

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

2010 ANNUAL REPORT AND ACCOUNTS AND NOTICE OF AGM

26 August 2010

Max Petroleum, an oil and gas exploration and development company focused on Kazakhstan, today announces the publication of its annual report and accounts for the year ended 31 March 2010. The Company also announces that its Annual General Meeting will be held at 10:00 am on Monday 27 September 2010 at The Lansdowne Club, 9 Fitzmaurice Place, Mayfair, London W1J 5JD.

A copy of the Company's annual report and the notice convening the Annual General Meeting providing details of the venue will be available on the Company's website at www.maxpetroleum.com today and will be posted to shareholders on or before 3 September 2010.

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

Financial highlights

- Revenue of US\$43.3 million, up 11% from US\$39.2 million in 2009.
- Total sales volumes of 756,000 barrels of crude oil (“bbls”), up 6% from 710,000 bbls sold in 2009.
- Average realised price of US\$57.35 per bbl, up 4% from US\$55.21 per bbl in 2009.
- Net cash flow from operations of US\$10.1 million, compared to US\$14.1 million in 2009.
- Loss attributable to owners of the Company of US\$253.4 million, compared to a loss of US\$12.3 million in 2009. The current year loss includes US\$116.2 million of impairment charges related to writing down the Astrakhanskiy Licence, and 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.
- Recognised liability for tax claim in Republic of Kazakhstan of US\$16.7 million, which can be paid over nine months beginning July 2010. The Group appealed the tax claim to the Supreme Court of Kazakhstan in June 2010. The Supreme Court has agreed to review the case, which is expected to take up to six months to resolve from the date of initial appeal.
- The Group's comprehensive restructuring of both the Credit Facility and its convertible bonds was approved by its shareholders and bondholders in May 2009.

Operational highlights

- In July 2010, the Group's competent person, Ryder Scott Company, completed an independent analysis of the Group's exploration portfolio, estimating the Group's risked mean resource potential on Blocks A&E at 1.1 billion barrels of oil equivalent.
- Evaluated over 5,000 km² of fully processed 3D seismic data acquired over the Group's acreage.
- Matured 13 drillable post-salt prospects in Blocks A&E, ranging in estimated size from nine to 50 million barrels of oil (“mmbo”).
- Identified 10 drillable pre-salt prospects and five leads in Blocks A&E ranging in size from 100 to 600 million barrels of oil equivalent (“mmboe”) of mean recoverable resources each. The total unrisked mean resource potential of the deep portfolio is currently estimated at more than four billion barrels of oil equivalent.
- Commenced a post-salt drilling programme in November 2009, drilling a total of eight wells as of August 2010, including three successful development wells in Zhana Makat, one discovery well in the Borkyldakty Field, three exploratory dry holes and one water injection well.
- As of 26 August 2010, the remaining post-salt exploration portfolio consists of nine prospects with unrisked mean resource potential of 214 mmbo.

- Current production of 2,100 barrels of oil production per day (“bopd”) generating approximately US\$4.0 million revenue per month.

Key performance indicators

	2010	2009	% Change
Crude oil sales volumes (Mboe)	756	710	6%
Export sales volumes (Mboe)	615	549	12%
Domestic sales volumes (Mboe)	141	161	(12)%
Oil sales revenue (US\$'000)	43,348	39,195	11%
Export sales revenue (US\$'000)	38,885	33,864	15%
Domestic sales revenue (US\$'000)	4,463	5,331	(16)%
Average realised price (US\$ per bbl)	57.35	55.21	4%
Average realised export price (US\$ per bbl)	63.27	61.71	3%
Average realised domestic price (US\$ per bbl)	31.61	33.07	(4)%
Operating costs (US\$'000) ¹	18,877	13,357	41%
Commercial production cost (US\$'000)	6,179	7,835	(21)%
Selling and transportation cost (US\$'000) ²	4,491	1,085	314%
Mineral extraction tax/royalties (US\$'000) ³	2,160	1,077	101%
Export rent tax/export customs duty (US\$'000) ³	6,047	3,360	80%
Operating costs per bbl ¹ (US\$ per bbl)	24.98	18.81	33%
Commercial production cost (US\$ per bbl)	8.18	11.04	(26)%
Selling and transportation cost (US\$ per bbl)	5.94	1.53	289%
Mineral extraction tax/royalties (US\$ per bbl)	2.86	1.52	88%
Export rent tax/export customs duty (US\$ per bbl)	8.00	4.73	69%
Net cash from operating activities	10,088	14,103	(28)%

¹ Operating costs equals cost of sales less depreciation, depletion and amortisation. The Group 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 5 to the accompanying financial statements.

² The increase in selling and transportation costs during the year, which was more than offset by increases in realised export sales, was the result of the Group selling its crude at destinations further away from the Zhana Makat Field, compared to the previous year.

³ Effective 1 January 2009, a new tax code was implemented in the Republic of Kazakhstan which imposed additional taxes on the production and sale of hydrocarbons, which have been accounted for as cost of sales.

Enquiries:

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Richard Hook, Chief Operating Officer of Max Petroleum, is the qualified person that has reviewed and approved the technical information contained in this announcement. Mr. Hook is a member of the Houston Geological Society and holds both Masters and Bachelors of Science degrees in geology.

JOINT CHAIRMEN'S STATEMENT

Dear Shareholder,

The next twelve months will be pivotal for Max Petroleum. We have made substantial progress in our geological analysis of our assets, high graded our drillable prospect inventory and improved production operations. Our risked mean resources are now estimated at 1.1 billion barrels of oil equivalent by Ryder Scott. We plan to continue our post-salt exploration programme and the development of Zhana Makat, Borkyldakty and additional fields that we expect to discover within Blocks A&E. Perhaps more importantly, however, we expect to commence exploration of the higher cost, higher upside pre-salt prospects underlying Blocks A&E.

The former will require some, and the latter will require significant, additional financial resources. We will continue to seek partners to share the cost and risk associated with testing our deep portfolio, but we are excited about the pre-salt potential and therefore are considering that shareholder value may be maximised by raising the requisite equity capital to drill them for our own account.

We are confident that we have an exceptional portfolio of exploration and development assets, with a technical team fully capable of identifying and extracting value from it. Also, we believe that our financial and administrative teams have met the challenges resulting from the decline in global economic conditions, financial uncertainty and emerging market risk during the last two years, thereby maintaining the support of our lenders.

Our expectations are that our shareholders will be rewarded for their patience and that results will speak for themselves in the upcoming year.

Robert B Holland III
Executive Co-Chairman

James A Jeffs
Executive Co-Chairman

BUSINESS REVIEW

For the year ended 31 March 2010

During the fiscal year ended 31 March 2010, the Group made progress across several key fronts. The Group completed its technical analysis of over 5,000 km² of 3D seismic data, high graded an extensive inventory of post-salt and pre-salt prospects and initiated a post-salt drilling programme in October 2009, drilling a new discovery well in the Borkyldakty Field in February 2010. Meanwhile, the Group's existing field, Zhana Makat, continued to perform well throughout the year, contributing US\$43 million of crude oil sales from average daily production of 2,000 bopd over the year. The Group also restructured its existing debt facility with Macquarie Bank Limited ("Macquarie"), giving Max Petroleum an opportunity to turn its drilling portfolio into the reserves, production, and cash flow necessary to sustain and grow its business. While operational and financial challenges still exist, the Group expects to evaluate its post-salt exploration portfolio over the next 12 months and is working to position itself to test its deep portfolio in 2011.

OUR STRATEGY

Growth through exploration

Max Petroleum is executing a strategy to grow reserves significantly through exploration. The combination of the size of the Group's acreage position - some 12,455 km² in one of the most prolific petroleum basins in the world, as well as the existing transportation and production infrastructure, make Blocks A&E an exciting place to apply this exploration strategy. While the Group has existing production and cash flow from its Zhana Makat Field, the principal driver of value for Max Petroleum's shareholders lies in the Group's post-salt and pre-salt exploration portfolios. In the post-salt, the prospects are smaller in size, but much less expensive to drill. They offer excellent potential economic returns due to the low development and production costs, in combination with the existing infrastructure and the speed with which a project can move from discovery to production in a matter of months. The pre-salt prospects, by comparison, carry more geologic risk than the post-salt prospects but, similarly, are proven plays in the Basin. These deeper prospects are part of the same system that has produced some of the largest onshore oil fields in the world and are an order of magnitude larger than the post-salt prospects. Drilling and development costs are also much higher, but given the potential field size, the potential economics of developing a pre-salt discovery are very attractive.

Basin analysis – key to developing a world class portfolio of exploration prospects

Max Petroleum's Houston and Almaty based geoscientists have worked together to develop a regional understanding of the petroleum systems of the Pre-Caspian Basin. This includes detailed analysis of where the oil is first generated and when and how it moves from the "source rocks" to the reservoirs from which it is produced. The Group's Houston based staff brings specific expertise in this area and has produced regional studies for both the deep, pre-salt and shallow, post-salt petroleum systems and play types. The technical team in Kazakhstan has decades of knowledge and experience operating in the Pre-Caspian Basin and has worked closely with the Houston team through the seismic acquisition and evaluation programme. Combining local knowledge with global experience to enhance the value of the seismic data that has been acquired and interpreted has been key to Max Petroleum's development of new prospects based on play types that are known to work in the Basin and in other similar basins around the world. This approach has also enabled the Group to better understand the risks and potential value of its prospect inventory.

Seismic database – key to understanding the subsurface

Max Petroleum has now acquired, processed and interpreted a large amount of seismic data on Blocks A&E – including some 5,000 km² of new exploratory 3D data. This has allowed the Group to develop an extensive inventory of prospects in both the pre and post-salt sections. Max Petroleum estimates this

portfolio contains unrisksed mean resources totalling 214 mmbo in the post-salt and over four billion barrels of oil equivalent (“bboe”) in the pre-salt portfolios. An independent “competent person” analysis of the Group’s exploration portfolio was completed by Ryder Scott Company, which estimated Blocks A&E to contain 1.1 bboe in risksed mean resource potential. Their report is available on Max Petroleum’s website and provides independent confirmation of the ranges of resource potential and geologic risk the Group sees in the portfolio.

Right people – key to unlocking asset value

In order to execute its growth strategy successfully, the Group must combine its assets and extensive inventory of 3D seismic data with the appropriate team of people capable of unlocking their value. Over the last few years, the Group has assembled a highly motivated and experienced staff of 150 employees with expertise across all the relevant disciplines necessary to run an exploration and production company, including geology/geophysics, drilling, production, facilities, marketing, legal/regulatory, and finance/accounting. Over 90% of the Group’s employees are based in Kazakhstan, consisting of 128 local staff and eight expatriates, providing the Group with the capability to operate as effectively and efficiently as possible in the Republic of Kazakhstan.

Executing the strategy

Max Petroleum is currently executing its growth strategy through its ongoing exploration drilling programme in the post-salt portfolio. The Group currently has one rig under long-term contract and is planning to add a second intermediate rig later in 2010. The Group is also moving ahead with the planning and permitting for its first deep exploration well on Blocks A&E, which the Group intends to drill during 2011 either with a strategic partner or on a stand-alone basis. While the Group is in active discussions with potential farmout partners, it is also considering other alternatives available to ensure the Group’s deep well potential is tested as soon as is practicable.

OPERATIONS REVIEW

Post-salt drilling programme

The Group has matured a portfolio of 13 drillable prospects based on 3D seismic analysis, ranging in size from nine to 50 million barrels of unrisksed mean resources each. Drilling of these prospects commenced in January 2010 with the BOR-1 well at Borkyldakty, a discovery encountering five productive reservoirs in the Triassic formation. Subsequent testing of four of these reservoirs yielded production rates on pump ranging between 75 and 200 barrels of oil per day (“bopd”) each. BOR-1 is currently shut in, pending the award of Trial Production Project (“TPP”) status for the new field, which is expected by the end of 2010. After a confirmation well, BOR-2, failed to intersect the reservoirs in the oil column, a decision was made to acquire “infill” high fold 3D seismic to allow selection of optimal locations for confirmation and development. This seismic is planned to be completed early in 2011. Three other exploration prospects were drilled without success, but still in line with the Group’s original expectations to generate three to four discoveries out of the entire portfolio.

As of 31 July 2010, there were nine drillable prospects remaining in the shallow portfolio, including a new prospect, Narmundanak South. The Group expects that drilling the remaining prospect inventory will yield two to three additional discoveries, and for the entire portfolio eventually to add approximately 100 mmbo in aggregate 2P reserves. 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 shareholder value.

Additional new leads have been generated and work continues on mapping new prospects, with particular focus on the Triassic reservoirs similar to those that the Group encountered at Borkyldakty. For example, in addition to generating the new Narmundanak South prospect, the Group also moved the location of its recently drilled ZMA-A15 development well in the Zhana Makat Field to test an exploratory Triassic target below the primary Jurassic objective. The well successfully encountered 18 metres of net pay in the

Triassic section, which will constitute an extension of the Zhana Makat Field if it produces at commercial rates.

The Group commenced drilling the KAW-1 exploration well on the Karsak West prospect in late August 2010, after which it intends to drill Uytas, Narmundanak South and Asanketken followed by the remainder of the post-salt portfolio.

Pre-salt potential

The most significant change in the Group's prospect inventory is in the deep, pre-salt section on Blocks A&E. A significant new portfolio of 10 prospects and five leads ranging in size from 100 to 600 mmboc of estimated unrisksed mean resources was developed late in 2009 using a combination of the new 3D seismic acquired by the Group and regional geologic play concepts developed by our technical team using analogies from elsewhere in the Pre-Caspian Basin and other similar basins around the world. These new prospects and leads are developed along the Guriyev Arch in Block E. Total unrisksed mean resource potential for this portfolio is estimated by the Group at over four bboe. The majority of this potential resource is found in the new "Type II" prospects which are interpreted to be ancient coral reefs of Devonian age, in part analogous to the other super-giant fields in the Basin. Of particular importance to these "Type II" prospects is the fact that they share a single common risk factor - reservoir quality. Success on the first well would significantly improve the chance of success on the remaining prospects and leads, adding tremendous value to this portfolio.

Zhana Makat Field

The Group's Zhana Makat Field continues to perform well, with average daily production of approximately 2,100 bopd for the four months ended 31 July 2010. The Field has been on commercial production under a TPP since August 2007. In the year ended 31 March 2010, the Group drilled two successful development wells in the Zhana Makat Field prior to commencing the Group's post-salt exploration programme in January 2010. In August 2010, the Group successfully completed the ZMA-A15 development well, encountering 30 metres of net oil pay including 12 metres in the proven Jurassic section and 18 metres in a secondary, exploratory Triassic objective. The Group will complete and test the well in the near future.

Astrakhanskiy Licence

In July 2010, the Group received a letter from the Ministry of Oil and Gas of the Republic of Kazakhstan ("MOG") notifying the Group of the termination of its subsoil use licence for the Astrakhanskiy Block in Western Kazakhstan due to the Group's failure to comply with the work obligations stipulated under the Astrakhanskiy Licence. While Max Petroleum has not abandoned its discussions with the MOG to reverse its decision, strategically, the Group had already determined that its future lies with the exploration and development of its inventory of pre and post-salt prospects on Blocks A&E. The uncertainties around financing the Astrakhanskiy well in 2010 and the consequent probable loss of the licence were sufficient grounds for impairing the book value of the related Astrakhanskiy Licence assets to nil at 31 March 2010, as detailed in note 10 of this announcement.

Tax Claim

In June 2010, the Group lost an appeal at the Court of Cassation, an appellate court of the Republic of Kazakhstan, of a tax claim brought against the Group by local tax authorities regarding the timing of certain tax deductions made by the Group prior to January 2009 (the "Tax Claim"). The Tax Claim impacts the Group's liquidity position and is discussed in more detail in note 9 of this announcement. The Group continues to believe the Tax Claim is without merit and filed an appeal of the Court of Cassation's decision to the Supreme Court of the Republic of Kazakhstan in June 2010. The Supreme Court has agreed to review the appeal and a hearing will be scheduled in due course. The Group expects the Supreme Court appeals process to take up to six months from the date of initial appeal. In the event it is unsuccessful, the Group expects to recover the economic benefit of the contested deductions in future years. At 31 March 2010, the Group had recognised liabilities of US\$16.7 million in relation to the Tax Claim.

Results of operations

The Group recognised a loss attributable to the owners of the Company of US\$253.4 million, or US\$0.64 per ordinary share, for the year ended 31 March 2010, compared to a loss of US\$12.3 million, or US\$0.04 per ordinary share, during the prior period. The Group's loss for the year includes US\$116.2 million of impairment charges related to the Group's Astrakhanskiy Licence and US\$101.9 million in non-cash debt restructuring costs related to the restructuring of the Group's senior and convertible debt, as more fully disclosed in notes 7 and 11 of this announcement.

Oil revenues increased 11% to US\$43.3 million, or US\$57.35 per bbl, in 2010 from US\$39.2 million, or US\$55.21 per bbl, in 2009, based upon a 6% increase in crude oil sales. The Group produced and sold 756,000 bbls during 2010, consisting of 615,000 bbls sold into the export market generating US\$38.9 million in revenue, or US\$63.27 per bbl, and 141,000 bbls sold into the domestic market generating US\$4.5 million in revenue, or US\$31.60 per bbl. Comparatively, the Group produced and sold 710,000 bbls during 2009, including 549,000 bbls sold into the export market generating US\$33.9 million in revenue, or US\$61.71 per bbl, and 161,000 bbls sold domestically generating US\$5.3 million in revenue, or US\$33.07 per bbl.

The Group incurred US\$1.8 million in exploration and appraisal costs written-off during the current year compared to US\$0.5 million in 2009.

During the year ended 31 March 2010, the Group incurred total administrative expenses of US\$20.0 million, compared to administrative expenses of US\$20.4 million in 2009. Administrative expenses for the current and prior year principally reflect ongoing management and employee costs of the Group's operations in the United Kingdom, Kazakhstan and the United States, as well as US\$4.9 million of fines relating to the Tax Claim in the current period. Administrative expenses also include non-cash share based payment charges of US\$2.2 million and US\$3.8 million, in 2010 and 2009 respectively.

Liquidity and capital resources

During the seven months ended 31 July 2010, the Group generated approximately US\$4 million in revenue per month from the sale of crude oil based on average daily production of approximately 2,100 bopd. The Group expects to further increase production and cash flow in the near term from the Zhana Makat Field when it places the recently drilled ZMA-A15 well on production in September 2010. Furthermore, the Group is applying for TPP approval for the Borkyldakty Field, which will allow the Group to place the BOR-1 well onto continuous production. TPP approval for the Borkyldakty Field is expected to be received on or before 31 December 2010. While the Group cannot predict when it may drill an additional discovery as part of its post-salt exploration portfolio, the Group would place any such discovery well on production as soon as practicable, as well as any future appraisal and development wells, to increase production and cash flow from crude oil sales.

In August 2009, the Group completed the restructuring of its credit facility with Macquarie (the "Credit Facility"), increasing the borrowing base from US\$50 million to US\$80 million following earlier shareholder approval of an amendment of the Credit Facility in May 2009, as detailed in note 11 of this announcement. As of 31 July 2010, the Group has borrowed US\$65.1 million under the Credit Facility leaving US\$14.9 million in available loan commitment. Repayment of principal outstanding under the Credit Facility is due in three equal instalments on 31 January 2011, 31 March 2011 and 1 June 2011. The Group has commenced discussions on the extension of the Credit Facility with Macquarie and, whilst the directors believe that the Group will be able to satisfactorily negotiate the deferral of the principal payments, there can be no assurance that it will be successful in its efforts to amend the Credit Facility on terms satisfactory to the Group, if at all.

The Group must make payments totalling \$17.8 million in aggregate towards the Tax Claim spread over a nine month period from July 2010 through March 2011. The Group will be able to stop making tax payments on the Tax Claim in the event it is successful in its appeal to the Supreme Court. In such an event, the Group expects that any payments made on the Tax Claim prior to the ruling would be offset against future tax liabilities on production, revenue and income in Kazakhstan.

In July 2010, the Group received a letter from the MOG notifying the Group of the termination of its subsoil use licence for the Astrakhanskiy Block in Western Kazakhstan, which gives the Bondholders the right to redeem the Bonds. In order to receive a formal waiver of this redemption right, the Company must obtain the approval of 75% of the Bonds in attendance at an extraordinary meeting of Bondholders. The Company has received assurances from holders of more than 85% of the Bonds that they will support an extraordinary resolution to waive this redemption right and plans to convene a meeting of its Bondholders in September to obtain a formal waiver of the redemption right. In addition, Macquarie has already provided a waiver of the potential event of default resulting from the termination of the Astrakhanskiy Licence. Accordingly, the Group does not believe the MOG's action will have any material adverse effect on its liquidity, financial condition or prospects.

The Group anticipates that its post-salt exploratory programme to drill the nine remaining shallow and intermediate prospects in its portfolio will require between US\$15 and US\$20 million dollars of additional capital investment through 31 December 2011. Furthermore, a deep exploration well on Block E is estimated to cost between US\$30 and US\$35 million to drill and complete. 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.

The Group has prepared cash flow forecasts which indicate that it will need additional financing in order to fund its future exploration and development programme, administrative and operating expenses, the Tax Claim, and service its Credit Facility and Convertible Bonds. The Group intends to finance the liquidity shortfall by pursuing either an equity placement or farmout of interests in its Blocks A&E Licence, depending on which alternative the directors believe is in the best interests of the Company's shareholders.

CONSOLIDATED AND COMPANY INCOME STATEMENTS

For the year ended 31 March 2010

(in thousands of US\$)

	Note	Group		Company	
		Year ended 31 March 2010	2009	Year ended 31 March 2010	2009
Revenue	4	43,348	39,195	6,898	3,416
Cost of sales	5	(31,585)	(23,096)	(4,793)	(3,116)
Gross profit		11,763	16,099	2,105	300
Exploration and appraisal costs		(1,799)	(532)	-	-
Impairment losses	6	(116,248)	-	(117,381)	-
Administrative expenses		(19,967)	(20,409)	(5,673)	(22,463)
Operating loss		(126,251)	(4,842)	(120,949)	(22,163)
Debt restructuring costs	7	(101,853)	-	(101,853)	-
Finance income		9	24	347	1,251
Finance costs	8	(15,463)	(4,921)	(25,965)	(14,858)
Loss before taxation		(243,558)	(9,739)	(248,420)	(35,770)
Income tax expense	9	(9,885)	(123)	(61)	(123)
Loss for the year		(253,443)	(9,862)	(248,481)	(35,893)
Attributable to:					
Owners of the Company		(253,443)	(12,274)	(248,481)	(35,893)
Minority interests		-	2,412	-	-
		(253,443)	(9,862)	(248,481)	(35,893)
Loss per share for loss attributable to the owners of the Company during the year					
- Basic and diluted (US cents)		(64.3)	(3.5)		

CONSOLIDATED AND COMPANY BALANCE SHEETS

At 31 March 2010

(in thousands of US\$)

	Note	At 31 March			
		Group		Company	
		2010	2009	2010	2009
Assets					
Non-current assets					
Intangible assets – exploration and appraisal expenditure	10	133,489	233,953	-	-
Oil and gas properties		26,172	29,234	-	-
Property, plant and equipment		12,051	11,121	170	291
Investments in subsidiaries		-	-	127,654	206,119
Trade and other receivables		-	915	-	-
		171,712	275,223	127,824	206,410
Current assets					
Inventories		12,990	14,056	-	-
Trade and other receivables		5,805	4,257	114,510	148,308
Cash and cash equivalents		3,806	3,036	1,427	1,116
		22,601	21,349	115,937	149,424
Total assets		194,313	296,572	243,761	355,834
Liabilities					
Non-current liabilities					
Borrowings	11	70,625	94,303	70,625	94,303
Provision for liabilities and other charges		1,551	3,440	-	-
		72,176	97,743	70,625	94,303
Current liabilities					
Trade and other payables		14,484	10,576	1,226	4,159
Current tax liabilities	9	9,824	-	-	-
Borrowings	11	58,579	10,872	58,579	10,872
		82,887	21,448	59,805	15,031
Total liabilities		155,063	119,191	130,430	109,334
Net assets		39,250	177,381	113,331	246,500
Capital and reserves					
Share capital		7,942	7,930	7,942	7,930
Share premium		265,043	259,491	265,043	259,491
Other reserves	12	108,691	9,750	181,186	82,245
Accumulated deficit		(342,426)	(99,790)	(340,840)	(103,166)
Equity attributable to owners of the Company		39,250	177,381	113,331	246,500
Minority interest		-	-	-	-
Total equity		39,250	177,381	113,331	246,500

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2010

(in thousands of US\$)

	Note	Attributable to owners 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
Loss for the year		-	-	-	(12,274)	(12,274)	2,412	(9,862)
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive loss for the year		-	-	-	(12,274)	(12,274)	2,412	(9,862)
Issue of share capital		7	30,738	-	-	30,745	-	30,745
Share-based payments	12	-	-	4,485	-	4,485	-	4,485
Warrants issued	12	-	-	2,970	-	2,970	-	2,970
Transactions with minority shareholders		-	-	(72,495)	-	(72,495)	3,859	(68,636)
		7	30,738	(65,040)	-	(34,295)	3,859	(30,436)
Balance at 31 March 2009		7,930	259,491	9,750	(99,790)	177,381	-	177,381
Loss for the year		-	-	-	(253,443)	(253,443)	-	(253,443)
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive loss for the year		-	-	-	(253,443)	(253,443)	-	(253,443)
Issue of share capital		12	5,552	(1,510)	-	4,054	-	4,054
Share-based payments	12	-	-	2,298	-	2,298	-	2,298
Transfer convertible bond reserve to accumulated deficit	12	-	-	(10,807)	10,807	-	-	-
Convertible bond restructuring	12	-	-	13,860	-	13,860	-	13,860
Convertible bond interest deferral, equity portion	12	-	-	561	-	561	-	561
Warrants issued	12	-	-	94,539	-	94,539	-	94,539
		12	5,552	98,941	10,807	115,312	-	115,312
Balance at 31 March 2010		7,942	265,043	108,691	(342,426)	39,250	-	39,250

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

For the year ended 31 March 2010

(in thousands of US\$)

	Group		Company	
	2010	2009	2010	2009
Cash flows from operating activities				
Net cash generated from/(used in) operating activities	10,088	14,103	(6,663)	(19,191)
Cash flows from investing activities				
Purchases of plant and equipment	(2,526)	(2,668)	(8)	(2)
Payment for exploration and appraisal expenditure	(13,642)	(31,246)	-	-
Payments for investments	-	-	-	(124)
Interest received	9	24	1	20
Net cash used in investing activities	(16,159)	(33,890)	(7)	(106)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares	4,052	-	4,052	-
Proceeds from borrowings	10,029	25,050	10,029	25,050
Interest paid	(7,239)	(5,961)	(7,096)	(5,961)
Net cash generated from financing activities	6,842	19,089	6,985	19,089
Net increase/(decrease) in cash and cash equivalents	771	(698)	315	(208)
Effects of exchange rates on cash and cash equivalents	(1)	(113)	(4)	-
Cash and cash equivalents at beginning of year	3,036	3,847	1,116	1,324
Cash and cash equivalents at end of year	3,806	3,036	1,427	1,116

NOTES

For the year ended 31 March 2010

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, comprising Blocks A&E and Astrakhanskiy. In July 2010, the Group was notified of the termination of its subsoil use licence for the Astrakhanskiy Block, as more fully discussed in note 10.

The Company 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.

This announcement was approved by the Board of Directors on 25 August 2010.

2. Basis of accounting and presentation of financial information

While the financial information included in this announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), this announcement does not contain sufficient information to comply with IFRSs as adopted by the EU.

The financial information set out in this announcement does not constitute the Company’s statutory accounts for the years ended 31 March 2010 or 2009, but it is derived from those accounts. Statutory accounts for 2009 have been delivered to the Registrar of Companies and those for 2010 will be delivered following the Company’s Annual General Meeting. The auditors have reported on those accounts: their reports were unqualified and did not contain statements under s498(2) or (3) Companies Act 2006 or the equivalent preceding legislation. The auditors’ report on the 2010 accounts, whilst unqualified, contains an emphasis of matter which draws attention to the existence of a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern. The circumstances which give rise to this uncertainty are explained in note 3 below. The auditors’ report on the 2009 accounts contained no emphasis of matter.

3. Going concern

The Group’s business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review section of this announcement. The Group’s borrowing facilities are described in note 11.

The Group’s 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. As discussed in note 9, the Tax Claim, which will require the Group to make approximately US\$17.8 million in payments over nine months beginning July 2010 through March 2011, has impacted the Group’s liquidity situation.

The Group has prepared cash flow forecasts for the twelve months from the date of signing of these financial statements which indicate that it will need additional financing in order to fund its future exploration and development programme, administrative and operating expenses, the Tax Claim, and service its Credit Facility and Convertible Bonds. The Group intends to finance the liquidity shortfall by pursuing either an equity placement or farmout of interests in its Blocks A&E Licence, depending on which alternative the directors believe is in the best interests of the Company’s shareholders.

The Group's borrowing base under the Credit Facility is US\$80.0 million. As at 31 July 2010, the Group had drawn US\$65.1 million, including US\$0.1 million in letters of credit secured by the Credit Facility, leaving US\$14.9 million available. Repayment of principal outstanding under the Credit Facility is due in three equal instalments on 31 January 2011, 31 March 2011 and 1 June 2011. The Group has commenced discussions on extension of the Credit Facility with Macquarie, and, whilst the directors believe that the Group will be able to satisfactorily negotiate the rescheduling of the principal payments, there can be no assurance that it will be successful in its efforts to arrange the renewal of the Credit Facility on terms satisfactory to the Group, if at all. While at 31 March 2010, the Group was in breach of its banking covenants relating to certain financial ratios, Macquarie has subsequently waived all rights in relation to these breaches and the Company has drawn down a further US\$6.5 million on the Credit Facility as of 31 July 2010. Macquarie has not given any indication to date that it would not be willing to honour an advance request under the Credit Facility, however it has expressed the desire for Max Petroleum to bring additional capital into the Group, either through an equity placement or proceeds from a farmout.

In July 2010, the Group received a letter from the MOG notifying the Group of the termination of its subsoil use licence for the Astrakhanskiy Block in Western Kazakhstan, which gives the Bondholders the right to redeem the Bonds. In order to receive a formal waiver of this redemption right, the Company must obtain the approval of 75% of the Bonds in attendance at an extraordinary meeting of Bondholders. The Company has received assurances from holders of more than 85% of the Bonds that they will support an extraordinary resolution to waive this redemption right and plans to convene a meeting of its Bondholders in September to obtain a formal waiver of the redemption right. Macquarie has already provided a waiver of the potential event of default resulting from the termination of the Astrakhanskiy Licence. Accordingly, the Group does not believe the MOG's action will have any material adverse effect on its liquidity, financial condition or prospects.

Although the directors are working to resolve the Group's outstanding liquidity shortfall, there is an uncertainty whether the Bondholders will waive their redemption rights, the Group will be able to continue to borrow funds under the Credit Facility and arrange additional equity financing or complete a farmout of interests in Blocks A&E. They have concluded that the combination of these circumstances results in the existence of a material uncertainty that casts a significant doubt about the Group's ability to continue as a going concern and that, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. 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 to execute its exploration programme on its Blocks A&E Licence. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

4. Operating segments

Management has determined its operating segments based on the reports reviewed by the Executive Committee for the purposes of making decisions about allocating resources and assessing performance. The Executive Committee is comprised of the Executive Co-Chairmen and the President and Chief Financial Officer.

In the opinion of the directors, the operations of the Group comprise one operating segment: oil and gas exploration, development and the sale of hydrocarbons and related activities. All of the Group's assets and liabilities, income and expense relate to this segment and the relevant segment disclosures have been made elsewhere in these financial statements.

Following the adoption of IFRS 8 "Operating Segments" there has been no change to the Group's reported segments.

Geographical information

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, United Kingdom 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.

Revenue

All of the Group's revenue from external customers is derived from its operations in the Republic of Kazakhstan, as follows:

	2010 US\$'000	2009 US\$'000
Republic of Kazakhstan – domestic sales	4,463	5,332
Republic of Kazakhstan – export sales	38,885	33,863
	43,348	39,195

Included in revenues arising from export sales from the Republic of Kazakhstan are revenues of US\$29.1 million which arose from the Group's largest customer (2009: sales to Group's largest customer of US\$29.8 million).

Non-current assets

The Group's non-current assets by geographical location are as follows:

	2010 US\$'000	2009 US\$'000
United Kingdom	170	291
USA	251	362
Republic of Kazakhstan	171,291	274,570
	171,712	275,223

5. Cost of sales

	Group	
	2010 US\$'000	2009 US\$'000
Operating costs:		
- commercial production	6,179	7,835
Selling and transportation	4,491	1,085
Royalties/ mineral extraction tax	2,160	1,077
Export customs duty/ export rent tax	6,047	3,360
Depreciation, depletion and amortisation	12,708	9,739
	31,585	23,096

The increase in selling and transportation costs during the year, which was more than offset by increases in realised export sales, was the result of the Group selling its crude oil at destinations further away from the Zhana Makat Field, compared to the previous year.

Effective 1 January 2009, a new tax code was implemented in the Republic of Kazakhstan which imposed additional taxes on the production and sale of hydrocarbons, which have been accounted for as cost of sales.

6. Impairment losses

As more fully explained in note 10, during the year ended 31 March 2010 the Group and Company fully impaired its Astrakhanskiy Licence and related assets, recognising the following non-cash charges in the income statement:

	Group		Company	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Impairment of intangible assets – exploration and appraisal expenditure (note 10)	115,184	-	-	-
Impairment of other receivables	1,064	-	-	-
Impairment of investments in subsidiaries	-	-	79,277	-
Impairment of loans from the Company to its subsidiaries	-	-	36,495	-
Impairment of other amounts due from subsidiaries	-	-	1,609	-
	116,248	-	117,381	-

7. Debt restructuring costs

As more fully explained in note 11, during the year ended 31 March 2010 the Company restructured its debt resulting in the following non-cash charges to the income statement:

	Group and Company	
	2010 US\$'000	2009 US\$'000
Expense recognised on extinguishment of Credit Facility	8,798	-
Fair value of Credit Facility warrants expensed on restructuring of Credit Facility	81,723	-
Credit facility restructuring charges	90,521	-
Expense recognised on extinguishment of convertible bonds	7,341	-
Fair value of warrants issued on conversion of 8 March 2009 interest to principal (PIK)	3,991	-
Convertible bond restructuring costs	11,332	-
Debt restructuring costs	101,853	-

8. Finance costs

	Group		Company	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Interest expense:				
Interest payable on bank borrowings (note 11)	6,599	7,116	6,599	7,116
Interest payable on convertible bond (note 11)	19,366	7,742	19,366	7,742
Unwinding of discount on decommissioning provision	84	250	-	-
Other	2,104	12	-	-
	28,153	15,120	25,965	14,858
Less:				
Interest expense capitalised to exploration and appraisal expenditure	(12,690)	(10,199)	-	-
Finance costs	15,463	4,921	25,965	14,858

Interest payable on the convertible bond for the year ended 31 March 2010 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 (see note 11).

Interest expense of US\$12.7 million (2009: US\$10.2 million) arising on the general borrowing pool during the year was capitalised in the cost of qualifying assets, calculated by applying a capitalisation rate of 22% (2009: 16%) to the average cumulative expenditure on such assets. The borrowing costs capitalised are included in 'Additions' in exploration and appraisal expenditure.

Other interest includes US\$2.0 million (2009: US\$ nil) payable to the tax authorities of the Republic of Kazakhstan in relation to the Tax Claim brought against the Group (see note 9).

9. Income tax expense

	Group		Company	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Current tax	9,885	123	61	123
Deferred tax	-	-	-	-
	9,885	123	61	123

The Group's principal business activities are in the Republic of Kazakhstan, which adopted a new Tax Code effective 1 January 2009. Under the new Tax Code, income tax for the calendar year 2009 was reduced from 30% to 20% from 1 January 2009, while additional taxes on the production and sale of hydrocarbons were imposed and are accounted for as cost of sales. The Group and Company have generated recurring net operating losses and no deferred tax assets have been recognised with respect to such losses.

Tax Claim

In June 2010, the Court of Cassation, an appellate court of the Republic of Kazakhstan, upheld a tax claim brought against the Group by local tax authorities regarding the timing of certain tax deductions made by the Group prior to January 2009 (the "Tax Claim"). The Tax Claim resulted from a routine tax audit of the Group's entities in Kazakhstan for calendar years 2005 to 2008 and involves a dispute over the timing of recovery (i.e. depreciation) of the Group's costs capitalised to its oil and gas properties for tax years prior to Kazakhstan's adoption of the new Tax Code in 2009. In summary, the Group began depreciating its capitalised costs when it began producing crude oil in accordance with the terms of its subsoil use licence and the Kazakh legislation in place at the time the licence was executed. The local tax authorities, however, have asserted that the Group should only begin depreciating its capital costs upon the formal declaration of a commercial discovery to the Kazakh authorities. As a result, the local tax authorities have disallowed a total of US\$35 million in depreciation deductions taken by the Group during calendar years 2006 through 2008.

The Group continues to believe the Tax Claim is without merit and filed an appeal of the Court of Cassation's decision to the Supreme Court of the Republic of Kazakhstan in June 2010. The Group expects the Supreme Court appeals process to take up to six months from the date of initial appeal. In the event it is unsuccessful, the Group expects to recover the economic benefit of the contested deductions in future years.

Although the Group has appealed the Court of Cassation's decision to the Supreme Court, the Group must begin making payments toward the Tax Claim while it awaits the court's decision. On 30 June 2010, the Group received approval from the Ministry of Finance of the Republic of Kazakhstan to extend payment of the Tax Claim over nine months beginning in July 2010. The total amount of the Tax Claim, including additional taxes, penalties and interest accruing from the date of the initial assessment through final payment in March 2011 is approximately US\$17.8 million.

At 31 March 2010, the Group has recognised US\$16.7 million of the Tax Claim as follows: US\$9.8 million of current tax payable; US\$4.9 million of penalties; and US\$2.0 million of interest expense accrued through 31 March 2010. These amounts have been recorded in current tax liabilities and trade and other payables at 31 March 2010. However, the Group has not recognised the associated deferred tax asset, amounting to US\$8.9 million at 31 March 2010, as it has applied a 100% valuation allowance against all of the Group's deferred tax assets.

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the UK statutory rate of 28% (2009: 28%) applicable to the loss of the Group, as follows:

	Group	
	2010 US\$'000	2009 US\$'000
Loss before taxation	(243,558)	(9,739)
Tax calculated at 28% (2009: 28%)	(68,196)	(2,727)
Effect of lower foreign tax rates	2,743	143
Expenses not deductible for tax purposes	56,522	2,874
Permanent foreign exchange differences	1,143	(9,217)
Permanent differences arising from change in tax rates	(2,748)	3,500
Other permanent differences	329	-
Revisions to prior periods	9,824	-
Temporary differences not recognised	(2,528)	-
Tax losses utilised	-	(881)
Effects of deferred tax assets not recognised – losses	12,557	5,741
Effects of deferred tax assets not recognised – other	239	690
Income tax expense	9,885	123

Expenses not deductible for tax purposes of the Group includes US\$30.0 million relating to the impairment of the Group's Astrakhanskiy Licence (note 10) and US\$24.0 million relating to debt restructuring costs (note 7).

Revisions to prior periods of the Group includes US\$9.8 million relating to current tax due on the Tax Claim.

The tax on the Company's loss before tax differs from the theoretical amount that would arise using the UK statutory rate of 28% (2009: 28%) applicable to the loss of the Company, as follows:

	Company	
	2010 US\$'000	2009 US\$'000
Loss before taxation	(248,420)	(35,770)
Tax calculated at UK statutory rate	(69,558)	(10,016)
Expenses not deductible for tax purposes	57,356	4,858
Effects of deferred tax assets not recognised – losses	12,263	5,281
Income tax expense	61	123

Expenses not deductible for tax purposes of the Company includes US\$32.9 million relating to the impairment of the Group's Astrakhanskiy Licence (note 10) and US\$24.0 million relating to the debt restructuring costs (note 7).

10. Intangible assets - exploration and appraisal expenditure

	Group Total US\$'000
Cost	
At 1 April 2008	214,567
Additions	32,634
Disposals	(5,217)
Amounts written off to exploration and appraisal costs	(532)
At 31 March 2009	241,452
Additions	23,833
Disposals	-
Amounts written off to exploration and appraisal costs	(1,799)
Change in estimate for decommissioning provision	(1,399)
At 31 March 2010	262,087
Accumulated amortisation and impairment	
At 1 April 2008	2,487
Amortisation charge for the year	5,012
At 31 March 2009	7,499
Amortisation charge for the year	5,915
Impairment loss for the year (note 6)	115,184
At 31 March 2010	128,598
Net book value	
At 31 March 2009	233,953
At 31 March 2010	133,489

Included within exploration and appraisal expenditures at 31 March 2010 was a decommissioning asset of US\$0.2 million (2009: US\$1.7 million).

Impairment tests were conducted for intangible exploration and appraisal expenditure, oil and gas producing assets and property, plant and equipment at 31 March 2010. The impairment tests on the Blocks A&E Licence were based on an estimate of the value of the estimated mean risked resources on the licence, and in respect of the producing oil and gas assets, the competent person's report on the Zhana Makat Field at 31 March 2010. The results of the impairment tests indicated that the fair value of the Group's Blocks A&E Licence and associated assets significantly exceeds its book value. In performing the impairment test on the producing field, Zhana Makat, forecast production rates were based on proven and probable reserves estimates and historic performance from wells now on production. The oil price assumptions comprised a Brent crude futures strip starting at US\$75 in 2010, and assumed the sale of 80% of production to the export market with 20% allocated to domestic sales. The discount rate used was 10%. In performing the impairment test of the Group's intangible exploration and appraisal assets relating to Blocks A&E, management considered the conclusions in the competent persons report, "Exploration Portfolio Review on Blocks A&E", dated July 2010. The results of the competent person's estimate of recoverable prospective resources associated with certain leads and prospects in the pre- and post-salt on Blocks A&E comprised total risked mean recoverable resources estimated at 1,100 million barrels of oil equivalent. While this estimate is very uncertain due to the risks inherent to oil and gas exploration, management of the Company is comfortable that the fair value of the Group's Blocks A&E exploration assets significantly exceeds its book value.

Astrakhanskiy Licence

At 31 March 2010, the carrying value of the Group's capitalised licence cost, historic exploration and appraisal expenditures and other costs relating to its subsoil use licence for the Astrakhanskiy Block in Western Kazakhstan (the "Astrakhanskiy Licence") were written down to nil, resulting in an impairment charge of US\$116.2 million (note 6). Similarly, the Company recognised an impairment charge of US\$117.4 million.

In determining the impairment, management took into consideration the Group's work programme commitment to drill an exploration well on the Astrakhanskiy Block in calendar year 2010, which was dependent on a successful farmout of the Astrakhanskiy Licence or other financing in order to fund the well. Having been unable to conclude a farmout of the Astrakhanskiy Block, and after previous deferrals of the well commitment from 2007 to 2008, to 2009, and then to 2010 there is a material uncertainty that, in the event that the Group does not drill a well through the remainder of 2010, the resulting breach of the Astrakhanskiy Licence commitment may lead to the forfeiture of the licence. While the Group has continued to seek the farmout or sale of the Astrakhanskiy Licence, due to the uncertainty it has deemed it prudent to impair the Group's and Company's related Astrakhanskiy Licence assets to nil at 31 March 2010.

In July 2010, the Group received a letter from the Ministry of Oil and Gas of the Republic of Kazakhstan ("MOG") notifying the Group of the termination of its subsoil use licence for the Astrakhanskiy Block in Western Kazakhstan due to the Group's failure to comply with the work obligations stipulated under the Astrakhanskiy Licence. The letter does not affect the Group's principal asset, the Blocks A&E Licence area.

The Group believes the MOG's position reflects a broader policy change regarding the treatment of subsoil use licences behind in their work obligations. The Group had already decided not to drill an exploration well on the block without a partner. The receipt of the letter from MOG gives the Bondholders the right to redeem the Company's Bonds (note 11). The Company has received assurances from holders of greater than 85% of the Bonds that they will waive this redemption right. The Company plans to convene a meeting of its Bondholders in September to obtain a formal waiver of the redemption right. In addition, Macquarie has already provided a waiver of the potential event of default resulting from the termination of the Astrakhanskiy Licence. Accordingly, the Group does not believe the MOG's action will have any material adverse affect on its liquidity, financial condition or prospects. While Max Petroleum has not abandoned its discussions with the MOG to reverse its decision, strategically, the Group had already determined that its future lies with the exploration and development of its inventory of pre and post-salt prospects on Blocks A&E.

11. Borrowings

	Group and Company	
	2010	2009
	US\$'000	US\$'000
Bank borrowings due within one year	58,579	10,872
Current debt	58,579	10,872
Bank borrowings due after one year	-	26,886
Convertible bond	70,625	67,417
Non-current debt	70,625	94,303
Total borrowings	129,204	105,175

Bank borrowing

In June 2007, the Group entered into a US\$100 million revolving mezzanine Credit Facility (the "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. Further details of the Warrant Deed are included in note 12.

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.

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.

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.

The material provisions of the Credit Facility are as follows:

- The Credit Facility is split between senior and subordinated tranches, with the initial US\$25 million of advances comprising the senior tranche.
- The senior and subordinated tranches bear interest ranging from LIBOR plus 4% to LIBOR plus 7.5%, depending upon the underlying value of the Group's oil and gas reserves.
- Repayment of principal outstanding in three equal instalments on 31 January 2011, 31 March 2011 and 1 June 2011.
- The Company issued the Warrant Deed to subscribe for up to 547,918,106 new ordinary shares in the Company, replacing the existing previous warrants issued to Macquarie in March 2008.

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 "Financial Instruments: Recognition and Measurement"). 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 (note 7). 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.

A reconciliation of the amounts outstanding on the Credit Facility is as follows:

	Group and Company			Net US\$'000
	Gross US\$'000	Debt issuance costs - cash US\$'000	Debt issuance costs - warrants US\$'000	
Balance at 1 April 2008	23,500	(767)	(6,455)	16,278
Drawdown of loan facility	25,050	-	(7,251)	17,799
Amortisation of debt issuance cost	-	259	3,422	3,681
Balance at 1 April 2009	48,550	(508)	(10,284)	37,758
Drawdown of loan facility	5,355	-	(321)	5,034
Amortisation of debt issuance cost	-	106	2,209	2,315
Sub-total	53,905	(402)	(8,396)	45,107
Derecognition of liability on extinguishment	(53,905)	402	8,396	(45,107)
Recognition of new liability	53,905	-	-	53,905
Drawdown of loan facility	4,674	-	-	4,674
Balance at 31 March 2010	58,579	-	-	58,579

The fair value of the floating rate bank borrowings as at 31 March 2010 approximates to their gross carrying value of US\$58.6 million (2009: US\$48.6 million).

The Credit Facility is secured by pledges in favour of Macquarie over all of the Group's assets.

At 31 March 2010, the Credit Facility had a total borrowing base of US\$80 million, of which US\$58.7 million was borrowed, including US\$78,000 reserved for outstanding letters of credit.

The Company has commenced discussions on extension of the Credit Facility with Macquarie and, whilst the directors believe that the Company will be able to satisfactorily negotiate the rescheduling of the principal payments, there can be no assurance that it will be successful in its efforts to arrange the renewal of the Credit Facility on terms satisfactory to the Company, if at all.

At 31 March 2010, the Group was in breach of its banking covenants relating to certain financial ratios and although Macquarie subsequently waived all rights in relation to these breaches, the entire loan balance has been classified within current liabilities in the Group and Company balance sheets at 31 March 2010 as required by IAS 1 "Presentation of Financial Statements".

The borrowing capacity under the Credit Facility is subject to review and adjustment on a periodic basis, with the total availability at any given time subject to a number of factors, including commodity prices and reserve levels.

Convertible bond

Max Petroleum completed an offering of convertible bonds on 8 September 2006 (the "Bonds"), raising a total of US\$75 million before issuance costs, through the issuance of convertible bonds bearing interest at 6.75% per annum, payable semi-annually, convertible at an initial conversion price of £1.33 per ordinary share, subject to certain anti-dilution adjustments. The holders of the bonds (the "Bondholders") have a right to convert the bonds through to final maturity. Furthermore, the holders will have certain rights to force the Company to redeem the bonds if certain material events of default occur such as revocation of the Group's licences to its oil and gas properties in Kazakhstan. The Group has the right to redeem the bonds after three years if the bonds trade at an average price of 130% of the conversion price for a minimum of 20 out of 30 consecutive trading days or if at any time a minimum of 85% of the bonds have been converted.

Restructuring of the convertible bonds

In conjunction with the restructuring of its Credit Facility, the Company approached its Bondholders with a comprehensive restructuring proposal (the "Bond Restructuring") to defer the final maturity date of the Bonds until September 2012 and to provide the Company with a two-year option to convert its cash interest payments on the Bonds into additional principal (i.e. payment in kind or "PIK"). In February 2009, the Company received undertakings from Bondholders representing US\$60.5 million of the Bonds to defer the 8 March 2009 coupon payment until 8 September 2009, subject to the Company proposing revised terms to restructure the Bonds at a later date that would be satisfactory to both the Bondholders and Macquarie.

On 12 May 2009, the Company convened a meeting of the Bondholders where the following amendments to the Bonds were unanimously approved:

- The maturity date was extended from 8 September 2011 to 8 September 2012.
- The conversion price of the Bonds was reduced from 133p to 35p, with a fixed exchange rate of US\$1.49 to £1.
- The Company was granted the right to convert its semi-annual cash interest payments to PIK through 8 September 2010, subject to a higher interest rate of 9% per annum being applied during the interest period immediately prior to making an election to convert interest to PIK.
- The Company issued its Bondholders a five-year warrant exercisable over 120 million ordinary shares at an exercise price of 5p per ordinary share, of which 30 million warrants vested automatically on 8 September 2009 and 30 million warrants vest on each of 8 September 2009, 8 March 2010 and 8

September 2010, respectively, in the event the Company elects to convert its cash interest obligation into PIK.

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 year (note 7).

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.

During the year, 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.

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 year (note 7). 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 year.

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

	Group and Company			Net US\$'000
	Gross US\$'000	Debt issuance costs US\$'000	Equity component US\$'000	
Balance at 1 April 2008	75,000	(1,882)	(8,380)	64,738
Notional interest incurred	-	-	2,131	2,131
Amortisation of debt issuance cost	-	548	-	548
Balance at 31 March 2009	75,000	(1,334)	(6,249)	67,417
Notional interest incurred	-	-	196	196
Amortisation of debt issuance cost	-	46	-	46
Sub-total	75,000	(1,288)	(6,053)	67,659
Derecognition of liability on extinguishment	(75,000)	1,288	6,053	(67,659)
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
Notional interest incurred	-	-	3,144	3,144
Balance at 31 March 2010	81,902	-	(11,277)	70,625

The finance cost on the convertible bond is calculated using the effective interest rate of 14% (2009: 11%).

The fair value of the convertible bond at 31 March 2010 and 2009, determined by reference to the published closing price quotation from the Channel Islands Stock Exchange on that date, was as follows:

	Group and Company	
	2010	2009
	US\$'000	US\$'000
Fair value of convertible bond	39,084	18,750

Astrakhanskiy Licence

In July 2010, the Group received a letter from MOG notifying the Group of the termination of the Astrakhanskiy Licence due to the Group's failure to comply with the work obligations stipulated under the Licence, as more fully discussed in note 10. The MOG letter gives the Bondholders the right to redeem the Bonds. The Company has received assurances from holders of more than 85% of the Bonds that they will support an extraordinary resolution at a meeting of Bondholders to waive this redemption right. The Company plans to convene a meeting of its Bondholders in September to obtain a formal waiver of the redemption right. Macquarie has already provided a waiver of the potential event of default resulting from the termination of the Astrakhanskiy Licence. Accordingly, the Group does not believe the MOG's action will have any material adverse effect on its liquidity, financial condition or prospects.

Interest expense

During the year ended 31 March 2010, the Group incurred US\$26.0 million (2009: US\$14.9 million) in interest expense in respect of the Convertible Bond and the Credit Facility, of which US\$12.7 million (2009: US\$10.2 million) was capitalised to intangible exploration and appraisal expenditures.

12. Other reserves

	Group				
	Reserve arising on purchase of minority interest US\$'000	Convertible bond equity reserve US\$'000	Share-based payments reserve US\$'000	Warrant reserve US\$'000	Total other reserves US\$'000
At 1 April 2008	-	10,807	52,451	11,532	74,790
Transactions with minority shareholders	(72,495)	-	-	-	(72,495)
Share-based payments	-	-	4,485	-	4,485
Warrants issued	-	-	-	2,970	2,970
At 31 March 2009	(72,495)	10,807	56,936	14,502	9,750
Issue of share capital – cashless exercise of warrants	-	-	-	(1,510)	(1,510)
Share-based payments	-	-	2,298	-	2,298
Transfer to accumulated deficit	-	(10,807)	-	-	(10,807)
Convertible bond restructuring	-	13,860	-	-	13,860
Convertible bond interest deferral, equity portion	-	561	-	-	561
Warrants issued to Macquarie	-	-	-	81,723	81,723
Warrants issued to Bondholders	-	-	-	12,816	12,816
At 31 March 2010	(72,495)	14,421	59,234	107,531	108,691

	Company			
	Convertible bond equity reserve US\$'000	Share-based payments reserve US\$'000	Warrant reserve US\$'000	Total other reserves US\$'000
	At 1 April 2008	10,807	52,451	11,532
Share-based payments	-	4,485	-	4,485
Warrants issued	-	-	2,970	2,970
At 31 March 2009	10,807	56,936	14,502	82,245
Issue of share capital – cashless exercise of warrants	-	-	(1,510)	(1,510)
Share-based payments	-	2,298	-	2,298
Transfer to accumulated deficit	(10,807)	-	-	(10,807)
Convertible bond restructuring	13,860	-	-	13,860
Convertible bond interest deferral, equity portion	561	-	-	561
Warrants issued to Macquarie	-	-	81,723	81,723
Warrants issued to Bondholders	-	-	12,816	12,816
At 31 March 2010	14,421	59,234	107,531	181,186

As more fully disclosed in note 11, during the year ended 31 March 2010, the Company:

- Restructured the Bonds resulting in the allocation of US\$13.9 million to the convertible bond reserve in equity, and on extinguishment 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.

Credit Facility warrants

As more fully disclosed in note 11, it was a condition of the Amendment that the Company also execute the Warrant Deed, replacing a five-year warrant previously issued to Macquarie on 6 March 2008 that granted Macquarie the right to acquire 5,000,000 ordinary shares at 160.6p and 15,000,000 ordinary shares at 75p.

Subject to the provisions of the Warrant Deed, including vesting criteria linked to the level of the available borrowing base under the Credit Facility, Macquarie is entitled to subscribe for up to 547,918,106 new ordinary shares of the Company, subject to certain terms and conditions.

The table below shows the number of additional ordinary shares entitled to subscription for and purchase on each increase in borrowing base under the Credit Facility.

Available borrowing base under the Credit Facility	Number of additional ordinary shares available for subscription pursuant to the Warrant Deed	Exercise price per ordinary share	Vesting date
On closing	121,759,579	4.54p	23/02/2009
US\$55,000,000	74,928,972	4.54p	12/08/2009
US\$60,000,000	46,830,607	4.54p	12/08/2009
US\$65,000,000	55,345,263	5.22p	12/08/2009
US\$75,000,000	66,414,316	5.67p	12/08/2009
US\$85,000,000	182,639,369	6.13p	-
Total	547,918,106		

On closing the Amendment on 23 February 2009, Macquarie was entitled to subscribe for up to 121,759,579 ordinary shares at 4.54p per ordinary share as a result of amounts already drawn down

under the Credit Facility. This right was subject to shareholder approval of the Warrant Deed which was received on 12 May 2009.

On 12 August 2009, the amount of the borrowing base commitment under the Credit Facility was increased from US\$50 million to US\$80 million. Accordingly, Macquarie's entitlement to subscribe for a further 243,519,158 additional shares under the Warrant Deed vested on that date, bringing the total vested warrants under the Warrant Deed to an aggregate of 365,278,737 ordinary shares of the Company with exercise prices between 4.54p and 5.67p. On vesting, the fair value of these additional warrants, calculated using the Black-Scholes model, amounted to US\$81.7 million, which was expensed as an exceptional, non-cash Credit Facility restructuring charge during the year ended 31 March 2010.

Macquarie's right to subscribe for the final tranche of ordinary shares pursuant to the Warrant Deed shall vest when and if the Company obtains additional future increases in the available borrowing base under the Credit Facility equal to or greater than US\$85 million.

Subsequently, Macquarie syndicated a portion of the Credit Facility to various third party investors. In conjunction with the syndication, Macquarie assigned its vested rights to subscribe for 97,334,842 new ordinary shares under the Warrant Deed to those various third-party investors and a revised warrant deed was issued to Macquarie and new warrant deeds issued to those third party investors (the "Warrant Deeds").

Exercise and expiry date

Each warrant tranche has an expiration date of five years from the date the relevant tranche vests, by which time the warrant holders need to have exercised their entitlement to subscribe for ordinary shares.

Anti-dilution provisions

To prevent the dilution of the rights granted under the Warrant Deeds, the exercise price and the number of ordinary shares that may be purchased pursuant to the Warrant Deeds are subject to adjustments from time to time if ordinary shares are issued due to the conversion of the Company's Bonds or due to the exercise of employee share options issued on or before 30 June 2009. The exercise price of any additional warrants issued by the Company under the anti-dilution provisions would be equal to 95% of the volume weighted average price for the five trading days prior to the dilutive event.

Anti-dilution grant

On 8 March 2010, an anti-dilution adjustment event pursuant to the Warrant Deeds, resulting from the exercise of employee share options, triggered aggregate adjustments of an additional 1,042,124 ordinary shares underlying the Warrant Deeds at an exercise price of 19.2 pence based on 95% of five day VWAP of 20.2 pence as at 8 March 2010.

The warrant table below sets out the Credit Facility warrants outstanding at 31 March 2010 and 2009:

	2010			2009		
	Number of warrants	Weighted average exercise price (pence)	Weighted average market price on exercise (pence)	Number of warrants	Weighted average exercise price (pence)	Weighted average market price on exercise (pence)
Outstanding at start of year	547,918,106	5.3	-	20,000,000	96.0	-
Cancelled on substitution of warrant	-	-	-	(20,000,000)	96.0	-
Grant of substitution warrant	-	-	-	547,918,106	5.3	-
Anti-dilution warrant adjustment	1,042,124	19.2	-	-	-	-
Exercised	(26,200,000)	4.5	23.0	-	-	-
Outstanding at end of year	522,760,230	5.3	-	547,918,106	5.3	-

During the year ended 31 March 2010, cashless exercises of 26,200,000 of the Credit Facility warrants resulted in the issue of 20,476,094 new ordinary shares.

Of the outstanding Credit Facility warrants at 31 March 2010, 340,120,861 were fully vested and exercisable (2009: none were exercisable).

Convertible bond warrants

As more fully disclosed in note 11, 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 "Bondholder warrants"). 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.

The warrant table below sets out the Bondholder warrants outstanding at 31 March 2010 and 2009:

	2010			2009		
	Number of warrants	Weighted average exercise price (pence)	Weighted average market price on exercise (pence)	Number of warrants	Weighted average exercise price (pence)	Weighted average market price on exercise (pence)
Outstanding at start of year	-	-	-	-	-	-
Bondholder warrant grants	60,000,000	5.0	-	-	-	-
Exercised	(49,160,000)	5.0	19.2	-	-	-
Outstanding at end of year	10,840,000	5.0	-	-	-	-

Of the outstanding Bondholder warrants at 31 March 2010, 10,840,000 were fully vested and exercisable.

Warrant fair values

The table below represents the assumptions used in determining the fair value of the Company's warrants using the Black-Scholes model, as follows:

	2010	2009
Exercise price of warrant	4.54p - 5.67p	4.54p
Share price on date of grant	13.5p - 25p	4.75p
Expected term before warrant exercise	2.5 years	2.5 years
Risk free interest rate	2.0% - 2.37%	2.2%
Expected dividend yield	-	-
Expected share volatility	52.5% - 54.6%	52.5%

The expected volatility has been determined by reference to the historical share price volatility for peer group companies similar to Max Petroleum in terms of operations and geographic area. The average historical volatilities for each company have been averaged over the period from the date of the Company's admission to AIM to the date of grant.

13. Post balance sheet events

Credit Facility

Subsequent to 31 March 2010, the Company has borrowed a further US\$6.5 million under the Credit Facility (note 11) resulting in a total balance of US\$65.1 million.

Increase in issued share capital

Subsequent to 31 March 2010 the Company:

- Issued 2,840,000 new ordinary shares in respect of the exercise of warrants issued to Bondholders for total cash proceeds of US\$0.2 million.
- Issued 9,789,999 new ordinary shares in respect of the cashless exercise of 13,700,000 of the Credit Facility warrants.
- Issued 493,333 new ordinary shares in respect of the exercise of share options for total cash proceeds of US\$0.03 million.

Results of drilling programme

Subsequent to 31 March 2010, the Group completed drilling three exploration wells. Two of the exploration wells did not encounter commercial quantities of hydrocarbons and will be plugged and abandoned. At 31 March 2010, US\$1.1 million was capitalised in respect of these wells, which will be expensed to exploration and appraisal costs in the following period. A third exploration well will be converted to a water injection well in the development of the Group's Borkyldakty Field discovery. Additionally, the Group drilled one successful development well on the Group's producing Zhana Makat Field.

Astrakhanskiy Licence Status

In July 2010, the Group received a letter from the MOG notifying the Group of the termination of its subsoil use licence for the Astrakhanskiy Block. The carrying value of the assets pertaining to the Astrakhanskiy Licence were fully written down at 31 March 2010 (note 10).

Tax Claim

In June 2010, the Court of Cassation, an appellate court of the Republic of Kazakhstan, upheld the Tax Claim against the Group (note 9). The Group continues to believe the Tax Claim is without merit and filed an appeal of the Court of Cassation's decision to the Supreme Court of the Republic of Kazakhstan in June 2010. The Supreme Court has agreed to review the appeal. The Group expects the Supreme Court appeals process to take up to six months from the date of initial appeal.

Oil export duty

Effective 12 August 2010, the government of the Republic of Kazakhstan will introduce an oil export duty of US\$20/tonne (about US\$2.7/bbl). There is no impact on the financial statements for the year ended 31 March 2010, however future periods will be affected.