and provided for additional schedule and operational efficiencies. In September the Company raised US$27.4 million in an equity placing to fund the Phase 1 development of the Lineynoye field. The project is now on schedule to commence year-round production in the third quarter of 2010.

We are also very excited to have acquired Licence 67 (Ledovy). This new acreage materially enhances our footprint in the Tomsk Oblast, is an important step forward in PetroNeft's stated growth strategy and exceeds its strict technical criteria for exploration and development potential. The Group is confident that it has added two new oil fields and many quality prospects to its portfolio at a very attractive cost. PetroNeft looks forward to further building its business and asset base in the region in 2010 and beyond. ■

Summary of reserves of Licence 61 as per Ryder Scott report dated 1 January 2010:

	Proved 1P mmbo	Proved and probable 2P mmbo	Proved, probable and possible 3P mmbo
Lineynoye field	5.7	23.9	29.8
West Lineynoye field	2.7	23.3	29.2
Kondrashevskoye field	0.6	8.1	26.1
Tungolskoye field	1.4	15.5	19.7
Total	**10.4**	**70.8**	**104.8**
Upper Jurassic – 24 prospects			207.3
Cretaceous – 10 prospects			156.2
Lower to Middle Jurassic – 11 prospects			63.0
Total	**10.4**	**70.8**	**531.3**

Reserves were determined in accordance with the Society of Petroleum Engineers ('SPE') Petroleum Resources Management System ('PRMS') rules.

Health, Safety and Environmental Report

The Group is fully committed to high standards of Health, Safety and Environmental (HSE) management and social responsibilities within the communities we work in. 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.

Alexey Balyasnikov, the General Director of Stimul-T, has primary responsibility for all aspects of HSE management. As well as reporting directly to Group CEO, Dennis Francis, he attends all Board meetings to report to the full Board on HSE issues.

There were no lost time incidents in the year and no events which breached the stringent environmental regulations that exist in Russia.

HEALTH AND SAFETY MANAGEMENT

The Group has a Labour Safety and Industrial Security Department. The role of the Department is to minimise the risks to employees and contractors from the day-to-day operation of our business, to train all staff in safety awareness, and to prepare contingency plans to minimise the potential impact of any unplanned incidents or events. For that purpose we:

- Control compliance of all employee operations with labour safety requirements and ensure that employees of the Group and employees of contractors are adequately trained in the use of relevant equipment.
- Monitor all contracts the Group enters into in order to ensure that contractors are informed of the labour safety policies of the Group.
- Carry out regular site inspections to ensure full compliance.
- Develop and deliver labour safety and industrial security training to Group employees.
- Maintain an Emergency Response Plan for explosion and fire hazard facilities of the Group.
- Develop and get approved by state authorities:
    - Regulation for control of industrial safety compliance at hazardous facilities.
    - Regulation for order of accident investigation at hazardous industrial facilities of the Group.
- Maintain a vaccination and insurance programme for tick-borne encephalitis, a disease common in the West Siberian environment.

ENVIRONMENTAL IMPACT MANAGEMENT

The Board recognises that the Group's activities can have a significant impact on the environment. As part of its responsibilities under Russian law, an environmental assessment of Licence 61 area was carried out before any drilling work commenced in 2007. This was to establish the state of the environment within Licence 61 area in advance of any major works. A similar assessment will be carried out on Licence 67 in 2010.

Since early 2007 there has been a dedicated full-time Environmental Engineer, Elena Nepriyateleva, on staff in our Tomsk office. Her responsibilities include:

- Monitoring of exploration and production activities.
- Monitoring activities of sub-contractors.
- Maintaining compliance with various environmental laws and regulations.

In 2009 the main activities from an environmental perspective were:

- Completion of the construction of a bridge over Kiev-Egan river including borrow pit and access ways to construct the bridge.
- Monitoring of pilot production activities from January to March 2009.
- Planning and approvals for 2010 drilling and field development programme.

This included the use of an independent company to supervise the work of both our own staff and the staff of contractors working at our sites.

Significant progress has also been made in the permitting and approvals process associated with the plan to develop the Lineynoye and West Lineynoye fields. Environmental approvals have been obtained in the following areas associated with the development of the fields and the construction of the pipeline:

- Forestry and tree cutting permits.
- Land allocation approvals for pipeline route.
- Environmental aspect of engineering survey.
- Project design and expert opinions from State expert assessment department.

“One of PetroNeft’s key philosophies is to operate as a compliant, well intentioned Group within the communities where we work.”

COMPLIANCE AND INSPECTIONS

The Group reports on its HSE activities to various statutory authorities in Russia on a quarterly and annual basis and is also subject to regular inspections by various bodies. Inspections relating to compliance with forestry law and in relation to the newly constructed bridge over the Kiev-Egan river took place in 2009 and no significant issues arose from these inspections.

COMMUNITY

One of PetroNeft’s key philosophies is to operate as a compliant, well intentioned Group within the communities where we work. This entails ensuring compliance with laws and regulations and returning and paying our taxes on time.

During 2009 we also made contributions to orphanages in the Tomsk Oblast and contributed to social programs run in the Alexandrovskoye region of Tomsk where Licence 61 is located. ■

Survey work for the oil processing and storage facilities at the Lineynoye oil field on Licence 61.

Modules of the Gas Powered Piston Plant which will utilise associated gas to provide power for field operations thereby eliminating the need to flare gas.

Financial Review

Paul Dowling
Chief Financial Officer

2009 saw PetroNeft make major advances towards its core strategy of bringing existing reserves to commercial development. As described in the Chief Executive Officer's report, the funding requirement to get to year-round production was reduced from over US$60 million to US$25 million. Throughout this time discussions were ongoing with banks but liquidity was still very tight and the terms on offer were therefore extremely onerous. Once the funding requirement was reduced to US$25 million and following consultations with our advisers, the Board took the decision to raise the necessary funding on the equity markets. This was completed in September 2009 with a US$27.4 million equity fund raising. This saw a significant broadening of our shareholder base with the addition of many new institutional shareholders, including some from Continental Europe and Russia.

Stimul-T Managing Director, Alexander Frenovsky, reviewing drilling operations at Lineynoye.

This funding enabled the Group to enter into contracts for the construction of a 60km pipeline to Imperial Energy's facilities at Kiev-Eganskoye, construction of the necessary field facilities at the Lineynoye oil field and drilling of the first four wells of the 2010 nine well drilling programme. Subsequently the following issues created a potential additional funding requirement:

- On finalising the drilling contract in early 2010 it became clear that the drilling contractor could drill at a much faster pace, taking as little as 18-20 days per well. While this more efficient schedule enabled more rapid production growth, it also necessitated a greater overall investment in advance of first production. Accordingly, PetroNeft had the choice of either delaying drilling or seeking further finance to allow the contractor to drill as many wells as possible before production commenced;
- In December 2009 we had the opportunity to bid for a new licence area, Licence 67, which we successfully acquired at a State Auction at a gross cost of US$1.42 million, which had not been previously budgeted for;
- The Board was also keen to recommence exploration and delineation activities in Licence 61. In order for an exploration well to be drilled in 2010 a rig and the materials necessary for drilling the well would need to be moved to site in the winter months of early 2010.

Discussions with a number of international banks had been ongoing over the last number of years, a number of whom have visited our operations in Tomsk. This, combined with the effective execution of our development programme over the winter, enabled us to swiftly negotiate and conclude a US$5 million facility with Macquarie Bank in March 2010. This agreement gave us the capacity to purchase the necessary materials and mobilise a rig in March 2010 and to enter into negotiations for the drilling of an exploration well at Arbuzovskaya in October 2010.

It is our intention to refinance this facility with a larger more long term facility in the coming months and we are in advanced negotiations in this regard.

Key Financial Metrics

	2009 US$	2008 US$
Overheads	3,430,687	2,871,339
Share-based payment expense	464,100	727,164
Foreign exchange loss on intra-group loans	537,683	3,010,932
Other foreign exchange loss	410,056	1,225,010
Administrative expenses	4,842,526	7,834,445
Loss on oil and gas properties	1,552,350	–
Loss for the year attributable to equity holders of the Parent	6,471,552	7,911,968
Capital expenditure in the year	6,153,603	25,475,299
Net proceeds of equity share issues	25,863,882	17,516,291
Bank and cash balance at year-end	15,726,479	2,168,197

NET LOSS

The net loss for the year decreased to US$6,471,552 from US$7,911,968 in 2008. The main reason for the decrease in losses relates to a decrease of US$2,473,249 in foreign exchange losses on intra-Group loans. These arose on US Dollar denominated loans from PetroNeft to its wholly owned subsidiaries, Stimul-T and Lineynoye whose functional currency is the Russian Rouble, and on other balances denominated in currencies other than US Dollar. In 2008 this loss arose due to the weakening of the Russian Rouble against the US Dollar in the last six months of the year. Once Stimul-T is earning income from oil sales, some of this income will be in US Dollars and Stimul-T will therefore be capable of repaying its US Dollar denominated debt out of US Dollar income.

The change in direction of our pipeline route meant it was necessary to write off certain costs associated with the previous route. This, combined with a small loss on the sale of excess pipe, gave rise to a loss on oil and gas properties of US$1,552,350. Additional details are provided in Note 5 to the consolidated financial statements.

FINANCE REVENUE

Finance revenue of US$173,296 arises from interest earned on bank deposits.

TAXATION

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

CAPITAL INVESTMENT

No major capital projects were completed in 2009. However, we entered into a number of major contracts in late 2009 for completion in 2010, principally to:

- Construct a 60 km pipeline from Lineynoye oil field to Imperial Energy's facility at Kiev-Eganskoye.
- Construct oil processing, oil storage and crew facilities at the Lineynoye oil field.
- Drill and complete nine new production wells at the Lineynoye oil field.

RUSSIAN VAT

Russian VAT refunds continued to take about four months to receive after the end of each VAT quarter. In January 2010 a new law was introduced which should speed up the process and enable receipt of refunds within about three weeks of the quarter end. To date we have not seen this operate in practice, but we are confident that this will be resolved in the coming months.

FUTURE FUNDING OF PETRONEFT

As described earlier, the accelerated pace of the drilling of the nine planned production wells for 2010 has created an additional funding requirement. Assuming management elects to continue drilling at the current pace, and dependent on the timing of the receipt of Russian VAT refunds and the commencement of production, the total funding requirement could be as high as US$12 million. The Group has already signed a loan facility with Macquarie Bank Limited ('Macquarie') for up to US$5 million of which only US$2 million has been drawn. PetroNeft is in advanced negotiations with Macquarie to refinance this loan with a facility of up to US$30 million. All credit approvals have been received and the Board expects to execute the facility in the coming weeks. Should it not be possible to agree the refinancing in time to meet operational needs, plans are in place to moderate the pace of drilling and commence production in accordance with the original schedule with five wells (three new and two existing). Subsequently, the remaining wells can be completed using the proceeds of oil sales following the commencement of year round production in the third quarter.

The new facility, once in place, combined with the Group's growing production revenues, will give the Group the flexibility to accelerate the exploration and development of Licences 61 and 67. The facility does not require, and the Board does not anticipate, that any incremental equity funding will be required to achieve this objective.

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 22 to the consolidated financial statements. ❯

"2009 saw PetroNeft make major advances towards its core strategy of bringing existing reserves to commercial development."

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties affecting the Group and the actions taken by the Group to mitigate these risks and uncertainties are:

Risk Category	Risk Issue	Mitigation
Country Risks	Political – federal risks	• Fields/acquisitions below 500 million boe are not considered strategic.
		• State is encouraging small operators.
	Political – local risks	• Tomsk Oblast administration is very supportive of development.
		• Local management are well respected in region.
	Ownership of assets	• Licences were acquired at government auctions. Work programme for Licence 61 is complete. Work programme for Licence 67 is not onerous.
		• 25 year Licence term can be extended based on approved production plan.
	Changes in tax structure	• Fiscal system is stable and recent changes benefit oil and gas companies.
		• Proactive lobbying effort made in area of tax legislation.
Technical Risks	Exploration risk	• Proven oil and gas basin with multiple plays.
		• Good quality 2D seismic.
		• Knowledgeable exploration team with proven track record in region.
	Drilling risk	• Relatively shallow wells with proven technology.
		• Good rig availability.
		• Experienced operations team.
	Production/Completion risk	• Routine completion practices including fracture stimulation.
		• Reserves high-graded; extensive reservoir simulation and reservoir management will be undertaken.
		• Performance of similar fields in region.
	Reserve risk	• SPE and Russian reserves updated and in substantive alignment.

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 10 May 2010 are as follows:

Name of shareholder	Ordinary Shares	Percentage
JP Morgan Chase & Co	23,600,497	6.74
Ali Sobraliev	23,014,273	6.57
Macquarie Bank Limited	21,910,605	6.25
RAB Energy Fund Limited and RAB Octane Fund Limited	17,369,191	4.96
Arawak Energy	13,387,600	3.82
Amiya Capital LLP (EEO Master Fund)	13,146,362	3.75
UFG Asset Management	10,900,000	3.11
Davycrest Nominees Limited	32,493,758	9.27
Total	**155,822,286**	**44.47**

Financial Risks	Availability of finance	• US$27.4 million equity raised in September 2009 and US$5 million interim bank facility agreed in March 2010 with discussions on a larger facility at an advanced stage.
	Oil price	• Robust project sanction economics – conservative base case assumptions. Board will consider use of appropriate hedging instruments once year-round production commences.
	Industry cost inflation	• Rigorous contracting procedures with competitive tendering. Also the relationship of the dollar/rouble exchange rate to the oil price provides a natural balance between costs and income.
	Uninsured events	• Comprehensive insurance programme in place.
Other Risks	HSE incidents	• HSE standards set and monitored regularly across the Group.
	Export quota	• Equal access to export quotas available for all oil producers using Transneft.
		• Conservative assumption in economics – domestic net back price now largely in alignment with export net back.
	Third party pipeline access	• 25 year transportation agreement in place.
	Transneft pipeline access	• Available capacity and access confirmed.
		• East Siberia-Pacific Ocean (ESPO) pipeline allows export of oil to Pacific market.

INVESTOR RELATIONS

During 2009, the CEO and CFO held regular meetings with analysts and institutional investors and the fund raising in September 2009 widened the base of institutional investors in the Company.

In May 2009 PetroNeft appointed Canaccord Adams (now Canaccord Genuity) as our London based joint broker in addition to our Nomad, Davy.

In October 2009 the Group appointed Murray Consultants as financial PR advisers with particular remit to increase the Group's coverage in the Irish media. In January 2010 the Group appointed Citigate Dewe Rogerson as financial PR advisor with particular focus on UK and European media outlets.

The target for 2010 is to continue our programme of meetings and specifically to get more analyst coverage in order to further increase our visibility within the investment community. In April 2010 Goodbody Stockbrokers initiated research coverage of the Company. Renaissance Capital and Canaccord Adams had issued updated research notes in late 2009. ■

Field facilities under construction at Lineynoye.

A heater which will be used in the oil processing facilities at Lineynoye.

Board of Directors

1. 2. 3.

1. DAVID GOLDER
(Non-Executive Chairman) (Age 62)

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 39 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 and Natural Gas Engineering from Pennsylvania State University and has completed the Program for Management Development at Harvard University.

2. THOMAS HICKEY
(Independent Non-Executive Director) (Age 41)

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 was Chief Financial Officer and a Director of Tullow Oil plc from 2000 to 2008. During this time Tullow grew via a number of significant acquisitions and exploration success. 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, flotation and related transactions. Mr. Hickey is a Commerce graduate of University College Dublin and a Fellow of the Irish Institute of Chartered Accountants. He is also a non-executive Director of Ikon Science Limited, a geological software company.

3. DENNIS FRANCIS
(Chief Executive Officer and Executive Director) (Age 61)

Mr. Francis has been Chief Executive Officer and an Executive Director of the Company since its formation in 2005. He has over 38 years experience in the petroleum industry and was with Marathon for 30 years. From 1990, Mr. Francis was the 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. Mr. Francis was instrumental in the formation of Sakhalin Energy Investment Company and was a director in that company. 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.

4. 5. 6.

4. PAUL DOWLING
(Chief Financial Officer and Executive Director) (Age 38)

Mr. Dowling joined the Company in October 2007 and was appointed to the Board of Directors in April 2008. He has 18 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). He is also a non-executive Director of Moesia Oil & Gas plc, an unlisted company, focused on oil and gas exploration and development in Central and Eastern Europe.

5. DR. DAVID SANDERS
(General Legal Counsel, Executive Director and Company Secretary) (Age 61)

Dr. Sanders has been General Legal Counsel, Executive Director and Company Secretary of the Company since its formation in 2005. He is an attorney at law and has over 33 years experience in the petroleum industry, including 19 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.

6. VAKHA SOBRALIEV
(Non-Executive Director) (Age 55)

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 Tomskburneftegaz 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.

Directors' Report

For the year ended 31 December 2009

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 2009.

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 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 Chairman's Statement, Chief Executive Officer's Report and in the Financial Review.

RESULTS AND DIVIDENDS

The loss for the year before tax amounted to US$6,153,080 (2008: US$7,705,958). After a tax charge of US$318,472 (2008: US$206,010) the loss for the year amounted to US$ 6,471,552 (2008: US$7,911,968). The Directors do not recommend payment of a dividend. Accordingly, an amount of US$6,471,552 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 2009, 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 14 to 19 and the Financial Review on pages 22 to 25. The key financial metrics used by management are set out in the Financial Review on page 23.

CORPORATE GOVERNANCE

The Company is not subject to the Combined Code on Corporate Governance applicable to companies with full listings on the Dublin and 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, 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 is 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, overall corporate governance 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 and preliminary announcement, 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 and elements of remuneration for Executive Directors, 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 retirement of Des Burke as an Executive Director of the Board means that the percentage of Non-Executive Directors on the Board is now equal to the recommended 50%. 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 and there are regular meetings between 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. Shareholders are also welcome to telephone or email the Company at any time.

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 appraised of the views of shareholders, and the market in general, through feedback from the meetings programme. 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, where presentations, reserve reports and other materials are also available.

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 is reviewed annually and 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 pages 26 and 27. On 31 March 2009 Desmond Burke retired from the Board.

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

DIRECTORS, COMPANY SECRETARY AND THEIR INTERESTS
The Directors and Company Secretary who held office at 31 December 2009 had no interest, other than those shown below, in the Ordinary Shares of the Company. All interests shown below are beneficial interests.

	Ordinary Shares As at 10-May-10	Ordinary Shares As at 31-Dec-09	Ordinary Shares As at 01-Jan-09
David Golder	3,165,458	3,165,458	3,165,458
Dennis Francis	22,570,416	22,570,416	22,409,045
Paul Dowling	192,531	192,531	48,000
David Sanders*	2,213,235	2,213,235	4,205,605
Vakha Sobraliev**	–	–	23,014,273
Thomas Hickey	1,587,614	1,587,614	1,535,057

* In April 2009, pursuant to a court order, David Sanders transferred 2,102,803 Ordinary Shares or 50 per cent of his shareholding at that time, to his former wife.

** On 12 February 2009, Vakha Sobraliev transferred his entire holding of 23,014,273 to his adult son Ali. Ali Sobraliev has advised the Company that he intends to remain a long term holder of the shares.

Directors' Report (continued)

For the year ended 31 December 2009

Increases in the shareholdings of Dennis Francis, Paul Dowling, David Sanders and Thomas Hickey resulted from their acceptance of all or part of their 2008 and 2009 remuneration and fees in shares.

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

Director	Options held as at 1 January 2009	Granted in year	Exercised in year	Options held as at 31 December 2009	Exercise price
David Golder	495,000	120,000	–	615,000	£0.19 – £0.36
Dennis Francis	1,210,000	330,000	–	1,540,000	£0.19 – £0.36
Paul Dowling	575,000	280,000	–	855,000	£0.19 – £0.36
David Sanders	1,160,000	280,000	–	1,440,000	£0.19 – £0.36
Vakha Sobraliev	475,000	80,000	–	555,000	£0.19 – £0.36
Thomas Hickey	353,000	100,000	–	453,000	£0.19 – £0.36

Details of the terms and conditions of the option scheme are included in Note 26 to the financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

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.

Details of the principal risks and uncertainties affecting the Group, as required to be disclosed in accordance with the Companies Acts, 1963 to 2009, are detailed in the Financial Review.

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 performance targets which include elements relating to shareholder return and individual performance.

DIRECTORS' EMOLUMENTS

	2009 US$	2008 US$
Remuneration and other emoluments – Executive Directors	**979,643**	770,186
Remuneration and other emoluments – Non-Executive Directors	**85,366**	80,177
Ex-gratia payment to retired Director	**–**	92,704
Remuneration and other emoluments payable in shares	**30,245**	45,065
Contributions to defined contribution pension plan	**9,386**	9,938
Share-based payment expense	**206,496**	338,082
	1,311,136	1,336,152

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 above. Certain Directors elected to receive a portion of their remuneration for 2008, 2009 and 2010 in shares instead of cash. On 9 December 2009 shares were issued in respect of all periods up to 30 September 2009.

The Board has also agreed to allow Directors elect to have their Directors' fees paid in shares. Under this scheme, the number of shares issued will be based on the closing price at each quarter end. Elections under this scheme must be for a minimum of one year.

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 2009. 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.

POLITICAL DONATIONS

The Company did not make any political donations during the year.

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, Ireland.

GOING CONCERN

As described in more detail in the Financial Review on page 23, the Board has approved a plan to raise the funding required to meet any shortfall that may arise if more than three production wells are completed before production commences, Russian VAT refunds are delayed or commencement of first production is delayed.

The Group have prepared budgets and forecasts until 31 December 2011 and, based on this, the maximum potential debt requirement is US$12 million. The Group has already signed an initial working capital facility agreement with Macquarie for up to US$5 million. The Group is in advanced negotiations with Macquarie Bank to refinance this loan with a facility of up to US$30 million and the Board is confident of a successful conclusion. To date the Directors have not received any indications that suggest that the required financing will not be available on acceptable terms. The Group has examined alternatives should the refinancing not be completed in time to meet operational needs. The Directors are of the opinion that these alternatives are reasonably practicable.

After making enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate financial resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and the consolidated financial statements.

IMPORTANT EVENTS AFTER THE BALANCE SHEET DATE

In January 2010 Licence 67 was registered thereby completing the acquisition. Arawak also exercised their option to participate as a 50% partner in the development, which will be operated by PetroNeft through a jointly controlled entity. The legal agreements and documentation relating to the jointly controlled entity are expected to be completed in June 2010.

In March 2010 PetroNeft signed a working capital facility with Macquarie Bank Limited for up to US$5 million. Associated with this agreement PetroNeft granted a warrant to acquire 4,700,000 Ordinary Shares at a strike price of £0.30.

AUDITORS

Ernst & Young, Chartered Accountants, 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 29,729,254 Ordinary Shares.

Approved by the Board on 19 May 2010.

Dennis Francis	**Paul Dowling**
Director	Director

Independent Auditor's 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 2009, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, 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 28. 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 2009. 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 2009, 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 2009.

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.

Ernst & Young
Chartered Accountants and Registered Auditors
Dublin
19 May 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Note	2009 US$	2008 US$
Revenue	9	509,710	–
Cost of sales		(420,566)	–
Gross profit		89,144	–
Administrative expenses		(4,304,843)	(4,823,513)
Loss on oil and gas properties	5	(1,552,350)	–
Exchange loss on intra-Group loans	6	(537,683)	(3,010,932)
Operating loss	6	(6,305,732)	(7,834,445)
Finance revenue	7	173,296	128,487
Finance costs	20	(20,644)	–
Loss for the year for continuing operations before taxation		(6,153,080)	(7,705,958)
Income tax expense	10	(318,472)	(206,010)
Loss for the year attributable to equity holders of the Parent		(6,471,552)	(7,911,968)
Loss per share attributable to ordinary equity holders of the Parent		–	–
Basic and diluted – US Dollar cent	11	(2.53)	(3.81)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009 US$	2008 US$
Loss for the year attributable to equity holders of the Parent	(6,471,552)	(7,911,968)
Currency translation adjustments	(770,566)	(6,490,162)
Total comprehensive loss for the year attributable to equity holders of the Parent	(7,242,118)	(14,402,130)

Approved by the Board on 19 May 2010.

Dennis Francis
Director

Paul Dowling
Director

Consolidated Balance Sheet

As at 31 December 2009

	Note	2009 US$	2008 US$
Assets			
Non-current Assets			
Oil and gas properties	12	**27,165,261**	23,769,980
Property, plant and equipment	13	**1,776,108**	1,867,397
Exploration and evaluation assets	14	**18,217,242**	18,684,771
Leasehold land payments	16	**176,825**	181,009
		47,335,436	44,503,157
Current Assets			
Trade and other receivables	17	**4,909,915**	3,067,736
Cash and cash equivalents	18	**15,726,479**	2,168,197
		20,636,394	5,235,933
Total Assets		**67,971,830**	49,739,090
Equity and Liabilities			
Capital and Reserves			
Called up share capital	21	**4,724,013**	2,919,041
Share premium account		**81,328,170**	57,193,950
Share-based payments reserve		**2,368,929**	1,904,829
Retained loss		**(18,752,403)**	(12,280,851)
Currency translation reserve		**(5,794,636)**	(5,024,070)
Other reserves		**336,000**	336,000
Equity attributable to equity holders of the Parent		**64,210,073**	45,048,899
Non-current Liabilities			
Provisions	20	**269,654**	254,646
Deferred tax liability	10	**826,129**	546,984
		1,095,783	801,630
Current Liabilities			
Trade and other payables	19	**2,665,974**	3,888,561
		2,665,974	3,888,561
Total Liabilities		**3,761,757**	4,690,191
Total Equity and Liabilities		**67,971,830**	49,739,090

Approved by the board on 19 May 2010.

Dennis Francis
Director

Paul Dowling
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital US$	Share premium US$	Other reserves US$	Currency translation reserve US$	Retained loss US$	Total US$
At 1 January 2008	2,343,864	40,252,836	1,513,665	1,466,092	(4,368,883)	41,207,574
Loss for the year	–	–	–	–	(7,911,968)	(7,911,968)
Currency translation adjustments	–	–	–	(6,490,162)	–	(6,490,162)
Total comprehensive loss for the year	–	–	–	(6,490,162)	(7,911,968)	(14,402,130)
New share capital subscribed	532,538	16,619,782	–	–	–	17,152,320
Transaction costs on issue of share capital	–	(666,044)	–	–	–	(666,044)
Shares issued on exercise of warrant	41,621	958,379	–	–	–	1,000,000
Share options exercised	1,018	28,997	–	–	–	30,015
Share-based payment expense	–	–	727,164	–	–	727,164
At 31 December 2008	2,919,041	57,193,950	2,240,829	(5,024,070)	(12,280,851)	45,048,899
At 1 January 2009	**2,919,041**	**57,193,950**	**2,240,829**	**(5,024,070)**	**(12,280,851)**	**45,048,899**
Loss for the year	**–**	**–**	**–**	**–**	**(6,471,552)**	**(6,471,552)**
Currency translation adjustments	**–**	**–**	**–**	**(770,566)**	**–**	**(770,566)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(770,566)**	**(6,471,552)**	**(7,242,118)**
New share capital subscribed	**1,797,899**	**25,560,368**	**–**	**–**	**–**	**27,358,267**
Transaction costs on issue of share capital	**–**	**(1,494,385)**	**–**	**–**	**–**	**(1,494,385)**
Remuneration and other emoluments paid in shares	**7,073**	**68,237**	**–**	**–**	**–**	**75,310**
Share-based payment expense	**–**	**–**	**464,100**	**–**	**–**	**464,100**
At 31 December 2009	**4,724,013**	**81,328,170**	**2,704,929**	**(5,794,636)**	**(18,752,403)**	**64,210,073**

Consolidated Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 US$	2008 US$
Loss before taxation		**(6,153,080)**	(7,705,958)
Adjustment to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation and amortisation		**215,693**	238,013
Share-based payment expense		**464,100**	727,164
Unwinding of discount on decommissioning provision		**20,644**	17,062
Loss on disposal of oil and gas properties	12	**1,552,350**	–
Remuneration and other emoluments paid in shares		**75,310**	–
Deduct finance revenue		**(173,296)**	(128,487)
Working capital adjustments			
Decrease in trade and other receivables		**1,988,854**	475,005
(Decrease)/increase in trade and other payables		**(408,533)**	2,918,821
Income tax received/(paid)		**23,163**	(25,387)
Net cash flows used in operating activities		**(2,394,795)**	(3,483,767)
Investing activities			
Purchase of oil and gas properties		**(5,402,567)**	(15,047,118)
Advance payments to purchase oil and gas properties		**(2,635,111)**	–
Advance payment to purchase License 67		**(1,160,556)**	–
Purchase of property, plant and equipment		**(291,838)**	(1,008,545)
Exploration and evaluation payments		**(812,550)**	(6,744,993)
Proceeds on disposal of oil and gas properties	12	**–**	–
VAT refunds		**–**	3,311,690
Finance revenue		**137,930**	128,487
Net cash used in investing activities		**(10,164,692)**	(19,360,479)
Financing activities			
Proceeds from issue of share capital		**27,358,267**	17,152,320
Transaction costs of issue of shares		**(1,494,385)**	(666,044)
Proceeds from exercise of share options		**–**	30,015
Proceeds from exercise of warrant		**–**	1,000,000
Net cash received from financing activities		**25,863,882**	17,516,291
Net increase/(decrease) in cash and cash equivalents		**13,304,395**	(5,327,955)
Translation adjustment		**253,887**	(808,143)
Cash and cash equivalents at the beginning of the year		**2,168,197**	8,304,295
Cash and cash equivalents at the end of the year	18	**15,726,479**	2,168,197

Company Balance Sheet

As at 31 December 2009

	Note	2009 US$	2008 US$
Non-current Assets			
Property, plant and equipment	13	**7,844**	5,700
Financial assets	15	**40,280,658**	40,049,269
		40,288,502	40,054,969
Current Assets			
Trade and other receivables	17	**29,457,794**	16,910,265
Cash and cash equivalents	18	**13,944,861**	1,659,810
		43,402,655	18,570,075
Total Assets		**83,691,157**	58,625,044
Equity and Liabilities			
Capital and Reserves			
Called up share capital	21	**4,724,013**	2,919,041
Share premium account		**81,328,170**	57,193,950
Share-based payment reserve		**2,368,929**	1,904,829
Retained loss		**(6,569,543)**	(4,654,272)
Other reserves		**336,000**	336,000
Equity attributable to equity holders of the parent		**82,187,569**	57,699,548
Non-current Liabilities			
Deferred tax liability	10	**826,129**	546,984
Current Liabilities			
Trade and other payables	19	**677,459**	378,512
Total Liabilities		**1,503,588**	925,496
Total Equity and Liabilities		**83,691,157**	58,625,044

Approved by the Board on 19 May 2010.

Dennis Francis
Director

Paul Dowling
Director

Company Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital US$	Share premium US$	Other reserves US$	Retained loss US$	Total US$
At 1 January 2008	2,343,864	40,252,836	1,513,665	(1,586,406)	42,523,959
Loss for the year	–	–	–	(3,067,866)	(3,067,866)
Total comprehensive loss for the year	–	–	–	(3,067,866)	(3,067,866)
New share capital subscribed	532,538	16,619,782	–	–	17,152,320
Transaction costs on issue of share capital	–	(666,044)	–	–	(666,044)
Shares issued on exercise of warrant	41,621	958,379	–	–	1,000,000
Share options exercised	1,018	28,997	–	–	30,015
Share-based payment expense	–	–	727,164	–	727,164
At 31 December 2008	2,919,041	57,193,950	2,240,829	(4,654,272)	57,699,548
At 1 January 2009	**2,919,041**	**57,193,950**	**2,240,829**	**(4,654,272)**	**57,699,548**
Loss for the year	**–**	**–**	**–**	**(1,915,271)**	**(1,915,271)**
Total comprehensive loss for the year	**–**	**–**	**–**	**(1,915,271)**	**(1,915,271)**
New share capital subscribed	**1,797,899**	**25,560,368**	**–**	**–**	**27,358,267**
Transaction costs on issue of share capital	**–**	**(1,494,385)**	**–**	**–**	**(1,494,385)**
Remuneration and other emoluments paid in shares	**7,073**	**68,237**	**–**	**–**	**75,310**
Share-based payment expense	**–**	**–**	**464,100**	**–**	**464,100**
At 31 December 2009	**4,724,013**	**81,328,170**	**2,704,929**	**(6,569,543)**	**82,187,569**

Company Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 US$	2008 US$
Loss before taxation		**(1,596,799)**	(2,861,856)
Adjustment to reconcile loss before tax to net cash flows			
Non-cash			
Depreciation of property, plant and equipment		**2,281**	2,009
Share-based payment expense		**232,711**	407,978
Remuneration and other emoluments paid in shares		**75,310**	–
Deduct finance revenue		**(1,276,343)**	(824,040)
Working capital adjustments			
Increase in trade and other receivables		**(11,591,597)**	(7,517,797)
Increase/(decrease) in trade and other payables		**236,457**	(2,289)
Income tax received/(paid)		**23,163**	(25,387)
Net cash flows used in operating activities		**(13,894,817)**	(10,821,382)
Investing activities			
Purchase of property, plant and equipment		**(4,425)**	(1,245)
Advances to subsidiaries		**–**	(9,568,537)
Finance revenue		**124,396**	126,936
Net cash provided by/(used in) investing activities		**119,971**	(9,442,846)
Financing activities			
Proceeds from issue of share capital		**27,358,267**	17,152,320
Transaction costs of issue of shares		**(1,494,385)**	(666,044)
Proceeds from exercise of share options		**–**	30,015
Proceeds from exercise of warrant		**–**	1,000,000
Net cash received from financing activities		**25,863,882**	17,516,291
Net increase/(decrease) in cash and cash equivalents		**12,089,036**	(2,747,937)
Translation adjustment		**196,015**	(670,055)
Cash and cash equivalents at the beginning of the year		**1,659,810**	5,077,802
Cash and cash equivalents at the end of the year	18	**13,944,861**	1,659,810

Notes to the Financial Statements

For the year ended 31 December 2009

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 2009. The Company is listed on the Alternative Investments Market ('AIM') of the London Stock Exchange and the Enterprise Securities Market ('ESM') of the Irish Stock Exchange. The address of the registered office is Suite 3, One Earlsfort Centre, Earlsfort Terrace, Dublin 2. The business address in Ireland is 1 Wainsfort Drive, Terenure, Dublin 6W. The Company is domiciled in the Republic of Ireland.

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

2. GOING CONCERN

As described in more detail in the Financial Review on page 23, the Board has approved a plan to raise the funding required to meet any shortfall that may arise if more than three production wells are completed before production commences, Russian VAT refunds are delayed or commencement of first production is delayed.

The Group have prepared budgets and forecasts until 31 December 2011 and, based on this, the maximum potential debt requirement is US$12 million. The Group has already signed an initial working capital facility agreement with Macquarie Bank ('Macquarie') for up to US$5 million. The Group is in advanced negotiations with Macquarie to refinance this loan with a facility of up to US$30 million and the Board is confident of a successful conclusion. To date the Directors have not received any indications that suggest that the required financing will not be available on acceptable terms. The Group has examined alternatives should the refinancing not be completed in time to meet operational needs. The Directors are of the opinion that these alternatives are reasonably practicable.

After making enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate financial resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and the consolidated financial statements.

3. ACCOUNTING POLICIES

3.1 Basis of Preparation

The financial statements have been prepared on a historical cost basis. The 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').

(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.

(c) Adoption of IFRS and International Financial Reporting Interpretations Committee (IFRIC) Interpretations

The Group has adopted the following new and amended IFRS and IFRIC interpretations in respect of the 2009 financial year-end:
- IFRS 2 Share-based Payment – Vesting Conditions and Cancellations effective 1 January 2009.
- IFRS 8 Operating Segments effective 1 January 2009.
- IAS 1 Presentation of Financial Statements effective 1 January 2009.
- IFRS 7 Financial Instruments – Disclosures effective 1 January 2009.

The application of the amendment to IFRS 2 restricts the definition of vesting conditions to include only service conditions (requiring a specified period of service to be completed) and performance conditions (requiring the other party to achieve a personal goal or contribute to achieving a corporate target). All other features are not vesting conditions and whereas a failure to achieve such a condition was previously regarded as a forfeiture, it must now be reflected in the grant date fair value of the award and treated as a cancellation.

This results in either an acceleration of the expected charge or a continuation over the remaining vesting period, depending on whether the condition is under the control of the entity or the counterparty. The adoption of this standard did not result in material changes in the Group's financial statements.

IFRS 8 Operating Segments replaced IAS 14 Segment Reporting. Following a review of its requirements, the Group has concluded that the operating segment determined in accordance with IFRS 8 is the same as the business segment previously identified under IAS 14. IFRS 8 disclosures are shown in Note 4.

IAS 1 Presentation of Financial Statements has been revised and introduces the statement of comprehensive income; it presents all items of recognised income and expense, either in one single statement or two linked statements. The Group has elected to present two statements, the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income.

IFRS 7 Financial Instruments – Disclosures (Amendment) requires enhanced disclosures about fair value measurement and liquidity risk and disclosure of fair value measurements by level of a fair value measurement hierarchy. The changes required by the amended standard are purely disclosure-related.

3.2 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and contingent assets or 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 in the future.

(a) Judgments

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 consolidated financial statements.

Exploration and Evaluation Expenditure

Exploration and evaluation expenditure represents active exploration projects. These amounts will be written off to the Consolidated Income Statement as exploration costs unless commercial reserves are established, or the determination process is not completed and there has been no previous 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 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 funds required in order to meet any working capital requirements. As described in the Financial Review and Note 2 to these financial statements, the Group are in advanced discussions with Macquarie in this regard. The Directors believe that this will enable the Group and the Company to continue in operational existence for the foreseeable future and to continue to meet its obligations as they fall due.

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 or fair-value-less-costs-to-sell 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, Exploration for and Evaluation of Mineral Resources, 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 2009 is US$18,217,242 (2008: US$18,684,771).

It is reasonably possible that the oil price assumption may change, which may then impact the estimated life of a field and may then require a material adjustment to the carrying value of the assets. The Group continuously monitors internal and external indicators of possible/potential impairment relating to its tangible and intangible assets.

In June 2008 the Board sanctioned the development of the Lineynoye and West Lineynoye oil fields. In accordance with IFRS 6, amounts included in exploration and evaluation assets in respect of these oil fields were transferred to oil and gas properties following an impairment review.

Notes to the Financial Statements (continued)

For the year ended 31 December 2009

3. ACCOUNTING POLICIES (continued)

Information in respect of the impairment review process and the key estimates and judgments used in carrying out the impairment review are described in Note 12.

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

Reserves Base

Oil and gas properties are depreciated on a unit-of-production basis at a rate calculated by reference to proved and probable reserves, determined in accordance with the Society of Petroleum Engineers Petroleum Resources Management System rules and incorporating the estimated future cost of developing and extracting those reserves. Commercial reserves are determined using estimates of oil in place, recovery factors and future oil prices. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The current long-term Urals blend oil price assumption used in the estimation of commercial reserves is an export price of US$75 and a Russian domestic price of US$41.

The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Group's oil and gas properties are impaired. The carrying amount of oil and gas properties at 31 December 2009 is shown in Note 12.

(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 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.

Share-Based Payment Transactions

The Group measures the cost of equity-settled transactions with employees and Directors 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 26.

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. Note 20 includes details of this provision 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 presentational 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. The Company's Russian subsidiaries' functional currency is the Russian Rouble. 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, including foreign exchange differences arising on intercompany loans from the Company to the Russian subsidiaries. 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.

The relevant average and closing exchange rates for 2008 and 2009 were:

	2009		2008	
US$1 =	Closing	Average	Closing	Average
Russian Rouble	**30.272**	**31.815**	29.477	24.870
Euro	**0.698**	**0.719**	0.710	0.683
British Pound	**0.628**	**0.641**	0.691	0.545

(b) Business Combinations and Goodwill
On the acquisition of a subsidiary, the acquisition 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 Consolidated Income Statement.

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 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) Oil and Gas Exploration, Evaluation and Development Expenditure
Oil and gas exploration, evaluation and development expenditure is accounted for using the successful efforts method of accounting.

Pre-Licence Costs
Pre-licence costs are expensed in the period in which they are incurred.

Exploration and Evaluation Costs
Payments to acquire the legal right to explore are capitalised at cost as intangible assets. If no future activity is planned, the carrying value of these costs is written off. Costs directly associated with an exploration well are capitalised 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 hydrocarbons are 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. If this is no longer the case, the costs are written off. When proved reserves are determined and development is sanctioned, the relevant expenditure is transferred to oil and gas properties after impairment is assessed and any resulting impairment loss is recognised. The net proceeds or costs of pilot production are allocated to exploration and evaluation costs.

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 oil and gas properties and depreciated from the commencement of production on a unit-of-production basis.

(d) Oil and Gas Properties and Other Property, Plant and Equipment
Oil and gas properties and other property, plant and equipment are stated at cost, less accumulated depreciation.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation, and for qualifying assets, relevant borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Notes to the Financial Statements (continued)

For the year ended 31 December 2009

3. ACCOUNTING POLICIES (continued)

Depreciation

Oil and gas properties are depreciated on a unit-of-production basis over the proved and probable reserves of the field concerned. The unit-of-production rate for the amortisation of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure to extract these reserves. In 2009 depreciation of US$17,826 has been charged to the Consolidated Income Statement.

Other items of property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives at the following annual rates:

- Land and buildings – 3% or remaining term of the lease, whichever is shorter.
- Plant and machinery – 10% to 30%.
- Motor vehicles – 20%.

(e) 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 any impairment loss.

The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value-in-use. If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the Consolidated Income Statement so as to reduce the carrying amount in the Balance Sheet to its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Direct costs of selling the asset are deducted. Fair value for oil and gas assets is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal, using assumptions that a market participant could take into account. These cash flows are discounted by an appropriate discount rate to arrive at a net present value (NPV) of the asset.

Value-in-use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value-in-use is determined by applying assumptions specific to the Group's continued use and cannot take into account future development. These assumptions are different to those used in calculating fair value and consequently the value-in-use calculation is likely to give a different result (usually lower) to a fair value calculation.

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.

(f) Leasehold Land Payments

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.

(g) 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.

(h) 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.

(i) 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 or loans and receivables, 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 measurements, loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the Income Statement 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.

(j) 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 the Income Statement.

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 the Consolidated Income Statement.

(k) Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and 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 Consolidated Income Statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pretax 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. The amount recognised is the estimated cost of decommissioning, discounted to its present value. A corresponding amount equivalent to the provision at the time of recognition is recognised as part of the cost of the related oil and gas properties or in exploration and evaluation expenditure. 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 oil and gas properties or exploration and evaluation expenditure.

Notes to the Financial Statements (continued)

For the year ended 31 December 2009

3. 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.

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:

- 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:

- 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.

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) Revenue Recognition

Revenue from the sale of oil is recognised when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer.

Revenue is stated after deducting value added tax.

(n) Share-Based Payments
Employees (including senior executives) and Directors of the Group may receive fees and 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 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 26.

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.

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

(o) Share Issue Expenses
Costs of share issues are written off against the premium arising on the issue of share capital.

(p) Operating 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 the Consolidated Income Statement on a straight line basis over the lease term.

(q) Finance Revenue
Finance revenue in the form of interest income is recognised as the interest accrues (using the effective interest rate) to the net carrying amount to the financial asset.

(r) Defined Contribution Pension Costs
Pension benefits are funded over the employees' period of service by way of contributions to a defined contribution scheme. Contributions are charged to the Consolidated Income Statement in the year to which they relate.

Notes to the Financial Statements (continued)

For the year ended 31 December 2009

3. ACCOUNTING POLICIES (continued)

3.4 Future Changes in Accounting Policies

New Standards and Interpretations Issued but not yet Effective

International Accounting Standards (IAS/IFRSs)		Effective date*
IFRS 1R	First time adoption of International Financial Reporting Standards	1 July 2009 [1]
Amendments to IFRS 1R	Additional Exemptions for First-time Adopters (Issued 23 July 2009)	1 January 2010
Amendments to IFRS 1R	Limited Exemption from Comparative IFRS 7 Disclosures (Issued 28 January 2010)	1 July 2010
IFRS 3R	Business Combinations	1 July 2009
IAS 27	Consolidated and Separate Financial Statements (Amendment)	1 July 2009
IAS 32	Classification of Rights Issues (Amendment)	1 February 2010 [2]
IAS 39	Recognition and Measurement: Eligible Hedged Items	1 July 2009 [3]
	Improvements to IFRS	Various effective dates

International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 17	Distributions of Non-Cash Assets to Owners	1 July 2009 [4]
IFRIC 18	Transfers of Assets from Customers	1 July 2009 [5]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments (Issued 26 November 2009)	1 July 2010

* Effective for the financial years beginning on or after this date. The effective dates stated here are those given in the original IASB/IFRIC standards and interpretations. As the Group prepares its financial statements in accordance with IFRS as adopted by the European Union, the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation, but the need for endorsement restricts the Group's discretion to early adopt standards.

(1) The effective date based on the regulation adopted by the European Union is "at the latest, the commencement date of the financial year starting after 31 December 2009".
(2) The effective date based on the regulation adopted by the European Union is "at the latest, as from the commencement date of its first financial year starting after 31 January 2010".
(3) The effective date based on the regulation adopted by the European Union is "at the latest, the commencement date of the first financial year starting after 30 June 2009".
(4) The effective date based on the regulation adopted by the European Union is "at the latest, the commencement date of the first financial year starting after 30 June 2009". As part of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – the effective date based on the regulation adopted by the European Union is "the commencement date of the financial year starting after 31 October 2009".
(5) The effective date based on the regulation adopted by the European Union is "the commencement date of the financial year starting after 31 October 2009".

IAS 27 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The Standard specifies the circumstances in which an entity must consolidate the financial statements of another entity (being a subsidiary); the accounting for changes in the level of ownership interest in a subsidiary; the accounting for the loss of control of a subsidiary; and the information that an entity must disclose to enable users of the financial statements to evaluate the nature of the relationship between the entity and its subsidiaries. The Group does not expect this new standard to affect the current consolidated and Company's financial statements.

The Directors do not anticipate that the adoption of the remaining standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

4. SEGMENT INFORMATION

At present the Group has one reportable operating segment, which is oil exploration and production. As a result, there are no further disclosures required in respect of the Group's reporting segment.

The risk and returns of the Group's operations are primarily determined by the nature of the activities that the Group engages in, rather than the geographical location of these operations. This is reflected by the Group's organisational structure and the Group's internal financial reporting systems.

Management monitors and evaluates the operating results for the purpose of making decisions consistently with operating profit or loss in the consolidated financial statements.

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

Non-Current Assets
Assets are allocated based on where the assets are located:

	2009 US$	2008 US$
Russia	**47,327,592**	44,497,457
Ireland	**7,844**	5,700
	47,335,436	44,503,157

5. LOSS ON OIL AND GAS PROPERTIES

The loss on oil and gas properties of US$1,552,350 relates to expenditure connected with the previous pipeline route from Lineynoye to Lukpaiskaya in the Khanty-Mansiysk District, 65 km to the north of Licence 61. In August 2009 the Group entered into a new crude oil transportation agreement with Imperial Energy, which meant that the pipeline would now be built on a southerly 60km route to Imperial's facility at Kiev-Eganskoye. Certain costs incurred to date in respect of the engineering and design and permitting associated with the northerly route to Lukpaiskaya have therefore been written off. Also included is a US$168,333 loss on disposal of pipe not required in the new southerly route.

6. OPERATING LOSS

Operating loss is stated after charging:	2009 US$	2008 US$
Included in administration expenses		
Depreciation of property, plant and equipment	**193,683**	233,829
Depreciation of oil and gas properties	**17,826**	–
Amortisation on leasehold land payments	**4,184**	4,184
Foreign exchange loss on intra-Group loans	**537,683**	3,010,932
Other foreign exchange losses	**410,056**	1,225,010
Operating lease rentals – land and buildings	**157,395**	125,516
Auditor's remuneration	**216,646**	241,392

7. FINANCE REVENUE

	2009 US$	2008 US$
Bank interest receivable	**173,296**	128,487
	173,296	128,487

8. EMPLOYEES

Number of employees	2009 Number	2008 Number
The average numbers of employees (including the Directors) during the year was:		
Directors	**6**	7
Senior Management	**5**	5
Support Staff	**43**	45
	54	57

Notes to the Financial Statements (continued)

For the year ended 31 December 2009

8. EMPLOYEES (continued)

Employment costs (including Directors)	2009 US$	2008 US$
Wages and salaries	2,040,329	2,299,902
Social welfare costs	187,014	290,849
Share-based payment expense	464,100	727,164
Contributions to defined contribution pension plan	9,386	9,938
	2,700,829	3,327,853

An amount of US$678,711 (2008: US$739,915) included in employment costs were capitalised during the year.

Directors' emoluments	2009 US$	2008 US$
Remuneration and other emoluments – Executive Directors	979,643	770,186
Remuneration and other emoluments – Non-Executive Directors	85,366	80,177
Ex-gratia payment to retired Director	–	92,704
Remuneration and other emoluments payable in shares	30,245	45,065
Contributions to defined contribution pension plan	9,386	9,938
Share-based payment expense	206,496	338,082
	1,311,136	1,336,152

9. REVENUE

	2009 US$	2008 US$
Revenue from crude oil sales	509,710	–
	509,710	–

All revenue arises from sales to third parties based in the Russian Federation.

10. INCOME TAX

The tax expense comprises:

	2009 US$	2008 US$
Current income tax		
Current income tax charge	39,327	31,734
Deferred tax		
Relating to origination and reversal of temporary differences	279,145	174,276
Income tax expense reported in the Consolidated Income Statement	318,472	206,010

All income tax charge relates to interest income received by the Company.

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:

	2009 US$	2008 US$
Loss before income tax	**(6,153,080)**	(7,705,958)
Accounting loss multiplied by Irish standard rate of tax of 12.5%	**(769,135)**	(963,245)
Share-based payments expense	**58,013**	90,895
Effect of higher tax rates on investment income	**159,543**	103,005
Non-deductible expenses	**330,054**	431,568
Tax deductible timing differences	**(69,964)**	(265,064)
Other	**168,847**	83,381
Losses available at higher rates	**(264,671)**	(667,432)
Taxable losses not utilised	**705,785**	1,392,902
Total tax expense reported in the Consolidated Income Statement	**318,472**	206,010

Deferred Income Tax

Deferred income tax at 31 December relates to the following:

Group and Company	2009 US$	2008 US$
Deferred income tax liability		
Accrued interest income	**826,129**	546,984
	826,129	546,984

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. Net deferred tax assets of US$1.8 million, which expire in 7 to 10 years, 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 over recent years.

Factors that may Affect Future Tax Charges

The Group expects to commence year-round oil production in Russia during 2010. Such production is likely to result in taxable profits in Russia, where the applicable tax rate is 20% following a change to Russian tax legislation, which reduced the rate from 24% with effect from 1 January 2009.

11. LOSS PER ORDINARY SHARE

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

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

	2009 US$	2008 US$
Numerator		
Loss attributable to equity shareholders of the Parent for basic and diluted loss	**(6,471,552)**	(7,911,968)
	(6,471,552)	(7,911,968)
Denominator		
Weighted average number of Ordinary Shares for basic and diluted earnings per Ordinary Share	**255,724,257**	207,499,468
Diluted weighted average number of shares	**255,724,257**	207,499,468
Loss per share:		
Basic and diluted – US Dollar cent	**(2.53)**	(3.81)

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

- Employee Share Options – Refer to Note 26 for the total number of shares related to the outstanding options that could potentially dilute basic earnings per share in the future. These potential Ordinary Shares are anti-dilutive for the years ended 31 December 2009 and 2008.

Notes to the Financial Statements (continued)

For the year ended 31 December 2009

12. OIL AND GAS PROPERTIES

Group	Oil and gas properties US$
Cost	
At 1 January 2008	**–**
Additions	**16,767,510**
Transfer from exploration and evaluation assets	11,202,901
Transfer from property, plant and equipment	281,243
Translation adjustment	(4,481,674)
At 1 January 2009	**23,769,980**
Additions	**6,003,466**
Disposals	**(2,277,934)**
Transfer to property, plant and equipment	**(10,642)**
Translation adjustment	**(301,783)**
At 31 December 2009	**27,183,087**
Depreciation	
At 1 January 2009	**–**
Charge for the year	**17,826**
At 31 December 2009	**17,826**
Net book values	
At 31 December 2009	**27,165,261**
At 31 December 2008	23,769,980

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

Disposals consist of the write-off of expenses in relation to old pipeline routes of US$1,384,017 and the disposal of part of the pipe acquired in 2008. The cost of the disposed part of pipe was US$893,917 and it was sold for US$725,584 resulting in a loss of US$168,333. The proceeds on the disposal of the pipe were not received in cash but were offset against purchases made during the year, payable to the same party.

Additions are salaries capitalised during the year, acquisition of remaining pipe and pipeline construction works.

In assessing whether an impairment is required in the carrying value of an asset, its carrying value is compared with its recoverable amount. Assets are tested for impairment either individually or as part of a cash generating unit. The recoverable amount is the higher of the asset's fair value less costs to sell and value-in-use. The impairment calculation is most sensitive to the following assumptions:

- Production volumes.
- Discount rates.
- Commodity prices.

Estimated production volumes are based on detailed data for the fields and take into account development plans for the fields agreed by management as part of the long-term planning process and estimated by Ryder Scott Petroleum Consultants in their report on the Group's reserves. It is estimated that, if all production were to be reduced by 15% for the whole of the next 15 years, this would not be sufficient to reduce the excess of recoverable amount over the carrying amounts of the oil and gas properties to zero. Consequently, management believes no reasonably possible change in the production assumption would cause the carrying amount of oil and gas properties to exceed their recoverable amount.

The Group estimates fair value less costs to sell using a discounted cash flow model. The future cash flows are adjusted for risks specific to the asset and discounted using a pre-tax discount rate of 17%. Management also believes that currently there is no reasonably possible change in discount rate which would cause the carrying amount of the oil and gas properties to exceed their recoverable amount.

It is estimated that if the long-term price of Urals blend crude oil fell by 15% for the whole of the next 15 years, this would not be sufficient to reduce the excess of recoverable amount over the carrying amounts of the oil and gas properties to zero.

13. PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings US$	Plant and machinery US$	Motor vehicles US$	Total US$
Cost				
At 1 January 2008	372,474	1,191,016	74,563	1,638,053
Additions	–	1,157,574	–	1,157,574
Transfer to oil and gas properties	–	(281,243)	–	(281,243)
Translation adjustment	(61,669)	(335,799)	(12,561)	(410,029)
At 1 January 2009	**310,805**	**1,731,548**	**62,002**	**2,104,355**
Additions	**–**	**61,592**	**81,217**	**142,809**
Transfer from oil and gas properties	**–**	**10,642**	**–**	**10,642**
Translation adjustment	**(8,164)**	**(41,743)**	**2,513**	**(47,394)**
At 31 December 2009	**302,641**	**1,762,039**	**145,732**	**2,210,412**
Depreciation				
At 1 January 2008	2,023	33,266	11,440	46,729
Charge for the year	19,036	199,582	15,211	233,829
Translation adjustment	(3,315)	(35,980)	(4,305)	(43,600)
At 1 January 2009	**17,744**	**196,868**	**22,346**	**236,958**
Charge for the year	**7,872**	**174,591**	**11,220**	**193,683**
Translation adjustment	**(65)**	**3,742**	**(14)**	**3,663**
At 31 December 2009	**25,551**	**375,201**	**33,552**	**434,304**
Net book values				
At 31 December 2009	**277,090**	**1,386,838**	**112,180**	**1,776,108**
At 31 December 2008	293,061	1,534,680	39,656	1,867,397
At 31 December 2007	370,451	1,157,750	63,123	1,591,324

Company	Plant and machinery US$
Cost	
At 1 January 2008	9,421
Additions	1,245
At 1 January 2009	**10,666**
Additions	**4,425**
At 31 December 2009	**15,091**
Depreciation	
At 1 January 2008	2,957
Charge for the year	2,009
At 1 January 2009	**4,966**
Charge for the year	**2,281**
At 31 December 2009	**7,247**
Net book values	
At 31 December 2009	**7,844**
At 31 December 2008	5,700
At 31 December 2007	6,464

Notes to the Financial Statements (continued)

For the year ended 31 December 2009

14. EXPLORATION AND EVALUATION ASSETS

Group	Exploration and evaluation expenditure US$
Cost	
At 1 January 2008	29,415,286
Additions	7,550,215
Transfer to oil and gas properties	(11,202,901)
Russian VAT refund transferred to current assets	(3,311,690)
Translation adjustment	(3,766,139)
At 1 January 2009	**18,684,771**
Additions	**7,328**
Translation adjustment	**(474,857)**
At 31 December 2009	**18,217,242**
Net book values	
At 31 December 2009	**18,217,242**
At 31 December 2008	18,684,771
At 31 December 2007	29,415,286

Exploration and evaluation expenditure represents active exploration projects. These amounts will be written off to the Consolidated Income Statement as exploration costs unless commercial reserves are established, or the determination process is not completed and there are no indications of impairment. The outcome of ongoing exploration, and therefore whether the carrying value of these assets will ultimately be recovered, is inherently uncertain.

Prior to 2008, PetroNeft's Russian subsidiaries had not received any refunds of Russian VAT incurred on the work carried out to date. The amount due as at 31 December 2007 was US$3,311,690 and it had been accounted for at that date as part of exploration and evaluation expenditure as the Group was uncertain whether this amount would be recoverable. This matter was resolved during 2008 and the subsidiaries started receiving Russian VAT refunds in April 2008. All Russian VAT refunds due are now accounted for in current assets.

15. FINANCIAL ASSETS

Company	Investment in subsidiaries US$
Cost	
At 1 January 2008	30,161,546
Advances to subsidiary undertakings	9,568,537
Capital contribution in respect of share-based payment expense	319,186
At 1 January 2009	**40,049,269**
Capital contribution in respect of share-based payment expense	**231,389**
At 31 December 2009	**40,280,658**
Net book values	
At 31 December 2009	**40,280,658**
At 31 December 2008	40,049,269
At 31 December 2007	30,161,546

Details of the Company's holding in direct and indirect subsidiaries at 31 December 2009 are as follows:

Name of subsidiary	Registered office	Proportion of ownership Interest	Proportion of voting power held	Principal activity
WorldAce Investments Limited	3 Themistocles Street Nicosia, Cyprus	100%	100%	Holding company
Stimul-T	147 Prospekt Lenina, Tomsk 634009 Russia	100%	100%	Oil and Gas exploration
Lineynoye	147 Prospekt Lenina, Tomsk 634009 Russia	100%	100%	Construction
Pervomayka	Pobedy Kolpashevo Tomsk 634460 Russia	100%	100%	Property holding

In January 2010 a new Russian subsidiary was formed named LLC Granite Construction. This will take over the activities of Lineynoye which will then be utilised as the licence holder for Licence 67 in conjunction with Arawak Energy Limited who will hold a 50% interest in Lineynoye.

16. LEASEHOLD LAND PAYMENTS

	2009 US$	2008 US$
Net book value at 1 January	**181,009**	186,110
Translation adjustment	**–**	(917)
Amortisation	**(4,184)**	(4,184)
Net book value at 31 December	**176,825**	181,009

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

17. TRADE AND OTHER RECEIVABLES

Group	2009 US$	2008 US$
Russian VAT	**806,392**	2,083,341
Other receivables	**120,531**	351,943
Advances to and receivables from related parties (Note 25)	**942,660**	591,974
Advances to contractors	**1,692,451**	–
Prepayments	**187,325**	40,478
Prepayment for Licence 67	**1,160,556**	–
	4,909,915	3,067,736

Company	2009 US$	2008 US$
Amounts owed by subsidiary undertakings	**29,297,783**	16,846,818
Prepayments and accrued income	**160,011**	63,447
	29,457,794	16,910,265

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

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

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2009

18. CASH AND CASH EQUIVALENTS

Group	2009 US$	2008 US$
Cash at Bank and in Hand	**15,726,479**	2,168,197
	15,726,479	2,168,197

Company	2009 US$	2008 US$
Cash at Bank and in Hand	**13,944,861**	1,659,810
	13,944,861	1,659,810

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

19. TRADE AND OTHER PAYABLES

Group	2009 US$	2008 US$
Trade payables	**1,924,521**	2,268,180
Trade payables to related parties (Note 25)	**6,501**	1,106,407
Corporation tax	**68,836**	6,346
Other taxes and social welfare costs	**206,387**	174,120
Other payables	**38,819**	75,762
Accruals and deferred income	**420,910**	257,746
	2,665,974	3,888,561

Company	2009 US$	2008 US$
Trade payables	**216,374**	11,600
Corporation tax	**68,836**	6,346
Other taxes and social welfare costs	**74,556**	62,537
Other payables	**–**	40,283
Accruals and deferred income	**317,693**	257,746
	677,459	378,512

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.

20. PROVISIONS

Decommissioning Costs – Non-current	2009 US$	2008 US$
At 1 January	**254,646**	131,243
Arising during the year	**–**	172,462
Unwinding of discount	**20,644**	17,062
Translation adjustment	**(5,636)**	(66,121)
At 31 December	**269,654**	254,646

The decommissioning provision represents the present value of decommissioning costs relating to the Group's Russian oil interests, which are expected to be incurred from 2025. These provisions have been created based on the Group'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. A discount rate of 9% was used for the assessment of the provision. The charge relating to the unwinding of the discount on the provision is reflected in finance costs in the Consolidated Income Statement.

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. SHARE CAPITAL – GROUP AND COMPANY

	2009 €	2008 €
Authorised		
600,000,000 Ordinary Shares of €0.01 each	**6,000,000**	6,000,000
	6,000,000	6,000,000

Allotted, called up and fully paid equity	**Number of Ordinary Shares**	**Called up share capital US$**
At 1 January 2008	191,956,395	2,343,864
Issued in the year	34,527,141	532,538
Warrant exercised in the year	2,673,498	41,621
Share options exercised in the year	66,000	1,018
At 1 January 2009	**229,223,034**	**2,919,041**
Issued in the year	**120,640,209**	**1,797,899**
Remuneration and other emoluments paid in shares	**504,468**	**7,073**
At 31 December 2009	**350,367,711**	**4,724,013**

The Company issued 120,640,209 new shares for consideration of US$27.4 million during the year. The net proceeds of this share issue of US$25.9 million are being used to finance expenditure on oil and gas properties, exploration and evaluation costs and corporate overhead.

22. 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. The Group and Company did not enter any derivative transactions during 2009 and 2008.

It is 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. The Board reviews and agrees policies for managing each of these risks which are summarised below.

Foreign Currency Risk

The Group and the Company undertake 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 31 December 2009 and 31 December 2008, the Group and the Company had no outstanding forward exchange contracts.

Notes to the Financial Statements (continued)

For the year ended 31 December 2009

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign Currency Sensitivity Analysis

The Group's and the Company'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. The Company has an exposure to US Dollars because payments to some suppliers are effected in Euro and in UK Sterling, and the Company has bank accounts in Russian Rouble, Euro, UK Sterling and US Dollar.

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 2009. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and largely results from payables and receivables, and adjusts their translation at the period end for a 5% change in foreign currency rates. A positive number below indicates a reduction in loss and increase in 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 loss and other equity, and the balances following would be negative.

If the US Dollar had gained/lost 5% against all currencies significant to the Group and Company at 31 December 2009, the impact on loss and Equity for the Group and the Company is shown below.

Group	2009 US$	2008 US$
Impact on loss (lower/higher)	**168,280**	82,689
Impact on net equity (lower/higher)	**783,521**	108,057

Company	2009 US$	2008 US$
Impact on loss and net equity (lower/higher)	**694,441**	82,567

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

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. As the Group or the Company does not have any significant receivables outstanding from third parties, this risk is limited.

The Group and the Company do not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group and the Company define counterparties as having similar characteristics if they are connected entities.

Liquidity Risk Management

Liquidity risk is the risk that the Group and the Company 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 and the Company manage liquidity risk 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 and the Company. To date, the Group and the Company have relied on shareholder funding and normal trade credit to finance its operations. The Group and the Company had no borrowing facilities at 31 December 2009.

The Group and Company's financial liabilities as at 31 December 2009 and 31 December 2008 were all payable on demand.

The expected maturity of the Group and Company's financial assets (excluding prepayments) as at 31 December 2009 and 31 December 2008 was less than one month.

The Group and the Company expect to meet its other obligations from operating cash flows and debt financing (refer to Note 2). The Group and the Company further mitigate liquidity risk by maintaining an insurance programme to minimise exposure to insurable losses.

The Group and the Company had no derivative financial instruments as at 31 December 2009 and 31 December 2008.

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 which are on variable rates ranging from 0.4% to 5.75%.

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% reduction in interest rates (e.g. from 10% to 9%) obtainable on cash and short-term deposits would be to increase Group loss before tax by US$17,330 (2008: US$10,310) and Company loss before tax by US$127,634 (2008: US$82,404).

Capital Risk Management
The Group and the Company manage 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 and the Company manage its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust its capital structure, the Group and the Company may issue new shares or raise debt. No changes were made in the objectives, policies or processes during the years ended 31 December 2009 and 31 December 2008. The capital structure of the Group and the Company 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.

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 2009 and 31 December 2008, the Group had no outstanding contracts designated as hedges. No hedging contracts were entered into in 2008 or 2009.

23. LOSS OF HOLDING COMPANY
The Company is availing of the exemption set out in section 148(8) of the Companies Act 1963 and section 7(1) (A) of the Companies (Amendment) Act 1986 from presenting its individual Income Statement to the annual general meeting and from filing it with the Registrar of Companies. The amount of the loss dealt with in the parent undertaking for the year was US$1,915,271 (2008: US$3,067,866).

24. CAPITAL COMMITMENTS
24.1 Details of capital commitments at the balance sheet date are as follows:

	2009 US$	2008 US$
Contracted for but not provided in the financial statements	**13,274,160**	–
Authorised by the Directors but not yet contracted for	**–**	–

The commitments mainly relate to future payments due under drilling and exploration contracts entered into by the Group during 2009 which are to be completed in future periods.

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

	2009 US$	2008 US$
Within one year	**44,759**	57,890
After one year but not more than five years	**26,940**	37,197
More than five years	**58,152**	–
	129,851	95,087

Notes to the Financial Statements (continued)

For the year ended 31 December 2009

25. RELATED PARTY DISCLOSURES

Transactions between PetroNeft Resources Plc and its subsidiary, Stimul-T, have been eliminated on consolidation. Details of transactions between the Group and other related parties are disclosed below.

In 2007, Stimul-T entered into a contract with Tomskburneftegaz ('TBNG') for the drilling of 3 wells in 2008. The contract was a 'Turnkey' contract under which TBNG assumed 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 Sobraliev, a Director of PetroNeft, is the principal of TBNG. An amount of US$1,103,935, outstanding as at 31 December 2008, was settled during 2009.

In 2009 Stimul-T entered into a contract with TBNG for the drilling of 9 wells in 2010. 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 is approximately US$9.01 million. Payments of US$1,057,032 were made during 2009 in relation to this contract of which US$942,660 are shown as advance payments as at 31 December 2009.

During 2009, an amount of US$591,974 outstanding from TBNG in relation to shared use of helicopter services, where the service provider billed the entire amount to Stimul-T, as at 31 December 2008, was settled in full.

Stimul-T invoiced US$15,945 (2008: US$42,408) to TBNG in 2009 for supply of crude oil. No amounts are outstanding in this regard as at 31 December 2009.

In 2008 crude oil sales were also made to Nizhnevartovskservis ('NVS') of US$23,066. No such sales were made in 2009. Vakha Sobraliev, a Director of PetroNeft, is the principal of NVS.

An amount of US$2,407 outstanding as at 31 December 2008 to NVS remains outstanding as at 31 December 2009. During 2009, NVS provided various services to Stimul-T and Lineynoye for US$2,761 and US$1,333 respectively. These amounts remain outstanding as at 31 December 2009.

Remuneration of Key Management

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

	2009 US$	2008 US$
Compensation of key management	**1,307,504**	1,275,262
Ex-gratia payment to retiring director	**–**	92,704
Contributions to defined contribution pension plan	**9,386**	9,938
Share-based payment expense	**290,242**	445,039
	1,607,132	1,822,943

Transactions with Subsidiaries

The Company had the following transactions with its subsidiaries during the years ended 31 December 2009 and 31 December 2008:

- The Company made contributions to the assets of Stimul-T in the amounts of US$Nil and US$9,531,169 during the years ended 31 December 2009 and 31 December 2008 respectively.
- The Company granted interest bearing loans to Stimul-T in the amounts of US$9,931,514 and US$7,954,382 during the years ended 31 December 2009 and 31 December 2008 respectively.
- The Company granted an interest bearing loan to Lineynoye in the amount of US$1,189,230 during the year ended 31 December 2009.
- The Company earned interest on loans to Stimul-T in the amounts of US$1,109,247 and US$697,104 during the years ended 31 December 2009 and 31 December 2008 respectively. The Company earned interest on loans to Lineynoye in the amounts of US$7,334 and US$Nil during the years ended 31 December 2009 and 31 December 2008 respectively. All interest on loans to Stimul-T and Lineynoye remains outstanding.
- The Company charged amounts of US$213,640 and US$211,481 for technical services provided to Stimul-T during the years ended 31 December 2009 and 31 December 2008 respectively.
- The Company made contributions to the assets of Lineynoye in the amount of US$Nil and US$331,855 during the years ended 31 December 2009 and 31 December 2008 respectively.
- The Company made contributions to the assets of Pervomayka in the amount of US$Nil and US$24,699 during the years ended 31 December 2009 and 31 December 2008 respectively.

26. SHARE-BASED PAYMENTS

The expense recognised for employee services during the year is US$464,100 (2008: US$727,164). The Group share-based payment plan is described below. There were no cancellations or modifications to any of the plans during 2009 and 2008.

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 tranches and are subject to the achievement of vesting conditions related to drilling, production and shareholder return. The maximum term for options is seven 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.

	2009 Number	2009 WAEP	2008 Number	2008 WAEP
Outstanding as at 1 January	**10,072,000**	**€0.297/£0.347**	7,963,000	€0.297/£0.32
Granted during the year	**3,465,000**	**£0.19**	2,525,000	£0.36
Forfeited during the year	**–**	**–**	(350,000)	€0.295/£0.36
Exercised during the year	**–**	**–**	(66,000)	€0.295
Outstanding at 31 December	**13,537,000**	**€0.297/£0.272**	10,072,000	€0.297/£0.347
Exercisable at 31 December	**4,219,600**	**€0.297/£0.32**	4,219,600	€0.297/£0.32

The range of exercise prices for options outstanding at the year-end is £0.19 to €0.42 (2008: €0.295 to €0.42).

The weighted average remaining contractual life for the share options outstanding as at 31 December 2009 was 5 years (2008: 5.2 years).

The weighted average fair value of options granted during the year was £0.096 (2008: £0.17).

The weighted average share price of exercised options at the date of exercise in 2008 was €0.38. No options were exercised in 2009.

The following table lists the inputs to the models used for the years ended 31 December 2009 and 31 December 2008:

Grant date	2009 December	2008 February	2007 December	2006 November	2006 September
Dividend yield	0%	0%	0%	0%	0%
Expected volatility	75%	60%	45%	48%	48%
Risk free interest rate	2.8%	4.4%	5%	3.71%	3.62%
Expected life of option	7	7	7	7	7
Expected early exercise %	5%	5%	5%	5%	5%
Share price	£0.19	£0.36	£0.32	€0.42	€0.30
Model used	Binomial/ Monte Carlo	Binomial/ Monte Carlo	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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2009

27. IMPORTANT EVENTS AFTER THE BALANCE SHEET DATE

In January 2010 Licence 67 was registered thereby completing the acquisition. Arawak also exercised their option to participate as a 50% partner in the development, which will be operated by PetroNeft through a jointly controlled entity. The legal agreements and documentation relating to the jointly controlled entity are expected to be completed in June 2010.

In March 2010 PetroNeft signed a working capital facility with Macquarie Bank Limited for up to US$5 million. Associated with this agreement PetroNeft granted a warrant to acquire 4,700,000 Ordinary Shares at a strike price of £0.30.

28. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved, and authorised for issue, by the Board of Directors on 19 May 2010.

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 Wednesday 23 June 2010, 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 31 December 2009 together with the Directors' and Auditor's Reports thereon.
2. To re-elect Mr. Francis as a Director, who retires by rotation in accordance with Article 83 of the Articles of Association of the Company.
3. To re-elect Mr. Sanders as a Director, who retires by rotation in accordance with Article 83 of the Articles of Association of the Company.
4. To re-appoint Ernst & Young, Chartered Accountants, as Auditors and to authorise the Directors to fix the remuneration of the Auditors.

SPECIAL BUSINESS

5. That, in substitution for all existing authorities of the Directors pursuant to Section 20 of the Companies (Amendment) Act, 1983, the Directors be and are hereby generally and unconditionally authorised pursuant to Section 20 of the Companies (Amendment) Act, 1983 to exercise all the powers of the Company to allot relevant securities (within the meaning of the said Section 20) up to a maximum amount equal to the aggregate nominal value of the authorised but unissued share capital of the Company from time to time. The authority hereby conferred shall expire (unless previously renewed, varied or revoked by the Company in general meeting) 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 the close of business on 23 September 2011, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority hereby conferred has expired.

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 Resolution numbered 5 above 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 Companies Act 1990 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 shareholders holding ordinary shares 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 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 the close of business on 23 September 2011, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

David Sanders
Company Secretary
for and on behalf of the Board.
Suite 3
One Earlsfort Centre
Earlsfort Terrace
Dublin 2

19 May 2010

Glossary

1P	Proved reserves according to SPE standards.
2P	Proved and probable reserves according to SPE standards.
3P	Proved, probable and possible reserves according to SPE standards.
AGM	Annual General Meeting.
AIM	Alternative Investment Market of the London Stock Exchange.
API Gravity	A specific gravity scale developed by the American Petroleum Institute (API) for measuring the relative density of various petroleum liquids, expressed in degrees.
bbl	Barrel.
boe	Barrel of oil equivalent.
bopd	Barrels of oil per day.
C1	Proved resources according to Russian standards.
C2	Probable resources according to Russian standards.
C3	Possible resources according to Russian standards.
Company	PetroNeft Resources plc.
CSR	Corporate and Social Responsibility.
Custody Transfer Point	Facility/location at which custody of oil transfers to another operator.
ESM	Enterprise Securities Market of the Irish Stock Exchange.
ESPO pipeline	East Siberia-Pacific Ocean pipeline which is expected to be completed in 2012.
Group	Company and its subsidiary undertakings.
HSE	Health, Safety and Environment.
Hydraulic fracturing, fracture stimulation	The process of cracking open the rock formation around a well bore to increase productivity.
IAS	International Accounting Standard.
IFRIC	International Financial Reporting Interpretations Committee.
IFRS	International Financial Reporting Standard.
km	Kilometres.
km2/sq km	Square kilometres.
KPI	Key Performance Indicator.
Licence 61	The Group's Exploration and Production Licence in the Tomsk Oblast, Russia. It contains four known oil fields, Lineynoye, Tungolskoye, West Lineynoye and Korchegskaya, and 25 Prospects and Leads that are currently being explored.
Licence 67	The Group's Exploration and Production Licence in the Tomsk Oblast, Russia. It contains two existing drilled structures, Ledovoye and Sklonavaya, that have previously tested oil.
Lineynoye	Limited Liability Company Lineynoye, a wholly owned subsidiary of PetroNeft, registered in the Russian Federation.
mmbbl	Million barrels.
mmbo	Million barrels of oil.
P1	Proved reserves according to SPE standards.
P2	Probable reserves according to SPE standards.
P3	Possible reserves according to SPE standards.
Pervomayka	Limited Liability Company Pervomayka, a wholly owned subsidiary of PetroNeft, registered in the Russian Federation.
PetroNeft	PetroNeft Resources plc.
SPE	Society of Petroleum Engineers.
Spud	To commence drilling a well.
Stimul-T	Limited Liability Company Stimul-T, a wholly owned subsidiary of PetroNeft, based in the Russian Federation.
TSR	Total Shareholder Return.
VAT	Value Added Tax.
WAEP	Weighted Average Exercise Price.

Group Information

DIRECTORS*

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

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

Paul Dowling
(Chief Financial Officer)

David Sanders (U.S. citizen)
(General Legal Counsel)

Vakha Sobraliev (Russian citizen)
(Non-Executive Director)

Thomas Hickey
(Non-Executive Director)

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