

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

2008 PRELIMINARY RESULTS ANNOUNCEMENT
AND OPERATIONAL UPDATE

15 July 2008

Max Petroleum Plc, an oil and gas exploration and development company focused in Kazakhstan, today announced its annual results for the year ended 31 March 2008, as well as an update of its ongoing operations and execution of its strategic plan announced on 14 April 2008.

The Group's financial statements for the fiscal year ended 31 March 2008 have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union (“IFRS”) and all comparable financial statements for prior periods presented have been restated from UK GAAP to comply with IFRS.

A summary of the Group's financial and operational highlights for the fiscal year ended 31 March 2008 are as follows:

Financial

- Revenue of \$27.5 million from the sale of approximately 460,000 barrels of crude oil (“bbls”), or \$59.72 per bbl (2007: \$1.5 million on 60,000 bbls, or \$25.03 per bbl), consisting of:
 - Export sales of 301,000 bbls, generating revenue of \$22.2 million, or \$73.70 per bbl (2007: 3,000 bbls, generating revenue of \$0.2 million, or \$52.33 per bbl), and
 - Domestic sales of 159,000 bbls, generating revenue of \$5.3 million, or \$33.25 per bbl (2007: 57,000 bbls, generating revenue of \$1.3 million, or \$23.56 per bbl).
- Cost of sales of \$14.0 million, or \$30.47 per bbl, including \$12.1 million, or \$28.92 per bbl, attributable to 419,000 bbls of commercial production, and \$1.9 million, or \$46.29 per bbl, attributable to 41,000 bbls of test production (2007: \$1.5 million, or \$25.03 per bbl, attributable to 60,000 bbls of test production).
- Exploration and appraisal costs of \$15.9 million (2007: \$8.4 million).
- Impairment of investments held for sale of \$5.2 million relating to the disposal of the Group's 80% interest in the East Alibek licence in July 2008 (2007: nil).
- Administrative expenses include \$3.8 million in non-recurring costs relating to an internal investigation primarily focused on the undisclosed receipt of beneficial interests in options over six million shares in Max Petroleum by certain former employees and members of senior management (2007: nil).
- Capital expenditure for the year totalling \$77.4 million (2007: \$47.6 million).
- Group loss for the period of \$34.5 million (2007: \$29.7 million), or \$0.107 per share (2007: \$0.097 per share).

Operational

- Drilled a total of 26 wells in Block E to date, including 20 successful wells, all of which were in the Zhana Makat field, and six dry holes.
- Drilled one dry hole in the East Alibek licence area, which was plugged and abandoned in October 2007.
- Released the shallow drilling rig operating in the Zhana Makat field in May 2008.
- In August 2007, obtained regulatory approval for a three-year trial production project, allowing commencement of commercial production from the Zhana Makat field.

- Max Petroleum's Competent Person, Ryder Scott Company, estimated the 2008 fiscal year-end proved and probable reserves for the Zhana Makat field to be 9.1 million bbls, with an after-tax net present value discounted at 10% of \$197.2 million, based on a constant weighted average sales price of \$71.93 per bbl assuming 75% of the Group's future production is sold on the export market.

A more comprehensive operations update of the Group's current activities, including an update of progress against the Group's strategic plan announced in April 2008, is as follows:

Liquidity and Capital Resources

The Group currently funds its business using a combination of existing working capital, proceeds from the sale of crude oil production, and borrowings from its \$100 million revolving mezzanine credit facility with Macquarie Bank Limited (the "Macquarie Facility"). Furthermore, the Group is actively seeking joint venture partners to fund a portion of its long-term exploration and appraisal drilling programme through the farmout of a minority interest of its Astrakhanskiy and Blocks A&E licences.

Max Petroleum had \$4.0 million in cash on its balance sheet as of 31 March 2008 and ended the latest fiscal year generating in excess of \$6 million in revenue per month from the sale of crude oil. Based upon current production rates from the Zhana Makat field, combined with the higher commodity price environment, the Group expects to fully fund its current operating costs and capital expenditures out of operating cash flow beginning in July 2008.

The Group's liquidity position is further supplemented by the Macquarie Facility, which has a current borrowing base of \$50 million, of which \$32.5 million has been drawn down to date. The \$17.5 million in available borrowing capacity can be used to fund any aspect of the Company's exploration or development programme, including operating and administrative expenses, as necessary.

Farmout Activities

In June 2008, the Group launched a formal farmout process to seek partners to share in the risk and funding of the Group's previously announced three-year exploration programme. Up to 25% of the Block A&E licence and up to 50% of the Astrakhanskiy licence are being made available for third-party participation. Online data rooms have been established, allowing potential partners to efficiently assess the two opportunities. Max Petroleum's recent acquisition of the remaining 20% interest in the Blocks A&E licence, bringing the Group's total ownership interest to 100%, should also facilitate completion of a future farmout of Blocks A&E. A broad solicitation of interest was recently made and the Group is negotiating confidentiality agreements with parties who have expressed interest. The Group is requesting that interested parties respond in a manner that would enable the Group to enter into one or more transactions, subject to government approvals, before the end of the third quarter of 2008.

Production and Facilities

The Group produced approximately 2,200 barrels of oil per day ("bopd") during the month of June 2008 and currently has approximately 500 bopd shut-in from several wells drilled during 2008 that are subject to the 90-day test production limitation pending reserve reclassification by regulatory authorities, which should result in the inclusion of the wells in the Group's trial production project approved in August 2007. Updated reserve calculations for the Zhana Makat area have been submitted to the required government agencies for approval. Once approved, the wells should be promptly returned to production.

During May 2008, several production facility improvements were completed in the Zhana Makat field, allowing the Group to process and desalt its production without third-party

assistance. Improved processing has resulted in less operational downtime and an approximate 33% increase in net oil prices received by the Group for its crude oil sales to the domestic market.

Geological and Geophysical Programme

The Group's ongoing 3D seismic programme is progressing as scheduled. The Group has completed approximately 75% of its planned 5,490 km² 3D seismic acquisition programme in its Blocks A&E and Astrakhanskiy licence areas, with the acquisition of the remaining data expected by the first quarter of 2009.

During June, the Group received approximately 1,720 km² of time processed data from various 3D seismic surveys in its Blocks A&E and Astrakhanskiy licence areas, including:

- o 380 km² from its 3D survey in the western section of the Astrakhanskiy block;
- o 400 km² from the northwest corner of its 1,610 km² 3D survey in the southern Kuzbak area of Block E; and
- o 940 km² from the western portion of its 2,060 km² 3D survey in the northern section of Block A.

Although additional processing for depth imaging is ongoing, interpretation of the time-processed data has begun. It is anticipated that over 70% of the planned 3D seismic programme will have been interpreted and multiple independent, drillable shallow and intermediate exploration prospects will be fully mapped and high graded by 31 December 2008, allowing a sustainable shallow and intermediate drilling programme to begin in January 2009.

Drilling Programme

The Group is currently reviewing rig tenders for rigs capable of drilling to a depth of up to 3,000 metres to begin drilling exploration prospects in Blocks A&E in January 2009. Eight drilling rig companies have submitted proposals for 14 different drilling rigs for the Group to consider. Max Petroleum is currently evaluating the bids and plans to award a contract for at least one of two drilling rigs during the third quarter of 2008.

The Group's dedicated Astrakhanskiy project management team is making significant progress toward securing a suitable drilling rig and obtaining the necessary government approvals and permissions to allow the first pre-salt well in the Astrakhanskiy Block to begin drilling in December 2008. The Group has gone out to tender for a suitable rig and responses from the applicable drilling contractors are due by 1 August 2008. The planned initial exploration wells will test the pre-salt carboniferous platform and overlying reef closures, which are thought to be an extension of the giant Astrakhan gas-condensate field to the northwest of the Astrakhanskiy block.

Mark Johnson, Chief Executive Officer, commented:

"I am very pleased with the progress on many fronts as we deliver on our clearly outlined strategy presented in April of this year. Max is achieving the milestones required to significantly increase and capture the value potential of its two large licences in Kazakhstan. Crude oil sales from the Zhana Makat field are generating consistent operating cash flow capable of fully funding the Group's current operating and capital expenditure requirements, while material progress is being made to mature our sizeable exploration portfolio that will allow for a high quality, sustainable drilling campaign to begin in January 2009. The application of processed and interpreted 3D seismic data to large areas of our blocks, along with top quality technical professionals working diligently to high grade exploration prospects and efficiently execute drilling operations, will ensure a rapid assessment of our potential. The Group's employees are focused on achieving success and I am excited to be leading the team."

Enquiries:

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

Larry Connor, petroleum engineer and Senior Vice President of Ryder Scott, is the qualified person who reviewed and approved the technical information relating to Competent Person's independent reserve report from Ryder Scott. Ryder Scott is an internationally recognized oil and gas consultancy firm which conducts independent petroleum reserves evaluations and economic analysis for oil and gas companies worldwide. Founded in 1937, Ryder Scott performs about 800 consulting studies annually. The firm has 77 petroleum engineers and geoscientists in Houston, Calgary and Denver office locations. The firm has certified reserves for hundreds of field projects in the Former Soviet Union, including the \$6.75 billion acquisition of Tyumen Oil Co. and Sidanco four years ago — the largest direct investment in Russia in the post-Soviet era at that time. Ryder Scott has issued numerous Competent Person's Reports for upstream companies reporting to regulatory agencies in the European Union and elsewhere.

Announcement based on draft accounts

The financial information set out in the announcement does not constitute the Company's statutory accounts for the years ended 31 March 2008 or 2007. The financial information for the year ended 31 March 2007 is derived from the statutory accounts for that year which were prepared in accordance with generally accepted accounting principles in the United Kingdom and have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under s237(2) or (3) Companies Act 1985. The financial information for the year ended 31 March 2007 has been restated to comply with International Financial Reporting Standards ("IFRS") following the Group's adoption of IFRS with a transition date of 1 April 2006. The audit of the statutory accounts for the year ended 31 March 2008 is not yet complete. These accounts will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the Company's annual general meeting.

MAX PETROLEUM PLC
CONSOLIDATED AND COMPANY INCOME STATEMENTS - UNAUDITED

For the year ended 31 March 2008

(in thousands of US\$)

	Note	Group Year ended 31 March		Company Year ended 31 March	
		2008	2007	2008	2007
Continuing operations					
Revenue		27,470	1,502	6,088	5,034
Cost of sales	5	(14,018)	(1,502)	(5,567)	(4,653)
Gross profit		13,452	-	521	381
Exploration and appraisal costs		(15,881)	(8,385)	-	-
Impairment of assets held for sale	21	(5,200)	-	(18,200)	-
Administrative expenses		(28,148)	(24,423)	(14,615)	(7,842)
Operating loss		(35,777)	(32,808)	(32,294)	(7,461)
Finance income	6	811	1,729	1,451	1,727
Finance costs	7	(1,954)	(2,058)	(8,970)	(4,138)
Loss before taxation		(36,920)	(33,137)	(39,813)	(9,872)
Income tax expense	8	(64)	-	(64)	-
Loss for the year	9	(36,984)	(33,137)	(39,877)	(9,872)
Attributable to:					
Equity holders of the Company		(34,509)	(29,702)	(39,877)	(9,872)
Minority interests		(2,475)	(3,435)	-	-
		(36,984)	(33,137)	(39,877)	(9,872)
Loss per share for loss attributable to the equity holders of the Company during the year					
- Basic and diluted (US cents)	13	10.7	9.7		

No interim or final dividend has been paid or proposed during the year.

The notes on pages [•] to [•] are an integral part of these financial statements.

MAX PETROLEUM PLC
CONSOLIDATED AND COMPANY BALANCE SHEETS - UNAUDITED

As at 31 March 2008
(in thousands of US\$)

	Note	Group 2008	As at 31 March 2007	2008	Company 2007
Assets					
Non-current assets					
Intangible assets – exploration and appraisal expenditure	14	212,080	230,897	-	-
Oil and gas properties	15	29,474	-	-	-
Property, plant and equipment	16	9,752	1,478	425	138
Investments in subsidiaries	17	-	-	145,655	176,576
Prepayments	18	851	1,338	-	-
		252,157	233,713	146,080	176,714
Current assets					
Inventories	19	12,178	7,512	-	-
Trade and other receivables	18	15,136	12,240	139,420	95,066
Cash and cash equivalents	20	3,847	28,772	1,324	26,473
Assets held for sale	21	33,534	-	40,737	-
		64,695	48,524	181,481	121,539
Total assets		316,852	282,237	327,561	298,253
Liabilities					
Non-current liabilities					
Borrowings	22	81,016	62,253	81,016	62,253
Provision for liabilities and other charges	26	3,231	1,619	-	-
		84,247	63,872	81,016	62,253
Current liabilities					
Trade and other payables	27	14,367	13,204	2,352	1,432
Liabilities directly associated with assets classified as held for sale	21	559	-	-	-
		14,926	13,204	2,352	1,432
Total liabilities		99,173	77,076	83,368	63,685
Net assets		217,679	205,161	244,193	234,568
Capital and reserves					
Share capital	28	7,923	7,919	7,923	7,919
Share premium	29	228,753	196,636	228,753	196,636
Other reserves	30	74,790	57,409	74,790	57,409
Accumulated deficit		(87,516)	(53,007)	(67,273)	(27,396)
Equity attributable to equity holders of the parent		223,950	208,957	244,193	234,568
Minority interests in equity		(6,271)	(3,796)	-	-
Total equity		217,679	205,161	244,193	234,568

The notes on pages [•] to [•] are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 10 July 2008.

Mark L Johnson
Chief Executive Officer

Michael B Young
Finance Director

MAX PETROLEUM PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - UNAUDITED
For the year ended 31 March 2008
(in thousands of US\$)

		Attributable to equity holders of the Company						
	Note	Share capital	Share premium	Other reserves	Accumulated deficit	Total	Minority interest	Total equity
Balance at 1 April 2006		7,918	194,114	35,272	(23,305)	213,999	(361)	213,638
Total recognised income and expense for the year		-	-	-	(29,702)	(29,702)	(3,435)	(33,137)
Issue of share capital –								
exercise of share options	28, 29	1	2,522	-	-	2,523	-	2,523
Share based payments	30	-	-	11,330	-	11,330	-	11,330
Convertible bond issued – equity portion	22	-	-	11,292	-	11,292	-	11,292
Convertible bond issuance costs – equity portion	22	-	-	(485)	-	(485)	-	(485)
		1	2,522	22,137	-	24,660	-	24,660
Balance at 31 March 2007		7,919	196,636	57,409	(53,007)	208,957	(3,796)	205,161
Total recognised income and expense for the year		-	-	-	(34,509)	(34,509)	(2,475)	(36,984)
Issue of share capital –								
exercise of share options	28, 29	4	32,117	-	-	32,121	-	32,121
Share based payments	30	-	-	5,849	-	5,849	-	5,849
Warrants issued	30	-	-	11,532	-	11,532	-	11,532
		4	32,117	17,381	-	49,502	-	49,502
Balance at 31 March 2008		7,923	228,753	74,790	(87,516)	223,950	(6,271)	217,679

The notes on pages [•] to [•] are an integral part of these financial statements.

MAX PETROLEUM PLC
COMPANY STATEMENT OF CHANGES IN EQUITY - UNAUDITED

For the year ended 31 March 2008

(in thousands of US\$)

	Note	Share capital	Share premium	Other reserves	Accumulated deficit	Total
Balance at 1 April 2006		7,918	194,114	35,272	(17,524)	219,780
Total recognised income and expense for the year		-	-	-	(9,872)	(9,872)
Issue of share capital – exercise of share options	28, 29	1	2,522	-	-	2,523
Share based payments	30	-	-	11,330	-	11,330
Convertible bond issued – equity portion	22	-	-	11,292	-	11,292
Convertible bond issuance costs – equity portion	22	-	-	(485)	-	(485)
		1	2,522	22,137	-	24,660
Balance at 31 March 2007		7,919	196,636	57,409	(27,396)	234,568
Total recognised income and expense for the year		-	-	-	(39,877)	(39,877)
Issue of share capital – exercise of share options	28, 29	4	32,117	-	-	32,121
Share based payments	30	-	-	5,849	-	5,849
Warrants issued	30	-	-	11,532	-	11,532
		4	32,117	17,381	-	49,502
Balance at 31 March 2008		7,923	228,753	74,790	(67,273)	244,193

The notes on pages [•] to [•] are an integral part of these financial statements.

MAX PETROLEUM PLC
CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS - UNAUDITED
For the year ended 31 March 2008
(in thousands of US\$)

	Note	Group 2008	2007	Company 2008	2007
Cash flows from operating activities					
Net cash generated from/(used in) operating activities	32	(7,122)	(19,851)	(75,015)	(61,441)
Cash flows from investing activities					
Purchases of plant and equipment		(9,217)	(1,187)	(429)	(80)
Payment for exploration and appraisal expenditure		(58,072)	(42,418)	-	-
Interest received	6	811	1,729	1,451	1,727
Net cash used in investing activities		(66,478)	(41,876)	1,022	1,647
Cash flows from financing activities					
Proceeds from issuance of ordinary shares	28, 29	32,121	2,523	32,121	2,523
Proceeds from issuance of convertible bonds	22	-	75,000	-	75,000
Proceeds from borrowings	22	23,500	-	23,500	-
Debt issuance costs	22	(888)	(3,223)	(888)	(3,223)
Interest paid	7	(5,889)	(2,532)	(5,889)	(2,532)
Net cash generated from/(used in) financing activities		48,844	71,768	48,844	71,768
Net (decrease)/increase in cash and cash equivalents					
Cash and cash equivalents at beginning of year	20	28,772	18,731	26,473	14,499
		4,016	28,772	1,324	26,473
Less: cash classified as assets held for sale	21	(169)	-	-	-
Cash and cash equivalents at end of year	20	3,847	28,772	1,324	26,473

The notes on pages [•] to [•] are an integral part of these financial statements.

See note 32 for cash flows relating to major non-cash transactions.

MAX PETROLEUM PLC
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2008

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 three contract areas consisting of four oil and gas blocks in the Pre-Caspian Basin, including Blocks A&E, East Alibek, and Astrakhanskiy. The Company, through its subsidiaries, owns an 80% interest in the A&E and East Alibek Blocks, and 100% of the rights to the Astrakhanskiy contract area.

The Company is a public limited liability company incorporated and domiciled in the United Kingdom and listed on the Alternative Investment Market (“AIM”). The address of its registered office is Second Floor, 81 Piccadilly, London, W1J 8HY, United Kingdom.

As more fully disclosed in notes 21 and 33, in July 2008 the Company acquired the remaining 20% interest in Blocks A&E in exchange for its 80% interest in East Alibek plus 37 million of the Company’s ordinary shares. Subsequent to the acquisition, the Company owns, through its various subsidiaries, a 100% interest in Blocks A&E and the Astrakhanskiy Block.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as endorsed by the European Union (collectively “IFRS”) and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The 2008 financial statements are the Group’s and Company’s first full year financial statements prepared under IFRS, with a transition date to IFRS of 1 April 2006. Consequently, the comparative figures for 2007 and the Group’s and Company’s balance sheets as at 1 April 2006 have been restated from generally accepted accounting principles in the UK (“UK GAAP”) to comply with IFRS. The reconciliations to IFRS from the previously published UK GAAP financial statements are summarised in note 36. In addition, IFRS 1 on first time adoption allows certain exemptions from retrospective application of IFRS in the opening balance sheet for 2006. Where these have been used, they are explained in note 36.

The financial statements have been prepared on the going concern basis under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. The key estimates and assumptions are set out in the critical accounting estimates and judgements in note 3. Such estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances and constitute management’s best judgement at the date of the financial statements. In the future, actual experience may deviate from these estimates and assumptions. This could affect future financial statements as the original estimates and assumptions are modified, as appropriate, in the year in which the circumstances change.

MAX PETROLEUM PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2008

Accounting Standards and Interpretations issued but not yet adopted

Certain Accounting Standards and Interpretations are in issue which are not required to be adopted until after 2008 and have not been early adopted by Max Petroleum Plc. As at the date of these financial statements, the following Standards and Interpretations, which have not been applied in these financial statements but may have an impact on the Group's accounting policies, were in issue but not yet effective:

Amendment to IAS 1	"Presentation of financial statements"
IAS 27 (revised)	"Consolidated and separate financial statements"
IAS 28 (revised)	"Investments in associates"
IAS 31 (revised)	"Interests in joint ventures"
Amendment to IAS 32	"Financial instruments: Presentation"
Amendment to IFRS 2	"Share based payment"
IFRS 3 (revised)	"Business combinations"
IFRS 8	"Operating segments"
IFRIC 12	"Service concession arrangements"
IFRIC 13	"Customer loyalty programmes"
Amendments to the following standards arising from the May 2008 Annual Improvements process:	IFRS 5, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40, IAS 41

The assessment of the impact of the above Standards and Interpretations on the Group's accounting policies or on the presentation of the financial statements is at an early stage but are not expected to have a significant impact on the Group's financial statements.

Accounting Standard early adopted by the Group and Company

In addition, the Group has elected to adopt IAS 23 Borrowing Costs (revised 2007) in advance of its effective date (effective for accounting periods beginning on or after 1 January 2009). The revisions made to IAS 23 have had no impact on the Group's accounting policies, as it has always been the Group's accounting policy to capitalise borrowing costs incurred on qualifying assets.

Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

MAX PETROLEUM PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2008

A list of the subsidiaries has been included in note 17.

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Property, plant and equipment and intangible assets once classified as held for sale are not depreciated.

Intangible assets – exploration and appraisal expenditure

The Group follows the modified successful efforts method of accounting under which all licence acquisition, geological and geophysical (“G&G”) exploration and appraisal costs are initially capitalised to well, field or specific exploration licences as appropriate, pending determination of the existence of commercial reserves. The costs of licence acquisitions and G&G exploration and appraisal costs are amortised over a period of the lower of 25 years or the expected life of the reserves from the date the seismic data has been fully evaluated. In line with IFRS 6, any pre-acquisition licence costs are directly expensed to the income statement.

Expenditures incurred during the various exploration and appraisal phases are then written off unless probable (‘commercial’) reserves have been established or the determination process has not been completed. Drilling expenditure and directly attributable operational overheads associated with an exploratory dry hole are expensed immediately if commercially viable quantities of hydrocarbons are not found.

When an oil or gas field has been approved for development, the accumulated exploration and appraisal costs are transferred to oil and gas properties.

Oil and gas properties

Development expenditure is stated at cost less accumulated depletion and any impairment in value. Where commercial production in an area of interest has commenced, the capitalised costs together with any estimated future costs necessary to develop the underlying proved and commercial reserves are subject to depletion and amortisation using the unit-of-production method over the total estimated reserves. Costs are amortised only once commercial reserves associated with a development project can be determined and commercial production has commenced.

Changes in factors such as estimates of proved and commercial reserves that affect unit-of-production calculations do not give rise to prior year financial period adjustments and are dealt with on a prospective basis.

MAX PETROLEUM PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2008

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated using the closing rate at the balance sheet date. Non-monetary items are measured at the exchange rate in effect at the historical transaction date and are not translated at each balance sheet date. Income statement accounts are translated at their historical exchange rate. Translation gains and losses are recorded in administrative expenses for the year. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in 'US dollars' ('\$'), which is the Company's and its subsidiaries' functional and presentation currency.

The average and year-end historical exchange rates between the US dollar and other currencies were:

	2008		2007	
	Average rate	Closing rate	Average rate	Closing rate
British pounds ("GBP")	2.01	1.99	1.89	1.96
Kazakh tenge ("KZT")	121.40	120.69	124.56	123.84

Property, plant and equipment

Property, plant and equipment is stated in the balance sheet at cost, less accumulated depreciation and any provision for impairment. Property, plant and equipment is depreciated on a straight line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives.

Improvements to leasehold property	2-10 years	(or over the remaining life of the lease if shorter)
Office systems, equipment and furniture	3-10 years	
Plant and equipment	4 years	
Motor vehicles	4 years	

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Inventories

Crude oil inventories are valued at the lower of production cost and net realisable value. Materials and supplies inventories are valued on a first-in, first-out basis at the lower of cost or estimated net realisable value.

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Impairment – exploration and appraisal expenditure

Exploration and appraisal costs are tested for impairment when reclassified to oil and gas properties or whenever facts and circumstances indicate potential impairment. An impairment loss is recognised for the amount by which the exploration and appraisal expenditure's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the exploration and appraisal expenditure's fair value less costs to sell and their value in use. For the purposes of assessing impairment, the exploration and appraisal expenditure subject to testing is grouped with existing cash-generating units of production fields that are located in the same geographical region.

Impairment – oil and gas properties

Proven oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, oil and gas properties are evaluated on a field by field basis.

Provision for abandonment

Provision is made for the present value of the future cost of abandonment of oil and gas wells and related facilities. This provision is recognised when the asset is installed. The estimated costs, based on engineering cost levels prevailing at the balance sheet date, are computed on the basis of the latest assumptions as to the scope and method of abandonment. The corresponding amount is capitalised as part of exploration and appraisal expenditure or oil and gas properties and is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge. Any adjustment arising from the reassessment of estimated cost of decommissioning is capitalised, whilst the charge arising from the accretion of the discount applied to the abandonment provision is treated as a component of finance costs.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

Revenue is recognised when the amount can be reliably measured, it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenues from crude oil and natural gas sales are recognised when the oil and gas has been lifted and the risk of loss transferred to a third-party purchaser. The Group uses the entitlement method to account for its revenue from sales of oil and gas production, whereby the Group recognises revenue based on its direct ownership interest in its underlying oil and gas properties.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2008

Taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the Group and Company financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any provisions for impairment.

Financial assets

Financial assets are classified into the following categories: loans and receivables and cash and cash equivalents. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Trade receivables, loans and other receivables, which are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market, are classified as loans and receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. The Group's loans and receivables comprise trade, other receivables, and prepayments in the balance sheet.

Loans and receivables are carried at their amortised cost using the effective interest rate method, net of any impairment. Interest income is recognised by applying the effective interest rate method, except for short term receivables where the recognition of interest would be immaterial.

(b) Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and allocating interest income or expense over the relevant period. The effective interest rate is the applicable discount rate for the estimated future cash receipts or payments over the expected life of the financial asset or liability.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
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(c) Impairment of financial assets

Financial assets are assessed for impairment at each balance sheet date. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the asset have been impacted. For loans and receivables, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

In the event of an impairment, the carrying amount of the financial asset is reduced by the impairment loss, except for trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account, and the amount of loss is recognised in the income statement. Subsequent recoveries of amounts previously written off are credited against the income statement.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current balances and deposits with banks and similar institutions, which are readily convertible to cash and which are subject to insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

(a) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments of the Group are recorded at the proceeds received, net of incremental costs directly attributable to the issue of new shares or options, which are shown in equity as a deduction, net of tax, from the proceeds. Ordinary shares are classified as equity.

(b) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Interest income is recognised by applying the effective interest rate, except for short term payables when the recognition of interest would be immaterial.

(c) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised over the term of the borrowings using the effective interest rate method and charged to the Income Statement as finance costs.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed. To the extent that the Group borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Group capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

To the extent that the Group borrows funds specifically for the purpose of obtaining a qualifying asset, the Group determines the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2008

(d) Compound instruments

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement.

The Group records the proceeds received from the issuance of convertible debt instruments, net of issuance costs, as an allocation between long-term debt and equity reserve based on the Group's estimate of the fair value of the instrument without consideration of its conversion feature. At the date of issue of the convertible debt instrument, the fair value of the liability component is estimated using the prevailing interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished on conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Operating leases

Rentals under operating leases are charged to the income statement on a straight line basis over the term of the relevant leases.

Share based payments

The Company operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest, and at each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the nominal value of the underlying shares is credited to share capital, and the excess of the proceeds received net of any directly attributable transaction costs are credited to share premium.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

Pension obligations

The Group does not incur any expenses in relation to pensions for its employees. In accordance with the legal requirements of the Republic of Kazakhstan, the Group withholds pension contributions from employee salaries and transfers them into third party state or private pension funds at the direction of the employee. The Group is not responsible for the administration of the pension funds or future distributions to the employees.

3. Critical accounting estimates and judgments

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Such estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimation of oil and gas reserves

Proved oil and gas reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Estimates of oil and gas reserves are inherently imprecise, require the application of judgement and are subject to future revision. Accordingly, financial and accounting measures (such as the standardised measure of discounted cash flows, depreciation, depletion and amortisation charges, and decommissioning provisions) that are based on proved reserves are also subject to change.

Capitalised exploration and appraisal expenditure

In making decisions about whether to continue to capitalise exploration and appraisal expenditure, it is necessary to make judgements about the probable commercial reserves and the level of activities that constitute on-going appraisal determination. If there is a change in any judgement in a subsequent period, then the related capitalised exploration and appraisal expenditure would be expensed in that period, resulting in a charge to income.

Provision for abandonment

Estimates of the amounts of provision for abandonment recognised are based on current legal and constructive requirements, technology and price levels. As actual outflows may be different from estimates due to changes in laws, regulations, technology, prices and conditions, and can take place in the future, the carrying amounts of provisions are regularly reviewed and adjusted to take account of such changes.

4. Segmental reporting

Business segments

In the opinion of the directors, the operations of the Group comprise one class of business: oil and gas exploration, development and the sale of hydrocarbons and related activities.

Geographic segments

The Group conducts business within two geographical regions. The Group's operational activities are wholly focused in the Republic of Kazakhstan. The Group's head office is in London, England. Inter-segment revenue represents rechargeable costs which are invoiced, with a mark-up, to the Company's subsidiaries. These transactions and any unrealised profits and losses are eliminated on consolidation. Since the UK head office does not earn revenue from external customers, it is not a reportable segment under IAS 14.

Relevant disclosures have been made elsewhere in these financial statements.

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For the year ended 31 March 2008

5. Cost of sales

	Group	
	2008 US\$'000	2007 US\$'000
Operating costs:		
- commercial production	6,619	-
- test production	1,898	1,502
Royalties	531	-
Depreciation, depletion and amortisation	4,970	-
	14,018	1,502

6. Finance income

	Group		Company	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Interest income on short-term bank deposits	811	1,729	807	1,727
Intercompany interest income	-	-	644	-
Finance income	811	1,729	1,451	1,727

7. Finance costs

	Group		Company	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Interest expense:				
- Interest payable on bank borrowings (note 22)	1,422	-	1,422	-
- Interest payable on convertible bond (note 22)	7,548	4,138	7,548	4,138
- Other: accretion expense on discounted provisions (note 26)	135	102	-	-
	9,105	4,240	8,970	4,138
Less:				
- Interest expense capitalised to exploration and appraisal expenditure	(7,151)	(2,182)	-	-
Finance costs	1,954	2,058	8,970	4,138

Interest expense related to bank borrowings includes stated and effective interest expense including amortisation of the cost of warrants issued and other debt issuance costs.

Interest expense relating to the convertible bond includes stated and effective interest expense plus amortization of debt issuance costs.

Other interest expense includes interest expense relating to the accretion expense on discounted provisions for decommissioning costs for the Group's oil and gas properties.

Interest expense of \$7.2 million (2007: \$2.2 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 13% (2007: 7%) to the average cumulative expenditure on such assets. The borrowing costs capitalised are included in 'Additions' in exploration and appraisal expenditure.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2008

8. Income tax expense

	Group and Company	
	2008	2007
	US\$'000	US\$'000
Current tax	-	-
Deferred tax (note 25)	-	-
Withholding taxes	64	-
	64	-

The Group's principal business activities are in the Republic of Kazakhstan and are subject to a current corporate income tax rate of 30%. The Group and Company have generated recurring net operating losses and no deferred tax assets have been recognised with respect to such losses.

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

	Group	
	2008	2007
	US\$'000	US\$'000
Loss before taxation	(36,920)	(33,137)
Tax calculated at 30%	(11,076)	(9,941)
Expenses not deductible for tax purposes	2,922	548
Withholding taxes	64	-
Tax losses utilised	(491)	-
Effects of deferred tax assets not recognised – losses	8,645	7,112
Effects of deferred tax assets not recognised – other	-	2,281
Tax charge	64	-

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

	Company	
	2008	2007
	US\$'000	US\$'000
Loss before taxation	(39,813)	(9,872)
Tax calculated at 30%	(11,944)	(2,962)
Expenses not deductible for tax purposes	5,435	458
Withholding taxes	64	-
Effects of deferred tax assets not recognised – losses	6,509	2,504
Tax charge	64	-

9. Loss for the year

Loss for the year is stated after charging/ (crediting):

	Group		Company	
	2008	2007	2008	2007
	US\$'000	US\$'000	US\$'000	US\$'000
Exchange loss/(gain)	(70)	(803)	(200)	(1,118)
Staff costs (note 11)	25,847	21,836	6,861	4,305
Operating lease rentals	2,524	657	384	71
Depreciation, depletion and amortisation (note 10)	5,383	184	130	38
Loss on disposal of fixed assets	12	-	12	-
Exploration and appraisal costs	15,881	8,385	-	-
Impairment of assets held for sale (note 21)	5,200	-	18,200	-
Share based payments	4,605	9,846	2,713	1,871
Investigation costs	3,059	-	3,059	-
Auditor's remuneration (note 12)	1,417	845	1,277	604

The Company incurred aggregate costs relating to an internal investigation of \$3.8 million, including \$3.1 million in third party costs and \$0.7 million in costs included within auditor's remuneration (note 12). The investigation primarily focused on certain related party transactions, including the

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NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2008

undisclosed receipt of beneficial interests in options over six million shares in Max Petroleum by certain employees and members of senior management.

10. Depreciation, depletion and amortisation

Depreciation, depletion and amortisation are included within the following headings in the income statement:

	Group		Company	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Cost of sales	4,970	-	-	-
Administrative expenses	413	184	130	38
	5,383	184	130	38

11. Employees and key management

The number of staff employed by the Group during the financial year was as follows:

	Group 2008		Group 2007	
	Average in year	As at 31 March	Average in year	As at 31 March
Administrative	89	85	66	99
Exploration and production operations	99	100	34	65
Directors	7	7	5	5
	195	192	105	169

The number of staff employed by the Company during the financial year was as follows:

	Company 2008		Company 2007	
	Average in year	As at 31 March	Average in year	As at 31 March
Administrative	5	5	5	5
Exploration and production operations	-	-	-	-
Directors	7	7	5	5
	12	12	10	10

Staff costs in respect of those employees were as follows:

	Group		Company	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Wages and salaries	18,653	12,612	3,882	2,298
Social security	1,345	850	266	136
Share options granted to directors and employees	5,849	8,374	2,713	1,871
	25,847	21,836	6,861	4,305

Wages and salaries include the cost of tax gross-up for expatriate employees whose contracts provide for them to receive salaries without deduction of local taxes. A proportion of the Group's staff costs shown above is capitalised into the cost of fixed assets under the Group's accounting policy for exploration and appraisal expenditure and oil and gas properties.

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For the year ended 31 March 2008

Key management compensation

Key management personnel, as defined by IAS 24 "Related Party Disclosures", have been identified as the Board of Directors. Detailed disclosures of directors' individual remuneration, directors' transactions and directors' interests and share options, for those directors who served during the year, are given in the Directors' Remuneration Report. The aggregate amounts of directors' remuneration during the year were as follows:

	2008 US\$'000	2007 US\$'000
Salaries and short-term employee benefits	1,831	1,094
Share-based payments	3,553	4,895
	5,384	5,989

None of the Group's directors exercised share options while serving in their capacity as directors during the two years ended 31 March 2008.

Mr Steven Kappelle was dismissed as a director of the Company on 17 October 2007 and subsequently exercised options over 4,194,806 shares realising a gain of \$3.1 million in the period to 31 March 2008.

12. Auditors' remuneration

During the year the Group (including its subsidiaries) obtained the following services from the Group's auditor and its associates at costs as detailed below:

	2008 US\$'000	2007 US\$'000
Audit services:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts:		
Current year audit fee	269	385
Under-accrual of prior year audit fee	82	-
Non-audit services:		
Fees payable to the Company's auditor and its associates for other services:		
Audit of the Company's subsidiaries pursuant to legislation	140	241
Share options investigation	686	-
Tax services	225	202
Other services	15	17
Total	1,417	845

13. Loss per share

	2008	2007
Loss attributable to equity holders of the Company (US\$'000)	(34,509)	(29,702)
Weighted average number of ordinary shares in issue (thousands)	321,489	304,734
Basic and diluted loss per share (US cents)	10.7	9.7

Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

Diluted loss per share

Diluted loss per share is calculated using the loss for the period divided by the weighted average number of shares outstanding assuming the conversion of its potentially dilutive equity derivatives outstanding, being share options, warrants and convertible debt. All of the Group's equity derivatives were anti-dilutive for the years ended 31 March 2008 and 2007, respectively.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2008

14. Intangible assets - exploration and appraisal expenditure

	Group
	Total US\$'000
Cost	
At 1 April 2006	194,850
Additions	46,394
Amounts written off to exploration and appraisal costs	(8,385)
Reclassifications	(1,945)
At 31 March 2007	230,914
Additions	74,603
Transfers to oil and gas properties (note 15)	(30,459)
Transfers to property, plant and equipment (note 16)	(7,369)
Amounts written off to exploration and appraisal costs	(15,881)
Less: amounts classified as assets held for sale (note 21)	(37,241)
At 31 March 2008	214,567
Amortisation	
At 1 April 2006	-
Charge for the year	17
At 31 March 2007	17
Charge for the year	2,470
At 31 March 2008	2,487
Net book value	
At 31 March 2006	194,850
At 31 March 2007	230,897
At 31 March 2008	212,080

In 2007, the Group reclassified \$1.9 million of acquisition costs capitalised in intangible fixed assets to prepayments of crude oil processing costs. This reflects an exchange of limited acreage in its Blocks A&E licence area for a right to free processing of up to 300,000 metric tons of crude oil per year through 2010 under its cooperation agreement with KazMunaiGas E&P. The prepaid processing costs are being amortised over the life of the cooperation agreement.

Included within exploration and appraisal expenditures at 31 March 2008 was a decommissioning asset of \$1.3 million (2007: \$1.5 million).

Acquisitions

The Group did not complete any acquisitions during the years ended 31 March 2008 and 2007.

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NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2008

15. Oil and gas properties

	Group		
	Proved properties US\$'000	Decommissioning asset US\$'000	Total US\$'000
Cost			
At 1 April 2006	-	-	-
At 31 March 2007	-	-	-
Additions – transfers from intangible exploration and appraisal expenditures (note 14)	30,356	103	30,459
Change in decommissioning estimate	-	1,008	1,008
At 31 March 2008	30,356	1,111	31,467
Depreciation			
At 1 April 2006	-	-	-
Charge for the year	-	-	-
At 31 March 2007	-	-	-
Charge for the year	1,953	40	1,993
At 31 March 2008	1,953	40	1,993
Net book value			
At 31 March 2006	-	-	-
At 31 March 2007	-	-	-
At 31 March 2008	28,403	1,071	29,474

16. Property, plant and equipment

	Group				
	Improvements to leasehold property US\$'000	Office systems, equipment and furniture US\$'000	Plant and equipment US\$'000	Motor vehicles US\$'000	Total US\$'000
Cost					
At 1 April 2006	12	415	3	45	475
Additions	36	557	109	485	1,187
At 31 March 2007	48	972	112	530	1,662
Additions	386	820	255	388	1,849
Additions – transfers from intangible exploration and appraisal expenditures (note 14)	-	183	7,186	-	7,369
Disposals	(12)	(23)	-	-	(35)
Less: amounts classified as assets held for sale (note 21)	-	(14)	-	-	(14)
At 31 March 2008	422	1,938	7,553	918	10,831
Depreciation					
At 1 April 2006	1	13	-	3	17
Charge for the year	4	133	2	28	167
At 31 March 2007	5	146	2	31	184
Charge for the year	90	287	409	134	920
Disposals	-	(23)	-	-	(23)
Less: amounts classified as assets held for sale (note 21)	-	(2)	-	-	(2)
At 31 March 2008	95	408	411	165	1,079
Net book value					
At 31 March 2006	11	402	3	42	458
At 31 March 2007	43	826	110	499	1,478
At 31 March 2008	327	1,530	7,142	753	9,752

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NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2008

	Company		Total US\$'000
	Improvements to leasehold property US\$'000	Office systems, equipment and furniture US\$'000	
Cost			
At 1 April 2006	12	91	103
Additions	35	45	80
At 31 March 2007	47	136	183
Additions	387	42	429
Disposals	-	(23)	(23)
At 31 March 2008	434	155	589
Depreciation			
As at 1 April 2006	1	6	7
Charge for the year	4	34	38
At 31 March 2007	5	40	45
Charge for the year	90	40	130
Disposals	-	(11)	(11)
At 31 March 2008	95	69	164
Net book value			
At 31 March 2006	11	85	96
At 31 March 2007	42	96	138
At 31 March 2008	339	86	425

17. Investments in subsidiaries

	Company	
	2008 US\$'000	2007 US\$'000
Cost		
At 1 April	176,576	167,116
Increase in investment in subsidiaries related to share based payments	3,189	9,460
Less: amounts classified as assets held for sale (note 21)	(34,110)	-
At 31 March	145,655	176,576
Net book value		
At 1 April	176,576	167,116
At 31 March	145,655	176,576

The following summarises the Company's participation in the Group structure:

Subsidiary undertakings	Country of incorporation	Effective holding	Proportion of voting rights held	Nature of business	Statutory year end
Sherpico Investments Ltd	UK	80%	80%	Holding Company	31 March
Madiran Investment B.V.	Netherlands	80%	80%	Holding Company	31 December
Samek Development Enterprise LLP	Kazakhstan	(1) 80%	80%	Operating Company	31 December
Samek International LLP	Kazakhstan	(1) 80%	80%	Operating Company	31 December
Vasse Investments Ltd	BVI	(1) 100%	100%	Holding Company	31 March
Max Petroleum Astrakhanskiy Holding Ltd ('MPAHL')	BVI	100%	100%	Holding Company	31 March
Alga Caspiygas LLP	Kazakhstan	(1) 100%	100%	Operating Company	31 December

(1) Indirect shareholding of parent company

The results of the above subsidiaries have all been included in the consolidated accounts. The Company's foreign subsidiaries have calendar year ends for local statutory reporting purposes only.

The directors believe that the carrying value of the investments is supported by the value of the underlying net assets.

Max Exploration Services, Inc., a United States corporation registered in the state of Delaware, was incorporated as a wholly owned subsidiary of the Company on 1 April 2008.

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As more fully disclosed in note 21, in July 2008 the Company disposed of its 80% holding in Sherpico Investments Ltd and Samek Development Enterprise LLP, and acquired the remaining 20% of Madiran Investment BV and Samek International LLP.

18. Trade and other receivables

	Group		Company	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Trade receivables	4,096	174	-	-
Less: provision for impairment of trade receivables	-	-	-	-
Trade receivables	4,096	174	-	-
Advances to suppliers	855	7,675	-	-
Prepaid marketing costs	1,337	1,823	-	-
Other prepayments	6,228	1,787	5,526	890
Loans from the Company to its subsidiaries* (note 33)	-	-	154,066	91,457
Other amounts due from subsidiaries (note 33)	-	-	4,504	2,581
Other receivables	4,322	2,119	151	138
	16,838	13,578	164,247	95,066
Less: amounts classified as assets held for sale (note 21)	(851)	-	(24,827)	-
	15,987	13,578	139,420	95,066
Less non-current portion:				
- prepaid marketing costs	(851)	(1,338)	-	-
Current portion	15,136	12,240	139,420	95,066

* Loans from the Company to its subsidiaries are repayable on demand. The Company does not intend to demand repayment of loans within one year. The loans are non-interest bearing, except for a loan of \$19.3 million which bears interest at the rate of two times LIBOR (US\$ 90 day).

Group

Other receivables include recoverable Kazakh VAT and social taxes.

Prepayments include prepaid marketing costs of \$1.3 million (2007: \$1.8 million), net of amortisation charges, resulting from the Group's cooperation agreement with KazMunaiGaz E&P, expiring December 2010, of which \$0.85 million has been classified as due after one year (2007: \$1.34 million). In the prior year, these were reclassified from intangible oil and gas assets (note 14) to prepayments falling due within and after one year.

Group and Company

Other prepayments includes a balance of \$4.6 million (2007: \$nil) relating to prepaid debt issuance costs on the Macquarie Facility (note 22).

Impairment losses

Trade receivables that are less than three months past due are not considered impaired. As of 31 March 2008, trade receivables of \$0.2 million (2007: \$nil) were past due but not impaired. These relate to the Group's sole export customer for whom there is no history of default. There were no trade receivables against which a doubtful debt allowance had been raised, as at 31 March 2008 and 2007, respectively. The ageing analysis of these trade receivables is as follows:

	Group 2008			Group 2007		
	Gross US\$'000	Impairment US\$'000	Net US\$'000	Gross US\$'000	Impairment US\$'000	Net US\$'000
Not past due	3,892	-	3,892	174	-	174
Past due 0-30 days	204	-	204	-	-	-
Total	4,096	-	4,096	174	-	174

There were no amounts past due or impaired due to the Company as at 31 March 2008 and 2007.

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19. Inventories

	Group	
	2008 US\$'000	2007 US\$'000
Materials and supplies	12,504	7,064
Crude oil inventory	135	448
Total inventory	12,639	7,512
Less: amounts classified as assets held for sale (note 21)	(461)	-
	12,178	7,512

Materials and supplies are principally comprised of drilling equipment to be used in the exploration and development of the Group's oil and gas properties in Kazakhstan.

20. Cash and cash equivalents

	Group		Company	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Cash at bank and on hand	4,016	28,772	1,324	26,473
Less: amounts classified as assets held for sale (note 21)	(169)	-	-	-
	3,847	28,772	1,324	26,473

Group

Included in cash at bank and on hand are amounts of \$0.8 million (2007: \$0.2 million) required to be deposited in an environmental restoration and rehabilitation fund under the hydrocarbon contracts.

Group and Company

Under the terms of the Group's \$100 million revolving mezzanine credit facility with Macquarie Bank Limited (note 22), the Company is required to maintain a balance on a debt service reserve account representing the next three months expected interest charge. The balance on this account at 31 March 2008 amounted to \$0.6 million (2007: \$nil), and is included in the total of cash at bank and on hand for the Group and Company, above.

21. Assets held for sale

In February 2008, the Company entered into an exchange agreement (the "Exchange Agreement") with Horizon Services N.V. ("Horizon") and Oriental Limited ("Oriental") for the Company to acquire Horizon's 20% interest in Madiran Investment B.V. ("Madiran"), in exchange for Oriental receiving the Company's 80% interest in Sherpico Investments Limited ("Sherpico"), and up to 37 million ordinary shares of the Company. Madiran is the 100% owner of Samek International LLP, which owns and operates the Blocks A&E licence. Sherpico is the 100% owner of Samek Development LLP, which owns and operates the East Alibek licence.

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

The Company closed the Exchange Agreement on 11 July 2008, after receiving the necessary regulatory consents from the Republic of Kazakhstan.

During the year, the Group's net cash outflow included \$1.1 million of operating cash outflow and \$9.1 million of capital expenditures related to these assets

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The major classes of assets and liabilities classified as held for sale are as follows:

	Group 2008 US\$'000	Company 2008 US\$'000
Intangible - Exploration and appraisal expenditure	37,241	34,110
Plant and equipment	12	-
Inventories	461	-
Trade and other receivables	851	-
Intercompany receivables	-	24,827
Cash and cash equivalents	169	-
	38,734	58,937
Less: impairment to fair value	(5,200)	(18,200)
Total assets classified as held for sale	33,534	40,737
Trade and other payables	260	-
Provision for liabilities and other charges	299	-
Total liabilities associated with assets classified as held for sale	559	-
Net assets of disposal group classified as assets held for sale	32,975	40,737

The re-measurement of the Group's and Company's investment in Sherpico as of 31 March 2008 to its fair value less costs to sell resulted in a loss of \$5.2 million being recognised in the consolidated income statement and a loss of \$18.2 million being recognised in the Company's income statement, for the year ended 31 March 2008.

22. Borrowings

	Group and Company	
	2008 US\$'000	2007 US\$'000
Non-current		
Bank borrowings	16,278	-
Convertible bond	64,738	62,253
Total borrowings	81,016	62,253

The carrying amounts of the Group's and Company's borrowings are denominated in U.S. dollars.

Convertible bond

Max Petroleum completed an offering of convertible debentures on 8 September 2006, raising a total of \$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 convertible bonds will mature in September 2011, at which time the Group will be required to redeem the principal amount of the convertible bonds then outstanding. The holders of the bonds have a right to convert the bonds through to final maturity. Furthermore, the holders will have certain rights to force the Group 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.

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The Group allocated the proceeds of the convertible bonds, net of debt issuance costs of \$3.2 million, between long-term debt and equity reserve based on the Group's estimate of the fair value of the bond without consideration of its conversion feature. The Group used an interest rate of 11%, being an estimate of the market rate of interest on an equivalent bond without the convertibility option, to estimate the fair value of the debt portion of the convertible bonds on the date of issuance. The Group allocated \$10.8 million of the net proceeds from the bond offering to the equity component. Interest expense on the net carrying value of the long-term debt portion of the convertible bonds is calculated at the effective interest rate of 11%.

A reconciliation of the amounts outstanding on the convertible bond is as follows:

	Group and Company
	US\$'000
Balance at 1 April 2006	-
Face value of convertible bonds issued 8 September 2006	75,000
Debt issuance costs	(3,223)
Net proceeds from convertible bond issue	71,777
Equity component net of issue costs	(10,807)
Liability component at 8 September 2006, net of issue costs	60,970
Finance cost	3,829
Interest paid	(2,855)
Amortization of debt issuance costs to interest expense	309
Balance at 31 March 2007	62,253
Finance cost	7,000
Interest paid	(5,063)
Amortization of debt issuance costs to interest expense	548
Balance at 31 March 2008	64,738

The finance cost on the convertible bond is calculated using the effective interest rate of 11%.

The fair value of the convertible bond as at 31 March 2008 and 2007 is determined by reference to the published closing price quotation from the Channel Islands Stock Exchange on that date, as follows:

	Group and Company	
	2008	2007
	US\$'000	US\$'000
Fair value of convertible bond	59,250	93,000

Bank borrowings

In June 2007, the Group entered into a \$100 million revolving mezzanine credit facility with Macquarie Bank Limited (the "Macquarie Facility") to finance the development of Max Petroleum's oil and gas assets in Kazakhstan. The Macquarie Facility has a four year term maturing on 1 June 2011 and bears interest at a rate ranging from LIBOR plus 4% to LIBOR plus 6.5%, depending upon the underlying value of the Group's oil and gas reserves. The Macquarie Facility had an initial borrowing base of \$20 million (tranche one), with a further \$30 million available (tranche two), of which a total of \$23.5 million had been borrowed as of 31 March 2008 and \$32.5 million borrowed as of the date of this report.

Debt issuance costs take the form of cash payments plus warrants. The Macquarie Facility and related warrants have been treated as a compound financial instrument, with both debt and equity components. The debt component (once the Macquarie Facility has been drawn down) is carried at amortised cost.

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Debt issuance cost payments are credited to cash, and warrants issued are credited to a warrant reserve in equity. The debit entry for these debt issuance costs is capitalised as a prepayment, and subsequently offset against the liability as the Macquarie Facility is drawn down. The debt issuance costs deducted from the liability are spread over the life of the Macquarie Facility as part of the finance cost, using the effective interest rate method. The effective interest rate at which these debt issuance costs were being written off was 11.9% for the year ended 31 March 2008. A portion of this interest is capitalised as part of the related intangible exploration and appraisal expenditures.

Upon closing in June 2007, the Company issued Macquarie with a five year warrant to acquire five million ordinary shares in the Company at an exercise price of 160.6p per share. Subsequently, with the increase of the borrowing base from \$20 million to \$50 million in March 2008, the Company issued Macquarie with a further five-year warrant to acquire 15 million shares at an exercise price of 75p per share. As more fully disclosed in note 30, the warrants have been recorded at fair value at the date of issuance and are not subsequently remeasured.

The balance of prepaid debt issuance costs included in prepayments at 31 March 2008 was \$4.6 million (note 18).

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

	Group and Company
	US\$'000
Drawdown of loan facility	23,500
Debt issuance costs:	(888)
Net proceeds from bank borrowings	22,612
Equity component relating to warrants	(6,930)
Net bank borrowings	15,682
Finance cost	1,422
Interest paid	(826)
Balance at 31 March 2008	16,278

The fair value of the floating rate bank borrowings as at 31 March 2008 approximates to their gross carrying value of \$23.5 million.

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

The Group and Company has the following undrawn borrowing facilities available from the Macquarie Facility as at 31 March 2008:

	Group and Company	
	2008	2007
	US\$'000	US\$'000
Floating rate:		
- Expiring within one year	-	-
- Expiring beyond one year	26,500	-
	26,500	-

The borrowing capacity under the Macquarie 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.

Interest expense

During the year ended 31 March 2008, the Group incurred \$9.1 million (2007: \$4.2 million) in interest expense, of which \$7.2 million (2007: \$2.2 million) was capitalised to intangible exploration and appraisal expenditures.

23. Fair values

The directors have reviewed the financial statements and have concluded that, other than as disclosed relating to the fair values of the borrowings (note 22), there are no significant differences between the book values and the fair values of the assets and liabilities of the Group and Company as at 31 March 2008 and 2007.

24. Financial risk management

Capital risk management

The Group is engaged in the exploration, development, and production of oil and gas assets in the Republic of Kazakhstan, with a broad portfolio of shallow, intermediate, and deep exploration targets. The Group's strategy is to generate reserves, production and cash flow during the short-term from its shallow and intermediate oil and gas prospects, while attempting to add significant reserves and value through its deep exploration programme.

The Group's approach to managing capital is to ensure that the Group has enough liquidity to execute its business strategy during the next three to five years, with an ultimate goal of becoming self-financing from cash flow from operations and adding significant tangible asset value by proving up oil and gas reserves. The Group's capital structure consists of debt, including its convertible bond and Macquarie Facility (note 22), cash and cash equivalents (note 20), and equity attributable to equity holders of the parent (notes 28, 29 and 30), comprising issued share capital, reserves and retained earnings. The Group is generating production and cash flow from operations from the sale of crude oil and is actively seeking additional capital to finance its exploration and appraisal drilling programme through joint venture or farmout relationships for its Astrakhanskiy and Blocks A&E license areas in Western Kazakhstan.

There were no material changes in the Group's approach to capital management in the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Financial instruments risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the Group's exposure to each of the above risks. Further quantitative disclosures are included throughout these consolidated financial statements.

The Group's principal financial instruments comprise cash, short-term deposits, and borrowings. Together with the issue of equity share capital, the main purpose of these is to finance the Group's operations and expansion. The Group has other financial instruments such as trade receivables and trade payables which arise directly from normal trading.

The Group has not entered into any derivative or other hedging instruments.

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Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from default.

The credit risk on cash and cash equivalent balances is limited as the counterparties are banks with high credit ratings assigned by international ratings agencies.

The Group sells to a small number of domestic crude buyers in Kazakhstan and has one international customer for its export sales. The credit risk arising from domestic sales of crude oil in the Republic of Kazakhstan is low as the Group typically is paid in advance for the delivery of crude oil to the local buyer. Credit risk on export sales of crude oil from the Republic of Kazakhstan is managed by stand-by letters of credit issued in the Group's favour by a recognised international bank with a high credit rating.

The Group and Company do not hold any other collateral as security against trade and other receivables.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Group		Company	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Trade and other receivables (note 18)	16,838	13,578	164,247	95,066
Cash and cash equivalents (note 20)	4,016	28,772	1,324	26,473
	20,854	42,350	165,571	121,539

The Group's most significant customer, an international crude oil trader, accounts for \$4.1 million of the trade and other receivables carrying amount at 31 March 2008 (2007: \$0.2 million). Trade and other receivables also include US \$3.5 million of Kazakh VAT recoverable at 31 March 2008.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing its liquidity is to ensure, as far as possible, that it will always have sufficient liquid funds and available debt and equity capital to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

Due to the nature of the underlying business, this is managed by careful monitoring of rolling forecasts of the Group's liquidity reserve (comprised of undrawn borrowing facilities (note 22) and cash and cash equivalents (note 20)) on the basis of expected cash flow and projected amount of capital expenditure required.

The Group will require significant additional funding to explore and develop its current oil and gas licences in Kazakhstan, towards which the Group has raised \$75 million of convertible debt capital in the prior year and during the current year entered into the Macquarie Facility, a \$100 million revolving mezzanine credit facility. The Group has also raised \$32.1 million through the exercise of the Company's share options during the year ended 31 March 2008, is generating production and cash flow from operations from the sale of crude oil and is seeking broader long-term capitalisation through the farmout of minority interests in its Blocks A&E and Astrakhanskiy licenses.

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

The table below analyses the Group's and Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows at maturity. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Group						Total contractual cash flows US\$'000	Carrying value US\$'000
	Less than 6 months	6 – 12 months	1 - 2 years	2 - 5 years	More than 5 years			
At 31 March 2008	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000			
Convertible bond	2,531	2,531	5,063	82,594	-	92,719	64,738	
Bank borrowings	1,146	1,146	12,197	13,912	-	28,401	16,278	
Trade and other payables	14,329	38	-	-	-	14,367	14,367	
Liabilities directly associated with assets held for sale	559	-	-	-	-	559	559	
	18,565	3,715	17,260	96,506	-	136,046	95,942	

At 31 March 2007	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Convertible bond	2,531	2,531	5,063	87,656	-	97,781	62,253
Trade and other payables	13,204	-	-	-	-	13,204	13,204
	15,735	2,531	5,063	87,656	-	110,985	75,457

	Company						Total contractual cash flows US\$'000	Carrying value US\$'000
	Less than 6 months	6 – 12 months	1 - 2 years	2 - 5 years	More than 5 years			
At 31 March 2008	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000			
Convertible bond	2,531	2,531	5,063	82,594	-	92,719	64,738	
Bank borrowings	1,146	1,146	12,197	13,912	-	28,401	16,278	
Trade and other payables	2,352	-	-	-	-	2,352	2,352	
	6,029	3,677	17,260	96,506	-	123,472	83,368	

At 31 March 2007	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Convertible bond	2,531	2,531	5,063	87,656	-	97,781	62,253
Trade and other payables	1,432	-	-	-	-	1,432	1,432
	3,963	2,531	5,063	87,656	-	99,213	63,685

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Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Group's income or the value of its holdings of financial instruments. The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group has not entered into any derivative or other hedging instruments.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange fluctuations may arise from sales, purchases, cash balances and borrowings that are denominated in a currency other than the functional currency of the Group, being the US dollar. The currency in which these transactions and balances are primarily denominated is US dollars, and as such, the Group is not exposed to significant foreign exchange risk. It is the Group's policy to manage its foreign exchange risk by minimising balances and transactions in foreign currencies, as analysed below:

- The Group's borrowings are denominated in US dollars and therefore not subject to foreign exchange risk.
- The Group invoices export crude oil sales in US dollars which are therefore not subject to foreign exchange risk.
- The Group invoices domestic crude oil sales in the local currency, the Kazakh tenge, on a prepayments basis.
- The Group holds the majority of its cash and cash equivalents in US dollars.

Exposure to currency risk

The Group is mainly exposed to currency risks on certain bank deposits, debtors and creditors denominated in GBP and KZT.

The Group's exposure to foreign currency risk was as follows, based on US dollar equivalent carrying amounts at the reporting date:

In US\$'000 equivalent	Group 2008			Group 2007		
	GBP	KZT	EUR	GBP	KZT	EUR
Trade and other receivables	923	4,178	-	704	1,995	-
Cash and cash equivalents	282	365	-	289	196	-
Trade and other payables	(991)	(8,983)	(337)	(986)	(9,970)	(21)
Net exposure	214	(4,440)	(337)	7	(7,779)	(21)

The Company's exposure to foreign currency risk was as follows, based on US dollar equivalent carrying amounts at the reporting date:

In US\$'000 equivalent	Company 2008			Company 2007		
	GBP	KZT	EUR	GBP	KZT	EUR
Trade and other receivables	923	-	-	704	-	-
Cash and cash equivalents	282	-	-	289	-	-
Trade and other payables	(904)	-	(9)	(877)	-	-
Net exposure	301	-	(9)	116	-	-

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Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10 per cent strengthening in US dollars against the respective foreign currencies, which represents management's assessment of a reasonable change in foreign exchange rates. This analysis assumes that all other variables remain constant and has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period.

A 10 per cent strengthening of the US dollar at 31 March would have increased (decreased) the Group's and Company's equity and profit or loss by the amounts shown below:

Effect in US\$'000	Group 2008			Group 2007		
	GBP	KZT	EUR	GBP	KZT	EUR
Profit or (loss)	(21)	444	34	(1)	778	2
Equity	-	-	-	-	-	-

Effect in US\$'000	Company 2008			Company 2007		
	GBP	KZT	EUR	GBP	KZT	EUR
Profit or (loss)	(30)	-	1	(11)	-	-
Equity	-	-	-	-	-	-

A 10 per cent weakening of the US dollar against the currencies above at 31 December would have had an equal but opposite effect on the amounts shown above, assuming all other variables remained constant.

Interest rate risk

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The Group does not hedge its interest rate exposures.

Exposure to interest rate risk

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was:

	Group Carrying amount	
	2008 US\$'000	2007 US\$'000
Fixed rate instruments		
Convertible bond	75,000	75,000
	75,000	75,000
Variable rate instruments		
Cash and cash equivalents	4,016	28,772
Bank borrowings	(23,500)	-
	(19,484)	28,772

At the reporting date, the interest rate profile of the Company's interest-bearing financial instruments was:

	Company Carrying amount	
	2008 US\$'000	2007 US\$'000
Fixed rate instruments		
Convertible bond	75,000	75,000
	75,000	75,000
Variable rate instruments		
Cash and cash equivalents	1,324	26,473
Bank borrowings	(23,500)	-
	(22,176)	26,473

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Interest rate sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss or equity.

Interest rate sensitivity analysis for variable rate instruments

At the reporting date, if interest rates had been 200 basis points higher/ lower and all other variables were held constant, the Group's and Company's profit or loss and equity would have increased (decreased) by the amounts shown below:

	Group and Company			
	Profit or (loss)		Equity	
	200 bp increase US\$'000	200 bp decrease US\$'000	200 bp increase US\$'000	200 bp decrease US\$'000
At 31 March 2008				
Variable rate instruments	(444)	444	-	-
At 31 March 2007				
Variable rate instruments	529	(529)	-	-

The amounts generated from the sensitivity analyses are estimates of the impact of market risk assuming that specified changes occur. Actual results in the future may differ materially from these results due to developments in the global financial markets which may cause exchange rates or interest rates to vary from the hypothetical amounts disclosed above, which therefore should not be considered a projection of future events and losses.

25. Deferred income tax

	Group						
	Deferred tax assets/ (liabilities)						
	Exploration assets pool	Asset retirement provision	Other temporary differences	Losses carried forward	Total deferred tax asset/ (liability)	Allowance against deferred tax assets	Net deferred tax asset/ (liability)
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 April 2006	554	138	2,850	1,159	4,701	(4,701)	-
Charged/(credited) to the income statement	-	-	-	-	-	-	-
Movement in the year	1,050	329	6,358	2,504	10,241	(10,241)	-
At 31 March 2007	1,604	467	9,208	3,663	14,942	(14,942)	-
Charged/(credited) to the income statement	-	-	-	-	-	-	-
Movement in the year	1,383	616	(7,453)	8,860	3,406	(3,406)	-
At 31 March 2008	2,987	1,083	1,755	12,523	18,348	(18,348)	-

Where the realisation of deferred tax assets is dependent on future profits, the Group recognises losses carried forward and other deferred tax assets only to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 March 2008, the Group had not recognised potential deferred tax assets of \$18.3 million (2007: \$14.9 million) as there was insufficient evidence of future taxable profits in the relevant Group companies. Losses of \$3.0 million can be carried forward for up to 7 years, and the balance of losses of \$9.5 million can be carried forward indefinitely.

There are no significant unrecognised temporary differences associated with undistributed profits of subsidiaries at 31 March 2008 and 2007, respectively.

MAX PETROLEUM PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2008

	Company				
	Deferred tax assets/ (liabilities)				
	Other temporary differences	Losses carried forward	Total deferred tax asset/ (liability)	Allowance against deferred tax assets	Net deferred tax asset/ (liability)
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 April 2006	2,850	1,159	4,009	(4,009)	-
Charged/(credited) to the income statement	-	-	-	-	-
Movement in the year	6,358	2,504	8,862	(8,862)	-
At 31 March 2007	9,208	3,663	12,871	(12,871)	-
Charged/(credited) to the income statement	-	-	-	-	-
Movement in the year	(7,870)	5,832	(2,038)	2,038	-
At 31 March 2008	1,338	9,495	10,833	(10,833)	-

Other temporary differences mainly relate to estimates of future tax deductible amounts for the qualifying share options issued by the Company, as at 31 March 2008, 2007 and 2006, respectively. The losses of the Company of \$9.5 million can be carried forward indefinitely.

26. Provision for liabilities and other charges

	Group		
	Provision for decommissioning costs		
	US\$'000	Other US\$'000	Total US\$'000
Balance at 31 March 2006	949	57	1,006
Additions	568	-	568
Settlements	-	(57)	(57)
Accretion of discount (note 7)	102	-	102
Balance at 31 March 2007	1,619	-	1,619
Additions	1,817	-	1,817
Settlements	(41)	-	(41)
Accretion of discount (note 7)	135	-	135
	3,530	-	3,530
Less: amounts reclassified as liabilities directly associated with assets held for sale (note 21)	(299)	-	(299)
Balance at 31 March 2008	3,231	-	3,231

The decommissioning provision at 31 March 2007 related to the cost of non-producing oil and gas wells in the Group's licence areas at the time they were acquired. The amount provided at 31 March 2008 was revised to include the estimated decommissioning costs of new wells drilled in the year. The decommissioning provision reflects the present value of internal estimates of future decommissioning costs of the Company's oil and gas wells as at the relevant balance sheet date determined using local pricing conditions and requirements.

In relation to the decommissioning provision, the estimated interest rate used in discounting the cash flows is reviewed annually. The interest rate used to determine the balance sheet obligation at 31 March 2008 was 7.4% (2007: 8.0%).

The timing of payments related to provisions is uncertain and is dependent on various items which are not always within management's control.

MAX PETROLEUM PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2008

27. Trade and other payables

	Group		Company	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Trade payables	9,430	10,232	1,076	179
Other payables	1,112	186	316	4
Social security and other taxes	1,838	1,643	248	163
Accruals and deferred income	2,247	1,143	712	1,086
	14,627	13,204	2,352	1,432
Less: amounts reclassified as liabilities directly associated with assets held for sale (note 21)	(260)	-	-	-
	14,367	13,204	2,352	1,432

28. Share capital

The Company has two classes of share capital, which carry no right to fixed income: ordinary and deferred shares. The deferred share class was created in 2005 in a capital restructuring and no further shares will be issued. A deferred share carries no voting or dividend rights. On a return of capital on a winding up, the holders of deferred shares shall only be entitled to receive the amount paid up on such shares after the holders of the ordinary shares have received the sum of 0.01p for each ordinary share held by them and shall have no other right to participate in the assets of the Company.

During the year the Company issued 21,428,408 ordinary shares wholly in respect of exercise of share options for total proceeds of \$32.1 million. In the prior period, the Company issued 3,910,000 ordinary shares wholly in respect of exercise of share options for total proceeds of \$2.5 million. All shares issued are fully paid up.

	Number of shares			
	Authorised share capital		Issued share capital	
	Ordinary shares of 0.01p each	Deferred shares of 14.99p each	Ordinary shares of 0.01p each	Deferred shares of 14.99p each
At 1 April 2006	400,000,000	400,000,000	302,940,329	28,253,329
Increase	400,000,000	-	3,910,000	-
At 1 April 2007	800,000,000	400,000,000	306,850,329	28,253,329
Increase	-	-	21,428,408	-
At 31 March 2008	800,000,000	400,000,000	328,278,737	28,253,329

	Nominal value					
	Authorised share capital			Issued share capital		
	Ordinary shares of 0.01p each	Deferred shares of 14.99p each	Total all classes	Ordinary shares of 0.01p each	Deferred shares of 14.99p each	Total all classes
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 April 2006	70	104,318	104,388	54	7,864	7,918
Increase	87	-	87	1	-	1
At 1 April 2007	157	104,318	104,475	55	7,864	7,919
Increase	-	-	-	4	-	4
At 31 March 2008	157	104,318	104,475	59	7,864	7,923

29. Share premium

	Year ended 31 March 2008 US\$'000	Year ended 31 March 2007 US\$'000
At 1 April	196,636	194,114
Premium on shares issued during the year	32,117	2,522
At 31 March	228,753	196,636

MAX PETROLEUM PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2008

30. Other reserves

	Convertible bond equity reserve US\$'000	Share based payments reserve US\$'000	Warrant reserve US\$'000	Total other reserves US\$'000
At 1 April 2006	-	35,272	-	35,272
Share based payments		11,330	-	11,330
Convertible bond issued, equity portion	11,292	-	-	11,292
Convertible bond issuance costs, equity portion	(485)	-	-	(485)
At 31 March 2007	10,807	46,602	-	57,409
Share based payments	-	5,849	-	5,849
Warrants issued	-	-	11,532	11,532
At 31 March 2008	10,807	52,451	11,532	74,790

Warrants

As more fully disclosed in note 22, the Company entered into a revolving mezzanine credit facility with Macquarie Bank Limited in June 2007. Pursuant to the drawdown of the first tranche, Max Petroleum issued a warrant to Macquarie to acquire 5,000,000 ordinary shares of the Company at 160.6p. In March 2008, a further warrant to acquire 15,000,000 shares at 75p was issued to Macquarie with the increase of the borrowing base from \$20 million to \$50 million.

The warrant table below sets out the warrants granted, exercised and outstanding at 31 March 2008 and 2007.

	2008			2007		
	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	-	-	-	-	-	-
Granted	20,000,000	96	-	-	-	-
Forfeited or cancelled	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Outstanding at end of year	20,000,000	96	-	-	-	-

Out of the outstanding warrants at the end of the year, 20,000,000 warrants (2007: N/A) were exercisable.

The warrants were valued independently using the Black-Scholes valuation model to determine the fair value of the warrants issued by the Company.

The following table represents the variables used in their assumptions:

	2008	2007
Exercise price of warrant	75p – 161p	-
Share price on date of grant	70p – 185p	-
Expected term before warrant exercise	2.5 years	-
Risk free interest rate	4.0% - 5.7%	-
Expected dividend yield	-	-
Expected share volatility	38%	-

The total fair value of the warrants issued of \$11.5 million was credited to other reserves with an offsetting debit initially booked to prepaid debt issuance costs. As at 31 March 2008, \$6.9 million of the prepaid debt issuance costs had been debited against borrowings, pro-rata with drawdowns on the Macquarie Facility during the year (note 22), and the balance of \$4.6 million was included in prepayments (note 18).

MAX PETROLEUM PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2008

31. Share based payments

Share options

The Company has granted share options to directors, employees, strategic consultants and advisors to the Group to provide incentives for long-term performance and retention. Furthermore, additional options were issued as partial consideration for the acquisition of oil and gas properties in Kazakhstan to align the Company's and the sellers' interests subsequent to the acquisition.

In October 2007, the Company granted an additional 564,800 options which vested immediately to ODL Securities, its broker at the time of its listing on AIM, as full settlement of a claim of compensation owed to ODL by the Company with regard to the Company's listing on AIM in October 2005.

The share options granted are not subject to any performance criteria apart from, in respect of directors and employees, their continued service with and employment by the Group, with the exception of 500,000 of share options granted in the year which are subject to non-market performance conditions related to certain operational metrics. The Company operates on a wholly equity-settled principle. All employees are granted share options at the commencement of their employment with the Group.

The vesting terms of the share options differ between the agreements of the vendors and those engaged by the Company and are as follows:

- Options granted to vendors vest immediately and have a three year term from date of grant.
- Options granted to consultants and advisors typically vest in part within six months and proportionately on anniversaries thereafter with a three year term from date of grant.
- Options to directors and employees typically vest in part after one year and proportionately thereafter up to a seven year term from date of grant.
- In October 2005, an exceptional form of share option was granted to two senior executive directors and a consultant responsible for the Company's capital raising activities prior to its listing on AIM, the acquisition of the Company's initial two subsoil licences in oil and gas properties in Kazakhstan, and the AIM Admission of the Company. The option incorporates a non-dilution clause for one year, vesting in part on the first anniversary of grant and proportionately thereafter with a term of ten years.

The maximum term of options granted is ten years and in the normal course of granting, seven years.

As at 31 March 2008, the Company had 90.6 million share options outstanding, reflecting cumulative grants of 125.1 million, net of 25.9 million exercised share options and 8.6 million share options that had been cancelled or forfeited by the recipient. The share option table below sets out the options granted, exercised and outstanding at 31 March 2008 and 2007.

	2008			2007		
	Number of share options	Weighted average exercise price (pence)	Weighted average market price on exercise (pence)	Number of share options	Weighted average exercise price (pence)	Weighted average market price on exercise (pence)
Outstanding at start of year	108,252,313	84.9		102,518,013	77.0	
Granted	12,276,100	86.9		10,249,300	142.8	
Forfeited or cancelled	(8,513,302)	64.0		(605,000)	49.8	
Exercised	(21,428,408)	74.2	170.7	(3,910,000)	34.4	101.1
Outstanding at end of year	90,586,703	89.9		108,252,313	84.9	

Of the outstanding options at the end of the year, 62,445,262 options (2007: 74,006,180) were exercisable at that date.

MAX PETROLEUM PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2008

The directors retain independent consultants to carry out a fair value review and valuation of the share options granted by the Company. The purpose of the review is to ensure that the true cost of the options is properly reflected in the cost of investments in the Group and Company balance sheets and in the cost of services charged to the income statement.

The Black-Scholes valuation model is used to determine the fair value of the share options issued by the Company. Given the limited trading history of the Company, which was admitted on AIM in October 2005, a representative sample of companies from the oil & gas sector with operations in a similar geographic region was used in order to determine expected share price volatility.

The following table represents the weighted averages of the variables used in their assumptions:

	2008 Weighted average	2007 Weighted average
Exercise price of option contract	86.9p	142.8p
Share price on date of grant	93.6p	104.8p
Expected term before option exercise	4.0 years	3.9 years
Risk free interest rate	5.7%	4.8%
Expected dividend yield	-	-
Expected share volatility	38%	38%

The model also assumes lengths of vesting period to date of exercise.

The directors concluded that the average fair value of the options issued during the current year was 38% or 43 pence (\$0.86) (2007: \$0.53). The Group has recorded a charge to administration expenses in its consolidated income statement for the value of services of \$4.6 million (2007: \$9.9 million), net of amounts capitalised and adjustments for unvested options cancelled or forfeited during the year; and capitalised \$1.2 million (2007: \$1.5 million) to exploration and appraisal expenditure. The share based payment reserve is stated as \$52.5 million (2007: \$46.6 million).

The Company did not modify or vary any share option arrangements during the period.

The following table summarises share option activity during the current and prior years to 31 March. For options outstanding at the end of the year, the range of exercise prices and the average remaining life, analysed into the main groups of recipients, were as follows:

	2008				2007			
	Exercise price range (p)	Number of share options	Weighted average exercise price (p)	Average remaining contractual life (years)	Exercise price range (p)	Number of share options	Weighted average exercise price (p)	Average remaining contractual life (years)
Directors ¹	35.0-185.0	27,470,067	73.0	6.8	35.0-120.5	27,062,542	54.9	7.90
Employees	25.0-450.0	12,328,967	132.6	6.3	25.0-450.0	13,783,300	129.0	5.88
Advisory committee	35.0-100.0	4,500,000	78.3	4.8	35.0-100.0	4,500,000	78.3	5.80
Other advisors and consultants	35.0-120.25	8,287,669	42.8	5.1	35.0-120.5	12,906,471	44.6	7.16
Acquisition vendors ^(Note)	100.0	38,000,000	100.0	0.8	100.0	50,000,000	100.0	1.79
		90,586,703	89.9	4.0		108,252,313	84.9	3.90

1 The directors' share options at 31 March 2008 include 688,796 share options held by Mr Steven Kappelle, who was dismissed as a director of the Company on 17 October 2007.

The average closing market price of the Company's ordinary 0.01p shares during the year was 120.0p (2007: 104.7p).

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For the year ended 31 March 2008

32. Cash generated from operations

	Group		Company	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Loss for the year:	(36,984)	(33,137)	(39,877)	(9,872)
Adjustments for:				
- Depreciation, depletion and amortisation (note 10)	5,383	184	130	38
- Loss on disposal of fixed assets (note 9)	12	-	12	-
- Share-based payment charge (note 9)	4,605	9,846	2,713	1,871
- Exploration and appraisal expenditure written-off	15,881	8,385	-	-
- Impairment of assets held for sale (note 21)	5,200	-	18,200	-
- Finance income (note 6)	(811)	(1,729)	(1,451)	(1,727)
- Finance costs (note 7)	1,954	2,058	8,970	4,138
Changes in working capital				
- Inventories	(5,127)	(7,509)	-	-
- Trade and other receivables	1,342	(8,791)	(64,576)	(56,261)
- Trade and other payables	1,423	10,842	864	372
Cash generated from operations	(7,122)	(19,851)	(75,015)	(61,441)

Cash flows relating to major non-cash transactions

Summary of non-cash items

	Group		Company	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Operating cash flow				
Share based payments charge – valuation of options granted for services	4,605	9,846	2,713	1,871
Other	-	-	56	-
	4,605	9,846	2,769	1,871
Capital expenditure and financial investment				
Share based payments capitalised to oil and gas properties	1,244	1,484	-	-
Oil and gas property costs reclassified as pre-paid marketing costs	-	(1,823)	-	-
Non-cash interest expense capitalised to oil and gas properties	2,440	1,283	-	-
Depreciation, depletion and amortisation	5,383	184	130	38
Exploration and appraisal expenditure written-off	15,881	8,385	-	-
Provision for decommissioning costs	1,776	568	-	-
	26,724	10,081	130	38

33. Related party disclosures

The Company has no ultimate controlling party.

Horizon Services N.V.

Horizon owns a 20% indirect interest in the Group's subsoil licences for Blocks A&E and East Alibek in the Republic of Kazakhstan through its 20% interest in two of the Company's subsidiaries, Madiran and Sherpico. Madiran owns 100% of Samek International LLP ("SI"), the sole operator of the Blocks A&E subsoil licence and Sherpico is the 100% owner of Samek Development Enterprise LLP ("SDE"), the sole operator of the East Alibek subsoil licence.

There were no balances or transactions with Horizon as at, or for the year ending, 31 March 2007.

Mr Garifolla Kachshapov

Mr. Kachshapov is the beneficial owner of Horizon, Oriental Limited ("Oriental"), and Samek LLP. He also controls 15 million shares in the Company held by two companies, Incomeborts Ltd and Norgulf Holdings Ltd.

In October 2005, the Company entered into service agreements with Mr Kachshapov employing his services as a manager of SI and as general director of SDE in Kazakhstan. Under the terms of the service agreements Mr. Kachshapov receives \$200,000 per annum, which consists of a salary of \$100,000 from each of SI and SDE.

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Exchange agreement between Max Petroleum Plc, Horizon Services N.V. and Oriental Limited

As more fully described in note 21, Max Petroleum entered into the Exchange Agreement with Horizon and Oriental, an affiliate of Horizon, to acquire Horizon's 20% interest in Madiran in exchange for Oriental receiving the Company's 80% interest in Sherpico and 37 million ordinary shares of the Company.

The Company closed the Exchange Agreement on 11 July 2008, after receiving the necessary regulatory consents from the Republic of Kazakhstan. Completion of the transaction resulted in Max Petroleum acquiring Horizon's 20% indirect interest in Blocks A&E, bringing the Company's ownership to 100%, in exchange for Oriental receiving the Company's entire 80% interest in the East Alibek licence and 37 million newly issued ordinary shares. As a result, the Company's issued share capital is 365,278,737 ordinary shares. Furthermore, Mr. Garifolla Kachshapov, the beneficial owner of Horizon and Oriental, now has an indirect interest in 52 million, or 14.2%, of the Company's ordinary shares.

Share options issued to related parties as part of the Astrakhanskiy Acquisition

In January 2006, the Company issued a total of 50 million share options as partial consideration for the acquisition of the Astrakhanskiy licence (the "Astrakhanskiy Options"), including 12.5 million to Manty Investment Services Ltd ("Manty"), 18.75 million to Fantara Company, Inc. ("Fantara") and 18.75 million to Diego Production Ltd ("Diego"). In 2007, it became evident that certain employees in Kazakhstan beneficially owned 6 million of the Astrakhanskiy Options originally issued to Manty, including (i) 2.1 million share options distributed to a number of the Company's expatriate employees in Kazakhstan, and (ii) 5 million share options received by the Group's Kazakhstan partner of which he allocated 1.1 million to unrelated third party advisors, retaining 3.9 million of the Astrakhanskiy Options. The Group's Kazakhstan partner further allocated 1.95 million to Mr. Dauren Myrzagaliyev, the Group's sole Kazakh non-executive director at the time of the Astrakhanskiy Acquisition, and retained 1.95 million for himself. All of the related party beneficial owners of the 6 million Astrakhanskiy Options have agreed not to exercise the underlying Astrakhanskiy Options prior to their expiration in January 2009 and Mr. Myrzagaliyev voluntarily resigned his employment with the Company.

In June 2007, Manty exercised a total of 2 million options, generating proceeds of \$4.0 million. The Company understands that the Manty options exercised were held by a non-related party.

In July 2007, Diego exercised 10 million options, generating proceeds of \$20.0 million. The Company understands the ultimate beneficial owner of the shares allotted from the Diego option exercise was Mr. Rigoll, either directly or indirectly through his ownership in Tigakhan Ltd.

Samek LLP

During the year 31 March 2008, Samek LLP incurred costs on behalf of the Group of \$37,000. During the year ended 31 March 2007, Samek International LLP recharged operating costs and service charges incurred by Samek LLP of \$135,000. At 31 March 2008, an amount was due to Samek LLP of \$189,000 (2007: amount due from Samek LLP of \$38,000).

MAX PETROLEUM PLC
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Key management personnel

Disclosures related to the remuneration of key management personnel as defined in IAS 24 "Related Party Disclosures" are given in note 11. There is no difference between transactions with key management personnel of the Company and the Group.

Inter-company transactions

The Company has entered into transactions with subsidiary undertakings in respect of funding and group services which are recharged to the subsidiaries.

The amount of loans repayable on demand from subsidiary undertakings to the Company at 31 March 2008 totalled \$154.1 million, of which \$19.3 million was interest bearing (2007: \$91.5 million and \$nil, respectively).

Accounts receivable from subsidiary undertakings to the Company at 31 March 2008 totalled \$4.5 million (2007: \$2.6 million).

During the year, the Company invoiced rechargeable costs with mark-up to subsidiaries of \$6.1 million (2007: \$ 5.0 million) and received interest of \$0.6 million (2007: \$nil) from subsidiaries on group loans.

34. Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Within 1 year	758	1,246	385	424
Within 2-5 years	601	863	601	863
After 5 years	-	-	-	-

35. Capital commitments

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

The Group's commitment remaining under its subsoil licences as at 31 March 2008 totalled \$75.9 million (2007: \$69.3 million).

MAX PETROLEUM PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2008

36. Explanation of transition to IFRS

These financial statements for the year ended 31 March 2008 are the Group's and Company's first financial statements prepared under IFRS. For all accounting periods prior to this, the Group and Company prepared its financial statements under generally accepted accounting principles in the United Kingdom ("UK GAAP").

In accordance with IFRS 1 "First time adoption of IFRS", certain disclosures relating to the transition to IFRS are given in this note. These disclosures are prepared under IFRS as set out in the basis of preparation in note 2.

i) Reconciliation of consolidated income statement and equity from UK GAAP (as previously reported) to IFRS, as at and for the year ended 31 March 2007

Consolidated income statement
For the year ended 31 March 2007

Notes	Group		
	UK GAAP (as previously reported) US\$'000	Discontinuance of full cost accounting US\$'000	Restated - IFRS US\$'000
		(a)	
Revenue	1,502	-	1,502
Cost of sales	(1,502)	-	(1,502)
Gross profit	-	-	-
Exploration and appraisal costs	-	8,385	8,385
Administrative expenses	24,423	-	24,423
Other income	-	-	-
Operating loss	24,423	8,385	32,808
Finance income	(1,729)	-	(1,729)
Finance costs	2,058	-	2,058
Loss before taxation	24,752	8,385	33,137
Income tax expense	-	-	-
Loss for the year	24,752	8,385	33,137
Attributable to:			
Equity holders of the Company	22,994	6,708	29,702
Minority interests	1,758	1,677	3,435
	24,752	8,385	33,137
Loss per share for loss attributable to the equity holders of the Company during the year			
- Basic and diluted (US cents)	7.5	2.2	9.7

MAX PETROLEUM PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2008

Consolidated balance sheet
As at 31 March 2007

Notes	Group			Restated - IFRS US\$'000
	UK GAAP (as previously reported) US\$'000	Discontinuance of full cost accounting US\$'000	Prepayments US\$'000	
	(a)		(g)	
Assets				
Non-current assets				
Intangible assets – Exploration and appraisal expenditure	239,282	(8,385)	-	230,897
Oil and gas properties	-	-	-	-
Property, plant and equipment	1,478	-	-	1,478
Deferred income tax assets	-	-	-	-
Prepayments	-	-	1,338	1,338
	240,760	(8,385)	1,338	233,713
Current assets				
Inventories	7,512	-	-	7,512
Trade and other receivables	13,578	-	(1,338)	12,240
Cash and cash equivalents	28,772	-	-	28,772
	49,862	-	(1,338)	48,524
Total assets	290,622	(8,385)	-	282,237
Liabilities				
Non-current liabilities				
Borrowings	62,253	-	-	62,253
Deferred income tax liabilities	-	-	-	-
Provision for liabilities and other charges	1,619	-	-	1,619
	63,872	-	-	63,872
Current liabilities				
Trade and other payables	13,204	-	-	13,204
Current income tax liabilities	-	-	-	-
Borrowings	-	-	-	-
Provision for liabilities and other charges	-	-	-	-
	13,204	-	-	13,204
Total liabilities	77,076	-	-	77,076
Net assets	213,546	(8,385)	-	205,161
Capital and reserves				
Share capital	7,919	-	-	7,919
Share premium	196,636	-	-	196,636
Other reserves	57,409	-	-	57,409
Retained loss	(46,299)	(6,708)	-	(53,007)
Equity attributable to equity holders of the parent	215,665	(6,708)		208,957
Minority interests in equity	(2,119)	(1,677)		(3,796)
Total equity	213,546	(8,385)		205,161

ii) **Reconciliation of consolidated equity from UK GAAP (as previously reported) to IFRS, as at 1 April 2006**

	Group 1 Apr 2006 US\$'000
Total equity, as previously reported under UK GAAP	213,638
Adjustments to retained losses	-
Total equity, as restated under IFRS	213,638
Attributable to:	
Equity holders of the Company	213,999
Minority interests in equity	(361)
	213,638

MAX PETROLEUM PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2008

iii) Reconciliation of Company income statement and equity from UK GAAP (as previously reported) to IFRS

Company income statement
For the year ended 31 March 2007

Notes	Company		
	UK GAAP (as previously reported) US\$'000	IFRIC 11 restatement US\$'000	Restated - IFRS US\$'000
			(h)
Revenue	5,034	-	5,034
Cost of sales	(4,653)	-	(4,653)
Gross profit	381	-	381
Administrative expenses	(17,302)	9,460	(7,842)
Operating loss	(16,921)	9,460	(7,461)
Finance income	1,727	-	1,727
Finance costs	(4,138)	-	(4,138)
Loss before taxation	(19,332)	9,460	(9,872)
Income tax expense	-	-	-
Loss for the year	(19,332)	9,460	(9,872)

Company balance sheet
As at 31 March 2007

Notes	Company		
	UK GAAP (as previously reported) US\$'000	IFRIC 11 restatement US\$'000	Restated - IFRS US\$'000
			(h)
Assets			
Non-current assets			
Investments	163,162	13,414	176,576
Property, plant and equipment	138	-	138
	163,300	13,414	176,714
Current assets			
Trade and other receivables	95,066	-	95,066
Cash and cash equivalents	26,473	-	26,473
	121,539	-	121,539
Total assets	284,839	13,414	298,253
Liabilities			
Non-current liabilities			
Borrowings	62,253	-	62,253
	62,253	-	62,253
Current liabilities			
Trade and other payables	1,432	-	1,432
	1,432	-	1,432
Total liabilities	63,685	-	63,685
Net assets	221,154	13,414	234,568
Capital and reserves			
Share capital	7,919	-	7,919
Share premium	196,636	-	196,636
Other reserves	57,409	-	57,409
Retained loss	(40,810)	13,414	(27,396)
Total equity	221,154	13,414	234,568

MAX PETROLEUM PLC
NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2008

iv) Reconciliation of equity of the Company as at 31 March 2007 and 1 April 2006:

	Note	Company	
		31 Mar 2007 US\$'000	1 Apr 2006 US\$'000
Total equity, as previously reported under UK GAAP		221,154	215,826
IFRS adjustments to retained losses:	(h)	13,414	3,954
Total equity, as restated under IFRS		234,568	219,780

v) Explanation of reconciling items between UK GAAP and IFRS

- (a) On the discontinuance of full cost accounting, \$8.4 million of drilling expenditures associated with unsuccessful wells were expensed in the financial year ended 31 March 2007.
- (b) On adoption of the modified successful efforts method, there was no depletion or amortisation charge in relation to intangible – exploration and appraisal expenditures, and oil and gas properties, as commercial production commenced on 1 August 2007.
- (c) The general principle in IFRS 1 requires a first-time adopter to apply IAS 32 *Financial Instruments: Disclosure and Presentation*, IFRS 7 *Financial Instruments: Disclosures* and IAS 39 *Financial instruments: Recognition and Measurement* retrospectively and separate all compound financial instruments into a debt and equity portion. The Group completed its \$75 million convertible bond offering in September 2006 which was accounted for under UK GAAP FRS 26 *Financial Instruments: Recognition and Measurement*. There were no material differences between IFRS and UK GAAP in this area and hence no impact to the Group on transition to IFRS.
- (d) The Group had adopted UK GAAP FRS 20 for all periods which it has reported in the accounting for share based payments. This standard is very similar to that of IFRS 2. As such there were no material differences.
- (e) The Group does not have a foreign currency translation reserve as required by IAS 21 *The Effects of Changes in Foreign Exchange* as the Group and its subsidiaries have the same functional currency.
- (f) Under IAS 19 *Employee Benefits*, the monetary value of any unused vacation carried forward by employees at the year end must be accrued for. The Group has been accounting for its employees' holiday accrual, hence there is nil impact arising from the transition to IFRS.
- (g) Under UK GAAP, prepayments greater than one year of \$1.3 million were included within the total of current assets with a caption on the face of the balance sheet noting the amount of the prepayment greater than one year. Under IFRS, this amount has been reclassified to non-current assets.
- (h) On adoption of IFRS, the Company has implemented IFRIC 11: *IFRS 2 – Group and Treasury Share Transactions*. Under IFRIC 11, the share based payment expense of the Company's share options granted to employees of its subsidiaries are treated as a capital contribution of the parent in the subsidiary's books, and accordingly, as an increase in the cost of the parent's investment in the subsidiary. The amount of share based payment expense previously recognised in relation to share options issued to employees of its subsidiaries was \$9.4 million during the year ended 31 March 2007, and cumulatively, \$3.9 million as at 31 March 2006.

vi) Major elections made under IFRS 1 First-time Adoption of International Financial Reporting Standards

- (a) The Group has elected not to apply IFRS 3 *Business Combinations* retrospectively to past business combinations as they occurred prior to the date of transitioning to IFRS.
- (b) As permitted under IAS 23 *Borrowing costs*, the Group re-affirms its policy to capitalise interest on intangible – exploration and appraisal expenditures, and oil and gas properties.
- (c) The Group has elected not to measure individual items of property, plant and equipment at fair value at the date of transition to IFRS. The Group assumes UK GAAP costs of property, plant and equipment as being equal to IFRS deemed costs.

vii) Explanation of material adjustments to the cash flow statement

Group

Apart from the successful efforts charge of \$8.3 million for the year ended 31 March 2007, related to the discontinuance of full cost accounting (refer to (a) above), there were no other material differences between the cash flow statement presented under UK GAAP and IFRS.

Company

Apart from the IFRIC 11 restatements of \$9 million and \$4 million for the years ended 31 March 2007 and 2006 respectively (refer to (i) above), there were no other material differences between the cash flow statement presented under UK GAAP and IFRS.

37. Post balance sheet events

Macquarie Facility drawdowns

Subsequent to 31 March 2008, the Company has borrowed a further \$9 million under the Macquarie Facility (note 22).

Closing of Exchange Agreement

As more fully disclosed in note 21, in July 2008 the Company acquired the remaining 20% interest in Blocks A&E in exchange for its 80% interest in East Alibek plus 37 million of the Company's ordinary shares. Subsequent to the acquisition, the Company owns a 100% interest in Samek International LLP, the 100% owner of Blocks A&E and has fully divested its 80% interest in Samek Development Enterprise LLP, the 100% owner of East Alibek.

Incorporation of US subsidiary

Max Exploration Services, Inc., a United States corporation registered in the state of Delaware, was incorporated as a wholly owned subsidiary of the Company on 1 April 2008.

MAX PETROLEUM PLC
SUPPLEMENTAL DISCLOSURE – OIL AND GAS RESERVES AND RESOURCES (UNAUDITED)
As at 31 March 2008

Supplemental disclosure - oil and gas reserves and resources (unaudited)

The Group's estimates of proved and probable reserve quantities are taken from the Group's Competent Person's evaluation report for the Zhana Makat field as of 31 March 2008. Proved reserves are estimated reserves that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years under existing economic and operating conditions, while probable reserves are estimated reserves determined to be more likely than not to be recoverable in future years under existing economic and operating conditions.

All of the Group's oil and gas assets are located in the Republic of Kazakhstan.

Group proved plus probable reserves	Oil Mbbbls	Gas Bcf	Mboe
As at 1 April 2007	9,817	-	9,817
Revisions of previous estimates	(251)	-	(251)
Discoveries & extensions	-	-	-
Acquisitions	-	-	-
Divestitures	-	-	-
Production	(456)	-	(456)
	9,110	-	9,110
Minority interest	(1,822)	-	(1,822)
Balance as at 31 March 2008	7,288	-	7,288

Group proved plus probable reserves	Oil Mbbbls	Gas Bcf	Mboe
As at 1 April 2006	-	-	-
Revisions of previous estimates	-	-	-
Discoveries & extensions	9,877	-	9,877
Acquisitions	-	-	-
Divestitures	-	-	-
Production	(60)	-	(60)
	9,817	-	9,817
Minority interest	(1,963)	-	(1,963)
Balance as at 31 March 2007	7,854	-	7,854