

**Annual Report
and Accounts
2009**



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

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



Financial Highlights

- Revenue of US\$39.2 million, up 43% from US\$27.5 million in 2008.
- Total sales volumes of 710,000 bbls of crude oil, up 54% from 460,000 bbls sold in 2008.
- Average realised price of US\$55.21 per bbl, down 8% from US\$59.72 per bbl in the prior year.
- Export sales comprised 86% of total revenue, with an average realised price of US\$61.71 per bbl, compared to 81% of total revenue, with an average realised price of US\$73.70, in the prior year.
- Net cash flow from operations of US\$14.1 million, compared to US\$7.1 million of net cash used in operations in 2008.
- Increased the borrowing base of its mezzanine credit facility with Macquarie Bank Limited from US\$50 million to US\$80 million in August 2009.
- Restructured the Group's outstanding convertible bonds in May 2009, deferring the maturity date until September 2012 and allowing Max Petroleum the option to convert cash interest payments to additional principal through to September 2010.

Operational Highlights

- Drilled two development wells to complete the initial Zhana Makat development project in April 2008.
- Received regulatory approval to include all wells drilled in Zhana Makat in the trial production project for the field, allowing five shut-in wells to be brought into production.
- Completed facility modifications in Zhana Makat in May 2008, allowing the Group to fully process its crude production saving third party processing costs.
- Acquired remaining 20% interest in Blocks A&E from Horizon Services N.V. in July 2008, in exchange for 37 million ordinary shares and the Group's 80% interest in the East Alibek licence.
- In July 2008, the Ministry of Energy and Mineral Resources ("MEMR") extended the Blocks A&E licence exploration period by two years until March 2011.
- In January 2009, the Group completed its 3D seismic acquisition programme, having acquired in excess of 5,240 km² of 3D seismic over its two licences during a two year period.
- In May 2009, the MEMR extended the Astrakhanskiy Block licence period by two years until January 2012 and approved the Group's three-year work programme.
- As of July 2009, the Group has completed two of three planned prospect reviews evaluating fully processed 3D seismic data over Blocks A&E, generating 10 shallow and intermediate prospects. A third and final prospect review is scheduled for October 2009.
- In August 2009, signed a two-year drilling contract for a Z-J30 rig capable of drilling to 3,500 metres. The rig is currently on location in the Zhana Makat Field where it is in the process of being rigged up and commissioned prior to commencing drilling operations. The rig will drill two development wells in Zhana Makat before moving on to drill the Group's post-salt exploration portfolio.

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Joint Chairmen's Statement

Although many financial and operational challenges lie ahead, we expect our assets, operations and prospects to develop and improve significantly during the coming year and we are as excited as ever about their potential to create shareholder value.

Dear Shareholder,

Many companies faced unprecedented challenges during the last year, which were particularly daunting for small-cap exploration companies focused on emerging markets. Kazakhstan's imposition of an oil export levy, since repealed, exacerbated an already dire cash flow environment for Kazakhstan focused companies like Max, coming as it did when oil prices hit lows not seen in years. The timing was especially unfortunate for Max, as it coincided with our efforts to farmout interests in both of our oil and gas licences in the fourth quarter of 2008. From that perspective, we are pleased that management has been able to achieve two very important objectives that have given us an opportunity to create substantial shareholder value going forward.

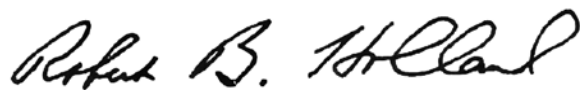
The first was strengthening our technical capabilities to enhance the potential for future success in Max's exploration programme. In April 2008, we appointed Richard Hook as our new head of exploration. Richard spent over 27 years with Anadarko Petroleum as a geologist in various positions of increasing authority and was involved in a series of major discoveries including the giant, billion barrel Ourhoud Field in Algeria. Richard quickly assembled a team whose mission was to take a fresh and comprehensive look at our exploration portfolio, aided by the newly processed 3D seismic that emerged from our two-year 3D seismic programme covering in excess of 5,200 km². The exploration team's assessment led to the Board's approval of a focused post-salt drilling programme and Max contracting for a drilling rig suitable to drill between 10 to 15 exploration prospects through 2010. The updated assessment of our assets also enables Max to renew its efforts to attract capital necessary to explore its deeper, higher potential prospects. In light of the re-commencement of drilling operations, Richard has recently relocated from Houston to Almaty.

The second major accomplishment was the restructuring of our senior and convertible debt to provide us with the financial flexibility to continue operating through a harsh downturn in commodity prices and a global credit crisis. In December 2008 and early 2009, Max was facing potential insolvency, which could have eradicated any value attributable to our shareholders. Based on the strength of our assets, the hard work and vision of our senior management, and our excellent relationship with Macquarie, we were able to extend the borrowing base of our senior debt facility from US\$50 to US\$80 million

and defer repayment of principal until 2011 in exchange for a warrant equal to 50% of the equity value of the Company. The market has rewarded these efforts, as Max's price per ordinary share has increased significantly since the Macquarie debt restructuring was first announced in February 2009 and our shareholders and bondholders unanimously approved the restructuring plans for both our senior and convertible debt in May 2009.

As prelude to achieving these objectives, the Board made changes in its senior management team to better address the operating and financial environment Max faced at the beginning of 2009. In February, the Board replaced Mark Johnson as Chief Executive Officer by appointing the two of us as Executive Co-Chairmen, promoting Richard Hook to Chief Operating Officer, and Michael Young, our Chief Financial Officer, to President. This arrangement has functioned effectively and gives Max the flexibility to adapt its management structure as the Board deems appropriate as our business evolves.

We greatly appreciate the patience and confidence our shareholders have demonstrated as we have addressed the various issues facing our Company. Although many financial and operational challenges lie ahead, we expect our assets, operations and prospects to develop and improve significantly during the coming year and we are as excited as ever about their potential to create shareholder value.



Robert B. Holland III
Executive Co-Chairman

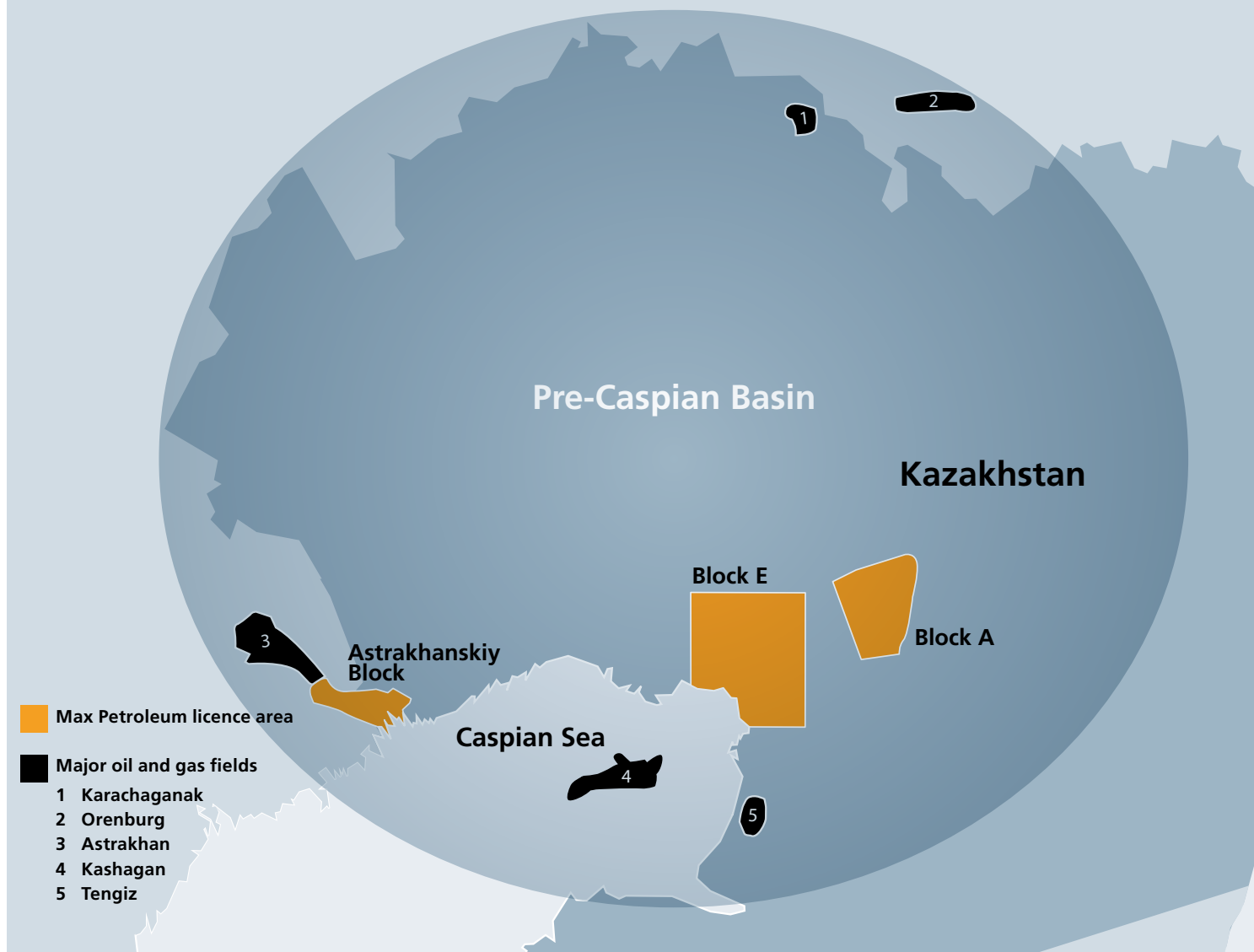


James A. Jeffs
Executive Co-Chairman

Our Assets – The Right Geography

Pre-Caspian Basin

Max Petroleum operates in the Pre-Caspian Basin in Western Kazakhstan, one of the richest hydrocarbon producing basins in the world. Fields in the Basin include some of the largest discoveries in the last 35 years, including the super-giant Tengiz, Kashagan, Karachaganak and Astrakhan fields, which range in size from 7 to 20 billion barrels of oil equivalent recoverable reserves. Max Petroleum's Block E is located less than 60 km north of the Tengiz Field and the Astrakhanskiy Block sits immediately adjacent to the Imashevskoye Field, which is the extension of the Russian Astrakhan Field into Kazakhstan.



Blocks A&E

The Blocks A&E licence area extends over 12,455 km² in the highly prolific Pre-Caspian Basin in Western Kazakhstan. The onshore acreage position contains significant resource potential in both post-salt and pre-salt structures. Max Petroleum currently has one discovery on Block E, the Zhana Makat Field, brought onto production in August 2007 with estimated proved and probable reserves of 5.8 million bbls at 31 March 2009. As of 31 August 2009, the field was producing approximately 2,000 barrels of oil per day. Max Petroleum expects to resume drilling in the autumn of 2009 with two shallow development wells in the Zhana Makat Field, after which it will immediately begin drilling an exploration portfolio of 10 to 15 post-salt prospects on its Blocks A&E licence. This exploration drilling programme will extend through all of 2010. The Group will retain a 100% working interest in its post-salt portfolio, which is expected to be highly accretive with strong economic returns on invested capital, if successful, due to the low drilling cost of shallow and intermediate wells. The deeper and higher risk pre-salt portfolio is being offered for farmout to larger companies seeking high risk, high return prospects.

The principal terms of the Blocks A&E licence are as follows:

- Stabilised tax/royalty exploration and production contract, executed in March 2003.
- Exploration period of six years plus two two-year extensions. First extension until March 2011 was executed on 30 July 2008.
- Production period of 25 years from each commercial discovery.
- Corporate income tax rate of 20%, to be scaled back to 15% by 2011.
- Mineral extraction tax ("MET") rates ranging from 5% to 20%, dependent upon annual production levels and market price of crude.
- Export rental tax ("ERT") rates ranging from 0% to 32% based on crude export levels and market price of Brent/Urals.
- Manageable capital and work commitments.

The Group acquired an 80% interest in the Blocks A&E subsoil licence in October 2005 from Horizon Services N.V. ("Horizon"). In July 2008, the Group increased its ownership in Blocks A&E to 100% upon completion of its acquisition of the remaining 20% interest from Horizon in exchange for 37 million ordinary shares in Max Petroleum and the Group's 80% interest in the East Alibek licence.

Astrakhanskiy Block

The Astrakhanskiy Block consists of 1,273 km² located onshore in the Atyrau Oblast in Western Kazakhstan. The Block is adjacent to the giant gas-condensate Astrakhan Field in Russia and its extension into Kazakhstan, Imashevskoye. Max Petroleum acquired a 100% interest in the Astrakhanskiy licence in January 2006.

The principal terms of the Astrakhanskiy licence are as follows:

- Tax/royalty exploration contract, executed in January 2006.
- Exploration period of four years plus two two-year extensions. First extension until January 2012 was executed on 27 April 2009.
- Corporate income tax rate of 20%, to be scaled to 15% by 2011.
- MET rates ranging from 5% to 20%, dependent upon annual production levels and market price of crude oil and gas condensate. An MET rate of 10% applies for exported natural gas.
- ERT rates ranging from 0% to 32% based on crude and gas condensate export levels and market price of Brent/Urals. The ERT does not apply to exported natural gas.
- Work commitment to begin drilling initial exploration well by 31 December 2009.

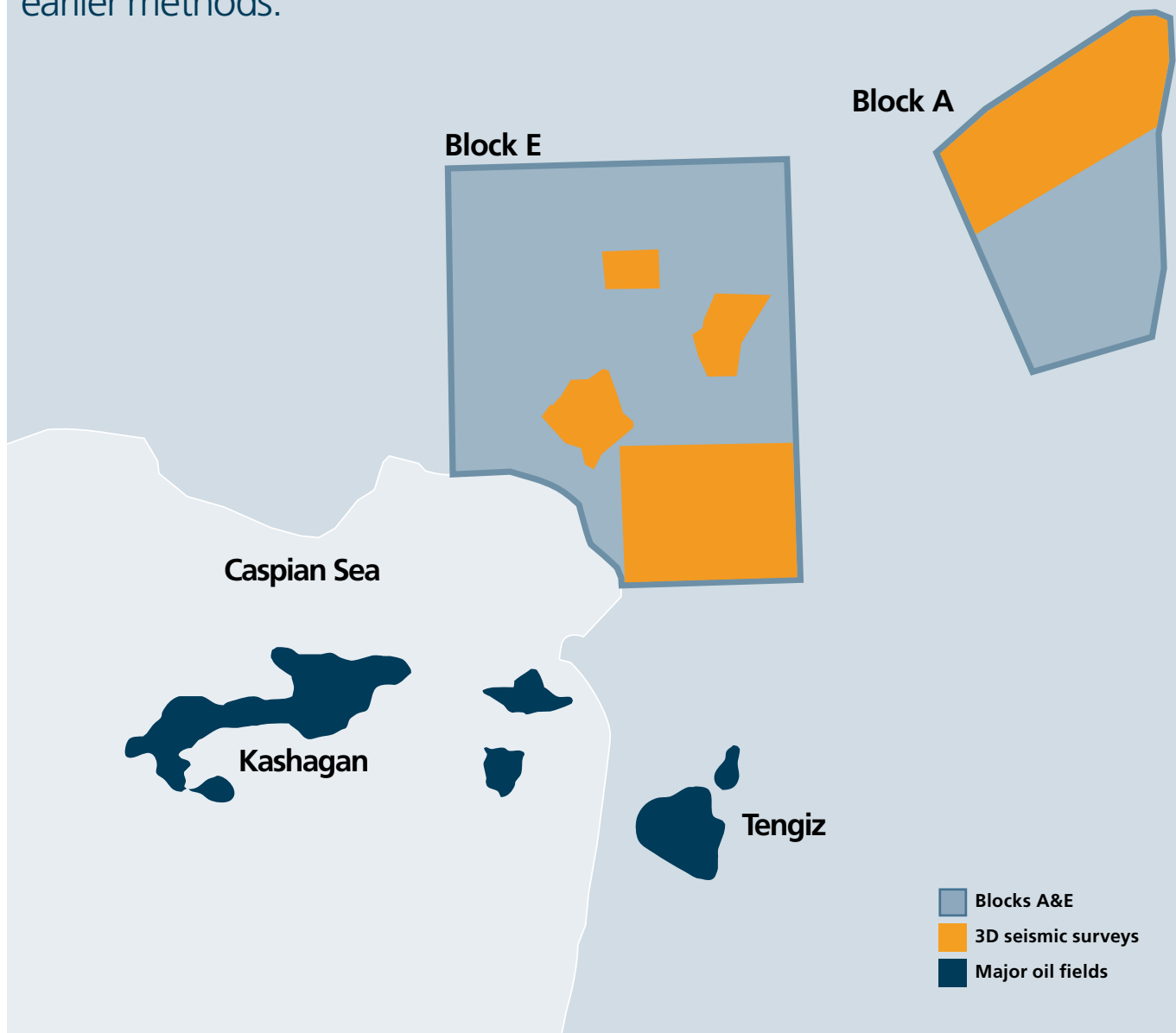
The Group has completed its seismic acquisition programme over the Astrakhanskiy Block, consisting of 380 km² of 3D and 445 km of 2D seismic in the western section of the Astrakhanskiy licence area. The Group's strategy is to pursue a farmout or sale of this licence, which is believed to be of interest to major and large independent oil companies seeking high risk/high reward opportunities.

Applying Advanced Technology

Blocks A&E 3D seismic acquisition

The Group has acquired and processed approximately 5,240 km² of new 3D seismic over its two licences, the majority of which has been interpreted. This is the first use of semi-regional 3D seismic on the Group's exploration acreage.

In producing basins worldwide, history has shown that the first application of any new technology results in a series of new discoveries on prospects which were not detectable using earlier methods.



Business Review

The Group is applying cutting edge technology as well as extensive analysis of historical exploration activity on a regional scale to help understand and unlock the potential of its exploration acreage.

The regional analysis has allowed Max Petroleum to put the existing fields and prospects on its blocks into context, allowing better insight and understanding into exactly what critical elements drive the formation of oil fields in the Pre-Caspian Basin.

Business Overview

For the oil and gas industry, the last twelve months have been one of the most challenging periods in its history. At 31 March 2008, the average price for dated Brent crude stood at US\$103 per barrel. By July, the price had reached a record of US\$144 per barrel, followed by a collapse to nearly US\$34 per barrel less than six months later. This price volatility, combined with the global financial crisis, had a debilitating effect on the entire industry. Independent oil and gas exploration and production ("E&P") companies in emerging markets were hit particularly hard. In the fourth quarter of 2008 and early 2009, E&P companies operating in Kazakhstan also faced the impact of the country's customs export duty ("CED"), which had been enacted in May 2008, during a period of high prices. During the fourth quarter of 2008, as the crude price fell below US\$34 per barrel, the CED stood at US\$28 per barrel, rendering export sales uneconomical and causing a flood of crude on the local market. Fortunately for Kazakh producers, the Government rescinded the CED in January 2009.

Max Petroleum responded to this challenging environment by increasing production over the period, while dramatically reducing expenditures through staff reductions, supplier renegotiations, and eliminating discretionary spending. In addition, to address near and longer term liquidity shortfalls, the Group entered into discussions with its senior lender, Macquarie Bank Limited, to extend its borrowing base and defer a principal payment due in June 2009. At the same time, the Group entered into discussions with its convertible bond holders to defer the payment of interest for up to two years, and extend the maturity of its US\$75 million convertible bond. As discussed more fully in the Directors' Report, Max Petroleum was successful on both fronts - obtaining an increase in its borrowing base from US\$50 million to US\$80 million in August 2009, as well as restructuring its convertible debt to allow deferral of cash interest payments through September 2010 and to extend the maturity of the bonds until September 2012.

The capital restructuring allows Max Petroleum to begin exploratory drilling of its expanded prospect portfolio, while retaining the option of raising additional capital through the monetisation or farmout of the deep rights on one or both of its licences, or through raising additional equity or debt financing at such time as the Group believes it can do so on acceptable terms.

Our Strategy

Max Petroleum is an independent oil & gas exploration and production company operating in the Pre-Caspian Basin in Western Kazakhstan, an area that has produced some of the world's largest oil & gas discoveries. Hydrocarbon production in the Basin began in 1911.

Understanding the Petroleum System

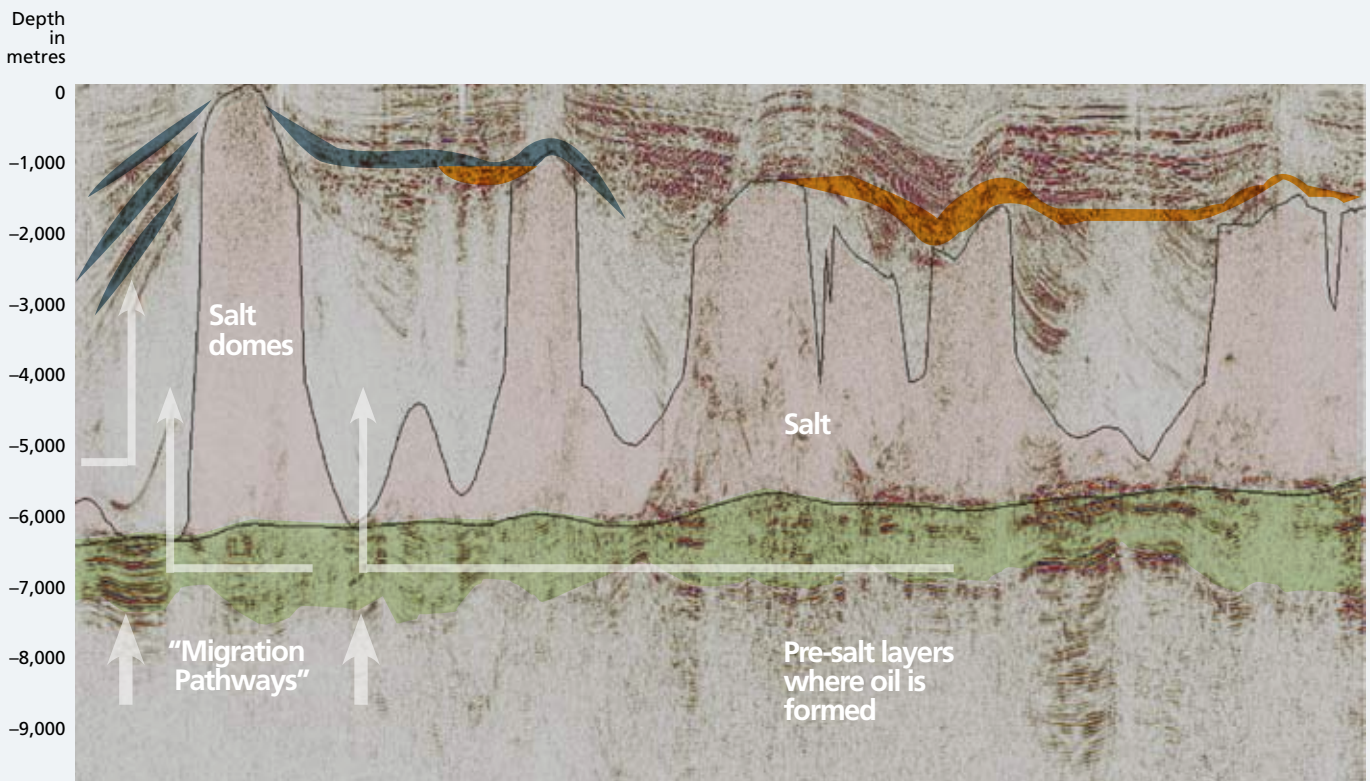
Where and how do oil fields form in the Basin?

The Group has made a systematic study of the occurrence of hydrocarbons over 90 fields across the Pre-Caspian Basin. In doing so, Max Petroleum has gained a better understanding of:

- Where and how oil fields form in the Basin.
- Where they do not.
- Why?

By studying characteristics of the Basin such as petroleum migration, Max Petroleum is better able to predict which structures may be “charged” with oil, and which ones may not.

In Blocks A&E, the Group believes that all of the oil comes from the layers buried deep beneath the salt. In order for the oil to “migrate” up into the traps above the salt, there has to have been a “migration pathway”. The Group has used 3D seismic to locate windows through the salt where oil may have been able to move into the shallow reservoirs of the post-salt section. The Group focuses its exploration efforts on potential traps in the areas where it can demonstrate a migration pathway from the deep layers where it believes the oil is formed.



Geo-seismic cross section in Block E showing migration pathways

Business Review continued

Productive reservoirs are found in the shallow, "post-salt" section and deeper, "pre-salt" strata. More than 100 shallow post-salt fields were discovered during the Soviet era, with a mean field size of 34 million barrels of recoverable oil. Max Petroleum's first discovery, the Zhana Makat Field, on its Blocks A&E licence, produces from the post-salt section.

The Basin's deeper pre-salt discoveries include some of the largest oil and gas fields found in the last 35 years. These super-giant discoveries include the Tengiz, Kashagan, Karachaganak and Astrakhan fields, which range in size from 7 to 20 billion barrels of oil equivalent recoverable reserves. Max Petroleum's Block E is located less than 60 km north of the Tengiz Field and the Astrakhanskiy Block sits immediately adjacent to the Imashevskoye Field, which is the extension of the Russian Astrakhan Field into Kazakhstan.

Max Petroleum's two large licences, covering a total area of 13,500 km², contain numerous prospects for both the deeper, pre-salt and shallow, post-salt play types. The Group is applying cutting edge technology as well as extensive analysis of historical exploration activity on a regional scale to help understand and unlock the potential of its exploration acreage. The regional analysis has allowed Max Petroleum to put the existing fields and prospects on its blocks into context, allowing better insight and understanding into exactly what critical elements drive the formation of oil fields in the Pre-Caspian Basin. In addition, careful study of previous wells drilled using older methods of exploration, such as surface seeps, surface geology, gravimetric analysis and 2D seismic, has helped the Group understand where best to explore using its new 3D seismic data. In the pre-salt play on Blocks A&E, only one well has been drilled to date, without the advantage of 3D seismic, leaving this world-class potential resource play virtually untested.

Max Petroleum's strategy is to bring new, exploratory 3D seismic technology to this proven, prolific hydrocarbon basin. The Group has now acquired and processed approximately 5,240 km² of new 3D seismic over its two licences, the majority of which has been interpreted. This is the first use of semi-regional 3D seismic on the Group's exploration acreage. In producing basins worldwide, history has shown that the first application of any new technology results in a series of new discoveries on prospects which were not detectable using earlier methods. The 3D seismic has allowed us to cull through a portfolio of leads previously generated using older 2D seismic data, as well as to identify several prospects that had never been imaged before. The result is an exciting portfolio of both pre-salt and post-salt prospects, which have a high probability of success. The risks and potential reserves of these prospects have been rigorously reviewed and quantified using industry-standard risk-

management techniques, which allows the Group to better define and value its drillable prospect portfolio.

In August 2008, Max Petroleum opened its office in Houston, Texas, adding a team of geoscientists to accelerate the analysis and interpretation of its extensive exploration 3D data set as it became available. Members of the new team were handpicked for this project and are experienced professionals with specific expertise in seismic processing and interpretation in salt basins, salt tectonics, basin analysis, prospect generation, and risk analysis. The Houston based team is complimented by a strong team of geoscientists in Almaty who have years of hands-on experience in Kazakhstan and historical knowledge of the Group's exploration and development programme. Management believes that the first use of new exploration 3D seismic in one of the most richly endowed hydrocarbon basins in the world will yield a new spate of discoveries.

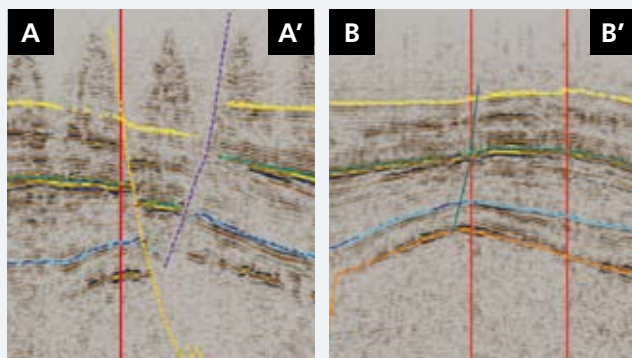
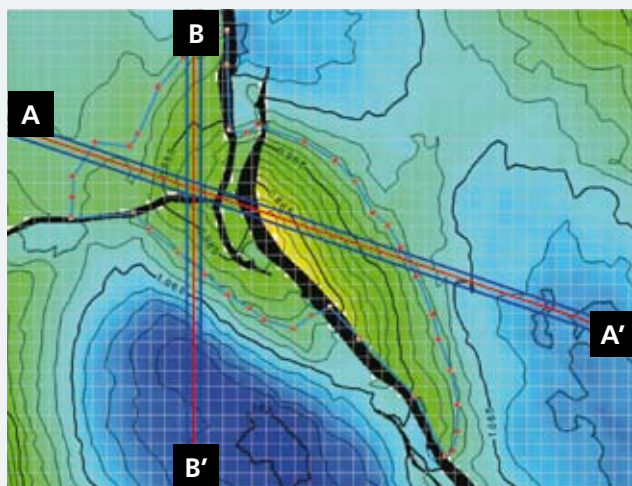
The Group's Zhana Makat Field continues to perform well, with average daily production of approximately 2,000 barrels of oil per day ("bopd") for the three months ended 31 August 2009. The field has been on test production since 2006 and then commercial production under a three-year trial production project since August 2007. The Group expects to begin drilling in the autumn of 2009 with two shallow development wells in the Zhana Makat Field. The drilling rig is currently on location in the field and is in the process of being rigged up and commissioned prior to the commencement of drilling operations.

Max Petroleum will then move immediately on to drilling a portfolio of 10 to 15 shallow and intermediate post-salt exploration wells on the Blocks A&E licence area. On a statistical basis, drilling a portfolio that includes more than ten exploration prospects greatly increases the probability of the Group having one or more commercial discoveries. The post-salt exploration drilling programme will extend through all of 2010 and will consist of individual prospects with expected mean recoverable reserve potential in the range of 10 to 40 million barrels of oil each. The Group will retain a 100% working interest in its post-salt portfolio, which is expected to be highly accretive with strong economic returns on invested capital, if successful, due to the low drilling cost of shallow and intermediate wells.

Based on its review of available depth-processed 3D seismic data in Block E, the Group's pre-salt portfolio now includes multiple prospects consisting of at least two different play types, with a range of expected mean recoverable reserve potential between 100 to 500 million barrels of oil equivalent each. The deeper and higher cost pre-salt portfolio is being offered for farmout to larger companies seeking high risk, high return prospects, which will allow the Group to retain an interest in the

Business Review continued

Kyzylzhar NE 2 Prospect



Kyzylzhar NE 2 is a three-way faulted exploration prospect on Block E with an estimated geological chance of success in excess of 40%. With a target depth of 1,600 metres and estimated drilling costs less than US\$2 million, this is a relatively low risk, high return exploration well and a great example of what the Group is identifying with its new 3D seismic. This prospect will be drilled in the first quarter of 2010.

tremendous upside of these high potential prospects, with minimal exposure to the risk and expense of testing them. Also included in the farmout effort is the ASC-1 prospect on the Astrakhanskiy Block, adjacent to, and on trend with, the super-giant Astrakhan and Imashevskoye fields. This sizeable prospect with multi-trillion cubic feet equivalent of recoverable gas/condensate potential has been mapped on 3D seismic, and is currently being shown to potential partners.

Results of Operations

The Group recognised a loss of US\$12.3 million, or US\$0.035 per ordinary share, for the year ended 31 March 2009, compared to a loss of US\$34.5 million, or US\$0.107 per ordinary share, during the prior period.

Oil revenues increased 43% to US\$39.2 million, or US\$55.21 per bbl, in 2009 from US\$27.5 million, or US\$59.72 per bbl, in 2008, based upon a 54% increase in crude oil sales. The Group produced and sold 710,000 bbls during 2009, consisting of 549,000 bbls sold into the export market generating US\$33.9 million in revenue, or US\$61.71 per bbl, and 161,000 bbls sold into the domestic market generating US\$5.3 million in revenue, or US\$33.07 per bbl. Comparatively, the Group produced 460,000 bbls during 2008, including 301,000 bbls sold into the export market generating US\$22.2 million in revenue, or US\$73.70 per bbl, and 159,000 bbls sold domestically generating US\$5.3 million in revenue, or US\$33.25 per bbl.

Cost of sales increased from US\$14.0 million in 2008 to US\$23.1 million in the current period, due to increased production from the Zhana Makat Field. The individual components of 2009 cost of sales include:

- Operating costs of US\$8.9 million, or US\$12.56 per bbl, a 5% increase from the US\$8.5 million, or US\$18.5 per bbl, incurred in 2008.
- Depreciation, depletion and amortisation of US\$9.7 million.
- Royalties and production taxes of US\$4.4 million.

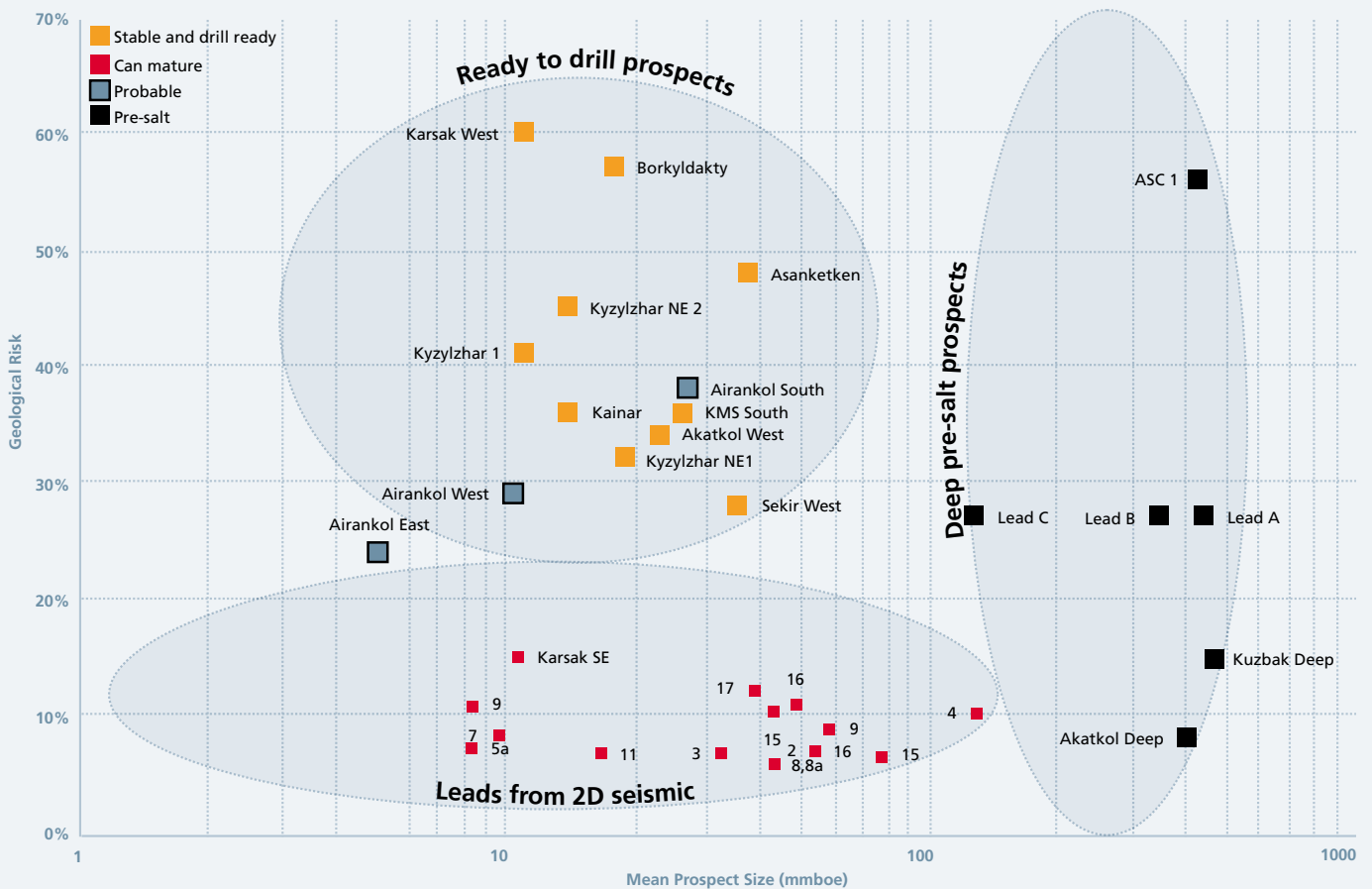
The Group incurred US\$532,000 in exploration and appraisal costs written-off during the current year compared to US\$15.9 million in 2008.

During the year ended 31 March 2009, the Group incurred total administrative expenses of US\$20.4 million, compared to administrative expenses of US\$28.1 million in 2008. Administrative expenses for the current and prior year principally reflect costs to staff and run the Group's operations in the United Kingdom, Kazakhstan and the United States, including non-cash share based payment charges of US\$3.8 million and US\$4.6 million, respectively. Prior year administrative expenses also include US\$3.8 million in non-recurring costs relating to the Group's internal investigation into the undisclosed

Generating Drillable Prospects

The Group uses its 3D seismic data to evaluate exploration “leads” first mapped using 2D seismic data. The Group expects that approximately 30% of the leads mapped using the 2D seismic data will evolve into drillable prospects when analysed using the new 3D seismic data. The remaining 70% will be downgraded and dropped from the inventory.

To date, Max Petroleum has identified 10 drillable post-salt prospects on the new 3D data and expects to have a portfolio of up to 15 high-quality drillable prospects before year end.



Business Review continued

Careful study of previous wells drilled using older methods of exploration, such as surface seeps, surface geology, gravimetric analysis and 2D seismic, has helped the Group understand where best to explore using its new 3D seismic data.

The use of 3D seismic has also allowed the Group to cull through a portfolio of leads previously generated using older 2D seismic data, as well as identify several prospects that have never been imaged before. The result is an exciting portfolio of drillable prospects in both the deeper pre-salt and shallower post-salt geological strata.

receipt of beneficial interests in share options by certain former employees and members of senior management.

Liquidity and Capital Resources

The Group anticipates that its post-salt exploratory programme to drill between 10 to 15 shallow and intermediate prospects will require between US\$50 to US\$60 million dollars of additional capital investment through 31 December 2010. The Group expects to fund its capital requirements using a combination of existing working capital, cash flow from operations from the sale of future oil and gas production, borrowings from its credit facility with Macquarie Bank Limited, anticipated proceeds and capital carry from a farmout of interests in one or both of its oil and gas licences, and future issuances of debt or equity financing, as necessary.

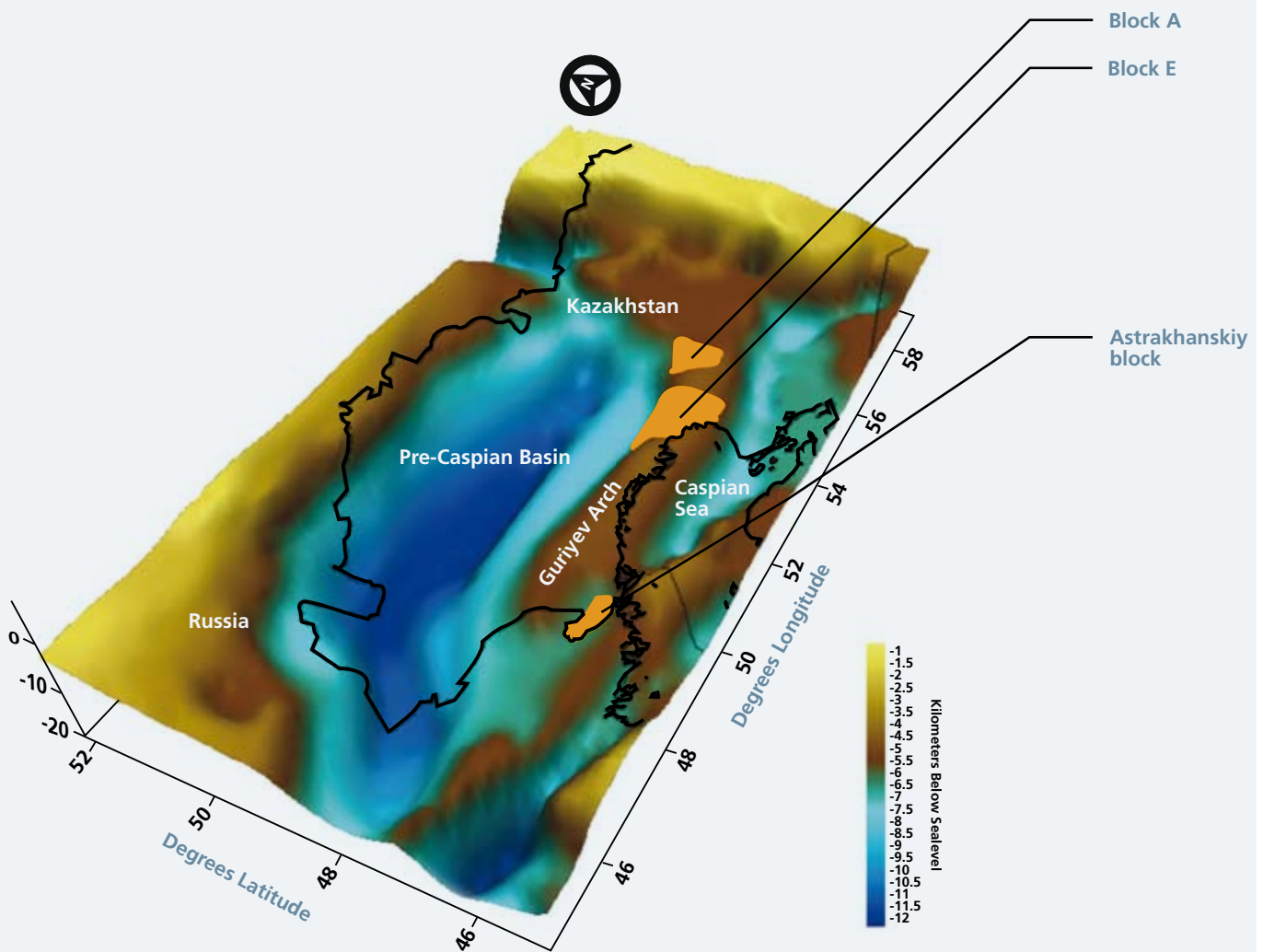
As of 31 August 2009, the Group was generating in excess of US\$3 million in revenue per month from the sale of crude oil from the Zhana Makat Field based on average daily production of 2,000 bopd. The Group expects to drill two additional development wells in Zhana Makat in the autumn of 2009 prior to beginning a post-salt exploration programme, which should increase production and operating cash flow from the field in the near term. The Group's focus on cutting costs and optimising crude oil sales has strengthened the Group's net cash flow generated from operations, as well. The Group has reduced cash operating and administrative costs by 30% from the prior year, while its pre-tax export sales price differential from Brent has improved from approximately US\$20 per bbl to less than US\$10 per bbl. Max Petroleum is currently selling approximately 80% of its crude oil production on the export market.

The borrowing base on the credit facility was recently increased from US\$50 million to US\$80 million. As of 31 August 2009, the Group has borrowed US\$55.7 million under the credit facility leaving US\$24.3 million in available loan commitment.

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

Understanding the Regional Geology

The Group has made a systematic study of the occurrence of hydrocarbons on a regional scale and has also considered the structural setting of its blocks. This is of particular importance in understanding the deep, pre-salt prospects. For example, Max Petroleum's blocks rest upon the Guriyev Arch, which could be a focal point for large oil and gas accumulations in the deeper parts of the Basin.



Board of Directors



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1 **Michael B. Young** President and CFO

Mr. Young has served as Max Petroleum's Chief Financial Officer since September 2006, and was additionally appointed President in February 2009. He has over 17 years experience in various financial roles in the oil and gas industry. He was the Chief Financial Officer of Whittier Energy Corporation, a NASDAQ listed oil and gas exploration and production company based in the United States from 2003 to August 2006. Mr. Young also served as the vice-president and chief financial officer of Chaparral Resources, Inc., a US publicly traded company operating in the Republic of Kazakhstan, from 1998 until November 2002. Mr. Young has a Masters degree in Accounting from the University of Texas in Austin.

2 **James A. Jeffs** Executive Co-Chairman

Mr. Jeffs is a senior executive with extensive experience as a director of oil & gas exploration and production companies, an investment banker, and multi-billion dollar trust fund management. Since 1994, Mr. Jeffs has been Managing Director and Chief Investment Officer of the Whittier Trust. Mr. Jeffs was also formerly Chairman of Whittier Energy Corporation, serving as a director since 1997, as well as a former Director and Chairman of Chaparral Resources, Inc.

3 **Robert B. Holland III** Executive Co-Chairman

Mr. Holland was a member of the Bush Administration until April 2006, serving as United States Executive Director of the World Bank. From 1993 to 1999, he served in various positions, including General Counsel and Chief Executive Officer, with Triton Energy Ltd, a New York Stock Exchange listed exploration company that was sold to Amerada Hess. From 1977 to 1994 he practiced law with the Texas law firm, Jackson Walker LLP and is a graduate of Stanford University and the University of Texas Law School.

4 **Lee O. Kraus** Non-executive Director

Mr. Kraus is the Founder and President of Composite Capital, LLC, a financial advisory firm focused on clients in the oil and gas, mining, and chemicals sectors. He previously served as a Managing Director of Dresdner Kleinwort, heading up its natural resources group from 2005 to 2007. Between 2000 and 2004, Mr. Kraus was a Director and Executive Vice President of Jnana Technologies Corporation, an enterprise software company. From 1991 to 2000, Mr. Kraus was employed by Lazard Freres & Co., LLC, where he was a Managing Director concentrating on natural resources and served on the board of Lazard Moscow. He has also served as a Vice President in the Investment Banking group at Morgan Stanley, focusing on the oil and gas, mining, and chemical industries, and as an engineer at Schlumberger Ltd.



5

5
David R. Belding Non-executive Director

Mr. Belding was previously a senior executive and co-founder of Mandalay Resort Group, which was acquired by MGM Resorts, Inc for US\$7.8 billion in June 2005. Mr. Belding also co-founded Gold Strike Resorts, a hotel and casino operator, which he developed from 1977-1995. Mr. Belding graduated in economics and finance from the University of Arizona and received a Doctorate in Law from Georgetown University. Mr. Belding sits on the boards of several corporations and associations, including the University of Nevada and First Independent Bank of Nevada.

6
Maksut S. Narikbayev Non-executive Director

Mr. Narikbayev served as Chairman of the Highest Judicial Board of Kazakhstan from 2003 to 2006, Chairman of the Supreme Court of Kazakhstan from 1996 to 2000, and as Prosecutor General of Kazakhstan from 1995 to 1996. Mr. Narikbayev is a qualified lawyer and has authored a wide range of books covering economic issues of the Supreme Court of Kazakhstan, criminal law, and the protection of civil rights.



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Advisory committee



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7
James C. Langdon Jr

Mr. Langdon is one of three senior executive partners of Akin, Gump, Strauss, Hauer & Feld, LLP, one of the leading international law firms with a focus on the energy industry. He is the senior member of the firm's energy practice and a member of the firm's strategic planning and management committees.

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Thomas R. Fuller

Mr. Fuller is a registered professional engineer, and a founding partner in Diverse Energy Management Company since 1988. Diverse is a private, upstream USA exploration and production company that makes equity investments predominantly in energy related businesses. He currently serves as a director of Petrohawk Energy Corporation and was previously a director of Hillin Oil Company, and senior vice president and energy group manager of First City Bank in Dallas and Houston.



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Directors' Report

The directors submit their report together with the audited consolidated and company financial statements for the year ended 31 March 2009 of Max Petroleum Plc ('Max Petroleum' or the 'Company') and its subsidiaries (altogether the 'Group').

Results and dividend

The Group results are set out on page 33 and show a consolidated loss attributable to equity holders of the Company of US\$12.3 million for the year ended 31 March 2009 (2008: loss of US\$34.5 million).

The directors do not propose to pay a dividend.

Principal activities, business review and future developments

Max Petroleum was incorporated in the United Kingdom on 8 April 2005 and admitted to trading on AIM on 27 October 2005. Max Petroleum operates through subsidiary companies as set out in note 17 to the consolidated financial statements. The principal activity of the Group is the exploration, development and production of oil and gas assets within the Republic of Kazakhstan. As at 31 March 2009, the Group owned a 100% interest in the Blocks A&E and Astrakhanskiy oil and gas licence areas in the Pre-Caspian Basin in Western Kazakhstan.

Max Petroleum began the fiscal year ended 31 March 2009 with a focus on completing its 3D seismic acquisition programme while pursuing a farmout of one or both of its licences. In a period of rising commodity prices through September 2008, the Group had stabilised production from the Zhana Makat Field and was generating record revenues from the sale of crude oil. The Group completed the acquisition of a 20% minority interest in the Blocks A&E licence in July 2008, increasing its ownership interest in Blocks A&E to 100%, and obtained a two-year extension of the exploration period on the licence until March 2011. By 30 September 2008, the Group had received multiple farmout offers and was hopeful that a deal could be closed by 31 December 2008.

The worldwide financial crisis and collapse in commodity prices, however, forced the Group to quickly change its strategy to adapt to an adverse and unprecedented business environment. The Group's financial condition was further impacted by Kazakhstan's higher customs export duty imposed during the fourth quarter of 2008, which made export oil sales from Kazakhstan during the period uneconomic before it was effectively repealed in January 2009. As a result, the Group was unable to complete a satisfactory farmout transaction and was forced to take immediate steps to strengthen its short-term liquidity situation in order to stay in business.

The Group then initiated discussions with Macquarie Bank Limited ('Macquarie') to increase the borrowing base of its mezzanine credit facility (the 'Credit Facility'), which eventually led to a comprehensive restructuring of both the Credit Facility and the Group's unsecured convertible bonds (the 'Bonds'). The Group also sharply reduced cash expenditures by scaling back its 2009 capital spending programme and reducing operating and administrative costs by approximately 30%.

Capital restructuring

In February 2009, the Company amended the Credit Facility increasing the potential borrowing base available from US\$50 million to US\$100 million, subject to certain terms and conditions, including the issuance of an amended and restated warrant to Macquarie to subscribe for up to 547,918,106 new ordinary shares, of which 121,759,579 warrants with an exercise price of 4.54p per ordinary share were fully vested on the date of grant (the 'Warrant Deed'). Vesting of the additional warrants under the Warrant Deed are tied to future increases of the Credit Facility borrowing base from US\$55 million to US\$85 million.

In conjunction with restructuring the Credit Facility, the Company approached its bondholders with a comprehensive restructuring proposal to defer the final maturity date of the Bonds until September 2012 and to provide the Company with a two-year option to convert cash interest payments on the Bonds into additional principal. In exchange, the Company agreed to reduce the conversion price of the Bonds from 133p to 35p, with a fixed exchange rate of US\$1.49 to £1, and to issue up to 120 million warrants at an exercise price of 5p per new ordinary share to the bondholders.

On 12 May 2009, the Company received the requisite shareholder and bondholder approvals for the terms of restructuring of the Credit Facility and the Bonds, both of which are more fully described in the Financial Review on pages 22 and 23 of the Director's Report.

In August 2009, the Group secured an increase in the borrowing base commitment under the Credit Facility from US\$50 million to US\$80 million, which vested an additional 243,519,158 new ordinary shares under the Warrant Deed.

Exploration programme

In January 2009, the Group completed its 3D seismic acquisition programme, having acquired in excess of 5,240 km² of 3D seismic data in Blocks A&E and Astrakhanskiy over a two-year period. As at 31 December 2008, the seismic data acquired over Blocks A&E was in various stages of processing and interpretation.

The Group's capital restructuring was specifically designed to allow the Group to finish the processing and interpretation of the Blocks A&E seismic data, with a primary goal of maturing 10 to 15 drillable shallow and intermediate post-salt prospects by October 2009 from a portfolio of 36 existing 2D leads in the areas covered by the new 3D data. The Group completed detailed internal prospect reviews covering the Kuzbak and Bek Beke 3D surveys in May and July 2009, respectively, which have generated 10 drillable prospects as of 31 August 2009. The Group expects to complete a third and final prospect review of the 3D survey over Block A in October 2009.

The Group has executed a drilling contract for a ZJ-30 rig capable of drilling to a depth of 3,500m. The rig is currently in the Zhana Makat Field, where it is in the process of being rigged up and commissioned prior to commencing drilling operations. The rig will drill two development wells and then begin drilling shallow and intermediate post-salt exploration targets in Blocks A&E. The Group plans to retain a 100% interest in this post-salt portfolio, as the Company believes that a drilling programme of 10-15 exploration prospects will offer a high probability of at least one commercial discovery, with an expectation of three to four commercial discoveries eventually resulting in a minimum of 100 Mmboe of 2P reserves, at a relatively low drilling cost of approximately US\$2 million per well.

The Group is currently refocusing its efforts to farmout the deep rights on Block E based on the depth processed 3D data acquired. The Group has identified multiple prospects in the pre-salt on Block E, consisting of at least two distinct play types. The Group believes the pre-salt prospect and lead portfolio will be of greater interest to major and large independent oil and gas companies given the recent availability of depth processed 3D data.

The Group's geotechnical evaluation of the Astrakhanskiy Block is complete. The block contains what appears to be an extension of the super-giant Astrakhan and Imashevskoye fields located immediately to the Northwest on the same carbonate platform. In May 2009, the Group received approval from the MEMR to extend the exploration period of the Astrakhanskiy licence by two years until 12 January 2012. The amendment also established the Group's three-year work programme for the licence, including a commitment to begin drilling the first exploration well on the Astrakhanskiy Block on or before 31 December 2009. The Group is currently seeking to farmout or sell its interest in the Astrakhanskiy licence in order to focus its efforts on the exploration and development of Blocks A&E.

A full review of the Group's activities during the year, recent events and future developments in the Group's business is contained in the Business Review on pages 7 to 12.

The Group's principal risk factors and uncertainties are set out in the Financial Review.

Key performance indicators ('KPIs')

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

	2009	2008	% Change
Crude oil sales volumes (Mboe)	710	460	54%
Export sales volumes (Mboe)	549	301	82%
Domestic sales volumes (Mboe)	161	159	1%
Commercial production volumes (Mboe)	777	419	85%
Test production volumes (Mboe)	–	41	N/A
Oil sales revenue (US\$000)	US\$39,195	US\$27,470	43%
Export sales revenue (US\$000)	US\$33,864	US\$22,184	53%
Domestic sales revenue (US\$000)	US\$5,331	US\$5,286	1%
Average realised price per bbl	US\$55.21	US\$59.72	(8)%
Average realised export price per bbl	US\$61.71	US\$73.70	(16)%
Average realised domestic price per bbl	US\$33.07	US\$33.25	(1)%
Operating costs (US\$000) ¹	US\$8,920	US\$8,517	5%
Operating costs – commercial production (US\$000)	US\$8,920	US\$6,619	35%
Operating costs – test production (US\$000)	–	US\$1,898	N/A
Operating costs per bbl ¹	US\$12.56	US\$18.52	(32)%
Operating costs per bbl – commercial production	US\$12.56	US\$15.80	(21)%
Operating costs per bbl – test production	–	US\$46.29	N/A
Net cash from/ (used in) operating activities (US\$000)	US\$14,103	US\$(7,081)	299%

¹ Operating costs equals cost of sales less royalties, mineral extraction tax, export customs duty, export rent tax, and depreciation, depletion and amortisation. The Company believes it is useful to its shareholders to present this information in a modified format. A reconciliation to cost of sales is set out in note 5 to the accompanying financial statements.

Directors' Report continued

Directors

The directors, who served during the year, and to date, were:

		Appointed	Ceased
James A Jeffs ¹	Executive Co-Chairman	1 July 2005	–
Robert B Holland III ²	Executive Co-Chairman	27 April 2006	–
Mark L Johnson	Chief Executive Officer	22 January 2008	6 February 2009
Michael B Young ³	President & Chief Financial Officer	22 January 2008	–
Lee O Kraus, Jr.	Non-executive	10 June 2007	–
David R Belding	Non-executive	29 September 2005	–
Maksut S Narikbayev	Non-executive	10 October 2006	–

1 Executive Co-Chairman from 6 February 2009; previously, Non-executive Chairman.

2 Executive Co-Chairman from 6 February 2009; previously, Non-executive Director.

3 President & CFO from 6 February 2009; previously Finance Director.

One third of the existing directors will retire by rotation and offer themselves for re-election in accordance with the Company's Articles of Association.

Directors' interests

The directors, who served during the year, and to date, had the following beneficial interests in the shares of the Company:

	Exercise price (p)	Share options		Ordinary shares of 0.01p each	
		31 March 2009	31 March 2008	31 March 2009	31 March 2008
James A Jeffs	4.75	10,281,271	10,281,271	107,091	107,091
Robert B Holland III	4.75	4,000,000	3,500,000	96,732	96,732
Mark L Johnson ¹	61.00	1,333,333	4,500,000	160,000²	–
Michael B Young	4.75	3,000,000	2,000,000	80,178	80,178
Lee O Kraus, Jr.	4.75	2,500,000	2,500,000	50,000	50,000
David R Belding	4.75	2,000,000	2,000,000	4,142,729	4,142,729
Maksut S Narikbayev	4.75	2,000,000	2,000,000	–	–

1 Ceased to be a director on 6 February 2009.

2 Number of ordinary shares held on 6 February 2009.

On 23 February 2009, the Company made certain adjustments to the terms of all share options held by the Company's active employees and directors, resulting in the exercise price of existing options being changed to 4.75p per ordinary share.

Substantial shareholders

At 31 March 2009 the following parties had notifiable major interests of 3% or greater in the nominal value of the Company's issued 0.01p ordinary shares:

	2009	
	Number of shares	Percentage
G Kachshapov	51,000,000	13.96%
Lynchwood Nominees Limited	28,287,564	7.74%
The Bank of New York (Nominees) Ltd	18,801,330	5.15%
Eagle Point Investments Ltd	14,750,000	4.04%
Credit Suisse AG	13,462,155	3.69%
Barclayshare Nominees Limited	11,552,017	3.16%
PSP Foreign Equities Fund	11,302,100	3.09%

Options granted

As at 31 March 2009, the Company had granted a total of 134,283,313 options (2008: 125,093,413), of which 25,888,408 options (2008: 25,888,408) had been exercised, 13,706,227 options (2008: 8,618,302) had been forfeited or cancelled unexercised, and 40,890,000 options (2008: nil) had expired unexercised.

Interests in contracts

There were no contracts or arrangements during the period in which a director of the Company was materially interested and which were significant in relation to the business of the Group or the Company.

In July 2008, Composite Capital LLP, a private company beneficially owned by Mr Kraus, and Mr Kachshapov and various companies affiliated with Mr Kachshapov, entered into a Deed of Right of First Refusal (the 'ROFR') in conjunction with the Company's completion of the exchange agreement with Horizon Services N.V. The ROFR grants Composite Capital, or its designee, a pre-emption right to acquire up to 41 million ordinary shares in the Company beneficially owned by Mr Kachshapov within 30 business days of a proposed sale of such shares by Mr Kachshapov or his affiliates.

Creditors' payment policy and practice

The Group aims to pay all its creditors promptly. For trade creditors, it is the Group's policy to:

- (i) agree the terms of the payment at the start of business with that supplier;
- (ii) ensure that suppliers are aware of the terms of payment; and
- (iii) pay in accordance with contractual and other obligations.

The number of days of average daily purchases included in trade creditors at 31 March 2009 was 20 days (2008: 35 days).

Corporate social responsibility

The Group is committed to managing its business to have an overall positive impact on society. We seek to achieve this through a corporate culture which fosters a fundamental commitment in our management and workforce to ethical business practices in terms of our operations, our impact on the environment and local communities, and in how we treat and develop our workforce.

We value our relationships within the communities in which we operate and realise that nurturing those relationships can benefit us all – employees, shareholders and society as a whole. This belief is central to our commitment to operate our core business in a socially responsible way, and is complemented by our investment in the social programmes administered by the local governments in the regions where we operate, as a contributing partner to help improve the social infrastructure of Kazakhstan.

During the fiscal year ended 31 March 2009, the Group contributed US\$650,000 (2008: US\$850,000) to the social investment programmes of the Aktobe and Atyrau Oblasts, as well as to the City of Astana. Max Petroleum's ongoing social investment programme has contributed a total of US\$3.6 million. The Group did not make any political contributions during the period.

We continue to be active in funding foreign study programmes for Kazakh students attending universities abroad and we are particularly proud of our training and continuing education programmes for our local employees. Max Petroleum is a committed long-term partner within the Kazakh communities in which it operates.

Employment policies

The Group is committed to pursuing an equal opportunity employment policy, covering recruitment and selection, training, development, appraisal and promotion. The Group recognises the diversity of its employees, its customers, and the community at large and seeks to use employees' talents and abilities to the fullest. This approach extends to the fair treatment of people with disabilities, in relation to their recruitment, training, and development. Full consideration is given to the retention of staff who become disabled during employment.

Employee communication

The Group is committed to effective communications, which it maintains through regular information releases and staff briefings. Formal communications with employees take place through these channels. With respect to the Group's operations in Kazakhstan and recruitment of Kazakhstani employees, announcements, contracts, interviews, and advertisements are conducted in English, Russian and Kazakh languages, as applicable.

Health, safety and environment

The Group's policy and practice is to comply with health, safety and environmental regulations and requirements of the countries in which it operates, to protect its employees, contractors, assets and the environment. Environmental risk factors are more fully considered in the accompanying financial review.

Directors' Report continued

Financial instruments risk assessment

The directors' financial instruments risk assessment is disclosed in note 24 to the accompanying financial statements.

Share capital

The Company's authorised and issued share capital as at 31 March 2009 is set out in note 28 to the accompanying financial statements on page 66.

Post balance sheet events

All post balance sheet events are described in note 36 to the accompanying financial statements on page 73.

Statement of disclosure of information to auditors

As at the date of this report the serving directors confirm that:

- So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware.
- They have taken all steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The Company's auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the next Annual General Meeting.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements. The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and have also elected to prepare financial statements for the Company in accordance with IFRS. Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS disclosure requirements. In preparing those financial statements the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State that the financial statements comply with IFRS as adopted by the European Union.
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group, for safeguarding the assets of the Company and the Group, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which complies with the requirements of the Companies Act 1985.

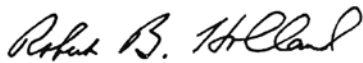
Electronic communications

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.

The Company's website is maintained in compliance with AIM Rule 26.

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

By order of the Board



Robert B Holland III
Executive Co-Chairman
14 September 2009



James A Jeffs
Executive Co-Chairman



Michael B Young
President & Chief Financial Officer

Financial Review

Results for the year

The Group recorded a loss attributable to equity holders of the Company of US\$12.3 million for the year ended 31 March 2009 (2008: US\$34.5 million). No dividends have been paid or proposed for the year (2008: none).

Issue of share capital

During the year to 31 March 2009, the Company issued 37,000,000 new ordinary shares as part of the non-cash consideration for the purchase of the minority interest in Madiran Investment B.V., as more fully disclosed in note 21 to the accompanying financial statements.

Bank borrowings

In June 2007, the Group entered into the Credit Facility with Macquarie, a revolving mezzanine credit facility to finance the development of Max Petroleum's oil and gas assets in Kazakhstan, with an initial borrowing base of US\$20 million, which was increased to US\$50 million in March 2008. The Credit Facility provides for revolving loans and letters of credit from time to time in an aggregate amount not to exceed the borrowing base.

As of 31 March 2009, the Group had US\$48.6 million drawn on, and letters of credit of approximately US\$0.1 million secured by, the Credit Facility.

In February 2009, the Company amended the Credit Facility (the 'Amendment') increasing the potential borrowing base available from US\$50 million to US\$100 million subject to certain terms and conditions. The material provisions of the Amendment are as follows:

- The Credit Facility was split between senior and subordinated tranches, with the initial US\$25 million of advances comprising the senior tranche.
- The senior and subordinated tranches bear interest ranging from LIBOR plus 4% to LIBOR plus 7.5%, depending upon the underlying value of the Group's oil and gas reserves.
- Principal outstanding under the Credit Facility to be repaid quarterly beginning 1 December 2009, which was subsequently amended on 13 August 2009 to defer until 2011.
- Additional events of default based on the Company achieving certain milestones before 30 November 2009 were included in the Credit Facility, which were subsequently amended on 13 August 2009.
- The Company issued Macquarie the Warrant Deed to subscribe for up to 547,918,106 new ordinary shares in the Company, replacing the previous warrant issued to Macquarie in March 2008, of which 121,759,579 warrants with an exercise price of 4.54p per ordinary share were fully vested on the date of grant.

The allotment of any new ordinary shares of the Company pursuant to the exercise of the Warrant Deed was approved by the Company's shareholders in an extraordinary general meeting on 12 May 2009. The provisions of the Warrant Deed are more fully disclosed in note 30 to the financial statements.

On 12 August 2009, the amount of the borrowing base commitment under the Credit Facility was increased from US\$50 million to US\$80 million. Accordingly, Macquarie's entitlement to subscribe to a further 243,519,158 additional shares under the Warrant Deed vested on that date. On 12 August 2009, Macquarie syndicated a portion of the Credit Facility to various third party investors. In conjunction with the syndication, Macquarie assigned its vested rights to subscribe for 42,534,841 new ordinary shares under the Warrant Deed to those various third-party investors.

On 13 August 2009, the Company further amended the Credit Facility. The material terms of the amendment are as follows:

- Repayment of principal outstanding in three equal instalments on 31 January 2011, 31 March 2011 and 1 June 2011.
- Complete the Block A post-salt prospect review on or before 15 October 2009 to the reasonable satisfaction of Macquarie.
- Complete the syndication of up to 50% of the Credit Facility on or before 30 September 2009 on the same terms as existing syndicate partners, without any obligation to increase the loan commitment beyond US\$80 million.

The amendments to the Credit Facility on 13 August 2009 are deemed to trigger a debt extinguishment and recognition of new debt under the requirements of IAS 39. Accordingly, all unamortised amounts previously capitalised to the Credit Facility as debt issuance costs, including costs recognised in relation to the Warrant Deed, will be expensed as of 13 August 2009. The Company estimates that an exceptional, non-cash charge of US\$90.5 million, including US\$81.7 million relating to the fair value of the additional warrants vesting on 12 August 2009, will be recognised in the Group's financial statements for the six month interim period ended 30 September 2009.

Convertible bond

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

Restructuring of the convertible bonds

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

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

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

As of 12 May 2009, the fair value of the warrant exercisable into the first 30 million ordinary shares was US\$4.0 million which will be recorded as an exceptional, non-cash charge in the Group's interim financial statements in the period ended 30 September 2009. The value of future warrants vested as a result of elections to defer interest will be determined on the date of the interest deferral election by the Company.

On 8 September 2009, the Company elected to convert its semi-annual interest payment to PIK, and accordingly, warrants over 30 million shares vested on 8 September 2009.

The amendments to the Bonds on 12 May 2009 are deemed to trigger a debt extinguishment and recognition of new debt under the requirements of IAS 39. Accordingly, all unamortised amounts previously capitalised to the Bonds as debt issuance costs will be written off as an exceptional, non-cash charge of US\$7.4 million in the interim period ending 30 September 2009.

Cash flow

Group net cash flow from operating activities was US\$14.1 million (2008: outflow of US\$7.1 million), consisting principally of net revenue from the production and sale of crude oil and general and administrative expenses incurred to run the Group's operations in the United Kingdom, Kazakhstan and the United States of America. As at 31 March 2009, the Group held cash balances of US\$3.0 million (2008: US\$4.0 million).

The Group intends to fund its operating expenditures using a combination of cash flow from operations, cash on hand, and borrowings under its Credit Facility. The Group is also seeking to finance its exploration and appraisal programme through the farmout of interests in one or both of its Blocks A&E and Astrakhanskiy contract areas.

Going concern

The Group and Company's financial statements are presented on the basis they are a going concern. The directors reached this determination after extending the borrowing base of the Credit Facility from US\$50 to US\$80 million in August 2009. The Group expects to fund its future exploration and development programme, as well as its administrative and operating expenses, through a combination of existing working capital, cash flow from operations from the sale of future oil and gas production, borrowings from the Credit Facility, anticipated proceeds and capital carry from a farmout of interests in one or both of its oil and gas licences, and future issuances of debt or equity financing, as necessary. If the Group is unsuccessful in generating sufficient liquidity to fund its future expenditures, the Group's ability to execute its long-term growth strategy could be significantly affected.

Financial Review continued

Capital expenditure

Group capital expenditures for the year totalled US\$39.4 million (2008: US\$77.4 million).

Total Group capital expenditures were comprised of US\$27.9 million in cash expenditures, net of working capital movements, US\$4.1 million in cash interest capitalised, US\$0.7 million in share based payments, US\$6.1 million in non-cash interest capitalised and US\$0.6 million in other non-cash costs capitalised to intangible exploration and appraisal expenditure and oil and gas properties during the year.

Revenue

The Group generated US\$39.2 million in revenue from the sale of approximately 710,000 bbls of crude oil production during the year, or US\$55.21 per bbl (2008: US\$27.5 million on sales of 460,000 bbls of crude oil, or US\$59.72 per bbl). The Group generated export sales of 549,000 bbls generating US\$33.9 million in revenue, or US\$61.71 per bbl (2008: 301,000 bbls generating US\$22.2 million in revenue, or US\$73.70 per bbl). Domestic sales totalled 161,000 bbls of crude oil generating US\$5.3 million in revenue, or US\$33.07 per bbl (2008: 159,000 bbls generating US\$5.3 million in revenue, or US\$33.25 per bbl). All of the Group's production from the Zhana Makat Field prior to August 2007 was considered test production, which was accounted for by crediting revenue for the proceeds, net of VAT, with an offsetting charge to cost of sales resulting in no net margin being recognised.

Operating loss

The Group operating loss for the year was US\$4.8 million (2008: US\$35.8 million) which includes charges relating to share based payments of US\$3.8 million (2008: US\$4.6 million) and depreciation, depletion and amortisation of US\$10.4 million (2008: US\$5.4 million).

The Group's operating loss also includes US\$0.5 million in exploration and appraisal costs (2008: US\$15.9 million) related to the cost of dry holes drilled during the period.

Loss before and after tax and before minority interest

The Group recognised a loss after tax and before minority interest of US\$12.3 million (2008: US\$34.5 million) including interest earned of US\$0.02 million (2008: US\$0.8 million) arising from the Group's management of cash reserves.

Financial instruments

The financial instruments of the Group are comprised of cash resources, trade debtors, prepayments and trade creditors arising directly from operational activity, as well as the Group's convertible bond and the Credit Facility, described in note 22 to the Group's financial statements.

Risk factors

The Group is subject to various risks relating to political, economic, legal, social, industry, business and financial conditions. The following risk factors, which are not exhaustive, are particularly relevant to the Group's business activities:

Volatility of prices for oil and gas

The supply, demand and prices for oil and gas are volatile and are influenced by factors beyond the Group's control. These factors include global demand and supply, exchange rates, interest and inflation rates and political events. A significant prolonged decline in oil and gas prices could impact the viability of some of the Group's exploration activities. Additionally, production from geographically isolated countries may be sold at a discount to current market prices.

Substantially all of the Group's revenues and cash flows will come from the sale of oil and gas. If oil and gas prices should fall below and remain below the Group's cost of production for any sustained period, the Group may experience losses and may be forced to curtail or suspend some or all of the Group's production, at the time such conditions exist. In addition, the Group would also have to assess the economic impact of low oil and gas prices on the Group's ability to recover any losses the Group may incur during that period and on the Group's ability to maintain adequate reserves.

While the Group does not currently hedge its crude oil production to reduce its exposure to oil price volatility, management expects that it may do so in the future as it increases its daily production sold into the export market. The Group would enter into price hedging contracts in order to achieve more predictable cash flows from its future crude oil production and to comply with the terms of its Credit Facility, if applicable.

Exploration risk

Whilst the Group will seek to apply the latest technology to assess exploration licences, the exploration for, and development of, hydrocarbons is speculative and involves a high degree of risk. These risks include the uncertainty that the Group will discover sufficient oil or gas resources to exploit the discovered resource.

Environmental risk

The oil and gas industry is subject to environmental hazards, such as oil spills, gas leaks, ruptures and discharges of petroleum products and hazardous substances. These environmental hazards could expose the Group to material liabilities for property damages, personal injuries, or other environmental harm, including costs of investigating and remediating contaminated properties. The Group is subject to stringent environmental laws in the Republic of Kazakhstan with regard to its oil and gas operations. Failure to comply with such laws and regulations could subject the Group to material administrative, civil, or criminal penalties or other liabilities. Additionally, compliance with these laws may, from time to time, result in increased costs to the Group's operations, impact production, or increase the costs of potential acquisitions. The Group was compliant with all material environmental and health and safety laws during the year.

Risk of operating oil and gas properties

The oil and gas business involves certain operating hazards, such as well blowouts, cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires, pollution, and releases of toxic substances. Any of these operating hazards could cause serious injuries, fatalities, or property damage, which could expose the Group to liabilities. The settlement of these liabilities could materially impact the funds available for the exploration and development of the Group's oil and gas properties. The Group maintains insurance against many potential losses and liabilities arising from its operations in accordance with customary industry practices, but the Group's insurance coverage cannot protect it against all operational risks.

Foreign currency risk

The Group's operating costs, export revenues, and debt financing facilities are principally denominated in US dollars. The Group's UK PLC office costs and share consideration are in British pounds. Also, some costs are incurred and settled in tenge, the local currency of the Republic of Kazakhstan. Any changes in the relative exchange rates among US dollars, tenge and British pounds could positively or negatively affect the Group's results. The Group has reduced its US dollar–British pounds exposure by structuring further funds in US dollars.

Business in Kazakhstan

Amongst the risks that face the Group in conducting business and operations in Kazakhstan are:

- Economic instability, including in other countries or the global economy that could lead to consequences such as hyperinflation, currency fluctuations and a decline in per capita income in the Kazakh economy.
- Insufficient or underdeveloped physical infrastructure.
- Governmental and political instability that could disrupt, delay or curtail economic and regulatory reform, increase centralised authority or result in nationalisation.
- Social instability from any ethnic, religious, historical or other divisions that could lead to a rise in nationalism, social disturbances or conflict.
- Uncertainties in the developing legal and regulatory environment, including, but not limited to, conflicting laws, decrees and regulations applicable to the oil and gas industry and foreign investment.
- Unlawful or arbitrary action against the Group and its interests by the regulatory authorities, including the suspension or revocation of its licences.
- Lack of independence and experience of the judiciary, difficulty in enforcing court or arbitration decisions and governmental discretion in enforcing claims.
- Laws restricting foreign investment in the oil and gas industry.

Taxation

The tax environment in Kazakhstan is subject to regular change and varying interpretations. As the tax law evolves, instances of inconsistent opinions between local, regional and national tax authorities are not unusual. Non-compliance with laws and regulations in Kazakhstan, as interpreted by the Kazakh authorities, may lead to severe penalties and interest which can amount to multiples of any assessed taxes. The uncertainty of interpretation and application of tax laws, which are subject to regular change, creates a risk that the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amounts recognised to date, which could have a material adverse impact on the Group's cash flows, results and financial position. Management believes that it is in compliance with the relevant legislation affecting its operations, and that its tax affairs are appropriately accounted for in these financial statements.

Financial Review continued

Legal systems

Kazakhstan, and other countries in which the Group may transact business in the future, have or may have legal systems that are less well developed than in the United Kingdom. This could result in risks such as:

- Potential difficulties in obtaining effective legal redress in the courts of such jurisdictions, whether in respect of a breach of contract, law or regulation, including an ownership dispute.
- A higher degree of discretion on the part of government authorities.
- The lack of judicial or administrative guidance on interpreting applicable rules and regulations.
- Inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions.
- Relative inexperience of the judiciary and courts in such matters.

In certain jurisdictions, the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to licences and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that joint ventures, licences, licence applications or other legal arrangements will not be adversely affected by the jurisdictions in which the Group operates.

Liquidity risk

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 US\$75 million of convertible debt capital in 2006 and entered into the Credit Facility, a US\$100 million revolving mezzanine credit facility.

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

Post balance sheet events

All post balance sheet events are described in note 36 to the Group's financial statements.

Directors' Remuneration Report

In common with the Board's commitment to compliance with the Combined Code, so far as is practicable taking into account the size and nature of the Company, the Company has adopted the Principles of Good Governance relating to directors' remuneration. The Company discloses certain information relating to directors' remuneration in this report, which is not audited.

Compensation Committee

The Company established a Compensation Committee in June 2006, as set out in the Corporate Governance Report on pages 30 and 31. The Compensation Committee advises the Board on Group compensation policy and may obtain advice from independent remuneration consultants appointed by the Company. The Compensation Committee meets as required and executive directors do not vote on their own remuneration or incentives.

Remuneration policy

The Company's policy is to maintain levels of compensation for the Group that are comparable and competitive with peer group companies, so as to attract and retain individuals of the highest calibre, by rewarding them as appropriate for their contribution to the Group's performance. The Company takes independent advice in structuring remuneration packages of directors and employees.

Terms of appointment

The terms of each director's appointment are set out in their service agreements which are effective for an indefinite period but may be terminated in accordance with specified notice periods. Each service agreement sets out details of basic salary, fees, benefits-in-kind and share option grants. The directors do not participate in any group pension scheme and their remuneration is not pensionable.

The non-executive directors are not eligible for payment of cash bonuses. The executive directors are entitled to payment of cash bonuses in accordance with the terms of their service agreements.

Details of directors' compensation are set out in Table 1.

Basic salaries

The basic salary of each executive director is established by reference to their responsibilities and individual performance.

Fees

The fees paid to non-executive directors are determined by the Board and reviewed periodically to reflect current rates and practice commensurate with the size of the Company and their roles.

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. The share options are exercisable over varying periods and at varying strike prices. The right to exercise is not contingent upon any performance criteria but is subject to terms relating to the respective individual's continued employment with the Group.

On 23 February 2009, the Company made certain adjustments to the terms of all share options held by the Company's active employees and directors, resulting in the exercise price of existing options being changed to 4.75p per ordinary share.

The proportion charged to the income statement under IFRS 2, which relates to directors' share options, amounts to US\$3.0 million (2008: US\$3.6 million).

Details of directors' share options are set out in Table 2.

Directors' Remuneration Report continued

Annual remuneration of directors

Remuneration paid to the directors in the year to 31 March 2009 was as follows:

Table 1

	2009					2008	
	Salary US\$	Compensation for loss of office US\$	Bonuses US\$	Fees US\$	Benefits US\$	Total US\$	Total US\$
J A Jeffs	–	–	–	120,000	–	120,000	431,542
R B Holland III ¹	–	–	–	120,000	–	120,000	238,465
M L Johnson ²	377,678	479,852	–	–	18,015	875,545	137,540
M B Young ³	359,357	–	–	–	322,305	681,662	140,206
S J Kappelle ⁴	–	–	–	–	–	–	585,937
L O Kraus, Jr. ⁵	–	–	–	108,000	–	108,000	220,477
D R Belding	–	–	–	28,833	–	28,833	26,149
M S Narikbayev	–	–	–	49,667	–	49,667	50,188
	737,035	479,852	–	426,500	340,320	1,983,707	1,830,504

1 Comparative amount includes additional fees of US\$176,666 for acting as the Group's interim CEO from 6 September 2007 until 21 January 2008.

2 Ceased as a director on 6 February 2009.

3 Comparative amount comprises remuneration from date of appointment, 22 January 2008, until 31 March 2008.

4 Dismissed 17 October 2007.

5 Comparative amount includes additional fees of US\$167,000 for acting as the Group's interim COO from 6 September 2007 until 21 January 2008.

Directors' interests in the share capital of the Company

The interests of the directors who held office during the year ended 31 March 2009 are given in the Directors' Report.

There has been no change in the interest of any director between 1 April 2009 and the date of this report.

Directors' interests in share option agreements

The interests of the directors in office during the year to 31 March 2009 were as follows:

Table 2

	Grant date	Number at start of period	Number granted in period	Number forfeited in period	Number exercised in period	Number at 31 March 2009	Option price (pence)	Date exercisable	Expiry date	Realised gains US\$000	Unrealised gains ^a US\$000
JA Jeffs	26.10.05	8,831,171 ¹	–	–	–	8,831,171	4.75 ¹⁰	26.10.06 ³	26.10.15	–	–
JA Jeffs	14.12.05	51,000 ²	–	–	–	51,000	4.75 ¹⁰	26.10.06 ³	26.10.15	–	–
JA Jeffs	06.01.06	1,280,100 ²	–	–	–	1,280,100	4.75 ¹⁰	26.10.06 ³	26.10.15	–	–
JA Jeffs	29.03.06	119,000 ²	–	–	–	119,000	4.75 ¹⁰	26.10.06 ³	26.10.15	–	–
M L Johnson	31.12.07	4,000,000	–	(2,666,667) ⁹	–	1,333,333	61.00	31.12.08 ⁵	31.12.14	–	–
M L Johnson	31.12.07	250,000	–	(250,000) ⁶	–	–	61.00	22.01.09 ⁶	31.12.14	–	–
M L Johnson	31.12.07	250,000	–	(250,000) ⁷	–	–	61.00	31.03.09 ⁷	31.12.14	–	–
MB Young	27.07.06	1,500,000	–	–	–	1,500,000	4.75 ¹⁰	27.07.07 ⁴	27.07.13	–	–
MB Young	29.10.07	500,000	–	–	–	500,000	4.75 ¹⁰	29.10.08 ⁵	29.10.14	–	–
MB Young	23.02.09	–	1,000,000	–	–	1,000,000	4.75 ¹⁰	23.02.10 ⁵	23.02.16	–	–
LO Kraus, Jr.	31.05.07	1,500,000	–	–	–	1,500,000	4.75 ¹⁰	31.05.08 ⁴	31.05.14	–	–
LO Kraus, Jr.	29.10.07	1,000,000	–	–	–	1,000,000	4.75 ¹⁰	29.10.08 ⁵	29.10.14	–	–
D R Belding	26.10.05	2,000,000	–	–	–	2,000,000	4.75 ¹⁰	26.10.06 ⁴	26.10.12	–	–
RB Holland III	24.03.06	2,500,000	–	–	–	2,500,000	4.75 ¹⁰	24.03.07 ⁴	24.03.13	–	–
RB Holland III	29.10.07	1,000,000	–	–	–	1,000,000	4.75 ¹⁰	29.10.08 ⁵	29.10.14	–	–
RB Holland III	23.02.09	–	500,000	–	–	500,000	4.75 ¹⁰	23.02.10 ⁵	23.02.16	–	–
MS Narikbayev	10.10.06	2,000,000	–	–	–	2,000,000	4.75 ¹⁰	10.10.07 ⁴	10.10.13	–	–
		26,781,271	1,500,000	(3,166,667)	–	25,114,604				–	–

1 Non-dilutable for initial 12 months; shares under option are increased by 3.4% of any issue of new ordinary shares within 12 months of the date of admission to AIM (27 October 2005) (excluding on exercise of options and on any capital reorganisation).

2 Arising under non-dilution on issue of new ordinary shares.

3 Exercisable 47.5% on first anniversary of date of grant and 12.5% on second, third and fourth anniversaries of date of grant.

4 Exercisable 40.0% on first anniversary of date of grant and 20.0% on second, third and fourth anniversaries of date of grant.

5 Exercisable 33.4% on first anniversary of date of grant and 33.3% on second and third anniversaries of date of grant.

6 Lapsed due to failure to meet non-market performance condition on 22 January 2009.

7 Lapsed due to failure to meet non-market performance condition on 31 March 2009.

8 Fair value of outstanding options at difference between option price and closing market price at 31 March 2009.

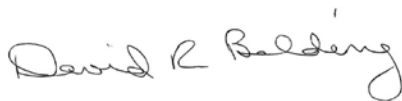
9 Forfeited on cessation of employment, 6 February 2009.

10 Original exercise price changed to 4.75p on 23 February 2009.

Mid-market prices of the Company's ordinary 0.01p shares during the year and at 31 March 2009 were as follows:

	2009		2008	
	US\$	Pence	US\$	Pence
High	1.47	75.0	4.45	219.0
Low	0.02	1.8	0.94	48.3
Closing	0.07	4.7	1.15	57.5

On behalf of the Board of Directors of Max Petroleum Plc.



David R Belding

Chairman of the Compensation Committee

14 September 2009

Corporate Governance Report

Although Max Petroleum Plc, as an AIM quoted company, is not required to comply with the Combined Code on Corporate Governance, the Board of Directors are committed where practicable to developing and applying high standards of corporate governance appropriate to the Company's size.

This statement sets out measures taken by the Board to apply the principles of the Combined Code to the year ended 31 March 2009 and to the date of the Directors' Report.

Board of Directors

The Board currently comprises three executive directors and three non-executive directors:

James A Jeffs	Executive Co-Chairman ¹
Robert B Holland III	Executive Co-Chairman ²
Michael B Young	Executive Director (President and Chief Financial Officer) ³
Lee O Kraus, Jr.	Non-executive
David R Belding	Non-executive
Maksut S Narikbayev	Non-executive

¹ Executive Co-Chairman from 6 February 2009; formerly, Non-executive Chairman.

² Executive Co-Chairman from 6 February 2009; formerly, a Non-executive Director.

³ President and Chief Financial Officer from 6 February 2009; formerly, Finance Director.

Mark L Johnson served as a director and Chief Executive Officer until 6 February 2009. From this date, Mr Jeffs, formerly the Non-executive Chairman, and Mr Holland, a non-executive director, assumed the joint role of Executive Co-Chairman. Mr Jeffs continues as the Chairman of the Executive Committee. All other non-executive directors are considered to be independent of management and free from any contractual relationships with the Group, thereby allowing them to exercise full independent judgement on any issue. There is a clear division from the responsibilities of the executive directors.

All directors are permitted access to independent professional advice in the course of execution of their duties, at the Company's expense.

The Board has established the following committees:

Audit Committee

The Audit Committee was appointed in June 2006 and is comprised of four directors: Messrs. Holland, Kraus, Belding and Jeffs. Mr Holland is the Audit Committee Chairman.

This Audit Committee is responsible for selecting the Group's independent auditors, pre-approving all audit and non-audit related services, reviewing with management and the independent auditors the Group's financial statements, significant accounting and financial policies and practices, audit scope and adequacy of internal audit and control systems.

Compensation Committee

The Compensation Committee was also appointed in June 2006 and is comprised of Messrs. Belding, Holland and Jeffs. The Compensation Committee is responsible for determining the terms and conditions of service of the executive directors and of senior management of the Group.

The Directors' Remuneration Report is set out on pages 27 to 29.

Executive Committee

Prior to the resignation of Mr Johnson on 6 February 2009, the Executive Committee comprised Messrs. Jeffs, Holland, Kraus, Johnson and Young. The Executive Committee currently comprises Messrs. Jeffs, Holland, and Young.

This Executive Committee is responsible for the strategic oversight of the Group.

Advisory Committee

The Advisory Committee is currently comprised of Messrs. James C Langdon and Tom R Fuller, two independent international advisors with extensive experience in, and knowledge of, the energy sector.

The role of this committee is to provide financial, operational, geopolitical and technical advice to the Board and to senior non-Board officers of the Group.

Nominations Committee

The directors have considered that the Company is not of a size for a nominations committee to be appropriate at the current time. The Board will continue to monitor the situation. In the absence of a committee, all appointments are decided by the full Board.

Board meetings

The Board met four times during the financial year (2008: five times) with the following attendance:

	2009	2008
J A Jeffs	4	5
R B Holland III	4	5
M L Johnson (appointed 22 January 2008; resigned 6 February 2009)	3	1
M B Young (appointed 22 January 2008)	4	1
S J Kappelle (dismissed 17 October 2007)	–	3
L O Kraus, Jr. (appointed 10 June 2007)	4	3
D R Belding	4	5
M S Narikbayev	3	2

Investor relations

The Board is committed to provide regular communication with shareholders. Peter B Moss, Jr. was appointed as Investor Relations Manager in May 2006 and was elevated to the role of Vice President Investor Relations and Business Development in May 2009.

Internal controls

The Board acknowledges responsibility for maintaining appropriate internal controls systems and procedures to safeguard the shareholders' investments and the assets, employees and business of the Group.

The directors have recognised the changing requirements of the Group as it has developed from private company start-up, through re-registration as a public company and admission to trading on AIM, to a growing multi-asset and international operating Group.

The Board has established and operates a policy of continuous review and development of appropriate financial, operational, compliance and risk management controls, which cover expenditure approval, authorisation and treasury management, together with operating procedures consistent with the accounting policies of the Group. The internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable but not absolute assurance against material misstatement or loss.

The Board has approved the Group's current operating and capital budget and performance against budget is monitored and reported to the Board on a monthly basis.

The directors confirm that the effectiveness of the internal control system during the accounting period has been reviewed by the Board.

The Board does not consider it appropriate to the current size of the Group to establish an internal audit function.

Independent Auditors' Report to the Members of Max Petroleum Plc

We have audited the group and parent company financial statements (the 'financial statements') of Max Petroleum Plc for the year ended 31 March 2009 which comprise the Consolidated and Company Income Statements, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review and Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Joint Chairmen's Statement, the Business Review, the Financial Review, the Directors' Remuneration Report, the Corporate Governance Report and all of the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- The financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's and the parent company's affairs as at 31 March 2009 and of the group's and the parent company's loss and cash flows for the year then ended.
- The financial statements have been properly prepared in accordance with the Companies Act 1985.
- The information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London
14 September 2009

Notes:

- (a) 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.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated and Company Income Statements

For the year ended 31 March 2009 (in thousands of US\$)

	Note	Group Year ended 31 March		Company Year ended 31 March	
		2009	2008	2009	2008
Revenue		39,195	27,470	3,416	6,088
Cost of sales	5	(23,096)	(14,018)	(3,116)	(5,567)
Gross profit		16,099	13,452	300	521
Exploration and appraisal costs		(532)	(15,881)	–	–
Impairment of assets held for sale	21	–	(5,200)	–	(18,200)
Administrative expenses		(20,409)	(28,148)	(22,463)	(14,615)
Operating loss		(4,842)	(35,777)	(22,163)	(32,294)
Finance income	6	24	811	1,251	1,451
Finance costs	7	(4,921)	(1,954)	(14,858)	(8,970)
Loss before taxation		(9,739)	(36,920)	(35,770)	(39,813)
Income tax expense	8	(123)	(64)	(123)	(64)
Loss for the year	9	(9,862)	(36,984)	(35,893)	(39,877)
Attributable to:					
Equity holders of the Company		(12,274)	(34,509)	(35,893)	(39,877)
Minority interests		2,412	(2,475)	–	–
		(9,862)	(36,984)	(35,893)	(39,877)
Loss per share for loss attributable to the equity holders of the Company during the year – Basic and diluted (US cents)	13	3.5	10.7		

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

The notes on pages 38 to 73 are an integral part of these financial statements.

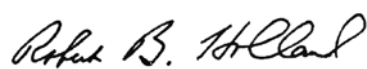
Consolidated and Company Balance Sheets

At 31 March 2009 (in thousands of US\$)

	Note	Group As at 31 March		Company As at 31 March	
		2009	2008	2009	2008
Assets					
Non-current assets					
Intangible assets – exploration and appraisal expenditure	14	233,953	212,080	–	–
Oil and gas properties	15	29,234	29,474	–	–
Property, plant and equipment	16	11,121	9,752	291	425
Investments in subsidiaries	17	–	–	206,119	145,655
Prepayments	18	915	851	–	–
		275,223	252,157	206,410	146,080
Current assets					
Inventories	19	14,056	12,178	–	–
Trade and other receivables	18	4,257	15,136	148,308	139,420
Cash and cash equivalents	20	3,036	3,847	1,116	1,324
Assets held for sale	21	–	33,534	–	40,737
		21,349	64,695	149,424	181,481
Total assets		296,572	316,852	355,834	327,561
Liabilities					
Non-current liabilities					
Borrowings	22	94,303	81,016	94,303	81,016
Provision for liabilities and other charges	26	3,440	3,231	–	–
		97,743	84,247	94,303	81,016
Current liabilities					
Trade and other payables	27	10,576	14,367	4,159	2,352
Borrowings	22	10,872	–	10,872	–
Liabilities directly associated with assets classified as held for sale	21	–	559	–	–
		21,448	14,926	15,031	2,352
Total liabilities		119,191	99,173	109,334	83,368
Net assets		177,381	217,679	246,500	244,193
Capital and reserves					
Share capital	28	7,930	7,923	7,930	7,923
Share premium	29	259,491	228,753	259,491	228,753
Other reserves	30	9,750	74,790	82,245	74,790
Accumulated deficit		(99,790)	(87,516)	(103,166)	(67,273)
Equity attributable to equity holders of the parent		177,381	223,950	246,500	244,193
Minority interests in equity		–	(6,271)	–	–
Total equity		177,381	217,679	246,500	244,193

The notes on pages 38 to 73 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 14 September 2009.



Robert B Holland III
Executive Co-Chairman



James A Jeffs
Executive Co-Chairman



Michael B Young
President & Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 March 2009 (in thousands of US\$)

	Note	Attributable to equity holders of the Company				Total	Minority interest	Total equity
		Share capital	Share premium	Other reserves	Accumulated deficit			
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
Total recognised income and expense for the year		–	–	–	(12,274)	(12,274)	2,412	(9,862)
Issue of share capital	28, 29	7	30,738	–	–	30,745	–	30,745
Share based payments	30	–	–	4,485	–	4,485	–	4,485
Warrants issued	30	–	–	2,970	–	2,970	–	2,970
Transactions with minority shareholders	21	–	–	(72,495)	–	(72,495)	3,859	(68,636)
		7	30,738	(65,040)	–	(34,295)	3,859	(30,436)
Balance at 31 March 2009		7,930	259,491	9,750	(99,790)	177,381	–	177,381

The notes on pages 38 to 73 are an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 March 2009 (in thousands of US\$)

	Note	Share capital	Share premium	Other reserves	Accumulated deficit	Total
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
Total recognised income and expense for the year		–	–	–	(35,893)	(35,893)
Issue of share capital	28, 29	7	30,738	–	–	30,745
Share based payments	30	–	–	4,485	–	4,485
Warrants issued	30	–	–	2,970	–	2,970
		7	30,738	7,455	–	38,200
Balance at 31 March 2009		7,930	259,491	82,245	(103,166)	246,500

The notes on pages 38 to 73 are an integral part of these financial statements.

Consolidated and Company Cash Flow Statements

For the year ended 31 March 2009 (in thousands of US\$)

	Note	Group		Company	
		2009	2008	2009	2008
Cash flows from operating activities					
Net cash generated from/(used in) operating activities	32	14,103	(7,081)	(19,191)	(75,015)
Cash flows from investing activities					
Purchases of plant and equipment		(2,668)	(9,217)	(2)	(429)
Payment for exploration and appraisal expenditure		(31,246)	(58,072)	–	–
Payments for investments		–	–	(124)	–
Interest received	6	24	811	20	1,451
Net cash used in investing activities		(33,890)	(66,478)	(106)	1,022
Cash flows from financing activities					
Proceeds from issuance of ordinary shares	28, 29	–	32,121	–	32,121
Proceeds from borrowings	22	25,050	23,500	25,050	23,500
Debt issuance costs	22	–	(888)	–	(888)
Interest paid		(5,961)	(5,889)	(5,961)	(5,889)
Net cash generated from/(used in) financing activities		19,089	48,844	19,089	48,844
Net (decrease)/increase in cash and cash equivalents					
Effects of exchange rates on cash and cash equivalents		(113)	(41)	–	–
Cash and cash equivalents at beginning of year	20	3,847	28,772	1,324	26,473
		3,036	4,016	1,116	1,324
Less: cash classified as assets held for sale	21	–	(169)	–	–
Cash and cash equivalents at end of year	20	3,036	3,847	1,116	1,324

The notes on pages 38 to 73 are an integral part of these financial statements.

See note 32 for major non-cash transactions.

Notes to the Financial Statements

For the year ended 31 March 2009

1. General information

Max Petroleum Plc ('Max Petroleum' or the 'Company') and its subsidiaries (together the 'Group') is in the business of exploration, development and production of oil and gas assets within the Republic of Kazakhstan. The Group owns rights over two contract areas consisting of three oil and gas blocks in the Pre-Caspian Basin, comprising Blocks A&E and Astrakhanskiy.

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 the East Alibek licence 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.

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

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.

Following the Company's successful restructuring of its US\$100 million revolving mezzanine credit facility and US\$75 million convertible bonds, as more fully discussed in note 22, the financial statements have been prepared on a 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.

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 2009 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 (and in some cases have not yet been endorsed by the European Union):

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 IAS 39	'Financial Instruments: Recognition and Measurement'
Amendment to IFRS 2	'Share based payment'
IFRS 3 (revised)	'Business combinations'
Amendment to IFRS 7	'Financial Instruments: Disclosures'
IFRS 8	'Operating segments'
IFRIC 13	'Customer loyalty programmes'
IFRIC 15	'Agreements for the construction of real estate'
IFRIC 16	'Hedges of a net investment in a foreign operation'
IFRIC 17	'Distributions of non-cash assets to owners'
IFRIC 18	'Transfers of assets from customers'
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
Amendments to the following standards arising from the April 2009 Annual Improvements process:	IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 38, IAS 39

2. Summary of significant accounting policies continued

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.

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.

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

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recorded in equity. Disposals to non-controlling interests result in gains and losses for the Group that are recorded in the income statement.

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.

Notes to the Financial Statements continued

For the year ended 31 March 2009

2. Summary of significant accounting policies continued

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.

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 items 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' ('US\$'), 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:

	2009		2008	
	Average rate	Closing rate	Average rate	Closing rate
British pounds ('GBP')	1.72	1.42	2.01	1.99
Kazakh tenge ('KZT')	124.95	151.40	121.40	120.69

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.

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.

2. Summary of significant accounting policies continued

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.

Decommissioning provision

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 on 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.

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.

Notes to the Financial Statements continued

For the year ended 31 March 2009

2. Summary of significant accounting policies continued

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.

(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.

2. Summary of significant accounting policies continued

(c) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred, including debt issuance costs in the form of cash payments and the fair value of warrants issued to, and exercisable by, the lender. Residual costs associated with warrants issued in conjunction with credit facilities which are not allocated against the fair value of borrowings on initial recognition are expensed immediately. 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.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and recognition of a new liability, and the difference between the carrying amounts of the original liability and the fair value of the new liability is recognised in the income statement.

For funds borrowed to obtain a qualifying asset, the borrowing costs eligible for capitalisation are the actual borrowing costs incurred during the period less any investment income earned from the temporary investment of the borrowed funds.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(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.

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. If the terms and conditions of options are modified, the change in the fair value of the options, measured immediately before and after the modification, is additionally charged to the income statement over the remaining vesting period.

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.

Notes to the Financial Statements continued

For the year ended 31 March 2009

2. Summary of significant accounting policies continued

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 judgements

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 three geographical regions. The Group's operational activities are wholly focused in the Republic of Kazakhstan. The Group's head office is in London, England supported by a technical office in Houston, USA. Inter-segment revenue represents rechargeable costs which are invoiced, with a mark-up, to the Company's subsidiaries. These transactions and any unrealised profits and losses are eliminated on consolidation. Since neither the London head office nor Houston office earn revenue from external customers, they are not reportable segments under IAS 14.

Relevant disclosures have been made elsewhere in these financial statements.

5. Cost of sales

	Group	
	2009 US\$000	2008 US\$000
Operating costs:		
– commercial production	7,835	6,294
– test production	–	1,898
Selling and transportation	1,085	325
Royalties/mineral extraction tax	1,077	531
Export customs duty/export rent tax	3,360	–
Depreciation, depletion and amortisation	9,739	4,970
	23,096	14,018

6. Finance income

	Group		Company	
	2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
Interest income on short-term bank deposits	24	811	20	807
Intercompany interest income	–	–	1,231	644
Finance income	24	811	1,251	1,451

7. Finance costs

	Group		Company	
	2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
Interest expense:				
Interest payable on bank borrowings (note 22)	7,116	1,422	7,116	1,422
Interest payable on convertible bond (note 22)	7,742	7,548	7,742	7,548
Unwinding of discount on decommissioning provision (note 26)	250	135	–	–
Other	12	–	–	–
	15,120	9,105	14,858	8,970
Less:				
Interest expense capitalised to exploration and appraisal expenditure	(10,199)	(7,151)	–	–
Finance costs	4,921	1,954	14,858	8,970

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 amortisation of debt issuance costs.

Interest expense of US\$10.2 million (2008: US\$7.2 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 16% (2008: 13%) to the average cumulative expenditure on such assets. The borrowing costs capitalised are included in 'Additions' in exploration and appraisal expenditure.

Notes to the Financial Statements continued

For the year ended 31 March 2009

8. Income tax expense

	Group and Company	
	2009 US\$000	2008 US\$000
Current tax	123	64
Deferred tax (note 25)	–	–
	123	64

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

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the UK statutory rate of 28% (2008: 30%) applicable to the loss of the Group, as follows:

	Group	
	2009 US\$000	2008 US\$000
Loss before taxation	(9,739)	(36,920)
Tax calculated at 28% (2008: 30%)	(2,727)	(11,076)
Effect of higher foreign tax rates	143	–
Expenses not deductible for tax purposes	2,874	2,986
Permanent foreign exchange differences	(9,217)	–
Permanent differences arising from change in tax rates	3,500	–
Tax losses utilised	(881)	(491)
Effects of deferred tax assets not recognised – losses	5,741	8,645
Effects of deferred tax assets not recognised – other	690	–
Tax charge	123	64

The tax on the Company's loss before tax differs from the theoretical amount that would arise using the UK statutory rate of 28% (2008: 30%) applicable to the loss of the Company, as follows:

	Company	
	2009 US\$000	2008 US\$000
Loss before taxation	(35,770)	(39,813)
Tax calculated at UK statutory rate	(10,016)	(11,944)
Expenses not deductible for tax purposes	4,858	5,499
Effects of deferred tax assets not recognised – losses	5,281	6,509
Tax charge	123	64

9. Loss for the year

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

	Group		Company	
	2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
Exchange loss/(gain)	(17)	(70)	120	(200)
Staff costs, net of capitalisation	9,065	11,955	3,305	4,148
Operating lease rentals	2,313	2,524	226	384
Depreciation, depletion and amortisation (note 10)	10,404	5,383	136	130
Loss on disposal of fixed assets	95	12	–	12
Exploration and appraisal costs	532	15,881	–	–
Impairment of assets held for sale (note 21)	–	5,200	–	18,200
Share based payments, net of capitalisation	3,816	4,605	16,033	2,713
Investigation costs	–	3,059	–	3,059
Auditors' remuneration (note 12)	783	1,417	595	1,277

During the year ended 31 March 2008, the Company incurred aggregate costs relating to an internal investigation of US\$3.8 million, including US\$3.1 million in third party costs and US\$0.7 million in costs included within auditors' remuneration (note 12). The investigation primarily focused on certain related party transactions, including the undisclosed receipt of beneficial interests in options over six million shares in Max Petroleum by certain former 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	
	2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
Cost of sales	9,739	4,970	–	–
Administrative expenses	665	413	136	130
	10,404	5,383	136	130

11. Employees and key management

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

	Group 2009		Group 2008	
	Average in year	At 31 March	Average in year	At 31 March
Administrative	84	65	89	85
Exploration and production operations	90	75	99	100
Directors	7	6	7	7
	181	146	195	192

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

	Company 2009		Company 2008	
	Average in year	At 31 March	Average in year	At 31 March
Administrative	5	4	5	5
Directors	7	6	7	7
	12	10	12	12

Notes to the Financial Statements continued

For the year ended 31 March 2009

11. Employees and key management continued

Staff costs in respect of those employees were as follows:

	Group		Company	
	2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
Wages and salaries	13,513	18,653	3,037	3,882
Social security	1,224	1,345	268	266
Share options granted to directors and employees	4,485	5,849	16,033	2,713
	19,222	25,847	19,338	6,861

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.

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:

	2009 US\$000	2008 US\$000
Salaries and short-term employee benefits	1,984	1,831
Share-based payments	3,021	3,553
	5,005	5,384

None of the Company's directors exercised share options while serving in their capacity as directors during the two years ended 31 March 2009.

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 US\$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:

	2009 US\$000	2008 US\$000
Audit services:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts:		
Current year audit fee	214	269
Under-accrual of prior year audit fee	2	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	127	140
Share options investigation	–	686
Tax services	421	225
Other services	19	15
Total	783	1,417

13. Loss per share

	2009	2008
Loss attributable to equity holders of the Company (US\$000)	(12,274)	(34,509)
Weighted average number of ordinary shares in issue (thousands)	354,939	321,489
Basic and diluted loss per share (US cents)	3.5	10.7

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 2009 and 2008, respectively.

14. Intangible assets – exploration and appraisal expenditure

	Group Total US\$000
Cost	
At 1 April 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
Additions	32,634
Disposals	(5,217)
Amounts written off to exploration and appraisal costs	(532)
At 31 March 2009	241,452
Amortisation	
At 1 April 2007	17
Charge for the year	2,470
At 31 March 2008	2,487
Charge for the year	5,012
At 31 March 2009	7,499
Net book value	
At 31 March 2008	212,080
At 31 March 2009	233,953

Included within exploration and appraisal expenditures at 31 March 2009 was a decommissioning asset of US\$1.7 million (2008: US\$1.3 million).

Impairment tests were conducted for intangible exploration and appraisal expenditure and oil and gas producing assets (notes 14 and 15) at 31 March 2009. The impairment tests were carried out in response to the decline in oil and gas prices in 2008. The impairment tests on the Blocks A&E licence were based on an estimate of the value of the mean risked exploration potential of the licence, and in respect of the producing oil and gas assets, the competent person's report on the Zhana Makat Field at 31 March 2009. The results of the impairment tests indicated that the fair value of the Group's Blocks A&E licence and associated assets significantly exceeds its book value. In the case of the Astrakhanskiy Block, the impairment test, based on a range of internal and external valuations, concluded that no impairment was necessary. In performing the impairment test with regards to Zhana Makat, management used a production profile based on proven and probable reserves estimates and a range of assumptions, including an oil price assumption equal to the NYMEX strip in 2009 and thereafter, and a 10% discount rate.

Notes to the Financial Statements continued

For the year ended 31 March 2009

15. Oil and gas properties

	Group		
	Proved properties US\$000	Decom- missioning asset US\$000	Total US\$000
Cost			
At 1 April 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
Additions	3,485	–	3,485
Change in decommissioning estimate	–	121	121
At 31 March 2009	33,841	1,232	35,073
Depreciation			
At 1 April 2007	–	–	–
Charge for the year	1,953	40	1,993
At 31 March 2008	1,953	40	1,993
Charge for the year	3,726	120	3,846
At 31 March 2009	5,679	160	5,839
Net book value			
At 31 March 2008	28,403	1,071	29,474
At 31 March 2009	28,162	1,072	29,234

16. Property, plant and equipment

	Group				Total US\$000
	Improvements to leasehold property US\$000	Office systems, equipment and furniture US\$000	Plant and equipment US\$000	Motor vehicles US\$000	
Cost					
At 1 April 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
Additions	12	459	2,672	47	3,190
Disposals	(12)	(250)	–	(129)	(391)
At 31 March 2009	422	2,147	10,225	836	13,630
Depreciation					
At 1 April 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
Charge for the year	94	397	880	175	1,546
Disposals	(12)	(49)	–	(55)	(116)
At 31 March 2009	177	756	1,291	285	2,509
Net book value					
At 31 March 2008	327	1,530	7,142	753	9,752
At 31 March 2009	245	1,391	8,934	551	11,121

Notes to the Financial Statements continued

For the year ended 31 March 2009

16. Property, plant and equipment continued

	Company		
	Improvements to leasehold property US\$000	Office systems, equipment and furniture US\$000	Total US\$000
Cost			
At 1 April 2007	47	136	183
Additions	387	42	429
Disposals	–	(23)	(23)
At 31 March 2008	434	155	589
Additions	–	2	2
Disposals	(12)	–	(12)
At 31 March 2009	422	157	579
Depreciation			
At 1 April 2007	5	40	45
Charge for the year	90	40	130
Disposals	–	(11)	(11)
At 31 March 2008	95	69	164
Charge for the year	94	42	136
Disposals	(12)	–	(12)
At 31 March 2009	177	111	288
Net book value			
At 31 March 2008	339	86	425
At 31 March 2009	245	46	291

17. Investments in subsidiaries

	Company	
	2009 US\$000	2008 US\$000
Cost		
At 1 April	145,655	176,576
Increase in investment in subsidiaries related to share based payments	726	3,189
Previously capitalised share based payment expense written off	(12,274)	–
Investment in newly incorporated subsidiaries	53	–
Purchase of minority interest in Madiran Investment B.V. (note 21)	71,959	–
Less: amounts classified as assets held for sale (note 21)	–	(34,110)
At 31 March	206,119	145,655
Net book value		
At 1 April	145,655	176,576
At 31 March	206,119	145,655

In prior years, the Company has capitalised certain share based payment expenses as a capital contribution to its subsidiaries in accordance with IFRIC 11, amounting to US\$16.6 million at 31 March 2008, and including an apportionment of US\$12.3 million of the share based payments expense of the Company itself. At 31 March 2009, the Company has determined that the share based payments expense of the Company itself will, in future, be expensed in full as it is incurred. Accordingly, the related amounts previously capitalised to investments in the Company's balance sheet in prior years were written off during the year ended 31 March 2009 through the Company's income statement. These are adjustments which apply solely to the Company's accounts, eliminate on consolidation, and therefore have no effect on the results of the Group in the current or prior years.

17. Investments in subsidiaries continued

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
Madiran Investment B.V.	Netherlands	100%	100%	Holding Company	31 December
Samek International LLP	Kazakhstan	100% ¹	100%	Operating Company	31 December
Vasse Investments Ltd	BVI	100% ¹	100%	Holding Company	31 March
Max Petroleum Astrakhanskiy Holding Ltd	BVI	100%	100%	Holding Company	31 March
Max Exploration Services, Inc. ²	USA	100%	100%	Operating Company	31 December
Alga Caspiygas LLP	Kazakhstan	100% ¹	100%	Operating Company	31 December
Max Petroleum Holdings B.V. ²	Netherlands	100% ¹	100%	Holding Company	31 December
Max Astrakhanskiy Holdings B.V. ²	Netherlands	100% ¹	100%	Holding Company	31 December
Cooperative Samek U.A. ²	Netherlands	100% ¹	100%	Cooperative	31 December
Cooperative Alga U.A. ²	Netherlands	100% ¹	100%	Cooperative	31 December

¹ Indirect shareholding of parent company.

² Incorporated during the year ended 31 March 2009.

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.

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 B.V. and Samek International LLP.

The Group did not complete any acquisitions during the year ended 31 March 2008.

18. Trade and other receivables

	Group		Company	
	2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
Trade receivables	18	4,096	–	–
Less: provision for impairment of trade receivables	–	–	–	–
Trade receivables	18	4,096	–	–
Advances to suppliers	1,724	855	–	–
Prepaid marketing costs	851	1,337	–	–
Other prepayments	639	6,228	621	5,526
Loans from the Company to its subsidiaries ¹ (note 33)	–	–	141,241	154,066
Other amounts due from subsidiaries (note 33)	–	–	5,985	4,504
Other receivables	1,940	4,322	461	151
	5,172	16,838	148,308	164,247
Less: amounts classified as assets held for sale (note 21)	–	(851)	–	(24,827)
	5,172	15,987	148,308	139,420
Non-current portion	915	851	–	–
Current portion	4,257	15,136	148,308	139,420

¹ Loans from the Company to its subsidiaries are repayable on demand. The loans are non-interest bearing, except for a loan of US\$29.7 million (2008: US\$19.3 million) which bears interest at the rate of two times LIBOR (US\$90 day).

Notes to the Financial Statements continued

For the year ended 31 March 2009

18. Trade and other receivables continued

Group

Other receivables include recoverable Kazakh VAT.

Prepayments include prepaid marketing costs of US\$0.85 million (2008: US\$1.3 million), net of amortisation charges, resulting from the Group's cooperation agreement with KazMunaiGaz E&P, expiring December 2010, of which US\$0.37 million has been classified as due after one year (2008: US\$0.85 million).

Group and Company

Other prepayments includes a balance of US\$0.3 million (2008: US\$4.6 million) relating to prepaid debt issuance costs on the Credit Facility (note 22).

Impairment losses

Trade receivables that are less than three months past due are not considered impaired. As of 31 March 2009, trade receivables of US\$8,000 (2008: US\$200,000) were past due but not impaired. There were no trade receivables against which a doubtful debt allowance had been raised, as at 31 March 2009 and 2008, respectively. The ageing analysis of these trade receivables is as follows:

	Group 2009			Group 2008		
	Gross US\$000	Impairment US\$000	Net US\$000	Gross US\$000	Impairment US\$000	Net US\$000
Not past due	10	–	10	3,892	–	3,892
Past due 0-30 days	–	–	–	204	–	204
Past due 120-365 days	8	–	8	–	–	–
Total	18	–	18	4,096	–	4,096

There were no amounts past due or impaired due to the Company as at 31 March 2009 and 2008.

19. Inventories

	Group	
	2009 US\$000	2008 US\$000
Materials and supplies	12,814	12,504
Crude oil inventory	1,242	135
Total inventory	14,056	12,639
Less: amounts classified as assets held for sale (note 21)	–	(461)
	14,056	12,178

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	
	2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
Cash at bank and on hand	3,036	4,016	1,116	1,324
Less: amounts classified as assets held for sale (note 21)	–	(169)	–	–
	3,036	3,847	1,116	1,324

Group

Included in cash at bank and on hand are amounts of US\$1.5 million (2008: US\$0.8 million) required to be deposited in an environmental restoration and rehabilitation fund under the hydrocarbon contracts.

20. Cash and cash equivalents continued

Group and Company

Under the terms of the Group's US\$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 2009 amounted to US\$0.9 million (2008: US\$0.6 million), and is included in the total of cash at bank and on hand for the Group and Company, above.

21. Exchange agreement

The Company closed the exchange agreement (the 'Exchange Agreement') with Horizon Services N.V. ('Horizon') and Oriental Limited ('Oriental') on 11 July 2008. Under the Exchange Agreement, the Company acquired 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 37 million new ordinary shares in 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 Enterprise 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.

Subsequent to the acquisition, the Company owns, through its various subsidiaries, a 100% interest in Madiran, and hence, a 100% interest in Blocks A&E.

The purchase by the Group of the 20% minority interest in Madiran was for non-cash consideration, comprising the Group's 80% interest in Sherpico and 37 million ordinary shares of the Company, as follows:

	US\$000
Issue of 37 million ordinary shares of the Company to Oriental	30,745
Disposal of 80% interest in Sherpico to Oriental	16,325
Settlement of loan due to the Company from Sherpico	24,889
Total consideration	71,959
Minority interest acquired – net liability	536
Excess of acquisition cost over book value of minority interest acquired	72,495

The transactions with minority shareholders in relation to the Exchange Agreement have been accounted for in equity, as follows:

	Reserve arising on purchase of minority interest US\$000	Minority interest US\$000	Total equity US\$000
Acquisition of Madiran Investment B.V. ¹	(72,495)	536	(71,959)
Disposal of Sherpico Investments Limited	–	3,323	3,323
Total	(72,495)	3,859	(68,636)

¹ The acquisition of the minority interest in Madiran has been accounted for as a transaction within equity. The difference between the purchase price and the minority interest is reported in reserves as a movement in the Company's equity. Accordingly, the excess of the acquisition cost over the book value of the minority interest acquired of US\$72.5 million arising on this acquisition has been debited directly to reserves (note 30).

At 31 March 2008, the assets and liabilities of Sherpico and Samek Development Enterprise LLP were classified in the consolidated balance sheet as assets held for sale and liabilities directly associated with assets classified as held for sale.

During the year ended 31 March 2008, the Group's net cash outflow included US\$1.1 million of operating cash outflow and US\$9.1 million of capital expenditures related to these assets.

Notes to the Financial Statements continued

For the year ended 31 March 2009

21. Exchange agreement continued

The major classes of assets and liabilities classified as held for sale at 31 March 2008 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 US\$5.2 million being recognised in the consolidated income statement and a loss of US\$18.2 million being recognised in the Company's income statement, for the year ended 31 March 2008.

22. Borrowings

	Group and Company	
	2009 US\$000	2008 US\$000
Bank borrowings due within one year	10,872	–
Current debt	10,872	–
Bank borrowings due after one year	26,886	16,278
Convertible bond	67,417	64,738
Non-current debt	94,303	81,016
Total borrowings	105,175	81,016

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

Bank borrowings

In June 2007, the Group entered into a US\$100 million revolving mezzanine credit facility with Macquarie Bank Limited ('Macquarie' and the 'Credit Facility') to finance the development of Max Petroleum's oil and gas assets in Kazakhstan, with an initial borrowing base of US\$20 million, which was increased to US\$50 million in March 2008. The Credit Facility provides for revolving loans and letters of credit from time to time in an aggregate amount not to exceed the borrowing base.

As of 31 March 2009, the Group had US\$48.6 million drawn on, and letters of credit of approximately US\$0.1 million secured by, the Credit Facility. At 31 March 2009, the borrowing base under the Credit Facility was US\$50 million (2008: US\$50 million).

22. Borrowings continued

In February 2009, the Company amended the Credit Facility (the 'Amendment') increasing the potential borrowing base available from US\$50 million to US\$100 million subject to certain terms and conditions. The material provisions of the Amendment are as follows:

- The Credit Facility was split between senior and subordinated tranches, with the initial US\$25 million of advances comprising the senior tranche.
- The senior and subordinated tranches bear interest ranging from LIBOR plus 4% to LIBOR plus 7.5%, depending upon the underlying value of the Group's oil and gas reserves.
- Principal outstanding under the Credit Facility to be repaid quarterly beginning 1 December 2009, which was subsequently amended on 13 August 2009 to defer until 2011.
- Additional events of default based on the Company achieving certain milestones before 30 November 2009 were included in the Credit Facility, which were subsequently amended on 13 August 2009.
- The Company issued the amended and restated warrants (the 'Warrant Deed') to subscribe for up to 547,918,106 new ordinary shares in the Company, replacing the existing previous warrants issued to Macquarie in March 2008, of which 121,759,579 warrants with an exercise price of 4.54p per ordinary share were fully vested on the date of grant.

The allotment of any new ordinary shares of the Company pursuant to the exercise of the Warrant Deed was approved by the Company's shareholders in an extraordinary general meeting on 12 May 2009. Further details of the Warrant Deed are included in note 30 to these financial statements.

On 12 August 2009, the amount of the borrowing base commitment under the Credit Facility was increased from US\$50 million to US\$80 million. Accordingly, Macquarie's entitlement to subscribe to a further 243,519,158 additional shares under the Warrant Deed vested on that date. On 12 August 2009, Macquarie syndicated a portion of the Credit Facility to various third party investors. In conjunction with the syndication, Macquarie assigned its vested rights to subscribe for 42,534,841 new ordinary shares under the Warrant Deed to those various third-party investors.

On 13 August 2009, the Company further amended the Credit Facility. The material terms of the amendment are as follows:

- Repayment of principal outstanding in three equal instalments on 31 January 2011, 31 March 2011 and 1 June 2011.
- Complete the Block A post-salt prospect review on or before 15 October 2009 to the reasonable satisfaction of Macquarie.
- Complete the syndication of up to 50% of the Credit Facility on or before 30 September 2009 on the same terms as existing syndicate partners, without any obligation to increase the loan commitment beyond US\$80 million.

The amendments to the Credit Facility on 13 August 2009 are deemed to trigger a debt extinguishment and recognition of new debt under the requirements of IAS 39. Accordingly, all unamortised amounts previously capitalised to the Credit Facility as debt issuance costs, including costs recognised in relation to the Warrant Deed, will be expensed as of 13 August 2009. The Company estimates that an exceptional, non-cash charge of US\$90.5 million, including US\$81.7 million relating to the fair value of the additional warrants vesting on 12 August 2009, will be recognised in the Group's financial statements for the six month interim period ended 30 September 2009.

The fair value of the floating rate bank borrowings as at 31 March 2009 approximates to their gross carrying value of US\$48.6 million (2008: US\$23.5 million).

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

The Group and Company had the following undrawn borrowing facilities available from the Credit Facility as at 31 March 2009 and 2008, respectively:

	Group and Company	
	2009 US\$000	2008 US\$000
Floating rate:		
– Expiring within one year	1,354	–
– Expiring beyond one year	–	26,500
	1,354	26,500

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

Notes to the Financial Statements continued

For the year ended 31 March 2009

22. Borrowings continued

Debt issuance costs take the form of cash payments and warrants. Debt issuance costs related to the undrawn portion of the borrowing base, calculated on a pro-rata basis, are capitalised as prepayments, and subsequently offset against the liability as the Credit Facility is drawn down.

The debt issuance costs deducted from the liability are spread over the life of the Credit Facility as part of the finance cost, using the effective interest rate method. The overall finance cost on the Credit Facility for the year ended 31 March 2009 was calculated using an average effective interest rate of 26% (2008: 20%). A portion of this interest is capitalised as part of the related intangible exploration and appraisal expenditures.

The balance of prepaid debt issuance costs included in prepayments at 31 March 2009 was US\$0.3 million (note 18 and note 30) (2008: US\$4.6 million).

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

	Group and Company	
	Gross US\$000	Net US\$000
Balance at 1 April 2007	–	–
Drawdown of loan facility	23,500	23,500
Debt issuance costs	–	(888)
Fair value of warrants	–	(6,930)
Finance cost	–	1,422
Interest paid	–	(826)
Balance at 31 March 2008	23,500	16,278
Drawdown of loan facility	25,050	25,050
Fair value of warrants	–	(7,251)
Finance cost	–	7,116
Interest paid	–	(3,435)
Balance at 31 March 2009	48,550	37,758

Convertible bond

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

Restructuring of the convertible bonds

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

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

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

22. Borrowings continued

As of 12 May 2009, the fair value of the warrant exercisable into the first 30 million ordinary shares was US\$4.0 million which will be recorded as an exceptional, non-cash charge in the Group's interim financial statements in the period ended 30 September 2009. The value of future warrants vested as a result of elections to defer interest will be determined on the date of the interest deferral election by the Company.

The amendments to the Bonds on 12 May 2009 are deemed to trigger a debt extinguishment and recognition of new debt under the requirements of IAS 39. Accordingly, all unamortised amounts previously capitalised to the Bonds as debt issuance costs will be written off as an exceptional, non-cash charge of US\$7.4 million in the interim period ending 30 September 2009.

On 8 September 2009, the Company elected to convert its semi-annual interest payment to PIK, and accordingly, warrants over 30 million shares vested on 8 September 2009.

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

	Group and Company US\$000
Balance at 1 April 2007	62,253
Finance cost	7,000
Cash interest paid	(5,063)
Amortisation of debt issuance costs to interest expense	548
Balance at 31 March 2008	64,738
Finance cost	7,194
Cash interest paid and accrued	(5,063)
Amortisation of debt issuance costs to interest expense	548
Balance at 31 March 2009	67,417

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 2009 and 2008 is determined by reference to the published closing price quotation from the Channel Islands Stock Exchange on that date, as follows:

	Group and Company	
	2009	2008
	US\$000	US\$000
Fair value of convertible bond	18,750	59,250

Interest expense

During the year ended 31 March 2009, the Group incurred US\$14.9 million (2008: US\$9.1 million) in interest expense in respect of the Convertible Bond and the Credit Facility, of which US\$10.2 million (2008: US\$7.2 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 2009 and 2008.

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 Credit 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 and reserves. 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 Blocks A&E licence areas and the farmout or sale of its Astrakhanskiy licence area.

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

Notes to the Financial Statements continued

For the year ended 31 March 2009

24. Financial risk management continued

Financial instruments risk management

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

- Credit risk.
- Liquidity risk.
- 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.

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 several international customers for its export sales. The credit risk arising from domestic sales of crude oil in the Republic of Kazakhstan is low as the Group 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 recognised international banks with high credit ratings.

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	
	2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
Trade and other receivables (note 18)	5,172	16,838	148,308	164,247
Less: prepayments and other non-financial assets	(3,214)	(8,420)	(621)	(5,526)
Receivables classified as financial assets	1,958	8,418	147,687	158,721
Cash and cash equivalents (note 20)	3,036	3,847	1,116	1,324
	4,994	12,265	148,803	160,045

At 31 March 2009, the receivables classified as financial assets included US\$1.5 million of Kazakh VAT recoverable (2008: US\$3.5 million).

At 31 March 2008, the Group's most significant customer at that date, an international crude oil trader, accounted for US\$4.1 million of the receivables classified as financial assets.

24. Financial risk management continued

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 US\$75 million of convertible debt capital and entered into the Credit Facility, a US\$100 million revolving mezzanine credit facility with an US\$80 million borrowing base. The Group 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 interests in its Blocks A&E licence and the farmout or sale of the Astrakhanskiy licence.

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

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 date 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. Prepayments from customers and certain other amounts included in trade and other payables are not classified as financial liabilities, and have been excluded from the tables below.

	Group						Total contractual cash flows US\$000	Carrying value US\$000
	Less than 6 months US\$000	6-12 months US\$000	1-2 years US\$000	2-5 years US\$000	More than 5 years US\$000			
At 31 March 2009								
Convertible bond	2,531	2,531	5,063	77,531	–	87,656	67,417	
Bank borrowings	1,507	15,464	29,371	7,021	–	53,363	37,758	
Trade and other payables	6,896	219	–	–	–	7,115	7,115	
	10,934	18,214	34,434	84,552	–	148,134	112,290	
At 31 March 2008	US\$000	US\$000	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	
	Company						Total contractual cash flows US\$000	Carrying value US\$000
	Less than 6 months US\$000	6-12 months US\$000	1-2 years US\$000	2-5 years US\$000	More than 5 years US\$000			
At 31 March 2009								
Convertible bond	2,531	2,531	5,063	77,531	–	87,656	67,417	
Bank borrowings	1,507	15,464	29,371	7,021	–	53,363	37,758	
Trade and other payables	4,158	–	–	–	–	4,158	4,158	
	8,196	17,995	34,434	84,552	–	145,177	109,333	
At 31 March 2008	US\$000	US\$000	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	

Notes to the Financial Statements continued

For the year ended 31 March 2009

24. Financial risk management continued

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 2009			Group 2008		
	GBP	KZT	EUR	GBP	KZT	EUR
Trade and other receivables	282	8	–	923	4,178	–
Cash and cash equivalents	14	281	–	282	365	–
Trade and other payables	(443)	(2,312)	(16)	(991)	(8,983)	(337)
Net exposure	(147)	(2,023)	(16)	214	(4,440)	(337)

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 2009			Company 2008		
	GBP	KZT	EUR	GBP	KZT	EUR
Trade and other receivables	282	–	–	923	–	–
Cash and cash equivalents	14	–	–	282	–	–
Trade and other payables	(377)	–	(13)	(904)	–	(9)
Net exposure	(81)	–	(13)	301	–	(9)

24. Financial risk management continued

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10% 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% 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 2009			Group 2008		
	GBP	KZT	EUR	GBP	KZT	EUR
Profit or (loss)	15	202	2	(21)	444	34
Equity	–	–	–	–	–	–

Effect in US\$000	Company 2009			Company 2008		
	GBP	KZT	EUR	GBP	KZT	EUR
Profit or (loss)	8	–	1	(30)	–	1
Equity	–	–	–	–	–	–

A 10% weakening of the US dollar against the currencies above at 31 March 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	
	2009 US\$000	2008 US\$000
Fixed rate instruments		
Convertible bond	75,000	75,000
	75,000	75,000
Variable rate instruments		
Cash and cash equivalents	3,036	4,016
Bank borrowings	(48,550)	(23,500)
	(45,514)	(19,484)

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

	Company Carrying amount	
	2009 US\$000	2008 US\$000
Fixed rate instruments		
Convertible bond	75,000	75,000
	75,000	75,000
Variable rate instruments		
Cash and cash equivalents	1,116	1,324
Inter-company loans	29,700	19,300
Bank borrowings	(48,550)	(23,500)
	(17,734)	(2,876)

Notes to the Financial Statements continued

For the year ended 31 March 2009

24. Financial risk management continued

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 2009				
Variable rate instruments	(971)	971	–	–
At 31 March 2008				
Variable rate instruments	(444)	444	–	–

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 US\$000	Asset retirement provision US\$000	Other temporary differences US\$000	Losses carried forward US\$000	Total deferred tax asset/ (liability) US\$000	Allowance against deferred tax assets US\$000	Net deferred tax asset/ (liability) US\$000
At 1 April 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)	–
Charged/(credited) to the income statement	–	–	–	–	–	–	–
Movement in the year	(4,447)	(67)	(1,210)	4,860	(864)	864	–
Effect of change in tax rates	(603)	(394)	(169)	(1,207)	(2,373)	2,373	–
Currency translation differences	(307)	(201)	(86)	(614)	(1,208)	1,208	–
At 31 March 2009	(2,370)	421	290	15,562	13,903	(13,903)	–

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 2009, the Group had not recognised potential deferred tax assets of US\$13.9 million (2008: US\$18.3 million) as there was insufficient evidence of future taxable profits in the relevant Group companies. Losses of US\$0.5 million can be carried forward for up to 10 years, and the balance of losses of US\$15.0 million can be carried forward indefinitely.

There are no significant unrecognised temporary differences associated with undistributed profits of subsidiaries at 31 March 2009 and 2008, respectively.

25. Deferred income tax continued

	Company				
	Deferred tax assets/(liabilities)				
	Other temporary differences US\$000	Losses carried forward US\$000	Total deferred tax asset/ (liability) US\$000	Allowance against deferred tax assets US\$000	Net deferred tax asset/ (liability) US\$000
At 1 April 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)	–
Charged/(credited) to the income statement	–	–	–	–	–
Movement in the year	(1,339)	5,289	3,950	(3,950)	–
At 31 March 2009	(1)	14,784	14,783	(14,783)	–

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 2009, 2008, 2007 and 2006, respectively. The losses of the Company of US\$14.8 million can be carried forward indefinitely.

26. Provision for liabilities and other charges

	Group
	Provision for decommissioning costs US\$000
Balance at 1 April 2007	1,619
Changes in estimates	1,817
Settlements	(41)
Accretion of discount (note 7)	135
	3,530
Less: amounts reclassified as liabilities directly associated with assets held for sale (note 21)	(299)
Balance at 31 March 2008	3,231
Changes in estimates	(41)
Accretion of discount (note 7)	250
Balance at 31 March 2009	3,440

The decommissioning provision at 1 April 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 that 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 2009 was 8.1% (2008: 7.4%).

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

Notes to the Financial Statements continued

For the year ended 31 March 2009

27. Trade and other payables

	Group		Company	
	2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
Trade payables	2,606	9,430	520	1,076
Other payables	1,044	1,112	–	316
Social security and other taxes	1,132	1,838	407	248
Accruals and deferred income	5,794	2,247	3,232	712
	10,576	14,627	4,159	2,352
Less: amounts reclassified as liabilities directly associated with assets held for sale (note 21)	–	(260)	–	–
	10,576	14,367	4,159	2,352

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 ended 31 March 2009, the Company issued 37 million new ordinary shares solely pursuant to the Exchange Agreement, as more fully disclosed in note 21. These shares comprised part of the non-cash consideration for the purchase of the minority interest in Madiran in July 2008. During the year ended 31 March 2008, the Company issued 21,428,408 ordinary shares wholly in respect of exercise of share options for total proceeds of US\$32.1 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 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
Increase	–	–	37,000,000	–
At 31 March 2009	800,000,000	400,000,000	365,278,737	28,253,329

	Nominal value					
	Authorised share capital			Issued share capital		
	Ordinary shares of 0.01p each US\$000	Deferred shares of 14.99p each US\$000	Total all classes US\$000	Ordinary shares of 0.01p each US\$000	Deferred shares of 14.99p each US\$000	Total all classes US\$000
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
Increase	–	–	–	7	–	7
At 31 March 2009	157	104,318	104,475	66	7,864	7,930

The authorised share capital of the Company was increased from 800 million to 2,000 million ordinary shares of 0.01p each in an extraordinary general meeting of the Company on 12 May 2009.

29. Share premium

	Year ended 31 March 2009 US\$000	Year ended 31 March 2008 US\$000
At 1 April	228,753	196,636
Premium on shares issued during the year	30,738	32,117
At 31 March	259,491	228,753

30. Other reserves

	Group				Total other reserves US\$000
	Reserve arising on purchase of minority interest US\$000	Convertible bond equity reserve US\$000	Share based payments reserve US\$000	Warrant reserve US\$000	
At 1 April 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
Transactions with minority shareholders	(72,495)	–	–	–	(72,495)
Share based payments	–	–	4,485	–	4,485
Warrants issued	–	–	–	2,970	2,970
At 31 March 2009	(72,495)	10,807	56,936	14,502	9,750

	Company				Total other reserves US\$000
	Convertible bond equity reserve US\$000	Share based payments reserve US\$000	Warrant reserve US\$000		
At 1 April 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
Share based payments	–	4,485	–	–	4,485
Warrants issued	–	–	2,970	–	2,970
At 31 March 2009	10,807	56,936	14,502	–	82,245

As more fully disclosed in note 21, the Company acquired the minority interest in Madiran in July 2008. The excess of US\$72.5 million of the cost over the book value of the minority interest acquired has been debited directly to other reserves.

Warrants

As more fully disclosed in note 22, it was a condition of the Amendment that the Company also execute the Warrant Deed, replacing a five-year warrant previously issued to Macquarie on 6 March 2008 that granted Macquarie the right to acquire 5,000,000 ordinary shares at 160.6p and 15,000,000 ordinary shares at 75p.

Subject to the provisions of the Warrant Deed, including vesting criteria linked to the level of the available borrowing base under the Credit Facility, Macquarie is entitled to subscribe for up to 547,918,106 new ordinary shares of the Company, subject to certain terms and conditions. If Macquarie's rights fully vested and were fully exercised, Macquarie could subscribe for an aggregate number of ordinary shares representing 60% of the issued ordinary share capital of the Company on a fully-diluted basis.

On closing the Amendment on 23 February 2009, Macquarie was entitled to subscribe for up to 121,759,579 ordinary shares at 4.54p per ordinary share as a result of amounts already drawn down under the Credit Facility (these ordinary shares form part of the 547,918,106 referred to above). This right was subject to shareholder approval of the Warrant Deed which was received on 12 May 2009.

The Warrant Deed entitles Macquarie, when the loan commitment amount reaches or exceeds the amounts set out in the table below, an entitlement to subscribe for and purchase additional new ordinary shares up to an aggregate of 547,918,106 (subject to certain anti-dilution rights) new ordinary shares in the Company, inclusive of the 121,759,579 already referred to above. Macquarie's right to subscribe for the remaining ordinary shares pursuant to the Warrant Deed shall vest when and if the Company obtains additional future increases in the available borrowing base under the Credit Facility.

Notes to the Financial Statements continued

For the year ended 31 March 2009

30. Other reserves continued

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

Available borrowing base under the Credit Facility	Number of additional ordinary shares available for subscription pursuant to the Warrant Deed	Exercise price per ordinary share
US\$55,000,000	74,928,972	4.54p
US\$60,000,000	46,830,607	4.54p
US\$65,000,000	55,345,263	5.22p
US\$75,000,000	66,414,316	5.67p
US\$85,000,000	182,639,369	6.13p

On 12 August 2009, the amount of the borrowing base commitment under the Credit Facility was increased from US\$50 million to US\$80 million. Accordingly, Macquarie's entitlement to subscribe to a further 243,519,158 additional shares under the Warrant Deed vested on that date, bringing the total vested warrants under the Warrant Deed to an aggregate of 365,278,737 ordinary shares of the Company with exercise prices between 4.54p and 5.67p.

Furthermore, on 12 August 2009, Macquarie syndicated a portion of the Credit Facility to various third party investors. In conjunction with the syndication, Macquarie assigned its vested rights to subscribe for 42,534,841 ordinary shares under the Warrant Deed to various third-party investors.

The warrant table below sets out the warrants outstanding at 31 March 2009 and 2008:

	2009			2008		
	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	20,000,000	96	–	–	–	–
Cancelled on substitution of warrant	(20,000,000)	96	–	20,000,000	96	–
Grant of substitution warrant	547,918,106	5.3	–	–	–	–
Exercised	–	–	–	–	–	–
Outstanding at end of year	547,918,106	5.3	–	20,000,000	96	–

Out of the outstanding warrants at 31 March 2009, none were exercisable (2008: 20,000,000 were exercisable).

Exercise and expiry date

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

Anti-dilution provisions

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

30. Other reserves continued

Warrant fair values

At 31 March 2008, the fair value of Macquarie's rights to subscribe for 20,000,000 ordinary shares, granted in relation to the US\$50 million borrowing base, was US\$11.5 million.

On 23 February 2009, Macquarie's right to subscribe for 121,759,579 ordinary shares granted under the Warrant Deed in relation to the US\$50 million borrowing base, which replaced the original warrant for 20,000,000 ordinary shares, has been treated as a modification of the original warrant. The fair value of the modification amounts to US\$3.0 million using the Black-Scholes valuation model. Accordingly, the fair value of Macquarie's right to subscribe for 121,759,579 ordinary shares granted under the Warrant Deed, in relation to the US\$50 million borrowing base, amounted to an aggregate of US\$14.5 million at 31 March 2009.

These amounts have been recognised in equity (note 30) at 31 March 2009 and 2008, respectively. On recognition, the offsetting debit was initially booked to prepaid debt issuance costs and subsequently deducted from the Credit Facility liability, pro-rata with loan drawdowns against the US\$50 million borrowing base. At 31 March 2009, US\$14.2 million of the aggregate US\$14.5 million warrant cost had been allocated to debt issuance costs and deducted from the loan liability (2008: US\$6.9 million), with a residual balance of US\$0.3 million (2008: US\$4.6 million) remaining in prepayments as prepaid debt issuance costs (note 18).

The table below represents the assumptions used in determining the fair value of the warrants, as follows:

	2009	2008
Exercise price of warrant	4.54p	75p-161p
Share price on date of grant	4.75p	70p-185p
Expected term before warrant exercise	2.5 years	2.5 years
Risk free interest rate	2.2%	4.0%-5.7%
Expected dividend yield	–	–
Expected share volatility	52.5%	38%

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.

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. The Company operates on a wholly equity-settled principle.

During the year, 500,000 of share options granted in the prior year, which were subject to non-market performance conditions related to certain operational metrics, were cancelled.

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, with the majority fully vesting after three years from the 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 10 years and in the normal course of granting, seven years.

Notes to the Financial Statements continued

For the year ended 31 March 2009

31. Share based payments continued

The share option table below sets out the options granted, exercised and outstanding at 31 March 2009 and 2008.

	2009			2008		
	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	90,586,703	89.9	–	108,252,313	84.9	–
Granted	9,189,900	4.75	–	12,276,100	86.9	–
Forfeited or cancelled	(5,087,925)	75.5	–	(8,513,302)	64.0	–
Expired	(40,890,000)	95.4	–	–	–	–
Exercised	–	–	–	(21,428,408)	74.2	170.7
Outstanding at end of year	53,798,678	17.8	–	90,586,703	89.9	–

Of the outstanding options at the end of the year, 35,329,596 options (2008: 62,445,262) were exercisable at that date with a weighted average exercise price of 25.3p.

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 and 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:

	2009 Weighted average	2008 Weighted average
Exercise price of option contract	4.75p	86.9p
Share price on date of grant	4.75p	93.6p
Expected term before option exercise	4.0 years	4.0 years
Risk free interest rate	2.2%	5.7%
Expected dividend yield	–	–
Expected share volatility	52.5%	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 2p (US\$0.03) (2008: US\$0.86). The Group has recorded a charge to administration expenses in its consolidated income statement for the value of services of US\$3.8 million (2008: US\$4.6 million), net of amounts capitalised and adjustments for unvested options cancelled or forfeited during the year; and capitalised US\$0.7 million (2008: US\$1.2 million) to exploration and appraisal expenditure. The share based payment reserve is stated as US\$56.9 million (2008: US\$52.5 million).

The following table summarises the range of exercise prices, weighted average exercise prices and the average remaining life, analysed into the main groups of recipients, as follows:

	2009				2008			
	Exercise price range (pence)	Number of share options	Weighted average exercise price (pence)	Average remaining contractual life (years)	Exercise price range (pence)	Number of share options	Weighted average exercise price (pence)	Average remaining contractual life (years)
Directors ¹	4.75-120.5	26,103,402	11.0	5.6	35.0-185.0	27,470,067	73.0	6.8
Employees	4.75-201.75	17,307,607	22.7	5.3	25.0-450.0	12,328,967	132.6	6.3
Advisory committee	4.75	4,500,000	4.75	3.8	35.0-100.0	4,500,000	78.3	4.8
Other advisors and consultants	4.75-120.5	5,887,669	43.4	6.6	35.0-120.25	8,287,669	42.8	5.1
Acquisition vendors	–	–	–	–	100.0	38,000,000	100.0	0.8
		53,798,678	17.8	5.5		90,586,703	89.9	4.0

¹ The directors' share options at 31 March 2009 include 2,322,131 options held by past directors of the Company.

31. Share based payments continued

The average closing market price of the Company's ordinary 0.01p shares during the year was 29p (2008: 120p).

Effective 23 February 2009, the Company modified the exercise price of all share options to 4.75p for all serving employees and directors of record of the Company on that date. The incremental fair value granted was determined using the Black-Scholes model and resulted in an increase in fair value of US\$1.0 million, of which US\$0.8 million was recognised in share based payment expense in the year ended 31 March 2009.

Effective 23 February 2009, the Company created the Executive Share Option Plan 2009 ('ESOP'). Options granted under the ESOP normally vest in part, proportionately over three years from the first anniversary of the date of grant, and remain valid for a term of seven years. Grants made under the ESOP during the year ended 31 March 2009 are included in the tables above. There were no other modifications of any share option arrangements during the year ended 31 March 2009.

The Company did not modify or vary any share option arrangements during the year ended 31 March 2008.

32. Cash generated from operations

	Group		Company	
	2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
Loss for the year:	(9,862)	(36,984)	(35,893)	(39,877)
Adjustments for:				
– Depreciation, depletion and amortisation (note 10)	10,404	5,383	136	130
– Loss on disposal of fixed assets (note 9)	95	12	–	12
– Share-based payment charge (note 9)	3,816	4,605	16,033	2,713
– Exploration and appraisal expenditure written-off	532	15,881	–	–
– Impairment of assets held for sale (note 21)	–	5,200	–	18,200
– Gain on disposal of subsidiary	(60)	–	(172)	–
– Foreign exchange loss on cash and cash equivalents	113	41	–	–
– Finance income (note 6)	(24)	(811)	(1,251)	(1,451)
– Finance costs (note 7)	4,921	1,954	14,858	8,970
Changes in working capital				
– Inventories	(1,878)	(5,127)	–	–
– Trade and other receivables	6,775	1,342	(12,172)	(64,576)
– Trade and other payables	(729)	1,423	(730)	864
Cash generated from operations	14,103	(7,081)	(19,191)	(75,015)

Summary of non-cash items

	Group		Company	
	2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
Operating cash flow				
Share based payments charge – valuation of options granted for services	3,816	4,605	16,033	2,713
Other	–	–	–	56
	3,816	4,605	16,033	2,769
Capital expenditure and financial investment				
Share based payments capitalised to oil and gas properties	668	1,244	–	–
Non-cash interest expense capitalised to oil and gas properties	6,106	2,440	–	–
Depreciation, depletion and amortisation	10,404	5,383	136	130
Exploration and appraisal expenditure written-off	532	15,881	–	–
Provision for decommissioning costs	(41)	1,776	–	–
	17,669	26,724	136	130
Financing activities				
Non-cash issuance of ordinary shares (note 21)	30,745	–	30,745	–

Notes to the Financial Statements continued

For the year ended 31 March 2009

33. Related party disclosures

The Company has no ultimate controlling party.

Mr Garifolla Kachshapov

Mr Kachshapov is the ultimate beneficial owner of Horizon, Oriental, and Samek LLP. He also controls 14 million shares in the Company held by two companies, Incomeborts Ltd and Norgulf Holdings Ltd.

In July 2008, the Company closed the Exchange Agreement with Horizon and Oriental, as more fully disclosed in note 21, under which the Company acquired Horizon's 20% interest in Madiran in exchange for Oriental receiving the Group's 80% interest in Sherpico and 37 million new ordinary shares of the Company.

During the year ended 31 March 2009, Mr Kachshapov was employed by Samek International LLP ('SI') in Kazakhstan. Under the terms of his service agreement with SI, Mr Kachshapov received US\$205,000 in respect of salary and expenses. Mr Kachshapov resigned as a manager of SI effective 31 August 2008.

During the year, Mr Kachshapov was general director of Samek Development Enterprise LLP ('SDE') and received US\$47,000 under his service agreement with SDE, in respect of salary and expenses, in the period to July 2008. The Company sold SDE in conjunction with the Exchange Agreement in July 2008 (note 21).

Furthermore, Mr Kachshapov, the ultimate beneficial owner of Horizon and Oriental, currently has an indirect interest in 50 million, or 13.3%, 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 ('Manty'). In 2007, following the Company's internal investigation, it became evident that 5 million share options issued to Manty were received by the Group's Kazakhstan partner, of which he allocated 3.05 million to other parties and retained 1.95 million for himself. All of the related party beneficial owners of Astrakhanskiy Options agreed not to exercise them prior to their expiration. The Astrakhanskiy Options expired on 12 January 2009.

Samek LLP

During the year ended 31 March 2009, Samek LLP recharged costs incurred on behalf of the Group of US\$124,000 (2008: US\$263,000).

At 31 March 2009, there were no amounts receivable or payable to Samek LLP (2008: amount due to Samek LLP of US\$189,000).

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 2009 totalled US\$141.2 million, of which US\$29.7 million was interest bearing (2008: US\$154.1 million and US\$19.3 million, respectively).

Accounts receivable from subsidiary undertakings to the Company at 31 March 2009 totalled US\$6.0 million (2008: US\$4.5 million).

During the year, the Company invoiced rechargeable costs with mark-up to subsidiaries of US\$3.4 million (2008: US\$6.1 million) and received interest of US\$1.2 million (2008: US\$0.6 million) from subsidiaries on group loans.

34. Operating lease commitments

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

	Group		Company	
	2009 US\$000	2008 US\$000	2009 US\$000	2008 US\$000
Within 1 year	540	758	196	385
Within 2-5 years	871	601	258	601
After 5 years	—	—	—	—

35. Capital commitments and contingencies

The Group is committed under its subsoil licences to certain future expenditures including minimum work programmes, social infrastructure contributions and reimbursement of historic costs incurred by the 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 2009 totalled US\$111.2 million (2008: US\$75.9 million). The total commitment at 31 March 2009 is mainly comprised of minimum work programmes on the Group's licences in Kazakhstan of US\$75.5 million, and historical costs of US\$31.8 million related to the Group's hydrocarbon contracts, which will become repayable from the date when a commercial hydrocarbon discovery is announced. The repayment plan for the historical costs on commercial discovery will be subject to negotiation with the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan.

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

36. Post balance sheet events

Credit Facility

Subsequent to 31 March 2009, the Company has borrowed a further US\$7.1 million under the Credit Facility (note 22) resulting in a total loan balance of US\$55.7 million as of the date of this report.

On 12 May 2009, the Company's shareholders approved the Amendment to the Credit Facility and the Warrant Deed in a general meeting of the Company, as more fully described in note 22.

As described more fully in note 22, in August 2009:

- The amount of borrowing base under the Credit Facility was increased from US\$50 million to US\$80 million.
- As a result of the increase in borrowing base, the right to subscribe for a further 243,519,158 new ordinary shares of the Company under the Warrant Deed vested.
- Various terms of the Credit Facility were amended.

Convertible Bonds

As more fully described in note 22:

- On 12 May 2009, the Bondholders approved the restructuring of the Bonds.
- On 8 September 2009, 30 million warrants vested automatically pursuant to the restructuring of the Bonds on 12 May 2009.
- On 8 September 2009, the Company elected to convert its semi-annual interest payment to PIK, and accordingly, warrants over a further 30 million shares vested on that date.

Increase in authorised share capital

On 12 May 2009, the authorised share capital of the Company was increased from 800 million to 2,000 million ordinary shares of 0.01p each in a general meeting of the Company (note 28).

Increase in issued share capital

On 21 August 2009, pursuant to a warrant deed to subscribe for ordinary shares of the Company dated 12 August 2009 assigned by Macquarie to a syndicate partner, the Company issued 10,194,935 ordinary shares resulting from the cashless exercise of the right to subscribe for 12,500,000 ordinary shares at an exercise price of 4.538p per ordinary share. Following this allotment of shares, the Company's issued ordinary share capital was 375,473,672 ordinary shares.

Supplemental Disclosure – Oil and Gas Reserves and Resources (unaudited)

At 31 March 2009

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 2009. 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
At 1 April 2008	9,110	–	9,110
Revisions of previous estimates	(2,548)	–	(2,548)
Discoveries and extensions	–	–	–
Acquisitions	–	–	–
Divestitures	–	–	–
Production	(777)	–	(777)
Balance at 31 March 2009	5,785	–	5,785

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

The decline in the reserve numbers from the prior year are due to a combination of various factors, including lower crude oil prices, impact of Kazakhstan's new 2009 Tax Code (see note 8), and higher production decline rates based on historical well performance.

Glossary/Technical Terms

The following expressions contained in this document have the following meanings unless the context otherwise requires or unless it is otherwise provided:

2D seismic

seismic recorded in two dimensions

3D seismic

seismology that uses a grid of numerous cables, rather than just a few lines stretched in one direction

barrel

a unit of volume measurement used for petroleum and its products (7.3 barrels = 1 ton; 6.29 barrels = 1 cubic metre)

block

term commonly used to describe contract area or tract, as in 'block of land'

boe

barrels of oil equivalent

bopd

barrels of oil production per day

condensate

hydrocarbons which are in the gaseous state under reservoir conditions and which become liquid when temperature or pressure is reduced. A mixture of pentanes and higher hydrocarbons

crude oil

liquid petroleum as it comes out of the ground, as distinguished from refined oils manufactured out of it

discovery

an exploration well which has encountered hydrocarbons

exploration

activities associated with ascertaining the existence, location, extent or quality of mineralised material, including economic and technical evaluations of mineralised material

exploration drilling

drilling carried out to determine whether hydrocarbons are present in a particular area or structure

exploration well

a well in an unproven area or prospect, may also be known as a 'wildcat well'

field

a geographical area under which an oil or gas reservoir lies

G&G

geological and geophysical

gas field

a field containing natural gas but no oil

geophysical

prospecting techniques which measure the physical properties (magnetism, conductivity, density, etc) of rocks and define anomalies for further testing and the measurement of the earth's physical properties to explore and delineate hydrocarbons, including electrical, seismic, gravity, magnetics, but not including drilling

hydrocarbon

a compound containing only the elements hydrogen and carbon. May exist as a solid, a liquid or a gas. The term is mainly used in a catch-all sense for oil, gas and condensate

licence

an exclusive right to search and bore for and get petroleum, usually granted by a national governing body

mean

the mean is also known as the expectation or expected value. It is the average over the entire probability range, weighted with the probability of occurrence

mm

millions

natural gas

gas, occurring naturally, and often found in association with crude petroleum

oil

a mixture of liquid hydrocarbons of different molecular weights

oil field

a geographic area under which one or more oil reservoirs lie

operator

the company which has legal authority to drill wells and undertake production of hydrocarbons. The operator is often part of a consortium and acts on behalf of this consortium

Glossary/Technical Terms continued

petroleum

a generic name for hydrocarbons, including crude oil, natural gas liquids, natural gas and their products

Pre-Caspian Basin

the sedimentary basin at the North end of the Caspian extending from Astrakhan in Russia to Aktubinsk in West Kazakhstan. Sometimes called Pri-Caspian or Peri-Caspian

probable reserves

probable reserves are those unproved reserves which analysis of geological and engineering data suggest are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves

prospect

a defined geological or geophysical feature or anomaly that has been surveyed and defined, usually by seismic data, to a degree that its configuration is fairly well established and that is considered potentially to have a hydrocarbon accumulation

prospective resources

prospective resources are those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations

proved reserves

proved reserves are those quantities of petroleum, which by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate

reserves

generally the amount of economically recoverable oil or gas in a particular reservoir that is available for production

reservoir

the underground formation where oil and gas has accumulated consisting of a porous and permeable rock to hold the oil or gas, and a cap rock that prevents its escape

risk

risk is defined as the probability of loss or failure. In the oil and gas industry, risk is commonly applied to the estimation of prospective (undiscovered) resources to account for the possibility that the outcome of drilling a well may not be successful. Risk is defined through the term geological chance of success which considers the geological factors that will result in the formation of a hydrocarbon reservoir with sufficient quality to allow for sustained flow rates of oil or gas

risked resources

risked prospective resource volumes are commonly categorised as Risked Mean Resources and are calculated by multiplying the unrisked mean resources by the geological chance of success to account for the risk of drilling an unsuccessful exploration well

salt dome

a thickening, up-welling, or doming of ductile salt after burial caused by variation in density and overburden pressure

seismic

recording of sound waves

sub-salt

lying below the Permian Salt (in the case of the Pre-Caspian Basin), including the Carboniferous and Devonian rocks

super-giant

super-giant fields have ultimately recoverable reserves greater than 5 billion boe as, usually, giant fields have ultimately recoverable reserves greater than 500 million boe

supra-salt

lying above the Permian salt (in the case of the Pre-Caspian Basin), including the Triassic, Jurassic and Cretaceous rocks

TD

total depth of a well, when drilling has finished

unrisked resources

unrisked prospective resource volumes are commonly categorised as Unrisked P90, P50, P10 or Mean Resources and are estimated before multiplying by the geological chance of success which assumes that the drilling of an exploration well is successful

well log data

measurements of the physical properties in the borehole

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Broker

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20 Moorgate
London
EC2R 6DA

Nominated Advisor

W H Ireland
24 Martin Lane
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Corporate Communications/PR

Merlin Financial Communications Ltd
128 Queen Victoria Street
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Registrars

Capita Registrars
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