

MAX PETROLEUM PLC
(“MAX PETROLEUM” OR THE “COMPANY” AND TOGETHER WITH ITS SUBSIDIARIES, THE
“GROUP”)
[AIM: MXP]
2008 INTERIM RESULTS ANNOUNCEMENT

Max Petroleum Plc, an oil and gas exploration and development company focused on Kazakhstan, today announced its interim results for the six months ended 30 September 2008.

A summary of the Group’s financial and operational highlights are as follows:

Operational

- Drilled two development wells to complete the initial Zhana Makat development project in May 2008
- Received regulatory approval to include all wells drilled in Zhana Makat in the trial production project for the field, allowing five shut-in wells to be brought onto production
- Completed facility modifications in Zhana Makat in May, which allow the Group to fully process its crude production saving third party processing costs and increasing the crude sales price paid by domestic buyers
- Ministry of Energy and Mineral Resources (“MEMR”) extended Blocks A&E licence exploration period until March 2011
- Acquired remaining 20% interest in Blocks A&E from Horizon Services N.V. in July 2008 in exchange for 37 million ordinary shares and the Group’s 80% interest in the East Alibek licence

Financial

- Profit attributable to equity holders of the Company for the period of \$3.4 million (2007: loss of \$13.8 million), or \$0.01 per share (2007: loss of \$0.04 per share)
- Revenue of \$31.5 million from the sale of 372,000 barrels of crude oil (“bbls”), or \$84.67 per bbl (2007: revenue of \$6.6 million from the sale of 127,000 bbls, or \$51.72 per bbl), consisting of:
 - Export sales of 292,000 bbls generating revenue of \$27.7 million, or \$94.91 per bbl (2007: export sales of 95,000 bbls generating revenue of \$5.7 million, or \$59.96 per bbl), and
 - Domestic sales of 80,000 bbls generating revenue of \$3.8 million, or \$47.20 per bbl (2007: domestic sales of 32,000 bbls, generating revenue of \$0.9 million, or \$27.64 per barrel)
- Cost of sales of \$13.2 million, or \$35.46 per bbl (2007: \$4.2 million, or \$33.20 per bbl). Cost of sales includes \$2.7 million in custom export duty implemented during the current period and \$4.7 million in amortisation
- Capital expenditures for oil and gas exploration and appraisal costs totalling \$26.0 million (2007: \$35.0 million)
- Net cash flow generated from operations of \$14.7 million (2007: used in operations of \$4.2 million)
- Cash balance of \$5.3 million as at 30 September 2008 (31 March 2008: \$3.8 million)
- Total borrowing base of \$50 million under the Group’s mezzanine credit facility with Macquarie Bank Limited (“Credit Facility”) with \$36 million outstanding as at 30 September 2008 (31 March 2008: \$23.5 million) and \$44.5 million drawn down to date.

The Group’s interim financial statements have been prepared on the basis that it is a going concern, which contemplates the realisation of assets and satisfaction of liabilities in the normal course of business. The review opinion from the auditors does however contain an emphasis of matter regarding material uncertainty about the Group’s ability to continue as a going concern.

Mark Johnson, Chief Executive Officer, commented:

“Although I am pleased with the Group’s operational and financial performance over the interim period, the immediate focus of management and our board has been to intensify our efforts to fund our 2009 – 2010 drilling programme in order to capture the value of our exploration assets in Kazakhstan.

Due to the unprecedented economic climate of falling oil prices, collapse in global financial markets and difficult credit environment, we are considering all avenues as we seek additional capital to execute our strategic plan. Potential sources of capital include an increase in our borrowing base under our existing Credit Facility, proceeds from the farmout or sale of interests in one or both of our existing oil and gas licences in Western Kazakhstan and additional third party debt or equity financing, if available.”

23 December 2008

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Donald Dorn-Lopez, the Group’s technical manager, is the qualified person that has reviewed and approved the technical information contained in this announcement. Mr. Dorn-Lopez, a senior geophysicist with over 28 years of experience, is a member of the Society of Exploration Geophysicists, the European Association of Geoscientists and Engineers, the Society of Petroleum Engineers, and the American Association of Petroleum Geologists.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear Shareholder,

Financial markets are experiencing a period of unprecedented volatility and upheaval, driven by a shortage of liquidity and decline in equity values across all sectors. Oil and gas producers, as well as emerging market economies, have suffered disproportionately as commodity prices have fallen precipitously from record highs earlier in 2008 and capital has become increasingly difficult to access. Unfortunately, Max Petroleum has not been immune to the adverse conditions in the market, both globally and in Kazakhstan.

The worldwide financial crisis and 60% decline in crude oil prices since September 2008, played a primary role in Max Petroleum's inability to conclude a satisfactory farm out arrangement for Blocks A&E or Astrakhanskiy. While the Company remains in discussions with various interested parties, the directors cannot predict if or when an agreement could be completed.

The Group's operations were also impacted by the combination of lower crude oil prices combined with a high customs export duty ("CED") during the fourth quarter of 2008. The CED was implemented by the Republic of Kazakhstan in May 2008 as a variable duty on each barrel of oil exported out of Kazakhstan based on average crude prices for the prior quarter. The CED was increased to \$27.92 per barrel for the fourth quarter of 2008 based on historical prices, severely reducing netbacks on export oil sales in a dramatically lower oil price environment. As a result, export oil sales in Kazakhstan are currently uneconomical and the local market has become saturated as many oil and gas companies attempt to sell their crude on the domestic market to avoid the CED. While the Group has not been forced to shut-in production, approximately 58% of November production, which averaged in excess of 2,400 barrels of oil per day, was held in storage as of the end of November.

In light of the current market environment and liquidity concerns, Max Petroleum has restricted its future capital spending programme for the 2009 calendar year, including scaling back its planned exploration drilling programme and deferring certain seismic acquisition and processing expenditures, as well as a 30% reduction in administrative costs through staff reductions and cutting other discretionary spending.

Additional capital funding will be required, however, in order for the Group to meet its anticipated short-term liquidity requirements through 2009 and execute its reduced exploratory drilling programme for Blocks A&E and Astrakhanskiy. To address our immediate liquidity issues, the Group initiated discussions with Macquarie Bank to extend its existing mezzanine credit facility, which are ongoing. The Board is also undertaking a review of its strategic alternatives.

Although the directors are working to resolve the Group's outstanding liquidity shortfall, there can be no assurances that we will be able to extend its borrowing base under the credit facility or that additional debt or equity financing will be available.

Interim Results

The Group completed the Horizon transaction on July 11th which included the purchase of the remaining 20% interest in Blocks A&E and the sale of its 80% interest in East Alibek. The Group now has a 100% interest in Blocks A&E. In addition, the Group received government approval for a two year extension to the exploration period for its Blocks A&E Licence to March 2011.

Facility modifications in Zhana Makat were completed in May, which allow the Group to fully process its crude production saving third party processing costs and increasing the crude sales price paid by domestic buyers.

The initial phase of development drilling of Zhana Makat is now complete. There are currently 17 producing wells and two water injection wells in the field. Further development drilling is planned for 2009 and 2010.

Results of operations

Max Petroleum's interim results for the period ended 30 September 2008 represent an improvement over the period ended 30 September 2007. The Group generated record production, revenues and operating cash flows. In addition, the Group generated net income attributable to equity holders, a first for the Group.

Assisted by high commodity prices during the period, the Group recognised a profit of \$3.4 million, or \$0.01 per ordinary share, for the six months ended 30 September 2008, compared to a loss of \$13.8 million, or \$0.04 per ordinary share, during the same period in 2007.

The Group generated revenue of \$31.5 million, or \$84.67 per bbl, from the sale of 372,000 bbls of crude oil during the half-year ended 30 September 2008 compared to revenue of \$6.6 million or \$51.72 per bbl, from the sale of 127,000 bbls of crude oil during the prior period. Total crude oil sales during the latest half-year consisted of export sales totalling 292,000 bbls, generating \$27.7 million in revenue, or \$94.91 per bbl, and domestic sales of 80,000 bbls, generating revenue of \$3.8 million, or \$47.20 per bbl.

Cost of sales incurred during the interim period ended 30 September 2008 totalled \$13.2 million, or \$35.46 per bbl. The Group's cost of sales included \$2.7 million of CED during the interim period. Cost of sales during the prior interim period ended 30 September 2007 totalled \$4.2 million or \$33.20 per bbls, including \$1.9 million, or \$46.83 per bbl, attributable to 41,000 bbls of test production and \$2.3 million, or \$26.85 per bbl, relating to 87,000 bbls of commercial production.

The Group incurred total administrative expenses of \$11.2 million for the six months ended 30 September 2008, compared to \$14.8 million for the same period in 2007. Administrative expenses for both periods reflect costs incurred to staff up and run the Group's operations in the United Kingdom and Kazakhstan. Administrative expenses for the current period include a non-cash share based payment charge of \$2.0 million, compared to a \$3.3 million share based payment charge from the prior period. Administrative costs in the prior half-year also reflect approximately \$2.3 million in expenses incurred due to the internal investigation, which led to the dismissal of certain former employees and members of senior management.

2009 Capital Work Programme

Subject to obtaining the necessary financing, the Group's 2009 capital programme includes completing the seismic processing and evaluation of Blocks A&E, drilling up to 10 post salt wells, including up to eight exploration and appraisal wells and two development wells, and completing a farmout of equity interests in Astrakhanskiy and Blocks A&E. The Group plans to drill its initial deep exploration well in Astrakhanskiy during 2009, as well as the initial deep well in Block E in early 2010.

After eleven months as CEO I continue to believe in the prospectivity of the Group's assets in Kazakhstan and can assure you that with the support of the Board, Management is focusing all of its efforts on delivering significant value to shareholders.

Mark L. Johnson
Chief Executive Officer

Independent review report to Max Petroleum Plc

Introduction

We have been engaged by the Group to review the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 September 2008, which comprises the consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules for Companies which require that the financial information must be presented and prepared in a form consistent with that which will be adopted in the Company's annual financial statements.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Group a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the AIM rules for Companies and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM rules for Companies.

Emphasis of matter – going concern

In forming our review conclusion on the interim financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 2 to the interim financial statements concerning the Group's ability to continue as a going concern. In order for the Group to meet its anticipated short term liquidity requirements throughout 2009, additional funding is required. The Group intends to finance the liquidity shortfall using a combination of an increase in its available borrowing base under its Credit Facility, proceeds from the potential farmout or sale of interests in its existing oil and gas licences and the proceeds from the sale of crude oil production. As described in Note 2 to the interim financial statements, the directors believe that there is a material uncertainty as to the Group's ability to extend its borrowing based under the Credit Facility or that additional debt or equity financing will be available which may cast significant doubt about the Group's ability to continue as a going concern. The interim financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

PricewaterhouseCoopers LLP
Chartered Accountants
23 December 2008
London

The maintenance and integrity of the Max Petroleum Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Max Petroleum Plc
CONSOLIDATED INCOME STATEMENT
(IN THOUSANDS OF US\$)

	Note	Unaudited six months ended 30 September 2008	Unaudited six months ended 30 September 2007
Revenue		31,517	6,589
Cost of sales	5	(13,200)	(4,230)
Gross profit		18,317	2,359
Exploration and appraisal costs		(533)	(517)
Administrative expenses		(11,175)	(14,784)
Operating profit/(loss)	7	6,609	(12,942)
Finance income		14	613
Finance costs		(747)	(2,169)
Profit/(loss) before taxation		5,876	(14,498)
Income tax expense	8	(65)	-
Profit/(loss) after taxation		5,811	(14,498)
Attributable to:			
Equity holders of the Company		3,399	(13,763)
Minority interests		2,412	(735)
Profit/(loss) for the period		5,811	(14,498)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the period			
- Basic (US cents)	3	1.0	(4.4)
- Diluted (US cents)	3	1.0	(4.4)

All financial results presented are from continuing operations.

The notes on pages 11 to 20 form an integral part of this condensed consolidated half-yearly financial information.

Max Petroleum Plc
CONSOLIDATED BALANCE SHEET
(IN THOUSANDS OF US\$)

	Note	Unaudited as at 30 September 2008	Audited as at 31 March 2008
Assets			
Non-current assets			
Intangible assets – exploration and appraisal expenditure	9	224,913	212,080
Oil and gas properties	9	31,198	29,474
Property, plant and equipment	9	10,377	9,752
Prepayments		928	851
		267,416	252,157
Current assets			
Inventories		13,119	12,178
Trade and other receivables		9,582	15,136
Cash and cash equivalents		5,352	3,847
Assets held for sale	6	-	33,534
		28,053	64,695
Total assets		295,469	316,852
Liabilities			
Non-current liabilities			
Borrowings	10	86,728	81,016
Provision for liabilities and other charges	11	3,517	3,231
		90,245	84,247
Current liabilities			
Borrowings	10	7,045	-
Trade and other payables		10,100	14,367
Liabilities directly associated with assets classified as held for sale	6	-	559
		17,145	14,926
Total liabilities		107,390	99,173
Net assets		188,079	217,679
Capital and reserves			
Share capital	12	7,930	7,923
Share premium	12	259,491	228,753
Other reserves	13	4,775	74,790
Accumulated deficit		(84,117)	(87,516)
Equity attributable to equity holders of the parent		188,079	223,950
Minority interests in equity		-	(6,271)
Total equity		188,079	217,679

The notes on pages 11 to 20 form an integral part of this condensed consolidated half-yearly financial information.

Max Petroleum Plc
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(IN THOUSANDS OF US\$)

	Attributable to equity holders of the Company				Total	Minority interest	Total equity
	Share capital	Share premium	Other reserves	Accumulated deficit			
Balance at 1 April 2007	7,919	196,636	57,409	(53,007)	208,957	(3,796)	205,161
Loss for the period	-	-	-	(13,763)	(13,763)	(735)	(14,498)
Issue of share capital – exercise of share options	3	29,111	-	-	29,114	-	29,114
Share based payments	-	-	4,313	-	4,313	-	4,313
Warrants issued	-	-	6,322	-	6,322	-	6,322
	3	29,111	10,635	-	39,749	-	39,749
Balance at 30 September 2007	7,922	225,747	68,044	(66,770)	234,943	(4,531)	230,412

	Attributable to equity holders of the Company				Total	Minority interest	Total equity
	Share capital	Share premium	Other reserves	Accumulated deficit			
Balance at 1 April 2008	7,923	228,753	74,790	(87,516)	223,950	(6,271)	217,679
Profit for the period	-	-	-	3,399	3,399	2,412	5,811
Issue of share capital (note 12)	7	30,738	-	-	30,745	-	30,745
Share based payments	-	-	2,480	-	2,480	-	2,480
Transactions with minority shareholders (note 6)	-	-	(72,495)	-	(72,495)	3,859	(68,636)
	7	30,738	(70,015)	-	(39,270)	3,859	(35,411)
Balance at 30 September 2008	7,930	259,491	4,775	(84,117)	188,079	-	188,079

The notes on pages 11 to 20 form an integral part of this condensed consolidated half-yearly financial information.

Max Petroleum Plc
CONSOLIDATED CASH FLOW STATEMENT
(IN THOUSANDS OF US\$)

	Unaudited six months ended 30 September 2008	Unaudited six months ended 30 September 2007
Cash flows from/(used in) operations		
<u>Reconciliation of profit/ (loss) to net cash generated from/ (used in) operations</u>		
Profit/(loss) for the period	5,811	(14,498)
Adjustments for:		
- Depreciation, depletion and amortisation	5,008	1,335
- Share based payments charge, net of capitalisation	2,066	3,329
- Exploration and appraisal expenditure written off	533	517
- Finance income	(14)	(613)
- Finance costs	747	2,169
Changes in working capital:		
- Inventories	(939)	(5,918)
- Trade and other receivables	3,773	34
- Trade and other payables	(2,285)	9,478
Net cash generated from/(used in) operations	14,700	(4,167)
Cash flows used in investing activities		
Purchases of property, plant and equipment	(1,358)	(2,151)
Payments for exploration and appraisal expenditure	(20,171)	(29,071)
Interest received	14	613
Net cash used in investing activities	(21,515)	(30,609)
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	-	29,114
Proceeds from borrowings	12,500	5,000
Debt issuance costs	-	(881)
Interest paid	(4,180)	(2,663)
Net cash generated from financing activities	8,320	30,570
Net increase/(decrease) in cash and cash equivalents	1,505	(4,206)
Cash and cash equivalents at beginning of period	3,847	28,772
Cash and cash equivalents at end of period	5,352	24,566

The notes on pages 11 to 20 form an integral part of this condensed consolidated half-yearly financial information.

NOTES TO CONDENSED CONSOLIDATED HALF-YEARLY FINANCIAL INFORMATION

1. General information

Max Petroleum Plc (“Max Petroleum” or the “Company”) and its subsidiaries (together the “Group”) is in the business of exploration, development and production of oil and gas assets within the Republic of Kazakhstan. Max Petroleum is a public limited company incorporated and domiciled in the United Kingdom and listed on the Alternative Investment Market (“AIM”). The address of its registered office is Second Floor, 81 Piccadilly, London, W1J 8HY, United Kingdom.

The interim report for the six months ended 30 September 2008 was approved by the Board of Directors on 22 December 2008.

2. Basis of preparation and accounting policies

The annual financial statements of Max Petroleum are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and in accordance with the Companies Act 1985. The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2008 (the “interim financial report”) have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”, as adopted by the European Union.

The interim financial report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the consolidated financial statements in the Max Petroleum annual report for the year ended 31 March 2008. The accounting policies adopted in the preparation of the interim financial report are consistent with those followed in the preparation of the Group’s financial statements for the year ended 31 March 2008.

The Group’s interim financial report does not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 March 2008 were approved by the Board of Directors on 12 August 2008 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain any statement under Section 237 of the Companies Act 1985.

Going concern

The Group’s interim financial statements have been prepared on the basis that it is a going concern, which contemplates the realisation of assets and satisfaction of liabilities in the normal course of business. The Group is engaged in the exploration and development of oil and gas assets in Kazakhstan and will require significant additional capital to fund its future exploration and development activities.

The recent sharp decline in crude oil prices and the imposition of a significant export duty have severely impacted the Group’s operating cash flows generated from the sale of its crude oil production. Furthermore, the sudden deterioration in the global economy combined with a tightening of liquidity available from the debt and equity markets has severely restricted the potential supply of capital available to junior exploration companies in the natural resource sectors.

All of these factors have created a challenging financing environment and have impeded the Group’s ability to date to complete a farm out transaction despite having conducted a process seeking such a transaction for several months.

In light of the current market environment, the Group has restricted its future capital spending programme for the 2009 calendar year, including scaling back its planned exploration drilling programme and deferring certain seismic acquisition and processing expenditures, as well as sharply reducing administrative costs through staff reductions and cutting other discretionary spending.

Additional capital funding will be required, however, in order for the Group to meet its anticipated short-term liquidity requirements through 2009. The Group intends to finance the liquidity shortfall using a combination of an increase in its available borrowing base under its Credit Facility with Macquarie Bank, proceeds from the farmout or sale of interests in one or both of its existing oil and gas licences in Western Kazakhstan, additional third party debt or equity financing, if available, and the proceeds from the sale of crude oil production.

Although the directors are working to resolve the Group's outstanding liquidity shortfall, there is an uncertainty that the Group will be able to extend its borrowing base or continue to borrow funds under the Credit Facility or that additional debt or equity financing will be available. They have concluded that this factor, together with the other matters referred to above, results in the existence of a material uncertainty that casts a significant doubt about the Group's ability to continue as a going concern. Nevertheless, after making enquiries and considering the uncertainties above, the directors have a reasonable expectation that the Group will continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the interim financial statements.

3. Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

	Six months ended 30 September	
	2008	2007
	US\$'000	US\$'000
Profit/(loss) for the purpose of basic earnings/(loss) per share	3,399	(13,763)
Effect of dilutive potential ordinary shares	-	-
Profit/(loss) for the purpose of diluted earnings/(loss) per share	3,399	(13,763)

	Number of shares millions	Number of shares millions
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	344.9	316.2
Effect of dilutive potential ordinary shares – share options	7.1	-
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	352.0	316.2

For the calculation of diluted earnings per share, the average number of shares reflects the potential dilutive effect of share options. The Group's other potentially dilutive securities, being the outstanding convertible debt and outstanding share warrants in issue, were anti-dilutive for the six month periods ended 30 September 2008 and 2007, respectively.

4. Dividends paid and proposed

No dividend was paid or is proposed.

5. Cost of sales

	Six months ended 30 September	
	2008 US\$'000	2007 US\$'000
Operating costs:		
- commercial production	5,177	1,095
- test production	-	1,898
Customs export duty	2,661	-
Royalties	667	141
Depreciation, depletion and amortisation	4,695	1,096
	<u>13,200</u>	<u>4,230</u>

6. Exchange Agreement

The Company closed the exchange agreement (the "Exchange Agreement") with Horizon Services N.V. ("Horizon") and Oriental Limited ("Oriental") on 11 July 2008. Under the Exchange Agreement, the Company acquired Horizon's 20% interest in Madiran Investment B.V. ("Madiran"), in exchange for Oriental receiving the Company's 80% interest in Sherpico Investments Limited ("Sherpico"), and 37 million new ordinary shares in the Company. Madiran is the 100% owner of Samek International LLP, which owns and operates the Blocks A&E licence. Sherpico is the 100% owner of Samek Development Enterprise LLP, which owns and operates the East Alibek licence.

Under the terms of the Exchange Agreement, Oriental agreed not to dispose of any ordinary shares received pursuant to the Exchange Agreement for one year after completion without the written consent of the Company. Furthermore, Horizon, Oriental, Incomeborts Limited ("Incomeborts") and Norgulf Holding Limited ("Norgulf"), all of which are companies beneficially owned by Mr. Garifolla Kachshapov, a related party, agreed to enter into irrevocable powers of attorney granting the Company's board of directors certain rights to vote the Max Petroleum ordinary shares held by each entity for routine corporate matters.

At 31 March 2008, the assets and liabilities of Sherpico and Samek Development Enterprise LLP were classified in the consolidated balance sheet as assets held for sale and liabilities directly associated with assets classified as held for sale. Subsequent to the acquisition, the Company owns, through its various subsidiaries, a 100% interest in Madiran, and hence, a 100% interest in Blocks A&E.

The purchase by the Group of the 20% minority interest in Madiran was for non-cash consideration, comprising the Group's 80% interest in Sherpico and 37 million ordinary shares of the Company, as follows:

	US\$000
Issue of 37 million ordinary shares of the Company to Oriental	30,745
Disposal of 80% interest in Sherpico to Oriental	16,325
Settlement of loan due to the Company from Sherpico	24,889
Total consideration	71,959
Minority interest acquired – net liability	536
Excess of acquisition cost over book value of minority interest acquired	72,495

The transactions with minority shareholders in relation to the Exchange Agreement have been accounted for in equity, as follows:

	Reserve arising on purchase of minority interest US\$'000	Minority interest US\$'000	Total equity US\$'000
Acquisition of Madiran Investment B.V. ¹	(72,495)	536	(71,959)
Disposal of Sherpico Investments Limited	-	3,323	3,323
Total	(72,495)	3,859	(68,636)

¹ The acquisition of the minority interest in Madiran has been accounted for as a transaction within equity. The difference between the purchase price and the minority interest is reported in reserves as a movement in the Company's equity. Accordingly, the excess of the acquisition cost over the book value of the minority interest acquired of \$72.5 million arising on this acquisition has been debited directly to reserves (note 13).

7. Operating profit/(loss)

The following items of an unusual or significant nature have been charged to operating profit/ (loss) during the interim period:

	Six months ended 30 September	
	2008	2007
	US\$'000	US\$'000
Exploration and appraisal costs	533	517
Share based payments, net of capitalisation	2,066	3,329
Investigation costs	-	2,261

The Company incurred costs relating to an internal investigation of US\$2.3 million during the six months ended 30 September 2007. The investigation primarily focussed on certain related party transactions, including the undisclosed receipt of beneficial interests in options over six million shares in Max Petroleum by certain employees and members of senior management. The investigation is more fully discussed in on pages 16 and 17 of the Group's Annual Report and Accounts for the year ended 31 March 2007.

8. Income tax expense

	Six months ended 30 September	
	2008 US\$'000	2007 US\$'000
Current tax	-	-
Deferred tax	-	-
Withholding taxes	65	-
	<u>65</u>	<u>-</u>

The Group continues to have deferred tax assets in respect of tax losses in the Republic of Kazakhstan and the United Kingdom. These have not been recognised at 30 September 2008 or 31 March 2008 due to recurring net operating losses in prior periods and the unpredictability of future profits.

9. Capital expenditure

Six months ended 30 September 2008

	Intangible – exploration and appraisal expenditure US\$'000	Oil and gas properties US\$'000	Property, plant and equipment US\$'000	Total US\$'000
Cost at 1 April 2008	214,567	31,467	10,831	256,865
Additions	25,330	165	529	26,024
Transfers to oil and gas properties	(3,471)	3,471	-	-
Transfers to property, plant and equipment	(930)	-	930	-
Disposals	(5,217)	-	(101)	(5,318)
Amounts written off to exploration and appraisal costs	(533)	-	-	(533)
At 30 September 2008	<u>229,746</u>	<u>35,103</u>	<u>12,189</u>	<u>277,038</u>
Accumulated depletion, depreciation and amortization at 1 April 2008	(2,487)	(1,993)	(1,079)	(5,559)
Charge for the period	(2,346)	(1,912)	(750)	(5,008)
Disposals	-	-	17	17
At 30 September 2008	<u>(4,833)</u>	<u>(3,905)</u>	<u>(1,812)</u>	<u>(10,550)</u>
Net book value at 30 September 2008	<u>224,913</u>	<u>31,198</u>	<u>10,377</u>	<u>266,488</u>
Net book value at 1 April, 2008	<u>212,080</u>	<u>29,474</u>	<u>9,752</u>	<u>251,306</u>

Six months ended 30 September 2007

	Intangible – exploration and appraisal expenditure US\$'000	Oil and gas properties US\$'000	Plant and equipment US\$'000	Total US\$'000
Cost at 1 April 2007	230,914	-	1,662	232,576
Additions	32,817	-	2,151	34,968
Transfers to oil and gas properties	(22,628)	22,628	-	-
Transfers to property, plant and equipment	(183)	-	183	-
Amounts written off to exploration and appraisal costs	(517)	-	-	(517)
At 30 September 2007	240,403	22,628	3,996	267,027
Accumulated depletion, depreciation and amortization at 1 April 2007	(17)	-	(184)	(201)
Charge for the period	(576)	(526)	(233)	(1,335)
At 30 September 2007	(593)	(526)	(417)	(1,536)
Net book value at 30 September 2007	239,810	22,102	3,579	265,491
Net book value at 1 April, 2007	230,897	-	1,478	232,375

Capital Commitments

The Group is committed under its subsoil licences to certain future expenditures including minimum work programmes, social infrastructure contributions and reimbursement of historic costs incurred by the Government of the Republic of Kazakhstan. Qualifying licence, exploration and development expenditure by the licence holders is deducted from these future commitments. The Group also has ongoing licence commitments pertaining to social contributions and training of local personnel.

The Group's commitments under its Blocks A&E and Astrakhanskiy subsoil licences for calendar year 2009 are \$15.7 million and \$38.4 million, respectively.

10. Borrowings

	30 September 2008 US\$'000	31 March 2008 US\$'000
Bank borrowings due within one year	7,045	-
Current debt	7,045	-
Bank borrowings due after one year	20,656	16,278
Convertible bond	66,072	64,738
Non-current debt	86,728	81,016
Total borrowings	93,773	81,016

Movements in borrowings are analysed as follows:

	Convertible bond US\$'000	Bank borrowings US\$'000	Total borrowings US\$'000
Six months ended 30 September 2008			
Balance as at 1 April 2008	64,738	16,278	81,016
Drawdown of loan facility	-	12,500	12,500
Debt issuance cost capitalised	-	(2,187)	(2,187)
Notional interest incurred during the period	1,060	-	1,060
Amortisation of debt issuance cost	274	1,110	1,384
Balance as at 30 September 2008	66,072	27,701	93,773

	Convertible bond US\$'000	Bank borrowings US\$'000	Total borrowings US\$'000
Six months ended 30 September 2007			
Balance as at 1 April 2007	62,253	-	62,253
Drawdown of loan facility	-	5,000	5,000
Debt issuance cost capitalised	-	(2,462)	(2,462)
Notional interest incurred during the period	957	-	957
Amortisation of debt issuance cost	274	200	474
Balance as at 30 September 2007	63,484	2,738	66,222

Convertible bond

There were no changes in the terms of the convertible bond, as outlined on pages 55 and 56 of the Group's Annual Report and Accounts for the year ended 31 March 2008.

Bank borrowings

In June 2007, the Group entered into a \$100 million revolving mezzanine credit facility with Macquarie Bank Limited. The Credit Facility has a four year term and bears interest at a rate ranging from LIBOR plus 4% to LIBOR plus 6.5%, depending upon the underlying value of the Group's oil and gas reserves.

There were no significant changes in the terms of the Credit Facility, as outlined on pages 56 and 57 of the Group's Annual Report and Accounts for the year ended 31 March 2008.

At 30 September 2008, the Credit Facility had a total borrowing base of \$50 million (tranches one and two), of which US\$36 million was borrowed.

At 30 September 2007, the Credit Facility had a borrowing base of \$20 million (tranche one), of which \$5 million was borrowed.

A further \$8.4 million has been borrowed as at the date of this report.

11. Provisions for liabilities and other charges

	Provision for decommissioning costs US\$'000
Six months ended 30 September 2008	
Balance as at 1 April 2008	3,231
Additions	165
Accretion expense	121
Balance as at 30 September 2008	3,517

12. Share capital

During the six months ended 30 September 2008, the Company issued 37 million new ordinary shares solely pursuant to the Exchange Agreement, as more fully disclosed in note 6. These shares comprised part of the non-cash consideration for the purchase of the minority interest in Madiran in July 2008.

At 30 September 2008, the Company had in issue 365,278,737 allotted and fully paid ordinary shares of 0.01 pence each (31 March 2008: 328,278,737).

13. Other reserves

	Reserve arising on purchase of minority interest US\$'000	Convertible bond equity reserve US\$'000	Share based payments reserve US\$'000	Warrant reserves US\$'000	Total other reserves US\$'000
Balance as at 1 April 2008	-	10,807	52,451	11,532	74,790
Share based payments	-	-	2,480	-	2,480
Transactions with minority shareholders	(72,495)	-	-	-	(72,495)
Balance as at 30 September 2008	(72,495)	10,807	54,931	11,532	4,775

As more fully disclosed in note 6, the Company acquired the minority interest in Madiran in July 2008. The excess of US\$72.5 million of the cost over the book value of the minority interest acquired has been debited directly to other reserves.

14. Share based payments

During the interim period ended 30 September 2008, Max Petroleum granted 2.5 million options to various officers and employees of the Group with exercise prices ranging from 30.5p to 65.25p per share. The options all have a term of seven years. No options were exercised during the period. The total number of options outstanding at 30 September 2008 was 92,147,339. Max Petroleum recorded a charge for the value of services of \$2.0 million for the six months ended 30 September 2008, net of \$0.4 million capitalised to intangible exploration and appraisal expenditure.

During the interim period ended 30 September 2007, Max Petroleum granted 1.9 million options to various officers and employees of the Group with exercise prices ranging from 152.5p to 197.5p per share. The options all have a term of seven years. Furthermore, various consultants to the Group exercised a total of 17.2 million options during the six months ended 30 September 2007, generating net proceeds of \$29.1 million. The total number of options outstanding at 30 September 2007 was 93,016,311. Max Petroleum recorded a charge for the value of services of \$3.3 million for the six months ended 30 September 2007, net of \$1.0 million capitalised to intangible exploration and appraisal expenditure.

In October 2007, the Company issued an additional 564,800 options to ODL Securities, its broker at the time of its admission to AIM, as full settlement of a claim of compensation owed to ODL by the Company with regards to the Company's admission to AIM in October 2005.

15. Non-cash transactions

Summary of non-cash items

	Six months ended 30 September 2008 US\$'000	Six months ended 30 September 2007 US\$'000
Operating activities		
Depreciation, depletion and amortisation	5,008	1,335
Share based payments charge – valuation of options granted for services	2,066	3,329
Prepayment – debt issuance costs, fair value of warrant	-	4,741
	<u>7,074</u>	<u>9,405</u>
Investing activities		
Share based payments capitalised to intangibles – exploration and appraisal expenditure	414	984
Non-cash interest expense capitalised to intangibles – exploration and appraisal expenditure	2,191	1,926
Asset retirement obligation provision	165	837
Acquisition of minority interest in Samek International LLP (note 6)	(71,959)	-
Settlement of loan due from subsidiary, Sherpico Investments Ltd (note 6)	24,889	-
Disposal of subsidiary, Sherpico Investments Ltd (note 6)	16,325	-
	<u>(27,975)</u>	<u>3,747</u>
Financing activities		
Issuance of ordinary shares in the Company (note 6)	30,745	-
Convertible bond – debt issuance cost amortisation	(274)	(274)
Convertible bond – notional interest incurred	(1,060)	(957)
Bank borrowings – debt issuance cost amortisation	(1,110)	(200)
Debt issuance costs – fair value of warrant	-	(1,453)
	<u>28,301</u>	<u>(2,884)</u>

16. Related party transactions

Transactions between the Group and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Mr Garifolla Kachshapov

Mr Kachshapov is the beneficial owner of Horizon, Oriental and Samek LLP. In July 2008, the Company closed the Exchange Agreement with Horizon and Oriental, as more fully disclosed in note 6, under which the Company acquired Horizon's 20% interest in Madiran in exchange for Oriental receiving the Group's 80% interest in Sherpico and 37 million new ordinary shares of the Company.

At 30 September 2008, the balances between the Group and Mr Kachshapov and his affiliated companies were as follows:

- Amount due from Oriental Ltd \$206,000
- Amount due from Mr Kachshapov \$102,000
- Amount due to Samek Development Enterprise LLP \$(316,000)

During the interim period ended 30 September 2008, Mr Kachshapov received a salary of \$126,000 in respect of his service agreements with Samek International LLP and Samek Development Enterprise LLP. Samek Development Enterprise LLP is a wholly owned subsidiary of Sherpico.

17. Post balance sheet events

Macquarie Credit Facility drawdowns

Subsequent to 30 September 2008, the Company has borrowed a further \$8.4 million under the Credit Facility, leaving \$5.6 of available borrowing base (note 10).

18. Publication of the interim statement

Copies of the interim financial statements are being sent to the Company's shareholders and are available on the Company's website, www.maxpetroleum.com.