



Max | Petroleum

Max Petroleum Plc
Interim Report
2011

While the Group has meaningful and increasing production and cash flow from its existing fields, the principal value driver for Max Petroleum is in the Group's post-salt and pre-salt exploration portfolios.

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Financial Highlights

- Revenue of US\$24.4 million during the six months ended 30 September 2011 compared to US\$24.7 million during the six months ended 30 September 2010.
- Total sales volumes of 421,000 barrels of crude oil (“bbls”), up 11% from 378,000 bbls sold in the comparative period in 2010.
- Average realised price of US\$57.93 per bbl, down 11% from US\$65.21 per bbl during the six months ended 30 September 2010, due to reduced export volumes relative to domestic sales.
- Cash generated from operations of US\$7.9 million, up 43% from US\$5.6 million in the comparative period.
- Loss for the period of US\$0.4 million, compared to a loss of US\$13.3 million during the six months ended 30 September 2010.
- EBITDA for the current period of US\$10.7 million, up 41% from US\$7.6 million during the six months ended 30 September 2010.
- In June 2011, paid the remaining balance of US\$13.8 million under a tax claim brought by the local authorities of the Republic of Kazakhstan. The Company expects to recover the majority of the economic value of the tax claim through subsequent depreciation deductions that will offset future taxable income.

Operational Highlights

- Ryder Scott Company finalised and delivered an updated reserves report as of 30 September 2011, including the Zhana Makat, Borkyldakty, Asanketken, East Kyzylzhar I and Sagiz West fields, including:
 - Proved and probable (“2P”) reserves of 13.3 mmbbls at 30 September 2011, a 70% increase from 7.8 mmbbls in 2P reserves at 31 March 2011, as calculated by Ryder Scott Company at 30 September 2011 and 31 March 2011, respectively.
 - The Sagiz West Field also estimated by Ryder Scott to contain an additional 1.5 mmbbls of possible reserves and 61.3 mmbbls of contingent resources in place at 30 September 2011.
- Since 31 March 2011, drilled 12 post-salt wells, including four exploration wells generating two commercial discoveries at East Kyzylzhar I and Sagiz West, and eight successful appraisal and development wells across three fields.
- Spudded the Group’s first deep, pre-salt well (NUR-1) on the Emba B prospect in Block E in November 2011, targeting unrisks mean resource potential of 467 mmbbls of oil equivalent with a 29% geological chance of success.
- As of 11 November 2011, the remaining post-salt exploration portfolio consists of six prospects with unrisks mean resource potential of 110 million barrels of oil, plus five post-salt leads that the Group is evaluating using 138 km² of recently acquired 3D seismic data, the majority of which it expects to mature into post-salt prospects to be drilled during 2012.
- Acquisition of a 27 km² high fold 3D seismic survey over the Uytas Field in October 2011 that, along with ongoing analysis of core data obtained in the recent appraisal drilling programme, will allow the preparation of a long-term appraisal and development programme for the Field.
- Four rigs currently under contract, drilling exploration wells at Emba B and Asanketken, an appraisal well at Zhana Makat and mobilising to drill an appraisal well at East Kyzylzhar I.
- Production increased from approximately 2,100 barrels of oil per day (“bopd”) from the Zhana Makat Field as at 31 March 2011 to current production of approximately 3,600 bopd from three producing fields, generating in excess of US\$5.0 million in revenue per month. The Company expects to have all six of its commercial discoveries on production by 31 December 2011.

Key Performance Indicators (KPIs)

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

| | Six months ended 30 September 2011 | Six months ended 30 September 2010 | % Change |
|--|---|---|-------------|
| Crude oil sales volumes (mbo) | 421 | 378 | 11% |
| Export sales volumes (mbo) | 51 | 303 | (83)% |
| Domestic sales volumes (mbo) | 370 | 75 | 393% |
| Oil sales revenue (US\$'000) | 24,362 | 24,682 | (1)% |
| Export sales revenue (US\$'000) | 6,017 | 21,886 | (73)% |
| Domestic sales revenue (US\$'000) | 18,345 | 2,796 | 556% |
| Average realised price (US\$ per bbl) | 57.93 | 65.21 | (11)% |
| Average realised export price (US\$ per bbl) | 119.17 | 72.18 | 67% |
| Average realised domestic price (US\$ per bbl) | 49.58 | 37.13 | 34% |
| Operating cost ¹ (US\$'000) | 8,083 | 10,530 | (23)% |
| Production cost (US\$'000) | 3,125 | 3,110 | 0% |
| Selling and transportation (US\$'000) | 2,708 | 2,310 | 17% |
| Mineral extraction tax (US\$'000) | 621 | 1,292 | (52)% |
| Export rent tax/export customs duty (US\$'000) | 1,629 | 3,818 | (57)% |
| Operating cost per bbl ¹ (US\$ per bbl) | 19.23 | 27.82 | (31)% |
| Production cost (US\$ per bbl) | 7.44 | 8.22 | (10)% |
| Selling and transportation (US\$ per bbl) | 6.44 | 6.10 | 6% |
| Mineral extraction tax (US\$ per bbl) | 1.48 | 3.41 | (57)% |
| Export rent tax/export customs duty (US\$ per bbl) | 3.87 | 10.09 | (62)% |
| EBITDA ² (US\$'000) | 10,715 | 7,603 | 41% |
| Cash generated from operations (US\$'000) | 7,943 | 5,565 | 43% |
| Oil and gas reserves and resources: | 30 September 2011 | 31 March 2011 | % Change |
| Total proved and probable ("2P") reserves (mbo) ³ | 13,337 | 7,841 | 70% |
| Proved reserves (mbo) | 7,467 | 5,695 | 31% |
| Probable reserves (mbo) | 5,870 | 2,147 | 173% |
| Other reserves and resources relating to the Sagiz West Field ⁴ | | | |
| Possible reserves (mbo) | 1,468 | – | n/a |
| Contingent resources in place (mbo) | 61,302 | – | n/a |

1 Operating cost equals cost of sales less depreciation, depletion and amortisation. The Group believes it is useful to its shareholders to present this information in a modified format. A reconciliation to cost of sales is set out in note 6 to the accompanying financial information.

2 EBITDA is defined as operating profit/(loss) before depreciation, depletion and amortisation, share-based payment expense and exploration and appraisal costs. EBITDA is a non-IFRS performance measure with no standard meaning under IFRS, and is reconciled to the income statement in note 22 to the accompanying financial information.

3 Per reserves reports from the Ryder Scott Company. Reserves at 30 September 2011 include the Zhana Makat, Borkyldakty, and Asanketken fields, as well as new discoveries during the interim period at East Kyzylzhar I and Sagiz West. The report for 31 March 2011 includes reserves for the Zhana Makat, Borkyldakty and Asanketken fields.

4 Possible reserves and contingent resources in place for the Sagiz West Field estimated by the Ryder Scott Company as at 30 September 2011.

Joint Chairmen's Statement

Dear Shareholder,

Max Petroleum has maintained a rapid pace of operations since the end of its last fiscal year, continuing to deliver tangible results for its shareholders through its ongoing exploration, appraisal, and development programmes.

During the latest interim period, the Group made two commercial post-salt discoveries at the East Kyzylzhar I and Sagiz West fields, increased daily production by 67% to approximately 3,500 barrels of oil per day ("bopd"), increased its independently estimated proved and probable ("2P") reserves by approximately 70% to 13.3 million barrels of oil ("mmbbl") plus an additional 1.5 mmbbls of possible reserves and 61.3 mmbbls of contingent resources in place relating to its Sagiz West discovery. The Group expects to continue to increase the 2P reserves underlying its existing discoveries as it places new fields on test production and drills additional appraisal wells to delineate the fields.

Since 31 March 2011, the Group has also acquired 138 km² of high fold 3D seismic in Block E to evaluate five additional post-salt leads, and an additional 27 km² of development 3D seismic over the Uytas Field in Block A. Furthermore, Max Petroleum began drilling its first deep, pre-salt well in November 2011 after several years of planning and preparation. The NUR-1 well will test the Emba B prospect estimated to have 467 mmbbl of unrisks mean resource potential. If successful, it could open up an onshore trend of similar pre-salt structures that would be both significant for Max Petroleum and strategic for the Republic of Kazakhstan.

The Group remains active on the drilling front with four rigs currently under contract and seven post-salt wells planned for the three months ending 31 December 2011, including two exploration wells and five appraisal and development wells. While the Group continues to be focused principally on growth through exploration, Max Petroleum's six commercial post-salt

discoveries are having an increasingly positive impact on production and cash flow. The Group increased the number of fields on production from one to three during the six months ended 30 September 2011 and expects to have production from all six of its commercial discoveries by 31 December 2011, including the Zhana Makat and Borkyldakty fields producing under trial production projects, and the most recently discovered fields on test production.

Post-salt exploration, appraisal and development programmes

Since 31 March 2011, the Group has drilled a total of 12 post-salt wells, including four exploration wells generating two commercial discoveries and eight successful appraisal and development wells over three fields. The Group is currently drilling one shallow exploration well targeting Triassic potential in the Asanketken Field, as well as an appraisal well in Zhana Makat, and has plans to drill three additional appraisal wells by 31 December 2011 in Zhana Makat, East Kyzylzhar I, and Sagiz West.

Since January 2010, the Group has drilled five commercial discoveries out of 13 exploration wells, a success rate of 38%. The Group's success rate has improved as it has incorporated learnings into its ongoing drilling programme with a greater focus on the Triassic rim play type that has proved successful at the Group's Zhana Makat, Borkyldakty, and Sagiz West discoveries. Three of the five undrilled post-salt prospects and all five of the leads currently being evaluated using 3D seismic are Triassic rim structures. The Group expects to high grade the five post-salt leads by 31 December 2011 and is in the process of obtaining the requisite drilling permits from the local regulatory authorities to allow the Group to begin drilling these Triassic rim structures in early 2012. As a result, the Group is currently reviewing the scope and timing of its 2012 shallow drilling programme, which is expected to include up to 10 post-salt exploration wells.

Joint Chairmen's Statement continued

The Group's exploration success in the post-salt is beginning to be reflected in its 2P reserve estimates, with 2P reserves increasing 70% from 31 March 2011 based on new discoveries at East Kyzylzhar I and Sagiz West. The Group's Competent Person, Ryder Scott Company, estimates that at 30 September 2011, the Group had 13.3 mmbbl in 2P reserves with an after-tax net present value discounted at 10% ("PV10") of US\$246 million, compared to 2P reserves of 7.8 mmbbl in the prior fiscal year with a PV10 of US\$176 million. Ryder Scott also assigned 1.5 mmbbls of possible reserves and 61.3 mmbbls of contingent resources in place to the Sagiz West discovery, which the Group expects to evaluate before 31 March 2012 through its ongoing appraisal drilling programme. The Group's Uytas discovery was not included in the 30 September 2011 Competent Person's report, as the Group plans to have Ryder Scott prepare a separate resource/reserve update for the field during the quarter ended 31 March 2012 based on core data that is currently being evaluated and the recently completed 27 km² 3D seismic survey acquired over the field. The Group expects its 2P reserves to continue to grow substantially over the next two years as it both drills through its remaining exploration prospect inventory and continues to appraise and develop its existing discoveries.

A field level comparison of proved and probable reserves, calculated by Ryder Scott, as of 30 September 2011 and 31 March 2011 is as follows:

| | 30 September 2011 | | | 31 March 2011 | | |
|------------------|-------------------|--------------|--------------|---------------|--------------|--------------|
| | Proved mbo | Probable mbo | Total 2P mbo | Proved mbo | Probable mbo | Total 2P mbo |
| Zhana Makat | 4,729 | 1,446 | 6,175 | 4,938 | 1,414 | 6,352 |
| Borkyldakty | 231 | 271 | 502 | 242 | 272 | 514 |
| Asanketken | 503 | 472 | 975 | 514 | 461 | 975 |
| East Kyzylzhar I | 315 | 607 | 922 | - | - | - |
| Sagiz West | 1,689 | 3,074 | 4,763 | - | - | - |
| | 7,467 | 5,870 | 13,337 | 5,694 | 2,147 | 7,841 |

Crude oil production increased during the interim period from approximately 2,100 bopd at 31 March 2011 to approximately 3,500 bopd at 30 September 2011, as additional wells were brought on in Zhana Makat, Borkyldakty, and Asanketken. Daily production is expected to increase further in the quarter ended 31 December 2011 as the Group brings on a minimum of eight additional wells, including six appraisal wells in Zhana Makat and Uytas, as well as two discovery wells in East Kyzylzhar I and Sagiz West. Future production rates will continue to fluctuate, however, as wells on test production are brought on and off production during the allowed testing period of 90 days per productive horizon.

Pre-salt exploration programme

The Group's significant pre-salt portfolio of 10 prospects and five leads ranging in size from 100 to 600 mmbbl of estimated unrisks mean resources was developed late in 2009 using a combination of the new 3D seismic acquired by the Group and regional geologic play concepts developed by our technical team using analogies from elsewhere in the Pre-Caspian Basin and other similar basins around the world. Total unrisks mean resource potential for this portfolio is estimated by the Group at over four billion barrels of oil equivalent ("bboe"). The majority of this potential resource is found in the "Type II" prospects which are interpreted to be ancient coral reefs of Devonian age, in part analogous to the other super-giant fields in the Basin. Of particular importance to these "Type II" prospects is the fact that they share a single common risk factor – reservoir quality. Success on the first NUR-1 well at the Emba B prospect would significantly improve the chance of success on the remaining prospects and leads. The Group spudded the NUR-1 well in early November 2011. Drilling is expected to take up to six months.

Joint Chairmen's Statement continued

Depending upon the results of NUR-1, the Group will drill another Type II prospect or will move the deep rig to test the Type I, Kuzbak prospect on Block E. As of 31 October 2011, the Group estimates the forward costs to drill the NUR-1 well to be US\$21.0 million, net of US\$8.6 million in drilling costs incurred to date, and the forward costs to drill a Type I well to be approximately US\$20.0 million.

Changes in crude oil marketing: domestic versus export

Historically, the Group has sold approximately 80% of its crude oil production on the export market and 20% domestically within Kazakhstan. During the quarter ended 30 June 2011, following correspondence and discussions with local regulatory authorities, Max Petroleum began selling 100% of its crude oil production on the domestic market pending full field development ("FFD") approval for the Zhana Makat Field, which is expected to be in place prior to 31 December 2011. Upon FFD approval, the Group will have the right to sell 80% of its crude oil production from the Zhana Makat Field on the export market under the terms of its Blocks A&E Licence. Similarly, production from the Group's other more recent discoveries will be sold exclusively on the domestic market until each field is approved for FFD, after which the Group will have the right to sell 80% of its production from that field on the export market. Current oil sales into the domestic market are generating after-tax net proceeds that are approximately US\$14 per barrel lower than comparable export sales.

Liquidity and capital resources

The Group finances its exploration and development activities using a combination of cash on hand, operating cash flow generated from the sale of crude oil production, borrowings under its revolving credit facility with Macquarie Bank Limited (the "Credit Facility"), and additional debt or equity financing or asset sales, as required.

As at 11 November 2011, the Group had approximately US\$3 million in cash on hand and US\$41 million in available

borrowing capacity under the Credit Facility. The Group is also generating significant cash flow from operations, with proceeds from the sale of crude oil production averaging approximately US\$4 million per month for the seven months ended 31 October 2011. Operating cash flow has been improving substantially in the near-term, with average daily production increasing from approximately 2,100 bopd as of 30 June 2011 to approximately 3,600 bopd as of the date of this report, generating in excess of US\$5 million in revenue per month. While the Group's daily production rate from wells on test production are variable, the Group expects average daily production and operating cash flow to continue to improve in the near-term as additional wells are brought onto production.

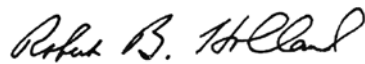
In March 2011, the Group raised US\$85 million before expenses in a placing of 309.8 million new ordinary shares at 17p per share, principally to finance drilling two deep, pre-salt and seven shallow, post-salt exploration wells evaluating approximately 1.2 bboe in unriskened mean resource potential, of which the majority of the post-salt exploration wells have already been drilled. In conjunction with the placing, the Group restructured both its Credit Facility and its convertible bonds to defer principal payment under the Credit Facility to 31 March 2013 and final maturity of its convertible bonds to 8 September 2013. The Group used the proceeds from the placing to pay down its revolving Credit Facility in order to minimise near-term interest costs with the proceeds to be redrawn as needed to fund the Group's ongoing exploration activities.

The Group intends to fund its near-term post-salt drilling programme, as well as two pre-salt exploration wells, using a combination of cash flow from operations, cash on hand and borrowings under its Credit Facility. Future capital requirements for additional exploration, appraisal and development activities are difficult to predict, however, as they are principally driven by the results of the Group's ongoing exploration programme, as well as the ongoing evaluation of current post-salt discoveries.

Joint Chairmen's Statement continued

The Group anticipates additional debt or equity capital may be required based on the results of its current programme, including future expanded appraisal and development drilling programmes for the Group's recent post-salt discoveries in Uytas, Asanketken, East Kyzylzhar I, and Sagiz West, as well as drilling additional pre-salt prospects beyond the two wells in the current exploration programme.

We continue to believe in the ability of the team at Max Petroleum to unlock the value of our highly prospective assets. The Group has transformed its production and reserve profile from a year ago. We expect this process of transformation, with further exploration success and reserve and production growth, to continue to substantially enhance shareholder value.



Robert B Holland III
Executive Co-Chairman



James A Jeffs
Executive Co-Chairman

Independent Review Report to Max Petroleum Plc

Introduction

We have been engaged by the Company to review the condensed consolidated financial information in the interim financial report for the six months ended 30 September 2011, which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and related notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated financial information.

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial information in the interim financial report for the six months ended 30 September 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM rules for companies.

PricewaterhouseCoopers LLP

Chartered Accountants
13 November 2011
London

Notes:

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

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

Condensed Consolidated Income Statement

For the six months ended 30 September 2011

(in thousands of US\$)

| | Note | Unaudited six months ended 30 September 2011 | Unaudited six months ended 30 September 2010 |
|---------------------------------|------|--|--|
| Revenue | | 24,362 | 24,682 |
| Cost of sales | 6 | (14,920) | (17,173) |
| Gross profit | | 9,442 | 7,509 |
| Exploration and appraisal costs | | (312) | (5,180) |
| Administrative expenses | | (8,383) | (7,863) |
| Operating profit/(loss) | 7 | 747 | (5,534) |
| Finance income | | 11 | 1 |
| Finance costs | 8 | (1,102) | (7,738) |
| Loss before taxation | | (344) | (13,271) |
| Income tax expense | 9 | (30) | (21) |
| Loss for the period | | (374) | (13,292) |
| Loss per share | | | |
| – Basic (US cents) | 3 | (0.0) | (3.0) |
| – Diluted (US cents) | 3 | (0.0) | (3.0) |

The notes on pages 13 to 22 form an integral part of this condensed consolidated financial information.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2011

(in thousands of US\$)

| | Unaudited six months ended 30 September 2011 | Unaudited six months ended 30 September 2010 |
|--|--|--|
| Loss for the period | (374) | (13,292) |
| Other comprehensive income | – | – |
| Total comprehensive loss for the period | (374) | (13,292) |

The notes on pages 13 to 22 form an integral part of this condensed consolidated financial information.

Condensed Consolidated Balance Sheet

At 30 September 2011

(in thousands of US\$)

| | Note | Unaudited at 30 September 2011 | Audited at 31 March 2011 |
|---|------|--------------------------------------|--------------------------------|
| Assets | | | |
| Non-current assets | | | |
| Intangible assets – exploration and appraisal expenditure | 10 | 162,712 | 147,796 |
| Oil and gas properties | 10 | 37,621 | 27,518 |
| Property, plant and equipment | 10 | 12,736 | 10,717 |
| Trade and other receivables | 11 | 2,009 | – |
| | | 215,078 | 186,031 |
| Current assets | | | |
| Inventories | | 14,235 | 13,268 |
| Trade and other receivables | 11 | 5,977 | 7,124 |
| Cash and cash equivalents | 12 | 4,238 | 25,534 |
| | | 24,450 | 45,926 |
| Total assets | | 239,528 | 231,957 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Borrowings | 13 | 79,403 | 77,989 |
| Provision for liabilities and other charges | 14 | 2,061 | 1,525 |
| | | 81,464 | 79,514 |
| Current liabilities | | | |
| Trade and other payables | | 16,569 | 18,102 |
| Current tax liabilities | | – | 9,919 |
| Borrowings | 13 | 20,426 | 6,026 |
| | | 36,995 | 34,047 |
| Total liabilities | | 118,459 | 113,561 |
| Net assets | | 121,069 | 118,396 |
| Capital and reserves | | | |
| Share capital | 15 | 8,034 | 8,020 |
| Share premium | 15 | 363,852 | 356,598 |
| Other reserves | 16 | 110,225 | 114,446 |
| Accumulated deficit | | (361,042) | (360,668) |
| Total equity | | 121,069 | 118,396 |

The notes on pages 13 to 22 form an integral part of this condensed consolidated financial information.

Condensed Consolidated Statement of Changes In Equity

For the six months ended 30 September 2011

(in thousands of US\$)

| Six months ended 30 September 2011 | Share capital | Share premium | Other reserves | Accumulated deficit | Total equity |
|---|---------------|----------------|----------------|---------------------|----------------|
| Balance at 1 April 2011 | 8,020 | 356,598 | 114,446 | (360,668) | 118,396 |
| Loss for the period | – | – | – | (374) | (374) |
| Other comprehensive income | – | – | – | – | – |
| Total comprehensive loss for the period | – | – | – | (374) | (374) |
| Issue of share capital (note 15) | 14 | 7,254 | (6,833) | – | 435 |
| Share-based payment (note 17) | – | – | 2,612 | – | 2,612 |
| | 14 | 7,254 | (4,221) | – | 3,047 |
| Balance at 30 September 2011 | 8,034 | 363,852 | 110,225 | (361,042) | 121,069 |

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

The notes on pages 13 to 22 form an integral part of this condensed consolidated financial information.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2011

(in thousands of US\$)

| | Note | Unaudited six months ended 30 September 2011 | Unaudited six months ended 30 September 2010 |
|---|------|--|--|
| Cash flows from operating activities | | | |
| Cash generated from operations | 18 | 7,943 | 5,565 |
| Income tax paid | 18 | (9,627) | (2,199) |
| Net cash (used in)/generated from operating activities | | (1,684) | 3,366 |
| Cash flows used in investing activities | | | |
| Purchases of property, plant and equipment | | (2,041) | (161) |
| Payments for exploration and appraisal expenditure and oil and gas assets | | (24,793) | (10,353) |
| Interest received | | 11 | 1 |
| Net cash used in investing activities | | (26,823) | (10,513) |
| Cash flows from financing activities | | | |
| Proceeds from issuance of ordinary shares | | 435 | 251 |
| Proceeds from borrowings | | 14,400 | 11,262 |
| Interest paid | 18 | (7,643) | (3,528) |
| Net cash generated from financing activities | | 7,192 | 7,985 |
| Net (decrease)/increase in cash and cash equivalents | | (21,315) | 838 |
| Effects of exchange rates on cash and cash equivalents | | 19 | – |
| Cash and cash equivalents at beginning of period | | 25,534 | 3,806 |
| Cash and cash equivalents at end of period | | 4,238 | 4,644 |

The notes on pages 13 to 22 form an integral part of this condensed consolidated financial information.

Notes to Condensed Consolidated Financial Information

For the six months ended 30 September 2011

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 the exploration and production rights to the Blocks A&E Licence, which comprises two onshore blocks extending over 12,455 km² in the Pre-Caspian Basin in Western Kazakhstan.

Max Petroleum is a public limited company incorporated and domiciled in the United Kingdom and quoted on AIM. The address of its registered office is Second Floor, 81 Piccadilly, London, W1J 8HY, United Kingdom.

The interim financial report for the six months ended 30 September 2011 was approved by the Board of Directors on 13 November 2011.

2. Basis of preparation and accounting policies

The annual financial statements of Max Petroleum are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The unaudited condensed consolidated financial information for the six months ended 30 September 2011 included in this interim financial report (the “interim financial report”) has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”, as adopted by the European Union.

The interim financial report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the consolidated financial statements in the Max Petroleum Annual Report and Accounts for the year ended 31 March 2011. The accounting policies adopted in the preparation of the interim financial report, the significant judgements made by management in applying the Group’s accounting policies, and the key sources of estimation uncertainty are consistent with those followed in the preparation of the Group’s financial statements for the year ended 31 March 2011, except for the adoption of the following standards and amendments:

- IAS 24 (revised November 2009) Related Party Disclosures
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Improvements to IFRSs (2010)

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

The Group’s interim financial report does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2011 were approved by the Board of Directors on 23 August 2011 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

Going concern

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

The Group is engaged in the exploration and development of oil and gas assets in Kazakhstan. The Group finances its exploration and development activities using a combination of cash on hand, operating cash flow generated from the sale of crude oil production, borrowings under its revolving Credit Facility with Macquarie Bank Limited, and additional debt or equity financing or asset sales, as required.

As at 11 November 2011, the Group had approximately US\$3 million in cash on hand and US\$41 million in available borrowing capacity under the Credit Facility. The Group is also generating significant cash flow from operations, with proceeds from the sale of crude oil production averaging approximately US\$4 million per month for the seven months ended 31 October 2011. Operating cash flow has been improving substantially in the near-term, with average daily production increasing from approximately 2,100 bopd as of 30 June 2011 to approximately 3,600 bopd as of the date of this report, generating in excess of US\$5 million in revenue per month. While the Group’s daily production rate from wells on test production are variable, the Group expects average daily production and operational cash flow to continue to improve in the near-term as additional wells are brought onto production.

Notes to Condensed Consolidated Financial Information continued

For the six months ended 30 September 2011

In March 2011, the Group raised US\$85 million before expenses in a placing of 309.8 million new ordinary shares at 17p per share, principally to finance drilling two deep, pre-salt and seven shallow, post-salt exploration wells evaluating approximately 1.2 bboe in unrisked mean resource potential, of which the majority of the post-salt exploration wells have already been drilled. In conjunction with the placing, the Group restructured both its Credit Facility and its convertible bonds to defer principal payment under the Credit Facility to 31 March 2013 and final maturity of its convertible bonds to 8 September 2013. The Group used the proceeds from the placing to pay down its revolving Credit Facility in order to minimise near-term interest costs with the proceeds to be redrawn as needed to fund the Group's ongoing exploration activities.

The Group intends to fund its near-term post-salt drilling programme, as well as two pre-salt exploration wells, using a combination of cash flow from operations, cash on hand, and borrowings under its Credit Facility. Future capital requirements for additional exploration, appraisal and development activities are difficult to predict, however, as they are principally driven by the results of the Group's ongoing exploration programme, as well as the ongoing evaluation of current post-salt discoveries. The Group anticipates additional debt or equity capital may be required based on the results of its current programme, including future expanded appraisal and development drilling programmes for the Group's recent post-salt discoveries in Uytas, Asanketken, East Kyzylzhar I, and Sagiz West, as well as drilling additional pre-salt prospects beyond the two wells in the current exploration programme.

The Group's interim financial information has been prepared on the basis that it is a going concern, which contemplates the realisation of assets and satisfaction of liabilities in the normal course of business. The Group carefully monitors and manages its liquidity with regular cash forecasting. The directors have reviewed the forecasts for production, operating cash flows and capital expenditure. The Group's business plan is dependent on the continuing availability of the Credit Facility, which requires the Group to comply with various financial and non-financial covenants. The directors are confident that based on current cash forecasts, which include assumptions about oil prices and existing and future production rates, the Group can manage its liquidity position so as to ensure its continued operational existence for the foreseeable future. Therefore, the directors consider that it is reasonable to continue to adopt the going concern basis in preparing the interim financial information.

3. Loss per share

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

| | Six months ended 30 September | |
|--|--|--|
| | 2011 US\$'000 | 2010 US\$'000 |
| Loss for the purpose of basic loss per share | (374) | (13,292) |
| Effect of dilutive potential ordinary shares | – | – |
| Loss for the purpose of diluted loss per share | (374) | (13,292) |
| | Number of shares millions | Number of shares millions |
| Weighted average number of ordinary shares for the purpose of basic loss per share | 925.8 | 445.5 |
| Effect of dilutive potential ordinary shares – share options | – | – |
| Weighted average number of ordinary shares for the purpose of diluted loss per share | 925.8 | 445.5 |

The Company's potentially dilutive securities, being the outstanding convertible debt and outstanding share options and warrants in issue, were anti-dilutive for the six month periods ended 30 September 2011 and 2010, respectively.

4. Dividends paid and proposed

No dividend was paid or is proposed for the six month periods ended 30 September 2011 and 2010, respectively.

5. Operating segments

Management has determined its operating segments based on the reports reviewed by the directors for the purposes of making decisions about allocating resources and assessing performance. In the opinion of the directors, the operations of the Group comprise one operating segment: oil and gas exploration and development and related activities. All of the Group's assets and liabilities, income and expense relate to this segment.

Notes to Condensed Consolidated Financial Information continued

For the six months ended 30 September 2011

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

Geographical information

The Group conducts business within three geographical regions. The Group's operational activities are wholly focused in the Republic of Kazakhstan, supported by a technical team in Houston, USA. The Group's head office is in London, United Kingdom.

6. Cost of sales

| | Six months ended 30 September | |
|--|----------------------------------|------------------|
| | 2011 US\$'000 | 2010 US\$'000 |
| Operating costs: | | |
| – commercial production | 3,125 | 2,811 |
| – test production | – | 299 |
| Selling and transportation | 2,708 | 2,310 |
| Export customs duty/export rent tax | 1,629 | 3,818 |
| Mineral extraction tax | 621 | 1,292 |
| Depreciation, depletion and amortisation | 6,837 | 6,643 |
| | 14,920 | 17,173 |

7. Operating profit/(loss)

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

| | Six months ended 30 September | |
|--|----------------------------------|------------------|
| | 2011 US\$'000 | 2010 US\$'000 |
| Exploration and appraisal costs | 312 | 5,180 |
| Share-based payment, net of capitalisation | 2,548 | 1,004 |

Exploration and appraisal costs relate to the cost of dry holes, including costs for plugging and abandonment.

8. Finance costs

| | Six months ended 30 September | |
|---|----------------------------------|------------------|
| | 2011 US\$'000 | 2010 US\$'000 |
| Interest expense: | | |
| Interest payable on bank borrowings | 780 | 2,571 |
| Interest payable on convertible bond | 4,287 | 9,762 |
| Unwinding of discount on decommissioning provision (note 14) | 54 | 62 |
| Other | 396 | 941 |
| | 5,517 | 13,336 |
| Less: | | |
| Interest expense capitalised to exploration and appraisal expenditure | (4,415) | (5,598) |
| Finance costs | 1,102 | 7,738 |

Interest payable on the Convertible Bonds for the six months ended 30 September 2010 includes US\$4.0 million in relation to the fair value of the warrant exercisable into 30 million ordinary shares which vested as a result of the Group's election to defer Convertible Bond cash interest due on 8 September 2010 to PIK (note 13).

Notes to Condensed Consolidated Financial Information continued

For the six months ended 30 September 2011

9. Income tax expense

| | Six months ended 30 September | |
|--------------|----------------------------------|------------------|
| | 2011 US\$'000 | 2010 US\$'000 |
| Current tax | 30 | 21 |
| Deferred tax | – | – |
| | 30 | 21 |

The Group's principal business activities are in the Republic of Kazakhstan, where corporate income tax applies at a rate of 20% of taxable income. Taxes on the production and sale of hydrocarbons are accounted for as cost of sales (see note 6). 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.

There was no deferred tax recognised in the income statement during the six months ended 30 September 2011 or 30 September 2010.

The Group has generated recurring net operating losses and no deferred tax assets have been recognised at 30 September 2011 or 31 March 2011 with respect to such losses as there is insufficient evidence of future taxable profits. The Group has other deferred tax assets in respect of the exploration assets pool, depreciation, share-based payment and other temporary differences which have not been recognised at 30 September or 31 March because of insufficient evidence of future taxable profits.

Tax Claim

Full details of a tax claim brought against the Group by the local tax authorities of the Republic of Kazakhstan regarding the timing of certain tax deductions made by the Group prior to January 2009 (the "Tax Claim") are described on page 64 of the Group's Annual Report and Accounts for the year ended 31 March 2011.

The Group had previously fully provided for the Tax Claim in the financial statements for the years ended 31 March 2011 and 31 March 2010.

During the six months ended 30 September 2011, the Group paid US\$13.8 million in full settlement of the Tax Claim, pending appeal of the Tax Claim to the Supreme Court of the Republic of Kazakhstan. The final legal appeal to review the Tax Claim was rejected by the Supervisory Panel of the Supreme Court of the Republic of Kazakhstan during the current period.

In aggregate, US\$18.8 million has been settled under the Tax Claim, comprising US\$9.9 million of income taxes, penalties of US\$4.9 million and interest of US\$4.0 million.

The Group expects to recover the majority of the economic value of the Tax Claim through subsequent depreciation deductions that will offset future taxable income.

Notes to Condensed Consolidated Financial Information continued

For the six months ended 30 September 2011

10. Capital expenditure

| | Intangible assets— exploration and appraisal expenditure US\$'000 | Oil and gas properties US\$'000 | Property, plant and equipment US\$'000 | Total US\$'000 |
|---|--|---------------------------------------|---|-------------------|
| Six months ended 30 September 2011 | | | | |
| Cost | | | | |
| At 1 April 2011 | 167,439 | 45,572 | 16,378 | 229,389 |
| Additions | 25,557 | 6,379 | 2,029 | 33,965 |
| Amounts written off to exploration and appraisal costs | (301) | – | – | (301) |
| Change in estimate for decommissioning provision | 369 | 113 | – | 482 |
| Transfers | (7,384) | 6,598 | 786 | – |
| At 30 September 2011 | 185,680 | 58,662 | 19,193 | 263,535 |
| Accumulated depletion, depreciation and amortisation | | | | |
| At 1 April 2011 | 19,643 | 18,054 | 5,661 | 43,358 |
| Charge for the period | 3,351 | 2,961 | 796 | 7,108 |
| Transfers | (26) | 26 | – | – |
| At 30 September 2011 | 22,968 | 21,041 | 6,457 | 50,466 |
| Net book value | | | | |
| At 1 April 2011 | 147,796 | 27,518 | 10,717 | 186,031 |
| At 30 September 2011 | 162,712 | 37,621 | 12,736 | 213,069 |
| Six months ended 30 September 2010 | | | | |
| Cost | | | | |
| At 1 April 2010 | 262,087 | 37,814 | 16,110 | 316,011 |
| Additions | 14,697 | 2,538 | 163 | 17,398 |
| Amounts written off to exploration and appraisal costs | (5,119) | – | – | (5,119) |
| Change in estimate for decommissioning provision | (25) | – | – | (25) |
| At 30 September 2010 | 271,640 | 40,352 | 16,273 | 328,265 |
| Accumulated depletion, depreciation and amortisation | | | | |
| At 1 April 2010 | 128,598 | 11,642 | 4,059 | 144,299 |
| Charge for the period | 3,015 | 3,132 | 806 | 6,953 |
| At 30 September 2010 | 131,613 | 14,774 | 4,865 | 151,252 |
| Net book value | | | | |
| At 1 April 2010 | 133,489 | 26,172 | 12,051 | 171,712 |
| At 30 September 2010 | 140,027 | 25,578 | 11,408 | 177,013 |

11. Trade and other receivables

Trade and other receivables include US\$3.8 million of Kazakh VAT (31 March 2011: US\$2.7 million), of which US\$2.0 million is recoverable after more than one year (31 March 2011: US\$nil).

Notes to Condensed Consolidated Financial Information continued

For the six months ended 30 September 2011

12. Cash and cash equivalents

Cash and cash equivalents include:

- US\$1.6 million (31 March 2011: US\$1.6 million) required to be deposited in an environmental restoration and rehabilitation fund under the terms of the Group's Blocks A&E Licence.
- US\$0.4 million (31 March 2011: US\$0.1 million) required to be deposited in a debt service reserve account, representing the expected interest for the next three months under the Group's revolving credit facility with Macquarie Bank Limited.

13. Borrowings

| | 30 September 2011 US\$'000 | 30 September 2010 US\$'000 |
|-------------------------------------|----------------------------------|----------------------------------|
| Bank borrowings due within one year | 20,426 | 69,841 |
| Current debt | 20,426 | 69,841 |
| Convertible bond | 79,403 | 75,949 |
| Non-current debt | 79,403 | 75,949 |
| Total borrowings | 99,829 | 145,790 |

Bank borrowings

In June 2007, the Group entered into a US\$100 million revolving mezzanine Credit Facility with Macquarie Bank. The Credit Facility bears interest at a rate ranging from LIBOR plus 4% to LIBOR plus 7.5% and is repayable in one instalment on 31 March 2013. The borrowing capacity is subject to redetermination semi-annually on 30 June and 31 December at the sole discretion of Macquarie. Full details of the Credit Facility are outlined on pages 75 and 76 of the Group's Annual Report and Accounts for the year ended 31 March 2011.

During the six months ended 30 September 2011 there have been no significant changes to the terms of the Credit Facility.

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

| | Six months ended 30 September | |
|--------------------------------|----------------------------------|------------------|
| | 2011 US\$'000 | 2010 US\$'000 |
| Balance at 1 April | 6,026 | 58,579 |
| Drawdown of loan facility | 14,400 | 11,262 |
| Balance at 30 September | 20,426 | 69,841 |

At 30 September 2011, the Group was in breach of a banking covenant, and although Macquarie subsequently waived all rights relating to this breach, the entire loan balance has been classified within current liabilities in the balance sheet at 30 September 2011.

At 30 September 2011, the Credit Facility had a borrowing base of US\$68.5 million, of which US\$23.4 million was borrowed, including US\$3.0 million reserved for outstanding letters of credit.

Convertible bonds

Max Petroleum completed an offering of convertible bonds on 8 September 2006 (the "Bonds"), raising a total of US\$75 million before issuance costs. Following deferral of interest payments due on 8 March 2009, 8 September 2009, and 8 September 2010 the principal of the Bonds at 30 September 2011 is US\$85.6 million. The Bonds bear interest at 6.75% per annum, payable semi-annually, and are convertible at a price of 32p per ordinary share, with a fixed exchange rate of US\$1.49 to £1. The maturity date of the Bonds is 8 September 2013.

Full details of the Bonds are outlined on pages 77 and 78 of the Group's Annual Report and Accounts for the year ended 31 March 2011.

There have been no changes to the terms of the Bonds during the six months ended 30 September 2011.

Notes to Condensed Consolidated Financial Information continued

For the six months ended 30 September 2011

Movements in the carrying value of the Bonds during the period are analysed as follows:

| Six months ended 30 September 2011 | Gross US\$'000 | Bond discount US\$'000 | Net US\$'000 |
|--|-------------------|------------------------------|-----------------|
| Balance at 1 April 2011 | 85,588 | (7,599) | 77,989 |
| Notional interest incurred during the period | – | 1,414 | 1,414 |
| Balance at 30 September 2011 | 85,588 | (6,185) | 79,403 |

| Six months ended 30 September 2010 | Gross US\$'000 | Bond discount US\$'000 | Net US\$'000 |
|--|-------------------|------------------------------|-----------------|
| Balance at 1 April 2010 | 81,902 | (11,277) | 70,625 |
| Notional interest incurred during the period | – | 2,050 | 2,050 |
| 8 September 2010 interest PIK added to principal | 3,686 | (412) | 3,274 |
| Balance at 30 September 2010 | 85,588 | (9,639) | 75,949 |

14. Provisions for liabilities and other charges

| Six months ended 30 September 2011 | Provision for decommissioning costs US\$'000 |
|---|---|
| Balance as at 1 April 2011 | 1,525 |
| Additions | 318 |
| Changes in estimates | 54 |
| Adjustment for change in real discount rate | 110 |
| Accretion of discount (note 8) | 54 |
| Balance at 30 September 2011 | 2,061 |

| Six months ended 30 September 2010 | Provision for decommissioning costs US\$'000 |
|-------------------------------------|---|
| Balance as at 1 April 2010 | 1,551 |
| Additions | 24 |
| Unused amounts reversed | (49) |
| Accretion of discount (note 8) | 62 |
| Balance at 30 September 2010 | 1,588 |

15. Share capital

During the six months ended 30 September 2011, the Company issued 93,641,137 ordinary shares, comprising:

- The exercise of 341,667 share options for total cash proceeds of US\$0.03 million, resulting in the issue of 341,667 new ordinary shares.
- The exercise of 4,920,000 warrants held by the Company's Bondholders for total cash proceeds of US\$0.40 million, resulting in the issue of 4,920,000 new ordinary shares.
- The cashless exercise of 133,971,948 Credit Facility warrants, resulting in the issue of 88,379,470 new ordinary shares.

At 30 September 2011, the Company had in issue 1,011,774,748 allotted and fully paid ordinary shares of 0.01p each (31 March 2011: 918,133,611 allotted and fully paid ordinary shares).

Notes to Condensed Consolidated Financial Information continued

For the six months ended 30 September 2011

16. Other reserves

| Six months ended 30 September 2011 | Reserve arising on purchase of minority interest US\$'000 | Convertible bond equity reserve US\$'000 | Share-based payment reserve US\$'000 | Warrant reserve US\$'000 | Total other reserves US\$'000 |
|--|---|--|--------------------------------------|--------------------------|-------------------------------|
| Balance as at 1 April 2011 | (72,495) | 14,833 | 61,195 | 110,913 | 114,446 |
| Issue of share capital – cashless exercise of warrants (note 15) | – | – | – | (6,833) | (6,833) |
| Share-based payment (note 17) | – | – | 2,612 | – | 2,612 |
| Balance at 30 September 2011 | (72,495) | 14,833 | 63,807 | 104,080 | 110,225 |

| Six months ended 30 September 2010 | Reserve arising on purchase of minority interest US\$'000 | Convertible bond equity reserve US\$'000 | Share-based payment reserve US\$'000 | Warrant reserve US\$'000 | Total other reserves US\$'000 |
|--|---|--|--------------------------------------|--------------------------|-------------------------------|
| Balance as at 1 April 2010 | (72,495) | 14,421 | 59,234 | 107,531 | 108,691 |
| Issue of share capital – cashless exercise of warrants | – | – | – | (643) | (643) |
| Share-based payment (note 17) | – | – | 1,078 | – | 1,078 |
| Convertible bond interest deferral, equity portion | – | 412 | – | – | 412 |
| Warrants issued to Bondholders | – | – | – | 4,026 | 4,026 |
| Balance at 30 September 2010 | (72,495) | 14,833 | 60,312 | 110,914 | 113,564 |

During the six months ended 30 September 2011, holders of Credit Facility warrants (as detailed on pages 87 to 89 of the Group's Annual Report and Accounts for the year ended 31 March 2011) elected for the cashless exercise of their right to subscribe for 133,971,948 ordinary shares at exercise prices between 4.538p and 5.673p per share, resulting in the issue and allotment of 88,379,470 new ordinary shares and the transfer of US\$6.8 million from the warrant reserve to share premium.

17. Share-based payment

Full details of the Group's share option schemes are outlined on pages 91 to 93 of the Group's Annual Report and Accounts for the year ended 31 March 2011.

During the six months ended 30 September 2011, Max Petroleum granted 2,355,750 options to various officers and employees of the Group with exercise prices ranging from 13.75p to 15.00p per share. The options all have a term of seven years. 341,667 options were exercised during the period as detailed in note 15. The total number of options outstanding at 30 September 2011 was 111,966,180. Max Petroleum recorded a charge for the value of services of US\$2.5 million for the six months ended 30 September 2011, net of US\$0.1 million capitalised to intangible exploration and appraisal expenditure.

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

Notes to Condensed Consolidated Financial Information continued

For the six months ended 30 September 2011

18. Notes to the cash flow statement

Cash generated from operations

| | Six months ended 30 September | |
|---|----------------------------------|------------------|
| | 2011 US\$'000 | 2010 US\$'000 |
| Loss before tax: | (344) | (13,271) |
| Adjustments for: | | |
| – Depreciation, depletion and amortisation | 7,108 | 6,953 |
| – Share-based payment charge | 2,548 | 1,004 |
| – Exploration and appraisal expenditure written-off | 312 | 5,119 |
| – Foreign exchange | (6) | (23) |
| – Finance income | (11) | (1) |
| – Finance costs | 1,102 | 7,738 |
| Changes in working capital | | |
| – Inventories | (967) | (726) |
| – Trade and other receivables | 431 | (1,493) |
| – Trade and other payables | (2,230) | 265 |
| Cash generated from operations | 7,943 | 5,565 |

Income tax paid

| | Six months ended 30 September | |
|---------------------------------|----------------------------------|------------------|
| | 2011 US\$'000 | 2010 US\$'000 |
| Tax Claim ¹ (note 9) | 9,597 | 2,179 |
| Other income tax | 30 | 20 |
| Income tax paid | 9,627 | 2,199 |

¹ In total US\$9.9 million of income taxes were settled under the Tax Claim during the six months ended 30 September 2011, comprising US\$9.6 million paid in cash and US\$0.3 million offset against VAT receivables.

Interest paid

| | Six months ended 30 September | |
|--------------------|----------------------------------|------------------|
| | 2011 US\$'000 | 2010 US\$'000 |
| Credit Facility | 780 | 2,571 |
| Convertible Bonds | 2,889 | – |
| Tax Claim (note 9) | 3,910 | 872 |
| Other interest | 64 | 85 |
| Interest paid | 7,643 | 3,528 |

Summary of non-cash items

| | Six months ended 30 September | |
|---|----------------------------------|------------------|
| | 2011 US\$'000 | 2010 US\$'000 |
| Investing transactions | | |
| Share-based payment capitalised to exploration and appraisal assets | 64 | 74 |
| Non-cash interest expense capitalised to exploration and appraisal assets | 1,219 | 4,431 |
| Depreciation, depletion and amortisation | 7,108 | 6,953 |
| Exploration and appraisal expenditure written-off | 312 | 5,119 |
| Change in estimate for decommissioning provision | 482 | (25) |
| Financing transactions | | |
| Non-cash issuance of ordinary shares | (6,833) | (643) |
| Unwinding of discount on decommissioning provision | 54 | 62 |
| Convertible bond non-cash interest | 1,399 | 5,330 |

Notes to Condensed Consolidated Financial Information continued

For the six months ended 30 September 2011

19. Related party transactions

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

20. Capital commitments and contingencies

The Group is committed under its subsoil licence to certain future expenditures including minimum work programmes, social infrastructure contributions and reimbursement of historical costs incurred by the Government of the Republic of Kazakhstan. Qualifying licence, exploration and development expenditure incurred by the licence holder are 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 licence at 30 September 2011 totalled US\$38.3 million. The total commitment at 30 September 2011 includes US\$23.4 million of historical costs incurred by the Republic of Kazakhstan for the exploration of Blocks A&E prior to the Group's acquisition of the Licence. Historical costs become payable from the date when a commercial hydrocarbon discovery is announced. The amount of historical costs allocated to each commercial discovery is determined based on a mining allotment agreed with the Government of the Republic of Kazakhstan.

21. Post balance sheet events

Subsequent to 30 September 2011, the Group has borrowed a further US\$4.2 million under the Credit Facility (note 13), resulting in a total balance of US\$24.6 million as of the date of this report. After outstanding letters of credit of US\$3.0 million, the remaining borrowing capacity under the Credit Facility is US\$40.8 million.

Subsequent to 30 September 2011, the Group determined that two exploration wells did not contain commercial quantities of hydrocarbons and will be plugged and abandoned. The total exploration and appraisal costs recognised as an expense for these wells since 30 September 2011 was US\$3.3 million of which US\$2.5 million was capitalised at 30 September 2011.

22. Non-IFRS measures

The Group presents EBITDA as a non-IFRS earnings measure to provide additional information to investors in order to allow an alternative method for assessing the Group's financial results. EBITDA is defined as operating profit/(loss) before depreciation, depletion and amortisation, share-based payment expense and exploration and appraisal costs. EBITDA is a key performance indicator used by the Board to measure underlying operating profitability.

A reconciliation of operating profit to EBITDA is shown below:

| | Six months ended 30 September | |
|---|----------------------------------|------------------|
| | 2011 US\$'000 | 2010 US\$'000 |
| Operating profit/(loss) | 747 | (5,534) |
| Depreciation, depletion and amortisation (note 10) | 7,108 | 6,953 |
| Share-based payment expense, net of capitalisation (note 7) | 2,548 | 1,004 |
| Exploration and appraisal costs (note 7) | 312 | 5,180 |
| Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) | 10,715 | 7,603 |

23. Publication of the interim financial report

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

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