

MAX PETROLEUM PLC
(“MAX PETROLEUM”, THE “COMPANY” AND TOGETHER WITH ITS SUBSIDIARIES, THE
“GROUP”)
[AIM: MXP]
2010 INTERIM RESULTS ANNOUNCEMENT

17 December 2010

Max Petroleum, an oil and gas exploration and production company focused on Kazakhstan, today announces its interim results for the six months ended 30 September 2010.

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

Financial Highlights

- Revenue of US\$24.7 million, up 20% from US\$20.6 million in the comparative period in 2009.
- Total sales volumes of 378,000 barrels of crude oil (“bbls”), down 6% from 401,000 bbls sold in the comparative period in 2009.
- Average realised price of US\$65.21 per bbl, up 27% from US\$51.51 per bbl compared to the six months ended 30 September 2009.
- Net cash generated from operating activities of US\$3.4 million, a 16% decrease from US\$4.0 million in the comparative period in 2009.
- Loss for the period of US\$13.3 million, compared to a loss of US\$113.9 million in the comparative period in 2009, which included US\$101.9 million of non-cash charges arising from the restructuring of the Group's borrowings.
- Deferred the interest payment on the convertible bonds due 8 September 2010, resulting in a payment in kind of US\$3.7 million added to the principal of the bonds and the vesting of warrants over an additional 30 million shares in the Company at an exercise price of 5p per ordinary share.
- The Group has received written assurance from its senior lender, Macquarie Bank Limited, that upon obtaining the consent of all syndicate participants it will amend the Group's credit facility to i) unconditionally waive an upcoming principal payment due 31 January 2011 and ii) defer all outstanding principal until 31 March 2013 subject to the Group raising additional equity financing by 31 March 2011 and extending the maturity date of the Group's convertible bonds until 8 September 2013.
- The Group has also received written assurances from the holders of more than 85% of its convertible bonds that they will approve the deferral of the maturity date of the convertible bonds to 8 September 2013, subject to the Group raising additional equity by 31 March 2011.
- In September 2010, the Supreme Court of Kazakhstan reversed the rulings of the lower courts regarding a previously announced tax claim and remanded the case for reconsideration. Further tax and interest payments towards the tax claim are suspended while the case is pending, including further appeals, up to the Supreme Court, a process that is expected to take a minimum of three months or longer to resolve.

Operational Highlights

- In July 2010, the 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.
- The Ministry of Oil and Gas of the Republic of Kazakhstan has approved the extension of the exploration period of the Group's Blocks A&E Exploration and Production Licence for two years until March 2013.
- Continued the post-salt drilling programme, which began in November 2009. As of 15 December 2010, the Group has drilled a total of 11 wells, including seven exploration wells generating one commercial discovery in the Borkyldakty Field and another potential discovery on the Uytas prospect that is currently being tested. The Group also drilled three successful development wells in the Zhana Makat Field and one non-commercial appraisal well in the Borkyldakty Field.
- As of 15 December 2010, the remaining post-salt exploration portfolio consists of seven prospects with unrisked mean resource potential of 150 million barrels of oil, including one new Triassic prospect, Sagiz West. In addition, the Group is evaluating six new leads identified on 3D seismic, several of which are expected to mature to drillable prospect status by early 2011. The Sagiz West prospect and additional leads are based on a new Triassic play model developed after

analysis of the Group's successful Triassic exploration wells in Borkyldakty and Zhana Makat drilled earlier this year.

- In September 2010, the Group executed a drilling contract with Sun Drilling LLP for a second rig capable of drilling to 3,600 metres. The ZJ-40 rig is on location to drill an exploration well on the Asanketken prospect on Block E, and is expected to commence drilling activities in early 2011.
- In December 2010, the Group has tendered for an additional ZJ-20 shallow rig capable of drilling post-salt exploration, appraisal and development wells and has issued a tender for a larger rig capable of drilling a pre-salt, Type II well scheduled for the third quarter of 2011, subject to financing.
- Current production of approximately 2,000 barrels of oil per day generating in excess of US\$4.5 million revenue per month. The Group intends to increase near-term production by working over two wells currently offline in the Zhana Makat Field in December 2010, as well as bringing up to seven new wells online by 31 March 2011, including two Triassic wells scheduled to be drilled in Zhana Makat in February and March 2011, placing the UTS-1 well on an extended production test along with three additional confirmation wells scheduled to be drilled in February 2011, and placing the BOR-1 well onto continuous production after obtaining regulatory approval expected in early 2011.

Key performance indicators (KPIs)

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

	Six months ended 30 September 2010	Six months ended 30 September 2009	Change %
Crude oil sales volumes (Mboe)	378	401	(6)%
Export sales volumes (Mboe)	303	340	(11)%
Domestic sales volumes (Mboe)	75	61	23%
Oil sales revenue (US\$'000)	24,682	20,640	20%
Export sales revenue (US\$'000)	21,886	19,048	15%
Domestic sales revenue (US\$'000)	2,796	1,592	76%
Average realised price (US\$ per bbl)	65.21	51.51	27%
Average realised export price (US\$ per bbl)	72.18	56.11	29%
Average realised domestic price (US\$ per bbl)	37.13	26.00	43%
Operating costs ¹ (US\$'000)	10,530	9,595	10%
Commercial production (US\$'000)	2,811	3,671	(23)%
Test production (US\$'000)	299	-	n/a
Selling and transportation (US\$'000)	2,310	2,301	0%
Mineral extraction tax (US\$'000)	1,292	957	35%
Export rent tax/export customs duty (US\$'000)	3,818	2,666	43%
Operating costs per bbl ¹ (US\$ per bbl)	27.82	23.95	16%
Commercial production (US\$ per bbl)	7.43	9.16	(19)%
Test production (US\$ per bbl)	0.79	-	n/a
Selling and transportation (US\$ per bbl)	6.10	5.74	6%
Mineral extraction tax (US\$ per bbl)	3.41	2.39	43%
Export rent tax/export customs duty (US\$ per bbl)	10.09	6.66	52%
Net cash from operating activities (US\$'000)	3,366	4,021	(16)%

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 6 to the accompanying financial information.

17 December 2010

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,

Max Petroleum has the potential for significant growth over the next twelve months based on the continued drilling of its post-salt exploration portfolio, appraisal and development of existing shallow discoveries, and drilling of a deep, Type II prospect in mid-2011 to be followed by an additional Type II or Type I deep well in early 2012.

Post-salt Exploration Programme

Max Petroleum is in the midst of a post-salt drilling programme that commenced in November 2009 to evaluate a total of 14 exploration prospects and drill additional appraisal and development wells as required. As of 15 December 2010, the Group has drilled 11 post-salt wells in the campaign, including seven exploration wells, generating one commercial discovery in the Borkyldakty Field and another potential discovery on the Uytas Prospect that is currently being tested. The Group also drilled three successful development wells in the Zhana Makat Field and one non-commercial appraisal well in the Borkyldakty Field.

The Group's current post-salt portfolio consists of seven shallow prospects with an estimated total unrisked mean recoverable resources of 150 million barrels of oil ("mmbo") ranging in size from nine to 50 mmbo. This includes Sagiz West, a new Triassic prospect on Block E with mean estimated recoverable resources of 26 mmbo. Max Petroleum's technical team has also identified six additional Triassic leads, several of which are expected to high grade into drillable prospects in early 2011. The Group believes the Triassic play type has tremendous potential on Blocks A&E, based upon the Group's successful Triassic wells in the Borkyldakty and Zhana Makat fields, as well as recent Triassic discoveries in nearby blocks held by other operating companies including KazMunaiGas E&P and FIOC / SINOPEC.

The Group discovered the Borkyldakty Field in March 2010 with the BOR-1 exploration well, reaching a total measured depth of 1,755 metres with electric logs indicating 38 metres of net oil pay over five Triassic sandstone reservoirs at true vertical depths ranging between 1,357 and 1,536 metres. The Group has completed production tests on four of five Triassic reservoirs, all of which produced crude oil at commercial rates ranging from 75 to 200 barrels of oil per day ("bopd"). The well is currently shut-in after completing its 90-day regulatory test period and will be brought back on to production after regulatory approval of a Trial Production Project ("TPP") for the Borkyldakty Field, which is expected to be received in the first quarter of 2011.

The Group has commenced acquisition of a 28 km² high-fold, 3D seismic survey over the Borkyldakty Field, which it expects to complete in December 2010 and process and interpret by February 2011, prior to drilling additional appraisal and development wells. This 3D seismic survey will enhance the Group's ability to map the existing Triassic reservoirs in the field, estimate the field's potential reserves, and evaluate an adjacent structure to determine if it is a drillable prospect.

Max Petroleum drilled the UTS-1 exploration well on the Uytas prospect in Block A in October 2010. Electric logs and oil shows observed while drilling indicated an estimated 16 metres of net oil pay in the shallow Cretaceous section below 146 metres in depth, eight metres of estimated net oil pay in the Jurassic formation between 331 and 339 metres in depth, and six metres of estimated net oil pay in the Triassic section between 785 and 800 metres in depth. The Group has commenced limited testing of the UTS-1 well using a workover rig after receipt of the required government approvals and expects to receive regulatory approval for extended production testing of UTS-1 in January 2011. Subject to the results of the ongoing evaluation, the Group intends to drill three additional appraisal wells in the first quarter of 2011, which will help evaluate the size and scope of the Uytas structure.

The Group has two drilling rigs under contract with the ZJ-30 rig mobilising to evaluate the West Altykol prospect in Block E and the ZJ-40 rig on location to drill the ASK-1 well on the Asanketken prospect, both of which are expected to spud in early 2011. The Group has tendered for an additional ZJ-20 shallow rig capable of drilling post-salt exploration, appraisal and development wells and has issued a tender for a larger rig capable of drilling a pre-salt, Type II well scheduled for the third quarter of 2011, subject to financing.

Zhana Makat Field

The Group successfully extended the Zhana Makat Field into the Triassic section as a result of the ZMA-A15 well drilled in August 2010, which produced 50° API crude oil at a rate of 75 barrels of oil and 35 barrels of water per day on an extended production test. While the ZMA-A15 well is partially depleted due to the well's close proximity to Triassic production in the adjacent Makat Field, the Group has identified two additional Triassic well locations to be drilled in early 2011 which are expected to produce at substantially higher rates. The ZMA-A15 well is currently suspended and will be returned to production after receipt of required government approvals, expected in January 2011.

The Group has also identified a minimum of five additional development well locations in the Zhana Makat Field, which it intends to drill after the field is declared commercial for Kazakh regulatory purposes, which is expected prior to 30 June 2011. Max Petroleum has requested that Zhana Makat's TPP status be extended until 30 June 2011 while it obtains regulatory approval for commercial development of the field.

Pre-salt Exploration Programme

In addition, subject to financing the Group plans to begin testing its deeper, pre-salt portfolio in the third quarter of 2011, drilling at least two exploration wells through the third quarter of 2012. The Group's pre-salt portfolio consists of 10 prospects and five leads. The Group estimates the total unrisked mean recoverable resources of this portfolio at 4.4 billion barrels of oil equivalent with prospects ranging in size from 100 to 600 million barrels of oil equivalent.

Astrakhanskiy Licence

As more fully explained in the Group's Annual Report and Accounts for the year ended 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 the Astrakhanskiy Licence due to the Group's failure to comply with the work obligations stipulated under the licence. The Group has received formal waivers from both Macquarie Bank and the holders of its US\$75 million 6.75% convertible bonds (the "Convertible Bonds") of any redemption right or event of default created by the termination of the Astrakhanskiy Licence. The Group is in the process of obtaining various regulatory approvals required to formally relinquish the Astrakhanskiy Licence to the Republic of Kazakhstan, which is expected to be completed on or around 31 December 2010, and does not expect to have any ongoing commitments or liabilities arising from the licence following relinquishment.

Liquidity and capital resources

The Group funds its activities through a combination of cash flow from operations, borrowings under the credit facility, and other debt and equity financing as required. The Group anticipates that its post-salt exploratory programme to drill the seven remaining shallow prospects in its portfolio will require approximately US\$10-15 million dollars, while the cost of drilling two pre-salt exploration wells is estimated to be approximately US\$60 million dollars. Future capital requirements are currently difficult to predict, as they will be driven by the results of the Group's post-salt exploration programme and the size and scope of the Group's pre-salt drilling programme.

In order to fund its short-term capital requirements, the Group intends to raise additional equity financing and defer the maturity of its outstanding indebtedness until after the end of the exploration period of the Blocks A&E licence in March 2013. To this end, the Group has filed for the required approvals from the Kazakh regulatory authorities to allow Max Petroleum to issue additional equity. The Group plans to pursue an equity offering as soon as possible after receiving regulatory approval to do so. In addition, the Group has received written assurance from Macquarie Bank that upon obtaining the consent of all syndicate participants it will amend the Group's senior credit facility to i) unconditionally waive a 31 January 2011 principal repayment date and ii) defer repayment of all outstanding principal until 31 March 2013 subject to the completion of an equity raise by 31 March 2011 and approval from the holders of the Group's Convertible Bonds to extend the maturity date of

the Convertible Bonds until 8 September 2013. The Group has received written assurances from the holders of more than 85% of its Convertible Bonds that they will vote at an extraordinary general meeting to approve deferral of the maturity date of the Convertible Bonds to 8 September 2013, subject to the Group raising additional equity before 31 March 2011.

The Group is currently generating in excess of US\$4.5 million per month on current production of approximately 2,000 barrels of oil per day. The Group intends to increase near-term production by working over two wells currently offline in the Zhana Makat Field in December 2010 as well as bringing up to seven new producing wells online by 31 March 2011, including two Triassic wells scheduled to be drilled in Zhana Makat in February and March 2011, placing the UTS-1 well on an extended production test along with three additional confirmation wells scheduled to be drilled in February 2011, and placing the BOR-1 well onto continuous production after obtaining TPP approval expected in early 2011. While the Group cannot predict when it may drill an additional discovery as part of its post-salt exploration portfolio, the Group would also place any such discovery well on production as soon as possible, as well as any future appraisal and development wells, to increase production and cash flow from crude oil sales.

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 Company to review the condensed consolidated interim financial information in the interim financial report for the six months ended 30 September 2010, which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and related notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial information.

Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the AIM Rules for companies which require that the interim 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 consolidated interim financial information included in this interim 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 Company a conclusion on the condensed consolidated interim financial information in the interim 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 consolidated interim financial information in the interim financial report for the six months ended 30 September 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM rules for Companies.

Emphasis of Matter

In forming our review conclusion, which is not qualified, we have considered the adequacy of the disclosures made in note 2 to the interim financial information concerning the Group's ability to continue as a going concern. The Group's forecasts indicate a need for additional financing. The Group intends to finance the liquidity shortfall by pursuing an equity placement and an extension of the final maturity dates on its credit facility and convertible bonds. These circumstances, along with the other matters explained in note 2 to the interim financial information, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The interim financial information does not include the adjustments that would result if the Group was unable to continue as a going concern.

PricewaterhouseCoopers LLP
Chartered Accountants
16 December 2010
London

Notes:

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

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

MAX PETROLEUM PLC
CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2010
(in thousands of US\$)

	Note	Unaudited six months ended 30 September 2010	Unaudited six months ended 30 September 2009
Revenue		24,682	20,640
Cost of sales	6	(17,173)	(15,674)
Gross profit		7,509	4,966
Exploration and appraisal costs		(5,180)	-
Administrative expenses		(7,863)	(6,903)
Operating loss	9	(5,534)	(1,937)
Debt restructuring costs	7	-	(101,852)
Finance income		1	-
Finance costs	8	(7,738)	(10,080)
Loss before taxation		(13,271)	(113,869)
Income tax expense	10	(21)	(49)
Loss for the period		(13,292)	(113,918)
Loss per share			
- Basic (US cents)	3	(3.0)	(31.0)
- Diluted (US cents)	3	(3.0)	(31.0)

The notes on pages [●] to [●] form an integral part of this condensed consolidated half-yearly financial information.

MAX PETROLEUM PLC
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2010

(in thousands of US\$)

	Unaudited six months ended 30 September 2010	Unaudited six months ended 30 September 2009
Loss for the period	(13,292)	(113,918)
Other comprehensive income and expense	-	-
Total comprehensive loss for the period	(13,292)	(113,918)

The notes on pages [●] to [●] form an integral part of this condensed consolidated half-yearly financial information.

MAX PETROLEUM PLC
CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2010
(in thousands of US\$)

	Note	Unaudited as at 30 September 2010	Audited as at 31 March 2010
Assets			
Non-current assets			
Intangible assets – exploration and appraisal expenditure	11	140,027	133,489
Oil and gas properties	11	25,578	26,172
Property, plant and equipment	11	11,408	12,051
		177,013	171,712
Current assets			
Inventories		13,715	12,990
Trade and other receivables		6,807	5,805
Cash and cash equivalents		4,644	3,806
		25,166	22,601
Total assets		202,179	194,313
Liabilities			
Non-current liabilities			
Borrowings	12	75,949	70,625
Provision for liabilities and other charges	13	1,588	1,551
		77,537	72,176
Current liabilities			
Trade and other payables		15,454	14,484
Current tax liabilities		7,622	9,824
Borrowings	12	69,841	58,579
		92,917	82,887
Total liabilities		170,454	155,063
Net assets		31,725	39,250
Capital and reserves			
Share capital	14	7,944	7,942
Share premium	14	265,935	265,043
Other reserves	15	113,564	108,691
Accumulated deficit		(355,718)	(342,426)
Total equity		31,725	39,250

The notes on pages [●] to [●] form an integral part of this condensed consolidated half-yearly financial information.

MAX PETROLEUM PLC
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 September 2010
(in thousands of US\$)

	Share capital	Share premium	Other reserves	Accumulated deficit	Total equity
Six months ended 30 September 2010					
Balance at 1 April 2010	7,942	265,043	108,691	(342,426)	39,250
Loss for the period	-	-	-	(13,292)	(13,292)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(13,292)	(13,292)
Issue of share capital	2	892	(643)	-	251
Share-based payments	-	-	1,078	-	1,078
Convertible bond interest deferral, equity portion (note 15)	-	-	412	-	412
Warrants issued (note 15)	-	-	4,026	-	4,026
	2	892	4,873	-	5,767
Balance at 30 September 2010	7,944	265,935	113,564	(355,718)	31,725

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

The notes on pages [●] to [●] form an integral part of this condensed consolidated half-yearly financial information.

MAX PETROLEUM PLC
CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2010
(in thousands of US\$)

	Note	Unaudited six months ended 30 September 2010	Unaudited six months ended 30 September 2009
Cash flows from operating activities			
Cash generated from operations	17	5,565	4,070
Income tax paid		(2,199)	(49)
Net cash generated from operating activities		3,366	4,021
Cash flows used in investing activities			
Purchases of property, plant and equipment		(161)	(1,314)
Payments for exploration and appraisal expenditure		(10,353)	(6,298)
Interest received		1	-
Net cash used in investing activities		(10,513)	(7,612)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		251	1,271
Proceeds from borrowings		11,262	7,100
Interest paid		(3,528)	(2,184)
Net cash generated from financing activities		7,985	6,187
Net increase in cash and cash equivalents		838	2,596
Cash and cash equivalents at beginning of period		3,806	3,036
Cash and cash equivalents at end of period		4,644	5,632

The notes on pages [●] to [●] 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 the exploration, development and production of oil and gas assets within the Republic of Kazakhstan. The Group owns the exploration and production rights to the Blocks A&E Licence, located in the Pre-Caspian Basin in Western Kazakhstan.

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 financial report for the six months ended 30 September 2010 was approved by the Board of Directors on 16 December 2010.

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 condensed consolidated financial information for the six months ended 30 September 2010 included in this interim financial report (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 2010. 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 2010, except for the adoption of the following standards and amendments:

- IFRS 1 (revised) *First-time Adoption of International Financial Reporting Standards*
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* (Additional Exemptions for First-time Adopters)
- Amendments to IFRS 2 *Share-based Payment* (Group Cash-settled Share-based Payment Transactions)
- IFRS 3 (revised) *Business Combinations*
- IAS 27 (revised) *Consolidated and Separate Financial Statements*
- Amendment to IAS 32 *Financial Instruments: Presentation* (Classification of Rights Issues)
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* (Eligible Hedged Items)
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
- IFRIC 17 *Distributions of Non-Cash Assets to Owners*
- IFRIC 18 *Transfers of Assets from Customers*
- Improvements to IFRSs (2009)

The adoption of the above new and revised standards has had no effect on the reported financial results or the disclosures in this interim financial report.

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 2010 were approved by the Board of Directors on 25 August 2010 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006. The auditors’ report on the 2010 accounts, whilst unqualified, contained an emphasis of matter which drew attention to the existence of a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern.

Going concern

The interim financial information has been prepared on a going concern basis, under which assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

The Group is engaged in the exploration and development of oil and gas assets in Kazakhstan and, as set out in the Joint Chairmen's statement of this interim financial report, will require significant additional capital to fund its future exploration and development activities. The Group has prepared cash flow forecasts for the twelve months from the date of signing of this interim financial report which indicate that it will need additional financing in order to fund its future exploration and development programme, administrative and operating expenses, and service its senior credit facility (the "Credit Facility") and its US\$75 million 6.75% convertible bonds (the "Convertible Bonds"). The Group intends to finance the liquidity shortfall by pursuing an equity placement as soon as possible subsequent to the receipt of requisite approvals from Kazakh regulatory authorities.

The Group's borrowing base under the Credit Facility is US\$80.0 million. As at 15 December 2010, the Group had drawn US\$70.9 million, including US\$0.1 million in letters of credit secured by the Credit Facility, leaving US\$9.1 million available. The Group has received written assurance that Macquarie Bank upon obtaining the consent of all syndicate participants will amend the Credit Facility to i) unconditionally waive an upcoming 31 January 2011 principal repayment and ii) defer repayment of all outstanding principal until 31 March 2013 subject to the Group raising additional equity financing and obtaining approval of the Group's Bondholders to extend the final maturity date of the Convertible Bonds to 8 September 2013. The Group has received written assurance from the holders of more than 85% of the Convertible Bonds that they will vote at an extraordinary meeting to defer final maturity of the Convertible Bonds to 8 September 2013, subject to the Group completing an equity offering. If Macquarie Bank is unable to obtain the consents of all syndicate partners, the principal outstanding under the Credit Facility will become due in equal instalments on 31 January 2011, 31 March 2011, and 1 June 2011 unless otherwise agreed by the Group and Macquarie Bank in writing. Furthermore, if the conditions required to defer the maturity date of the Credit Facility until 31 March 2013 are not satisfied by 31 March 2011, the principal outstanding under the Credit Facility would become due in two equal instalments on 31 March 2011 and 1 June 2011, unless otherwise agreed by the Group and Macquarie Bank in writing.

Although the directors are working to resolve the Group's outstanding liquidity needs, there is uncertainty as to whether the Group will be successful in raising equity and whether the Bondholders will extend the final maturity date on the Convertible Bonds in order to allow deferral of the final maturity date of the Credit Facility until 31 March 2013. They have concluded that these circumstances result in the existence of a material uncertainty that casts a significant doubt on 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 and development programme on its Blocks A&E Licence. For these reasons, they continue to adopt the going concern basis of accounting in preparing the interim financial information.

3. Loss per share

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

	Six months ended 30 September	
	2010 US\$'000	2009 US\$'000
(Loss) for the purpose of basic loss per share	(13,292)	(113,918)
Effect of dilutive potential ordinary shares	-	-
(Loss) for the purpose of diluted loss per share	(13,292)	(113,918)

	Number of shares millions	Number of shares millions
Weighted average number of ordinary shares for the purpose of basic loss per share	445.5	368.0
Effect of dilutive potential ordinary shares – share options	-	-
Weighted average number of ordinary shares for the purpose of diluted loss per share	445.5	368.0

The Company's potentially dilutive securities, being the outstanding convertible debt and outstanding share options and warrants in issue, were anti-dilutive for the six month periods ended 30 September 2010 and 2009 respectively.

4. Dividends paid and proposed

No dividend was paid or is proposed for the six month periods ended 30 September 2010 and 2009 respectively.

5. 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.

The Group's production and sale of hydrocarbons is not materially affected by seasonal factors or fluctuations.

Geographic information

The Group conducts business within three geographical regions. The Group's exploration and production activities are wholly focussed in the Republic of Kazakhstan, supported by a technical office in Houston, USA and a head office in London, United Kingdom.

6. Cost of sales

	Six months ended 30 September	
	2010 US\$'000	2009 US\$'000
Operating costs:		
- Commercial production	2,811	3,671
- Test production	299	-
Selling and transportation	2,310	2,301
Export rent tax/customs export duty	3,818	2,666
Mineral extraction tax	1,292	957
Depreciation, depletion and amortisation	6,643	6,079
	17,173	15,674

7. Debt restructuring costs

As more fully explained in the Group's Annual Report and Accounts for the year ended 31 March 2010, during the six months ended 30 September 2009 the Group restructured its Credit Facility and Convertible Bonds resulting in the following non-cash charges to the income statement:

	Six months ended 30 September	
	2010	2009
	US\$'000	US\$'000
Expense recognised on extinguishment of credit facility	-	8,798
Fair value of credit facility warrants expensed on restructuring of credit facility	-	81,722
Credit facility restructuring charges	-	90,520
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	-	101,852

8. Finance costs

	Six months ended 30 September	
	2010	2009
	US\$'000	US\$'000
Interest expense:		
Interest payable on bank borrowings	2,571	4,379
Interest payable on convertible bond	9,762	14,731
Unwinding of discount on decommissioning provision	62	139
Other	941	75
	13,336	19,324
Less:		
Interest expense capitalised to exploration and appraisal expenditure	(5,598)	(9,244)
Finance costs	7,738	10,080

Interest payable on the Convertible Bonds for the six months ended 30 September 2010 includes US\$4.0 million in relation to the fair value of the warrant exercisable into 30 million ordinary shares which vested as a result of the Group's election to defer Convertible Bond cash interest due on 8 September 2010 to PIK (note 12).

Interest payable on the Convertible Bonds for the six months 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 Group's election to defer Convertible Bond cash interest due on 8 September 2009 to PIK.

Other interest for the six months ended 30 September 2010 includes interest expense of US\$0.9 million to provide for interest payable to the tax authorities of the Republic of Kazakhstan in relation to a tax claim brought against the Group (see note 10).

9. Operating loss

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

	Six months ended 30 September	
	2010	2009
	US\$'000	US\$'000
Exploration and appraisal costs	5,180	-
Share-based payments, net of capitalisation	1,004	1,071

Exploration and appraisal costs relate to the cost of dry holes drilled during the period.

10. Income tax expense

	Six months ended 30 September	
	2010 US\$'000	2009 US\$'000
Current tax	21	49
Deferred tax	-	-
	21	49

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 2010 or 31 March 2010 as it has applied a 100% valuation allowance against all of the Group's deferred tax assets.

Tax Claim

In the year ended 31 March 2010, the Group recognised a liability of US\$16.7 million in relation to a tax claim brought against the Group by the local tax authorities of the Republic of Kazakhstan regarding the timing of certain tax deductions made by the Group prior to January 2009 (the "Tax Claim"). This comprised of US\$9.8 million of income taxes, US\$4.9 million of penalties and US\$2.0 million of interest. The Tax Claim is disclosed on pages 57 and 58 of the Group's Annual Report and Accounts for the year ended 31 March 2010. During the six months ended 30 September 2010 a further provision of US\$0.9 million has been made for interest relating to the Tax Claim.

The Group filed an appeal to the Supreme Court of the Republic of Kazakhstan in June 2010, but was required to make US\$3.1 million of payments toward the Tax Claim before the appeal was heard. In September 2010, the Supreme Court reversed the rulings of the lower courts and remanded the case to the Specialised Economic Court of Almaty for reconsideration. As a result of the Supreme Court decision, further tax and interest payments towards the Tax Claim are suspended while the case is pending, including any further appeals, through the Court of Cassation, the last court of appeal below the Supreme Court. In November 2010, the Specialised Economic Court of Almaty upheld the Tax Claim, which the Group has appealed to the Appellate Judicial Panel of the Almaty City Court. The Group continues to believe the Tax Claim is without merit and will continue to dispute it through the appropriate channels until final resolution, up to the Supreme Court, if necessary. This appeals process is expected to take a minimum of three months or longer.

Due to the uncertainty regarding the ultimate outcome of the case, the Group continues to provide US\$14.5 million, comprising US\$7.6 million of income taxes, US\$4.9 million of penalties and US\$2.0 million of accrued interest.

11. 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 2010				
Cost				
At 1 April 2010	262,087	37,814	16,110	316,011
Additions	14,697	2,538	163	17,398
Amounts written off to exploration and appraisal costs	(5,119)	-	-	(5,119)
Change in estimate for decommissioning provision	(25)	-	-	(25)
At 30 September 2010	271,640	40,352	16,273	328,265
Accumulated depletion, depreciation and amortisation				
At 1 April 2010	128,598	11,642	4,059	144,299
Charge for the period	3,015	3,132	806	6,953
At 30 September 2010	131,613	14,774	4,865	151,252
Net book value				
At 1 April 2010	133,489	26,172	12,051	171,712
At 30 September 2010	140,027	25,578	11,408	177,013

	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	777	6,387
Disposals	-	-	(23)	(23)
At 30 September 2009	10,265	8,683	3,263	22,211
Net book value				
At 1 April 2009	233,953	29,234	11,121	274,308
At 30 September 2009	245,941	26,390	11,657	283,988

12. Borrowings

	30 September 2010 US\$'000	31 March 2010 US\$'000
Bank borrowings due within one year	69,841	58,579
Current debt	69,841	58,579
Convertible bond	75,949	70,625
Non-current debt	75,949	70,625
Total borrowings	145,790	129,204

Bank borrowings

In June 2007, the Group entered into a US\$100 million revolving mezzanine Credit Facility with Macquarie Bank. The Credit Facility bears interest at a rate ranging from LIBOR plus 4% to LIBOR plus 7.5%, depending upon the value of the Group's underlying oil and gas reserves. At 30 September 2010 the loan principal was repayable in three equal instalments on 31 January 2011, 31 March 2011 and 1 June 2011.

In December 2010, the Group received written assurance from Macquarie Bank that upon obtaining consents from all syndicate participants it will amend the Credit Facility to i) unconditionally waive the 31 January 2011 principal repayment date and ii) defer repayment of all principal until 31 March 2013 and

waive certain breaches of banking covenants, subject to the following occurring on or before 31 March 2011:

- The Group raising additional equity financing to fund its ongoing post-salt and pre-salt exploration programme; and
- Approval by the holders of the Group's Convertible Bonds to extend the final maturity date of the Convertible Bonds to 8 September 2013.

The Group has received written assurances from the holders of more than 85% of its Convertible Bonds that they will vote at an extraordinary meeting to defer final maturity of the Convertible Bonds to 8 September 2013, subject to the Company raising equity. If the conditions are not satisfied by 31 March 2011, the principal outstanding under the Credit Facility would become due in two equal instalments on 31 March 2011 and 1 June 2011 unless otherwise agreed by the Group and Macquarie Bank in writing.

During the six months ended 30 September 2010 there have been no significant changes to the terms of the Credit Facility. The material provisions of the Credit Facility and the restructuring of the facility that took place during the six months ended 30 September 2009 are outlined on pages 66 and 67 of the Group's Annual Report and Accounts for the year ended 31 March 2010.

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

	Gross US\$'000	Debt issuance costs - cash US\$'000	Debt issuance costs - warrants US\$'000	Net US\$'000
Six months ended 30 September 2010				
Balance at 1 April 2010	58,579	-	-	58,579
Drawdown of loan facility	11,262	-	-	11,262
Balance at 30 September 2010	69,841	-	-	69,841

	Gross US\$'000	Debt issuance costs - cash US\$'000	Debt issuance costs - warrants US\$'000	Net US\$'000
Six months ended 30 September 2009				
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

At 30 September 2010, the Credit facility had a borrowing base of US\$80 million, of which US\$69.9 million was borrowed, including US\$78,000 reserved for outstanding letters of credit. 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.

Convertible bond

Max Petroleum completed an offering of Convertible Bonds on 8 September 2006, which were subsequently restructured by a supplemental trust deed dated 8 June 2009 between BNY Corporate Trustee Services Limited (formerly known as J.P. Morgan Corporate Trustee Services Limited) and the Company (the "Supplemental Trust Deed"). The Convertible Bonds bear interest at 6.75% per annum, payable semi-annually, and are convertible at a price of 35p per ordinary share, with a fixed exchange rate of \$US1.49 to £1. The maturity date of the Convertible Bonds is 8 September 2012.

Full details of the revised terms of the Convertible Bonds following the restructuring are outlined on pages 67 and 68 of the Group's Annual Report and Accounts for the year ended 31 March 2010. There have been no changes to the terms of Convertible Bonds during the six months ended 30 September 2010.

In conjunction with the proposed restructuring of the Credit Facility, the Group approached its Bondholders with a restructuring proposal to defer the final maturity of the Convertible Bonds to 8 September 2013. The Group has received written assurances from more than 85% of holders of the Company's Convertible Bonds, that subject to the Group completing an equity offering, they will support

an extraordinary resolution to amend the terms of the Convertible Bonds to defer final maturity to 8 September 2013.

Movements in the carrying value of 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 2010				
Balance at 1 April 2010	81,902	-	(11,277)	70,625
Notional interest incurred during the period	-	-	2,050	2,050
8 September 2010 interest PIK added to principal	3,686	-	(412)	3,274
Balance at 30 September 2010	85,588	-	(9,639)	75,949

	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

For interest payments due on or before 8 September 2010 the Supplemental Trust Deed provided the Company the option to defer a cash payment on an interest due date by converting the interest payable on the Convertible Bonds into PIK, subject to a higher interest rate of 9% per annum during the interest period immediately prior to making such an election.

During the six months ended 30 September 2010, the Company elected to defer the interest payment due on 8 September 2010, resulting in US\$3.7 million of interest PIK added to the principal of the Convertible Bonds. The Company split this additional principal between a financial liability element of US\$3.3 million and an equity component of \$0.4 million based on their fair values. The fair value of the liability component was calculated using a market interest rate of 14% for an equivalent non-convertible bond.

Pursuant to the terms of the Supplemental Trust Deed, the interest PIK on 8 September 2010 vested a five-year warrant exercisable at 5p per ordinary share over 30 million ordinary shares. The fair value of this warrant, calculated using the Black-Scholes model, amounted to US\$4.0 million and has been recorded as interest expense in the period with a corresponding increase in the warrant reserve in equity (see note 15).

Astrakhanskiy Licence

In July 2010, the Group received a letter from the 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. The MOG letter gave the Bondholders the right to redeem the Convertible Bonds. The Company convened a meeting of its Bondholders on 24 September 2010 where it received a formal waiver of this redemption right.

13. Provisions for liabilities and other charges

	Provision for decommissioning costs US\$'000
Six months ended 30 September 2010	
Balance as at 1 April 2010	1,551
Additions	24
Unused amounts reversed	(49)
Accretion of discount	62
Balance as at 30 September 2010	1,588
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

14. Share capital

During the six months ended 30 September 2010, the Company issued 13,123,232 ordinary shares, comprising:

- The exercise of 493,333 share options for total cash proceeds of US\$0.03 million, resulting in the issue of 493,333 new ordinary shares.
- The exercise of 2,840,000 Bondholder warrants for total cash proceeds of US\$0.22 million, resulting in the issue of 2,840,000 new ordinary shares.
- The cashless exercise of 13,700,000 Credit Facility warrants, resulting in the issue of 9,789,899 new ordinary shares.

At 30 September 2010, the Company had in issue 449,574,729 allotted and fully paid ordinary shares of 0.01 pence each.

15. Other reserves

	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
Six months ended 30 September 2010					
Balance as at 1 April 2010	(72,495)	14,421	59,234	107,531	108,691
Issue of share capital – cashless exercise of warrants (note 14)	-	-	-	(643)	(643)
Share-based payments (note 9)	-	-	1,078	-	1,078
Convertible bond interest deferral, equity portion	-	412	-	-	412
Warrants issued to Bondholders	-	-	-	4,026	4,026
Balance as at 30 September 2010	(72,495)	14,833	60,312	110,914	113,564

	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
Six months ended 30 September 2009					
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
Transfer convertible bond reserve 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 Bondholders	-	-	-	12,817	12,817
Warrants issued to Macquarie Bank	-	-	-	81,722	81,722
Balance as at 30 September 2009	(72,495)	14,421	58,146	108,283	108,355

As more fully disclosed in note 12, during the six months ended 30 September 2010, the Company deferred the interest payment otherwise due in respect of the Convertible Bonds on 8 September 2010:

- The interest due on the Convertible Bonds was converted into PIK of US\$3.7 million and added to the principal of the Convertible Bonds, resulting in the allocation of US\$0.4 million to the convertible bond reserve in equity.
- The Bondholders were granted a further 30 million warrants exercisable into ordinary shares of the Company at 5p per share. The fair value of warrants was US\$4.0 million and has been recorded within interest expense during the period and as an increase to the warrant reserve in equity.

During the six months ended 30 September 2010, holders of Credit Facility warrants (as detailed on pages 77 and 78 of the Group's Annual Report and Accounts for the year ended 31 March 2010) elected for the cashless exercise of their right to subscribe for 13,700,000 ordinary shares at an exercise price of 4.538p per share, resulting in the issue and allotment of 9,789,899 new ordinary shares and the transfer of US\$0.6 million from the warrant reserve to share capital and share premium.

16. Share-based payments

Full details of the Group's share option schemes are outlined on pages 79 to 81 of the Group's Annual Report and Accounts for the year ended 31 March 2010.

During the six months ended 30 September 2010, Max Petroleum granted 575,000 options to various officers and employees of the Group with exercise prices ranging from 10.75p to 11.00p per share. The options all have a term of seven years. 493,333 options were exercised during the period as detailed in note 14. The total number of options outstanding at 30 September 2010 was 70,655,261. Max Petroleum recorded a charge for the value of services of US\$1.0 million for the six months ended 30 September 2010, net of US\$0.1 million capitalised to intangible exploration and appraisal expenditure.

During the six months 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.

17. Cash generated from operations

	Six months ended 30 September	
	2010 US\$'000	2009 US\$'000
Loss before tax:	(13,271)	(113,869)
Adjustments for:		
- Depreciation, depletion and amortisation	6,953	6,387
- Share-based payment charge	1,004	1,071
- Exploration and appraisal expenditure written-off	5,119	-
- Foreign exchange	(23)	-
- Debt restructuring	-	101,852
- Finance income	(1)	-
- Finance costs	7,738	10,080
Changes in working capital		
- Inventories	(726)	622
- Trade and other receivables	(1,493)	(199)
- Trade and other payables	265	(1,874)
Cash generated from operations	5,565	4,070

Summary of non-cash items

	Six months ended 30 September	
	2010	2009
	US\$'000	US\$'000
Operating cash flow		
Share-based payment charge – valuation of options granted for services	1,004	1,071
Capital expenditure and financial investment		
Share-based payment capitalised to exploration and appraisal assets	74	139
Non-cash interest expense capitalised to exploration and appraisal assets	4,431	8,231
Depreciation, depletion and amortisation	6,953	6,387
Exploration and appraisal expenditure written-off	5,119	-
Provision for decommissioning costs	(25)	53
	16,552	14,810
Financing activities		
Non-cash issuance of ordinary shares	(643)	(758)
Unwinding of discount on decommissioning provision	62	139
Convertible bond non-cash interest	5,330	1,530
Bank borrowings non-cash interest	-	2,315
Debt restructuring costs	-	101,852
	4,749	105,078

18. Related party transactions

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

19. 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.

At 30 September 2010 the Group's commitment remaining under its Blocks A&E subsoil licence for calendar year 2010 totalled US\$35.5 million. This includes historical costs of US\$29.1 million which will become repayable from the date when a commercial hydrocarbon discovery is announced. The repayment plan for the historical costs on commercial discovery will become subject to negotiation with the Government of the Republic of Kazakhstan.

20. Post balance sheet events

Credit Facility

Subsequent to 30 September 2010, the Group has borrowed a further US\$1.0 million under the Credit Facility (note 12), resulting in a total balance of US\$70.9 million as at the date of this report.

As more fully disclosed in note 12, in December 2010, the Group received written assurance from Macquarie Bank that upon obtaining consents from all syndicate participants it will amend the Credit Facility to i) unconditionally waive its 31 January 2011 principal repayment and ii) defer repayment of all outstanding principal until 31 March 2013, subject to certain terms and conditions.

As more fully disclosed in note 12, the Group has received written assurance from greater than 85% of the Bondholders that, subject to certain terms and conditions, they will vote at an extraordinary meeting to defer final maturity of the Convertible Bonds to 8 September 2013.

Share Capital

Subsequent to 30 September 2010, as of the date of this report, the Company issued 2,400,000 new ordinary shares in respect of the exercise of warrants held by Bondholders for total cash proceeds of US\$0.2 million.

Share options

Subsequent to 30 September 2010, as at the date of this report, the Company granted 150,000 options to employees at an exercise price of 19.5p under the 2009 Executive Share Option Plan.

21. Publication of the interim financial report

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