



**Interim Report
2009**

Max | Petroleum

Max Petroleum Plc is an independent oil and gas exploration and production company focused on Kazakhstan with two onshore licences in the Pre-Caspian Basin covering 13,500 km².

The Group's strategy is to apply new, exploratory 3D seismic technology to a proven hydrocarbon basin to develop a high-quality portfolio of drillable pre-salt and post-salt exploration prospects.

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Financial Highlights

- > Loss attributable to equity holders of the Group of US\$113.9 million, compared to a profit of US\$3.4 million in the 2008 comparative period. The current loss includes US\$101.9 million of non-cash charges arising from the restructuring of the Group's mezzanine credit facility with Macquarie Bank Limited (the "Credit Facility") and the Group's outstanding convertible bonds, including the issue of a further 303,519,158 warrants exercisable into ordinary shares at exercise prices ranging from 4.54p to 5.67p per ordinary share.
- > Increased the borrowing base of the Credit Facility from US\$50 million to US\$80 million in August 2009 and deferred initial repayment of principal until January 2011.
- > Restructured the Company's outstanding convertible bonds in May 2009, deferring the maturity date until September 2012 and allowing Max Petroleum the option to convert cash interest payments to additional principal through to September 2010. The Group's comprehensive restructuring of both the Credit Facility and its convertible bonds were approved by its shareholders and bondholders in May 2009.
- > Revenue of US\$20.6 million, down 35% from US\$31.5 million in the 2008 comparative period.
- > Total sales volumes of 401,000 barrels of crude oil ("bbls"), up 8% from 372,000 bbls sold in the 2008 comparative period.
- > Average realised price of US\$51.51 per bbl, down 39% from US\$84.67 per bbl in the 2008 comparative period.
- > Export sales comprised 92% of total revenue, with an average realised price of US\$56.11 per bbl, compared to 88% of total revenue, with an average realised price of US\$94.91 per bbl in the 2008 comparative period.
- > Moved export sales point through a new pipeline and improved the Group's export differential during the interim period by US\$8.00/bbl to approximately US\$11.00/bbl, inclusive of transportation costs.
- > Net cash flow from operations of US\$4.0 million, compared to US\$14.7 million in the 2008 comparative period.

Operational Highlights

- > Completed three planned prospect reviews in May, July, and October 2009, respectively, evaluating 5,240 km² of fully processed 3D seismic data acquired over the Group's two licences.
- > Matured 12 drillable post-salt prospects in Blocks A&E, ranging in estimated size from 9 to 50 million barrels of oil equivalent ("MMBOE") with total mean resource potential of 253 MMBOE.
- > Identified 11 drillable pre-salt prospects and 5 leads ranging in size from 100 to 600 MMBOE of mean recoverable resources each. The total mean resource potential of the deep prospect portfolio is currently estimated at more than four billion barrels of oil equivalent.
- > In May 2009, the Ministry of Energy and Mineral Resources ("MEMR") extended the Astrakhanskiy Block licence period by two years until January 2012 and approved the Group's three-year work programme. The work programme included drilling one well in 2009. A request to move the drilling of this well to 2010 is being made to the relevant authorities.
- > In August 2009, executed a contract with Sun Drilling for the ZJ-30 rig to be used to drill two development wells in Zhana Makat followed by the Group's 12 well post-salt exploration programme.
- > Began farmout discussions regarding the Group's deep rights in Blocks A&E and Astrakhanskiy in October 2009, based upon its fully depth processed 3D seismic data. In October 2009, the MEMR extended the trial production period for the Zhana Makat Field to 31 December 2010.

Key Performance Indicators (KPIs)

The Group's key financial and performance indicators during the interim period were as follows:

	Six months ended 30 September 2009	Six months ended 30 September 2008	Change %
Crude oil sales volumes (Mboe)	401	372	8%
Export sales volumes (Mboe)	340	292	16%
Domestic sales volumes (Mboe)	61	80	-24%
Oil sales revenue (US\$'000)	\$20,640	\$31,517	-35%
Export sales revenue (US\$'000)	\$19,048	\$27,749	-31%
Domestic sales revenue (US\$'000)	\$1,592	\$3,768	-58%
Average realised price per bbl	\$51.51	\$84.67	-39%
Average realised export price per bbl	\$56.11	\$94.91	-41%
Average realised domestic price per bbl	\$26.00	\$47.20	-45%
Operating costs (US\$'000) ¹	\$5,972	\$5,177	15%
Operating costs – commercial production (US\$'000)	\$3,671	\$4,813	-24%
Operating costs – selling and transportation (US\$'000)	\$2,301	\$364	532%
Operating costs per bbl ¹	\$14.90	\$13.91	7%
Operating costs per bbl – commercial production	\$9.16	\$12.93	-29%
Operating costs per bbl – selling and transportation	\$5.74	\$0.98	487%
Net cash from operating activities	\$4,021	\$14,700	-73%

¹ Operating costs equals cost of sales less royalties, mineral extraction tax, export customs duty, export rent tax, and depreciation, depletion and amortisation. The Company believes it is useful to its shareholders to present this information in a modified format. A reconciliation to cost of sales is set out in note 6 to the accompanying financial statements.

Joint Chairmen's Statement

The Board are very much looking forward to 2010 and have never been more optimistic about the Group's highly prospective asset base and the team's ability to deliver value to our shareholders.

Dear Shareholder,

Max Petroleum entered the interim period ended 30 September 2009 with a plan to develop a statistically significant portfolio of high quality drillable prospects in both its pre-salt and post-salt plays, obtaining the financial flexibility to realise their value, and restarting its post-salt drilling programme and farmout process during the fourth quarter of 2009. We are very pleased with Max Petroleum's progress along all fronts.

The Group completed the acquisition of 5,240 km² of exploratory 3D seismic in January 2009 and conducted three comprehensive prospect reviews of the fully processed data in May, July, and October 2009, respectively, as the processed data became available. As a result, the Group was able to high grade a broad portfolio of post-salt and pre-salt exploration targets, covering a spectrum of multiple play types.

The Group has currently matured 12 drillable post-salt prospects with total mean recoverable resource potential of 253 MMBOE, ranging in estimated size from 9 to 50 MMBOE each. Max Petroleum estimates that its post-salt exploration programme will generate three or four commercial discoveries resulting in a minimum of 100 MMBOE of proved and probable reserves. The Group plans to commence this exploration drilling programme by the end of 2009, retaining a 100% working interest. Due to the relatively low cost of drilling these shallow and intermediate targets, as well as the high probability of success afforded by such a broad portfolio, the Group expects this drilling programme to be highly accretive to a company the size of Max Petroleum.

The Group has also identified 11 pre-salt drillable prospects and 5 leads ranging in size from 100 to 600 MMBOE of mean resource potential each, with total mean resources of more than four billion barrels of oil equivalent. The Group plans to farmout 50% of this deeper higher cost programme and has initiated detailed technical discussions with multiple potential farmout partners with a goal to reach agreement on one or more farmout transactions during the first quarter of 2010.

During 2009, Max Petroleum successfully restructured its outstanding senior and convertible debt in a credit constrained market with the majority approval of its shareholders and bondholders. As a result, Max Petroleum executed a drilling contract in August 2009 and began drilling a 14 well programme in the post-salt in October. The Group is nearing completion of the second of two development wells in Zhana Makat prior to beginning its post-salt exploration programme, which is expected to take between 12 and 18 months to fully evaluate all 12 prospects with the drill bit. Max Petroleum's available borrowing base under its Credit Facility, combined with oil

Joint Chairmen's Statement continued

sales revenue from Zhana Makat currently averaging in excess of US\$3.5 million per month, is expected to fully fund the Group's 2010 post-salt exploration programme based on the one rig currently in the field, with leverage to mobilise additional drilling rigs as necessary subsequent to one or more commercial discoveries.

The Directors believe that the Group's post-salt exploration programme combined with its ongoing farmout effort of its deep rights in Blocks A&E should provide our shareholders with an exciting and eventful year in 2010.

Results of Operations

The Group recognised a loss of US\$113.9 million, or US\$0.31 per ordinary share, for the half year ended 30 September 2009, compared to a profit of US\$3.4 million, or US\$0.01 per ordinary share, during the 2008 comparative period.

Oil revenues decreased 35% to US\$20.6 million, or US\$51.51 per bbl, during the half year ended 30 September 2009 from US\$31.5 million, or US\$84.67 per bbl, during the 2008 comparative period, based upon an 8% increase in crude oil sales volumes and a 39% decrease in realised prices per barrel ("bbl"). The Group sold 401,000 bbls during the six months ended 30 September 2009, consisting of 340,000 bbls sold into the export market generating US\$19.0 million in revenue, or US\$56.11 per bbl, and 61,000 bbls sold into the domestic market generating US\$1.6 million in revenue, or US\$26.00 per bbl. In the 2008 comparative period, the Group produced 372,000 bbls, including 292,000 bbls sold into the export market generating US\$27.8 million in revenue, or US\$94.91 per bbl, and 80,000 bbls sold domestically generating US\$3.8 million in revenue, or US\$47.20 per bbl.

Cost of sales increased from US\$13.2 million in the half year ended 30 September 2008 to US\$15.7 million in the half year ended 30 September 2009, due to increased depreciation, depletion and amortisation per bbl and increased selling and transportation costs per bbl. Transportation costs increased as the Group shifted its export sales to points closer to a final delivery point. Most of the Group's exports sales contracts are concluded free on board ("FOB") where the Group is responsible for transportation costs up to the point that the crude is loaded onto an oil tanker at a port. This increased transportation cost was more than offset by the decreased export differentials during the period.

The individual components of cost of sales for the period include:

- > Operating costs of US\$3.7 million or US\$9.16 per bbl.
- > Selling and transportation of US\$2.3 million or US\$5.74 per bbl.
- > Depreciation, depletion and amortisation of US\$6.1 million or US\$15.16 per bbl.
- > Export Rent Tax and Export Customs Duty of US\$2.7 million or US\$6.65 per bbl.
- > Mineral Extraction Tax of US\$1.0 million or US\$2.39 per bbl.

During the half year ended 30 September 2009, the Group incurred total administrative expenses of US\$6.9 million, compared to administrative expenses of US\$11.2 million in the 2008 comparative period. Administrative expenses for the current and prior year principally reflect costs to staff to run the Group's operations in the United Kingdom, Kazakhstan and the United States, including non-cash share based payment charges of US\$1.1 million and US\$2.0 million, respectively.

Completion of debt restructuring

During the period, the Group successfully completed a restructuring of its Credit Facility with Macquarie Bank Limited, including the deferral of principal repayment until 2011, an increase in the borrowing base on the Credit Facility from US\$50 million to US\$80 million, and the syndication of a portion of the loan to various third party investors. The debt restructuring resulted in an exceptional, non-cash charge of US\$90.5 million which was recognised during the period, of which US\$81.7 million related to the fair value of warrants that vested on the increase in the borrowing base to US\$80 million in August 2009.

During the period, the Group successfully completed a restructuring of its outstanding convertible bonds which included the deferral of the maturity date by 12 months to September 2012, reduction in the conversion price from 133p to 35p, and the right of the Group to convert cash interest payments otherwise due through 2010 to principal. The bond restructuring resulted in an exceptional, non-cash charge of US\$11.3 million which was recognised during the period.

Joint Chairmen's Statement continued

Liquidity and Capital Resources

The Group expects to fund its capital requirements using a combination of existing working capital, cash flow from operations from the sale of future oil and gas production, borrowings from its credit facility with Macquarie Bank Limited, anticipated proceeds and capital carry from a farmout of interests in one or both of its oil and gas licences, and future issues of debt or equity financing, as necessary.

The Group is currently generating in excess of US\$3.5 million in revenue per month from the sale of crude oil from the Zhana Makat Field based on average daily production in excess of 2,000 bopd. The Group's focus on cutting costs and optimising crude oil sales has also strengthened the Group's net cash flow generated from operations. The Group has reduced cash operating and administrative costs by over 30% from the prior year, while its pre-tax export sales price differential from Dated Brent has improved from approximately US\$20 per bbl to currently less than US\$10 per bbl, inclusive of transportation costs. The Group is currently selling approximately 80% of its crude oil production on the export market.

The Group's cash balance as of 30 September 2009 was US\$5.6 million. Following the increase in the borrowing base on the Credit Facility to US\$80 million, as of 30 September 2009 and the date of this report, the Group has borrowed US\$55.7 million under the Credit Facility leaving US\$24.3 million in available loan commitment.

Future capital requirements are difficult to predict, as they will be driven by the results of the Group's post-salt exploration programme and farmout efforts for its deep resource potential. Max Petroleum expects that a portion of appraisal and development costs on any future discoveries will be funded by a combination of operating cash flow from additional production, as well as additional equity and debt financing obtained after the Group has made one or more discoveries.

Although financial and operational challenges lie ahead, the Board are very much looking forward to 2010 and have never been more optimistic about the Group's highly prospective asset base and the team's ability to deliver value to our shareholders.

Robert B Holland III
Executive Co-Chairman

James A Jeffs
Executive Co-Chairman

Independent Review Report to Max Petroleum Plc

Introduction

We have been engaged by the Group to review the condensed consolidated financial statements in the half-yearly financial report for the six months ended 30 September 2009, which comprises the consolidated income statement, consolidated statement of comprehensive income, 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 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 financial statements in the half-yearly financial report for the six months ended 30 September 2009 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.

PricewaterhouseCoopers LLP

Chartered Accountants
9 December 2009
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.

Consolidated Income Statement

For the six months ended 30 September 2009
(in thousands of US\$)

	Note	Unaudited six months ended 30 September 2009	Unaudited six months ended 30 September 2008
Revenue		20,640	31,517
Cost of sales	6	(15,674)	(13,200)
Gross profit		4,966	18,317
Exploration and appraisal costs		–	(533)
Administrative expenses		(6,903)	(11,175)
Operating (loss)/profit	7	(1,937)	6,609
Convertible bond restructuring costs	10	(11,332)	–
Credit facility restructuring costs	10	(90,520)	–
Finance income		–	14
Finance costs	11	(10,080)	(747)
(Loss)/profit before taxation		(113,869)	5,876
Income tax expense	8	(49)	(65)
(Loss)/profit after taxation		(113,918)	5,811
Attributable to:			
Equity holders of the Company		(113,918)	3,399
Minority interests		–	2,412
(Loss)/profit for the period		(113,918)	5,811
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the period			
– Basic (US cents)	3	(31.0)	1.0
– Diluted (US cents)	3	(31.0)	1.0

All financial results presented are from continuing operations.

The notes on pages 12 to 21 form an integral part of this condensed consolidated half-yearly financial information.

Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2009

(in thousands of US\$)

	Unaudited six months ended 30 September 2009	Unaudited six months ended 30 September 2008
(Loss)/profit for the period	(113,918)	5,811
Other comprehensive income and expense	–	–
Total comprehensive income for the period	(113,918)	5,811
Attributable to:		
Equity holders of the Company	(113,918)	3,399
Minority interests	–	2,412
	(113,918)	5,811

The notes on pages 12 to 21 form an integral part of this condensed consolidated half-yearly financial information.

Consolidated Balance Sheet

At 30 September 2009

(in thousands of US\$)

	Unaudited as at 30 September 2009	Audited as at 31 March 2009
Assets		
Non-current assets		
Intangible assets – exploration and appraisal expenditure	9 245,941	233,953
Oil and gas properties	9 26,390	29,234
Property, plant and equipment	9 11,657	11,121
Prepayments	908	915
	284,896	275,223
Current assets		
Inventories	13,434	14,056
Trade and other receivables	5,145	4,257
Cash and cash equivalents	5,632	3,036
	24,211	21,349
Total assets	309,107	296,572
Liabilities		
Non-current liabilities		
Borrowings	10 124,419	94,303
Provision for liabilities and other charges	12 3,632	3,440
	128,051	97,743
Current liabilities		
Trade and other payables	6,152	10,576
Borrowings	10 –	10,872
	6,152	21,448
Total liabilities	134,203	119,191
Net assets	174,904	177,381
Capital and reserves		
Share capital	13 7,935	7,930
Share premium	13 261,515	259,491
Other reserves	14 108,355	9,750
Accumulated deficit	(202,901)	(99,790)
Equity attributable to equity holders of the parent	174,904	177,381
Minority interests in equity	–	–
Total equity	174,904	177,381

The notes on pages 12 to 21 form an integral part of this condensed consolidated half-yearly financial information.

Consolidated Statement of Changes in Equity

For the six months ended 30 September 2009

(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 2008	7,923	228,753	74,790	(87,516)	223,950	(6,271)	217,679
Total comprehensive income	–	–	–	3,399	3,399	2,412	5,811
Issue of share capital (note 13)	7	30,738	–	–	30,745	–	30,745
Share based payments	–	–	2,480	–	2,480	–	2,480
Transactions with minority shareholders	–	–	(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

	Attributable to equity holders of the Company				Total	Minority interest	Total equity
	Share capital	Share premium	Other reserves	Accumulated deficit			
Balance at 1 April 2009	7,930	259,491	9,750	(99,790)	177,381	–	177,381
Total comprehensive income	–	–	–	(113,918)	(113,918)	–	(113,918)
Issue of share capital – exercise of warrants	5	2,024	(758)	–	1,271	–	1,271
Share based payments	–	–	1,210	–	1,210	–	1,210
Convertible bond restructuring (note 14)	–	–	13,860	–	13,860	–	13,860
Transfer convertible bond reserve to accumulated deficit (note 14)	–	–	(10,807)	10,807	–	–	–
Convertible bond interest deferral, equity portion (note 14)	–	–	561	–	561	–	561
Warrants issued (note 14)	–	–	94,539	–	94,539	–	94,539
	5	2,024	98,605	10,807	111,441	–	111,441
Balance at 30 September 2009	7,935	261,515	108,355	(202,901)	174,904	–	174,904

The notes on pages 12 to 21 form an integral part of this condensed consolidated half-yearly financial information.

Consolidated Cash Flow Statement

For the six months ended 30 September 2009

(in thousands of US\$)

	Unaudited six months ended 30 September 2009	Unaudited six months ended 30 September 2008
Cash flows from/(used in) operations		
Reconciliation of (loss)/profit to net cash generated from operations		
Loss/(profit) for the period	(113,918)	5,811
Adjustments for:		
– Depreciation, depletion and amortisation	6,387	5,008
– Share based payments charge, net of capitalisation	1,071	2,066
– Exploration and appraisal expenditure written off	–	533
– Convertible bond restructuring	11,332	–
– Credit facility restructuring	90,520	–
– Finance income	–	(14)
– Finance costs	10,080	747
Changes in working capital:		
– Inventories	622	(939)
– Trade and other receivables	(199)	3,773
– Trade and other payables	(1,874)	(2,285)
Net cash generated from operations	4,021	14,700
Cash flows used in investing activities		
Purchases of property, plant and equipment	(1,314)	(1,358)
Payments for exploration and appraisal expenditure	(6,298)	(20,171)
Interest received	–	14
Net cash used in investing activities	(7,612)	(21,515)
Cash flows from financing activities		
Proceeds from issuance of ordinary shares	1,271	–
Proceeds from borrowings	7,100	12,500
Interest paid	(2,184)	(4,180)
Net cash generated from financing activities	6,187	8,320
Net increase in cash and cash equivalents	2,596	1,505
Cash and cash equivalents at beginning of period	3,036	3,847
Cash and cash equivalents at end of period	5,632	5,352

The notes on pages 12 to 21 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. The Group owns rights over two contract areas consisting of three oil and gas blocks in the Pre-Caspian Basin, including Blocks A&E and Astrakhanskiy. Max Petroleum is a public limited company incorporated and domiciled in the United Kingdom and quoted on 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 2009 was approved by the Board of Directors on 8 December 2009.

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. The unaudited interim condensed consolidated financial statements for the six months ended 30 September 2009 (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 2009. 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 2009, except as noted below.

During the period, the Group has applied IAS1 "Presentation of Financial Statements (revised 2007)" and elected to present two statements in accordance with the standard: an income statement and a statement of comprehensive income. The revised standard has no impact on the results or financial position of the Group.

During the period, the Group has applied IFRS 8 "Operating Segments" which requires segments to be identified on the basis of internal reports about components of the Group to the Executive Co-Chairmen and President and Chief Financial Officer, together comprising the Executive Committee, which has been identified as the Group's chief operating decision-maker. The adoption of IFRS 8 has not resulted in a change to the Group's reportable segments.

The Group's interim financial report does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2009 were approved by the Board of Directors on 14 September 2009 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 financial statements are presented on the basis they are a going concern. The directors reached this determination after extending the borrowing base of the Company's credit facility with Macquarie Bank Limited (the "Credit Facility") from US\$50 to US\$80 million in August 2009 (see Note 10).

The Group expects to fund its future exploration and development programme, as well as its administrative and operating expenses, through a combination of existing working capital, cash flow from operations from the sale of future oil and gas production, borrowings from the Credit Facility, anticipated proceeds and capital carry from a farmout of interests in one or both of its oil and gas licences, and future issuances of debt or equity financing, as necessary. If the Group is unsuccessful in generating sufficient liquidity to fund its future expenditures, the Group's ability to execute its long-term growth strategy could be significantly affected.

Notes to Condensed Consolidated Half-Yearly Financial Information continued

3. Earnings per share

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

	Six months ended 30 September	
	2009 US\$'000	2008 US\$'000
(Loss)/profit for the purpose of basic (loss)/earnings per share	(113,918)	3,399
Effect of dilutive potential ordinary shares	–	–
(Loss)/profit for the purpose of diluted (loss)/earnings per share	(113,918)	3,399
	Number of shares millions	Number of shares millions
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	368.0	344.9
Effect of dilutive potential ordinary shares – share options	–	7.1
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	368.0	352.0

The Group's potentially dilutive securities, being the outstanding convertible debt and outstanding share options and warrants in issue, were anti-dilutive for the six month period ended 30 September 2009.

4. Dividends paid and proposed

No dividend was paid or is proposed.

5. Segmental reporting

Business segments

In the opinion of the directors, the operations of the Group comprise one class of business: oil and gas exploration, development and the sale of hydrocarbons and related activities. The Group's production and sale of hydrocarbons is not materially affected by seasonal factors or fluctuations.

Geographic segments

The Group conducts business within three geographical regions. The Group's operational activities are wholly focused in the Republic of Kazakhstan. The Group's head office is in London, England, supported by a technical office in Houston, USA. Inter-segment revenue represents rechargeable costs which are invoiced, with a mark-up, to the Company's subsidiaries. These transactions and any unrealised profits and losses are eliminated on consolidation. Since neither the London head office nor Houston office earn revenue from external customers, they are not reportable segments under IFRS 8.

6. Cost of sales

	Six months ended 30 September	
	2009 US\$'000	2008 US\$'000
Operating costs:		
Commercial production	3,671	4,813
Selling and transportation	2,301	364
Export rent tax/customs export duty	2,666	2,661
Mineral extraction tax/royalties	957	667
Depreciation, depletion and amortisation	6,079	4,695
	15,674	13,200

Effective 1 January 2009, a new 2009 Tax Code was introduced in the Republic of Kazakhstan which effectively abolished the customs export duty and royalty taxes and replaced them with the export rent tax and mineral extraction tax, respectively.

Notes to Condensed Consolidated Half-Yearly Financial Information continued

7. Operating (loss)/profit

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

	Six months ended 30 September	
	2009 US\$'000	2008 US\$'000
Exploration and appraisal costs	–	533
Share based payments, net of capitalisation	1,071	2,066

8. Income tax expense

	Six months ended 30 September	
	2009 US\$'000	2008 US\$'000
Current tax	49	65
Deferred tax	–	–
	49	65

The effective tax rate of the Group continues to be 0% due to the availability of capitalised historic costs deductible in the current period in Kazakhstan and brought forward tax losses from prior periods. 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 2009 or 31 March 2009 due to recurring net operating losses in prior periods and the unpredictability of future profits.

9. Capital expenditure

	Intangible – exploration and appraisal expenditure US\$'000	Oil and gas properties US\$'000	Property, plant and equipment US\$'000	Total US\$'000
Six months ended 30 September 2009				
Cost at 1 April 2009	241,452	35,073	13,630	290,155
Additions	14,754	–	1,399	16,153
Disposals	–	–	(109)	(109)
At 30 September 2009	256,206	35,073	14,920	306,199
Accumulated depletion, depreciation and amortisation at 1 April 2009	(7,499)	(5,839)	(2,509)	(15,847)
Charge for the period	(2,766)	(2,844)	(778)	(6,388)
Disposals	–	–	24	24
At 30 September 2009	(10,265)	(8,683)	(3,263)	(22,211)
Net book value at 30 September 2009	245,941	26,390	11,657	283,988
Net book value at 1 April 2009	233,953	29,234	11,121	274,308

Notes to Condensed Consolidated Half-Yearly Financial Information continued

9. Capital expenditure continued

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	229,746	35,103	12,189	277,038
Accumulated depletion, depreciation and amortisation 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	(4,833)	(3,905)	(1,812)	(10,550)
Net book value at 30 September 2008	224,913	31,198	10,377	266,488
Net book value at 1 April 2008	212,080	29,474	9,752	251,306

10. Borrowings

	30 September 2009 US\$'000	31 March 2009 US\$'000
Bank borrowings due within one year	–	10,872
Current debt	–	10,872
Bank borrowings due after one year	55,650	26,886
Convertible bond	68,769	67,417
Non-current debt	124,419	94,303
Total borrowings	124,419	105,175

Bank borrowings

In June 2007, the Group entered into a US\$100 million revolving mezzanine Credit Facility with Macquarie Bank Limited ("Macquarie"). In February 2009, the Company amended the Credit Facility (the "Amendment") and issued Macquarie an amended and restated warrant deed to subscribe for up to 547,918,106 new ordinary shares in the Company (the "Warrant Deed"), of which 121,759,579 warrants were fully vested subject to shareholder approval. The Amendment and Warrant Deed were approved by the Company's shareholders in a general meeting on 12 May 2009.

On 12 August 2009, the amount of borrowing base commitment under the Credit Facility was increased from US\$50 million to US\$80 million, which vested Macquarie's right to subscribe for a further 243,519,158 new ordinary shares of the Company. As a result, on that date Macquarie held fully vested rights to subscribe for a total of 365,278,737 new ordinary shares of the Company under the Warrant Deed with exercise prices between 4.54p and 5.67p (the "Credit Facility warrants").

On 12 August 2009, Macquarie syndicated a portion of the Credit Facility to various third party investors, and assigned its vested rights to subscribe for 42,534,841 new ordinary shares under the Warrant Deed to those various third party investors.

On 13 August 2009, the Company further amended the terms of the Credit Facility to defer principal repayment until 2011.

Notes to Condensed Consolidated Half-Yearly Financial Information continued

10. Borrowings continued

On 10 November 2009, Macquarie syndicated a further portion of the Credit Facility to a third party investor, and assigned its vested rights to subscribe for 54,800,001 new ordinary shares under the Warrant Deed to that third party investor.

Full details of the revised terms of the Credit Facility are outlined on pages 57 and 58 of the Group's Annual Report and Accounts for the year ended 31 March 2009.

The amendments to the Credit Facility on 13 August 2009 were deemed to trigger a debt extinguishment and recognition of new debt under the requirements of IAS 39. Accordingly, all unamortised amounts previously capitalised to the Credit Facility as debt issuance costs, including costs recognised in relation to the Warrant Deed, were expensed as an exceptional, non-cash charge of US\$90.5 million. The Credit Facility restructuring charge included an amount of US\$81.7 million relating to the fair value of the additional warrants as of their vesting date on 12 August 2009.

At 30 September 2009, the Credit Facility had a total borrowing base of US\$80 million, of which US\$55.7 million was borrowed, including US\$100,000 reserved for outstanding letters of credit.

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

Movements in the Credit Facility during the period are analysed as follows:

Six months ended 30 September 2009	Gross US\$'000	Debt issuance costs – cash US\$'000	Debt issuance costs – warrants US\$'000	Net US\$'000
Balance at 1 April 2009	48,550	(508)	(10,284)	37,758
Drawdown of loan facility	7,100	–	(321)	6,779
Amortisation of debt issuance cost during the period	–	106	2,209	2,315
Extinguishment charge	–	402	8,396	8,798
Derecognition of liability on extinguishment	(53,905)	–	–	(53,905)
Recognition of new liability	53,905	–	–	53,905
Balance at 30 September 2009	55,650	–	–	55,650

Convertible bond

On 12 May 2009, the Company convened a meeting of the bondholders (the "Bondholders") of its US\$75 million 6.75% convertible bond (the "Bonds") with a comprehensive proposal for restructuring the Bonds (the "Bond Restructuring"), in conjunction with the restructuring of its Credit Facility. The Bond Restructuring, which included the deferral of the maturity date by 12 months to September 2012, was unanimously approved by the Bondholders.

Full details of the revised terms of the Bonds following the Bond Restructuring are outlined on pages 58 and 59 of the Group's Annual Report and Accounts for the year ended 31 March 2009.

The amendments to the Bonds were deemed to trigger a debt extinguishment and recognition of new debt under the requirements of IAS 39. Accordingly, all unamortised amounts previously capitalised to the Bonds as debt issuance costs and equity discount were expensed as an exceptional, non-cash charge of US\$7.3 million, included within convertible bond restructuring costs in the period.

Following the debt extinguishment, the fair value of the Bonds was estimated and allocated between long-term debt and equity. The fair value of the Bonds under the revised terms was calculated using a market rate of 14% to estimate the fair value of the debt portion of the Bonds on the date of restructuring and US\$13.9 million was allocated to the convertible bond reserve in equity.

The Bond Restructuring provided the Company a two-year option to convert its cash interest payments on the Bonds into additional principal (i.e. payment in kind or "PIK"), subject to a higher interest rate of 9% per annum during the interest period immediately prior to making such an election. During the period, the cash interest due 8 March 2009, which had been deferred and accrued at 31 March 2009 with the agreement of a majority of the Bondholders, was converted to US\$3.4 million of PIK and added to principal of the Bonds.

Notes to Condensed Consolidated Half-Yearly Financial Information continued

10. Borrowings continued

On 8 September 2009, the Company further elected to convert its semi-annual cash interest payment due on that date to PIK, and a further US\$3.5 million of interest PIK was added to principal of the Bonds. Of the additional US\$3.5 million added to principal, a discount of US\$0.6 million to fair value was determined using a market rate of 14% and allocated to the convertible bond equity reserve.

Pursuant to the revised terms of the Bonds arising from the Bond Restructuring, the interest PIKs on 8 March 2009 and 8 September 2009 each vested a five-year warrant exercisable at 5p per ordinary share over 30 million ordinary shares. The fair value of the warrant exercisable into the first 30 million ordinary shares in respect of the 8 March 2009 PIK was US\$4.0 million, which has been recorded within convertible bond restructuring costs during the period. The fair value of the warrant exercisable into the second 30 million ordinary shares in respect of the 8 September 2009 PIK was US\$8.8 million, which has been recorded in interest expense during the period.

Movements in the convertible bonds during the period are analysed as follows:

	Gross US\$'000	Debt issuance costs US\$'000	Equity component US\$'000	Net US\$'000
Six months ended 30 September 2009				
Balance at 1 April 2009	75,000	(1,334)	(6,249)	67,417
Notional interest incurred during the period	–	–	1,484	1,484
Amortisation of debt issuance cost during the period	–	46	–	46
Extinguishment charge	–	1,288	6,053	7,341
Derecognition of liability on extinguishment	(75,000)	–	–	(75,000)
Recognition of new liability on Bond Restructuring	75,000	–	–	75,000
8 March 2009 interest PIK added to principal	3,375	–	–	3,375
Equity component arising on Bond Restructuring	–	–	(13,860)	(13,860)
8 September 2009 interest PIK added to principal	3,527	–	(561)	2,966
Balance at 30 September 2009	81,902	–	(13,133)	68,769

11. Finance costs

	30 September 2009 US\$'000	30 September 2008 US\$'000
Interest expense:		
Interest payable on bank borrowings	4,379	2,714
Interest payable on convertible bond	14,731	3,865
Unwinding of discount on decommissioning provision	139	121
Other	75	–
	19,324	6,700
Less:		
Interest expense capitalised to exploration and appraisal expenditure	(9,244)	(5,953)
Finance costs	10,080	747

The interest payable on the convertible bond for the interim period ended 30 September 2009 includes US\$8.8 million in relation to the fair value of the warrant exercisable into 30 million ordinary shares which vested as a result of the Company's election to defer convertible bond cash interest due on 8 September 2009 to PIK (note 10), and this amount has been classified as an interest expense of the period.

Notes to Condensed Consolidated Half-Yearly Financial Information continued

12. Provisions for liabilities and other charges

	Provision for decommissioning costs US\$'000
Six months ended 30 September 2009	
Balance as at 1 April 2009	3,440
Changes in estimates	53
Accretion of discount	139
Balance as at 30 September 2009	3,632
Six months ended 30 September 2008	
Balance as at 1 April 2008	3,231
Changes in estimates	165
Accretion of discount	121
Balance as at 30 September 2008	3,517

13. Share capital

During the six months ended 30 September 2009, the Company issued 26,034,935 ordinary shares, comprising:

- > The exercise of 15,840,000 Bondholder warrants for total cash proceeds of US\$1.3 million, resulting in the issue of 15,840,000 new ordinary shares.
- > The cashless exercise of 12,500,000 of the Credit Facility warrants, resulting in the non-cash issue of 10,194,935 new ordinary shares.

At 30 September 2009, the Company had in issue 391,313,672 allotted and fully paid ordinary shares of 0.01 pence each.

During the six months ended 30 September 2008, the Company issued 37 million new ordinary shares solely pursuant to an agreement to acquire the remaining 20% interest in the Blocks A&E licence, as more fully described in note 17. 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.

14. 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 2009	(72,495)	10,807	56,936	14,502	9,750
Issue of share capital – cashless exercise of warrants	–	–	–	(758)	(758)
Share based payments	–	–	1,210	–	1,210
Convertible bond restructuring	–	13,860	–	–	13,860
Transfer to accumulated deficit	–	(10,807)	–	–	(10,807)
Convertible bond interest deferral, equity portion	–	561	–	–	561
Warrants issued to Bondholders	–	–	–	12,816	12,816
Warrants issued to Macquarie	–	–	–	81,723	81,723
Balance as at 30 September 2009	(72,495)	14,421	58,146	108,283	108,355

Notes to Condensed Consolidated Half-Yearly Financial Information continued

14. Other reserves continued

As more fully disclosed in note 10, during the interim period ended 30 September 2009, the Company:

- > Restructured the Bonds resulting in the allocation of US\$13.9 million to the convertible bond reserve in equity, and an equity transfer of the original US\$10.8 million convertible bond reserve to accumulated deficit, for a net increase of US\$3.1 million in the convertible bond reserve arising from the Bond Restructuring.
- > Converted the interest payment due 8 September 2009 to PIK, resulting in the allocation of a further US\$0.6 million to the convertible bond reserve in equity.
- > Granted its Bondholders a total of 60 million warrants exercisable into ordinary shares of the Company at 5p per ordinary share, which were fully vested at 30 September 2009.
- > Granted Macquarie a total of 243,519,158 fully vested warrants exercisable into ordinary shares of the Company with exercise prices between 4.54p and 5.67p, bringing the total number of fully vested warrants issued in conjunction with the restructuring of the Credit Facility to 365,278,737.

During the interim period ended 30 September 2009:

- > Macquarie assigned 42,534,841 of the Credit Facility warrants to various third party investors participating in the syndication of the Credit Facility.
- > A cashless exercise of 12,500,000 of the Credit Facility warrants issued to one of those third party investors resulted in the issue of 10,194,935 new ordinary shares.

15. Share based payments

Full details of the share options are outlined on pages 69 to 71 of the Group's Annual Report and Accounts for the year ended 31 March 2009, including details of the modification of the exercise price to 4.75p for all outstanding share options of the serving employees and directors as of 24 February 2009.

During the interim period ended 30 September 2009, Max Petroleum granted 2.6 million options to various officers and employees of the Group with exercise prices ranging from 4.75p to 25.25p 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 2009 was 55,521,011. Max Petroleum recorded a charge for the value of services of US\$1.1 million for the six months ended 30 September 2009, net of US\$0.1 million capitalised to intangible exploration and appraisal expenditure.

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 30.50p 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 US\$2.0 million for the six months ended 30 September 2008, net of US\$0.4 million capitalised to intangible exploration and appraisal expenditure.

Notes to Condensed Consolidated Half-Yearly Financial Information continued

16. Non-cash transactions

Summary of non-cash items

	Six months ended 30 September 2009 US\$'000	Six months ended 30 September 2008 US\$'000
Operating activities		
Depreciation, depletion and amortisation	6,387	5,008
Share based payments charge – valuation of options granted for services	1,071	2,066
Convertible bond restructuring	11,332	–
Credit facility restructuring	90,520	–
	109,310	7,074
Investing activities		
Share based payments capitalised to intangibles – exploration and appraisal expenditure	137	414
Non-cash interest expense capitalised to intangibles – exploration and appraisal expenditure	8,231	2,191
Asset retirement obligation provision	53	165
Acquisition of minority interest in Samek International LLP	–	(71,959)
Settlement of loan due from subsidiary, Sherpico Investments Ltd	–	24,889
Disposal of subsidiary, Sherpico Investments Ltd	–	16,325
	8,421	(27,975)
Financing activities		
Issuance (non-cash) of ordinary shares in the Company	–	30,745
Cashless exercise of warrants	758	–
Convertible bond – debt issuance cost amortisation	(46)	(274)
Convertible bond – notional interest incurred	(1,484)	(1,060)
Bank borrowings – debt issuance cost amortisation	(2,315)	(1,110)
	(3,087)	28,301

17. 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 Services N.V. (“Horizon”), Oriental Limited (“Oriental”) and Samek LLP. In July 2008, the Company closed the Exchange Agreement with Horizon and Oriental under which the Company acquired Horizon’s 20% interest in Madiran Investment B.V. in exchange for Oriental receiving the Group’s 80% interest in Sherpico Investments Ltd (“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	US\$206,000
> Amount due from Mr Kachshapov	US\$102,000
> Amount due to Samek Development Enterprise LLP	US\$(316,000)

During the interim period ended 30 September 2008, Mr Kachshapov received a salary of US\$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.

Mr Kachshapov ceased to be a related party of the Group during the year ended 31 March 2009, and accordingly, no related party transactions are reported during the six months ended 30 September 2009.

Notes to Condensed Consolidated Half-Yearly Financial Information continued

18. Capital commitments and contingencies

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 US\$15.4 million and US\$17.7 million, respectively. The 2009 annual work programme for the A&E license will be fulfilled with the Borkyldakty well. The 2009 annual work program for Astrakhanskiy included one well. This well has not been drilled, and a request to move this well into 2010 is being made to the relevant authorities.

As noted in risk factors in the Financial Review of the Directors Report on page 25 of the Group's Annual Report and Accounts for the year ended 31 March 2009, various regulatory bodies in the Republic of Kazakhstan may from time to time assert claims against the Group regarding its compliance with tax, environmental, employment or other laws. While Max Petroleum strongly believes it complies with all such requirements, and would vigorously defend itself against any such claim, if it was unsuccessful the enforcement of such a claim could have a potentially material adverse impact upon the financial condition and results of operations of the Group. The Group has received a notification of the results of a tax audit alleging it owes unpaid taxes and related penalties from prior years. The Group has carefully analysed these claims and determined that they are without merit, is contesting these claims through the appropriate channels and expects to prevail. In the event the Group was required to pay some or all of the taxes and penalties in the future, such payments could have a material effect on the Group's financial condition but are not expected to compromise its going concern.

19. Post balance sheet events

Credit Facility

Subsequent to 30 September 2009, Macquarie completed its syndication of the Credit Facility with a third party investor and assigned a further 54,800,001 of the Credit Facility warrants to that investor.

Share Capital

Subsequent to 30 September 2009, as of the date of this report, the Company:

- > Issued 20,340,000 new ordinary shares in respect of exercise of warrants issued to Bondholders for total cash proceeds of US\$1.6 million.
- > Issued 336,666 new ordinary shares in respect of exercise of share options for total proceeds of US\$0.03 million.

Share options

Subsequent to 30 September 2009, the Company granted 16,599,000 share options to serving directors and employees and certain third party consultants at an exercise price of 18.75p.

20. Publication of the interim statement

Copies of the interim financial statements are available on the Company's website, www.maxpetroleum.com.

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