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MAX PETROLEUM PLC ANNUAL REPORT & ACCOUNTS 2012

Company Number 05419021

Max Petroleum transformed from a single to a multiple, six field producer in less than one year, with four of the fields on variable test production at year-end. Full year production exceeded one million barrels for the first time in the Group's history.

Contents

01 Highlights	37 Corporate Governance Report
03 Joint Chairmen's Statement	39 Independent Auditors' Report
04 Company Overview	40 Financial Statements
06 Business Review	46 Notes to the Financial Statements
16 Key Performance Indicators	84 Supplemental Disclosure – Oil and Gas Reserves and Resources (unaudited)
18 Financial Review	85 Glossary
24 Corporate and Social Responsibility	88 Corporate Directory
26 Board of Directors	
28 Directors' Report	
33 Directors' Remuneration Report	

HIGHLIGHTS

19

Post-salt wells drilled

- 2P reserves² of 10.6 mmbo, a 36% increase on 2011, but a decrease of 20% from 13.3 mmbo at the half year primarily due to the results of the SAGW-2 well and the greater complexity of the Sagiz West Field
- Contingent resources in-place² of 107.0 mmbo, compared to none in 2011, and an increase of 74% from 61.3 mmbo at the half year
- Spudded NUR-1 in November 2011, drilling to approximately 5,700 metres where the drill pipe became stuck due to anomalously high pressures encountered in the Kungurian salt beyond the scope of the original well design
- Temporarily suspended drilling at NUR-1 and released the rig in July 2012, pending additional capital and regulatory approvals to complete the well
- Since 31 March 2011, drilled 19 post-salt wells, including five exploration wells generating two commercial discoveries at East Kyzylzhar I and Sagiz West, and 13 out of 14 successful appraisal and development wells across six fields

33%

Daily production increase

- As at August 2012, the remaining post-salt exploration portfolio consists of seven Triassic Rim prospects with unrisked mean resource potential of 67 mmbo
- Since year-end, entered into a US\$7 million equity for services agreement with Zhanros Drilling LLP to drill up to four post-salt exploration wells
- Received approval for Full Field Development at the Zhana Makat Field, which provided the Group with the right to export up to 80% of the field's production from April 2012
- Since year-end, daily production has averaged approximately 3,900 bopd generating around US\$8.0 million in pre-tax revenue per month

		2012	2011	% Change
Total sales volumes	Bbls	1,004,000	760,000	+ 32%
Revenue	US\$ million	50.2	55.3	(9)%
Average realised selling price	US\$ per bbl	50.04	72.78	(31)%
Cash generated from operations	US\$ million	28.3	16.7	+ 70%
Loss for the year	US\$ million	8.2	18.2	(55)%
EBITDA ¹	US\$ million	20.3	18.0	+ 13%
Average daily production	bopd	2,807	2,118	+ 33%
2P reserves ²	mmbo	10.6	7.8	+ 36%
3P reserves ²	mmbo	14.6	8.5	+ 72%
Contingent resources in-place ²	mmbo	107.0	—	n/a

¹ EBITDA is defined as operating profit/(loss) before depreciation, depletion and amortisation, share based payment expense, exploration and appraisal costs, and impairment losses. EBITDA is a non-IFRS performance measure with no standard meaning under IFRS, and is reconciled to the income statement in note 38 to the accompanying financial statements

² As estimated by Ryder Scott Company, the Group's competent person

JOINT CHAIRMEN'S STATEMENT

Dear Shareholder,

Since we began our renewed exploration programme in 2010, Max Petroleum has changed a great deal, evolving from having a single producing field and highly prospective acreage to having multiple fields in production and a post-salt exploration programme focused on a Triassic Rim play type that has only recently been identified

The last year has been one of achievement mixed with disappointment. We drilled 17 shallow post-salt wells and began NUR-1, a deep, pre-salt well of strategic significance for our Company and for the Republic of Kazakhstan. We made two discoveries, including the important Sagız West Field, and approximately doubled our daily rate of production over the year. However, we ran into severe problems with NUR-1 at Emba B, as we attempted to penetrate the salt layer at approximately 5,700 metres, leading us to suspend drilling the well in July. Total costs associated with NUR-1 of approximately US\$39 million, as well as a combination of other circumstances have created a significant financial challenge for the Company that we are working through currently.

Those circumstances began about a year ago with a US\$14 million negative cash impact caused by the outcome of a Kazakh tax case, the loss of export oil sales due to a change in Kazakh policy, and continued with severe weather conditions that curtailed our production in early 2012. Furthermore, NUR-1 costs were greater than expected and we do not anticipate receiving any further advances from our principal lender above our current borrowings. Meanwhile, the current Kazakh regulatory environment has negatively impacted our ability to raise additional equity capital.

Faced with these challenges and an exploration period expiring in March 2013, we have been working diligently to raise needed funds, and were pleased to be able to announce an agreement with Zhanros Drilling under which we have been able to recommence our shallow drilling campaign.

We remain actively engaged with initiatives to raise additional capital on a more comprehensive basis. Our top priorities are to raise the funds necessary to complete our shallow exploration programme prior to March 2013 and to refinance, in whole or in part, our senior debt, while we continue to seek funding and an extension necessary to finish drilling NUR-1 to its target depth of 7,250 metres.

We are focused on reducing costs to reflect our impending transition from an exploration to a production oriented company, as well as our financial circumstances. At the same time, we are sensitive to the need to retain and incentivise our work force and to achieve a significant recovery of shareholder value.

As always, we remain deeply appreciative of your patience and support.

Robert B Holland III
Executive Co-Chairman

James A Jeffs
Executive Co-Chairman

COMPANY OVERVIEW

We have six commercial discoveries to date with rapidly growing reserves, production and cash flow.

Exploration period of the Blocks A&E Licence expires March 2013, with a production period of up to 25 years thereafter for each discovery.

Blocks A&E

12,455 *km²*

Two onshore blocks covering

5,000 *km²*

Acquired and interpreted over, in regional,
3D seismic data

Post-salt

- 2P reserves of 10.6 mmbo and 3P reserves of 14.6 mmbo at 31 March 2012
- Contingent resources in-place of 107 mmbo at the Sagiz West and Uytas fields at 31 March 2012
- First discovery at Zhana Makat in September 2006
- Drilled 14 exploration wells in post-salt drilling campaign since January 2010, generating five discoveries at the Borkyldakty, Uytas, Asanketken, East Kyzylzhar I and Sagiz West fields
- The number of fields on production increased from one in March 2011 to six in March 2012
- Cumulative production across all fields of 3.8 mmbo and cumulative revenue of US\$217 million through 31 March 2012
- Production for the year ended 31 March 2013 is expected to average between 3,200 and 4,000 bopd, depending upon the variability of wells on Test Production and the timing of applicable regulatory approvals
- Post-salt portfolio of seven prospects with unsked mean resources of 67 mmbo to be drilled prior to March 2013, subject to financing

Pre-salt

- Spudded the Group's first deep, pre-salt well, NUR-1, on the Emba B prospect in Block E in November 2011, targeting unsked mean resource potential of 467 mmboe with a 29% geological chance of success
 - Drilled to approximately 5,700 metres where the drill pipe became stuck in the Kungurian Salt, due to encountering anomalously high pressures beyond the scope of the original well design
 - Temporarily suspended drilling and released the rig in July 2012, pending additional capital to complete the well
 - Initiated discussions with the relevant Kazakh Government authorities to seek regulatory approval to allow completion of the drilling of NUR-1 beyond the existing deadline of 4 March 2013

During the fiscal year ended 31 March 2012, Max Petroleum had success with its shallow exploration and appraisal programme and commenced the 7,250 metre NUR-1 well, its first deep, pre-salt exploration well designed to evaluate the Emba B prospect on its Blocks A&E licence area (the "Licence")

The Group's shallow drilling campaign added two post-salt discoveries out of five exploration wells and significantly expanded reserves, production, and cash flow from operations from its post-salt fields. Max Petroleum transformed from a single to a multiple, six field producer in less than one year, with four of the fields on variable test production at year-end. Production doubled during the year from approximately 2,000 bopd at the start of the year to approximately 4,000 bopd at year-end and full year production exceeded one million barrels for the first time in the Group's history. Since year-end, Group production has averaged approximately 3,900 bopd.

Applying knowledge gained from its 14 post-salt exploration wells drilled since January 2010 and 3D seismic data acquired over Western Block E, the Group has graded a portfolio of seven additional Triassic Rim prospects that it intends to evaluate, subject to financing, prior to the expiration of its exploration licence in March 2013. The seven prospects will target 67 mmbo of unrisks mean resource potential (24 mmbo risks) for a total cost of approximately US\$12 million.

The Group experienced setbacks in its pre-salt exploration programme, however, as drilling of the NUR-1 well ran behind schedule, encountered mechanical problems due to anomalously high pressures while drilling through the salt section at approximately 5,700 metres, and was temporarily suspended in July 2012 pending the Group obtaining additional financing to complete the well. Max Petroleum has initiated discussions to seek regulatory approval to allow time to complete the drilling of NUR-1 beyond the end of the exploration period of the Licence, and possibly evaluate further pre-salt prospects if NUR-1 is successful.

The Group is seeking additional sources of debt or equity capital to finance the completion of its post-salt exploration programme and underpin future appraisal and development drilling activities. The Group is in discussions with its senior lender, Macquarie Bank Limited ("Macquarie"), and a number of other sources of debt and equity financing, to allow the completion of its exploration programme and to refinance, partially or fully, its senior credit facility with Macquarie and extend the maturities of its senior and convertible debt, both of which mature in 2013. The Group's recent efforts to raise equity financing have been impacted by market conditions, as well as recent regulatory changes in Kazakhstan that currently prevent the Group from completing a conventional equity offering. While it is expected these regulatory restrictions will be alleviated at some point in the near future, the timing is uncertain and the Group is looking at alternative means of

raising capital in the short term. Ongoing negotiations have been constructive and the Board is hopeful it will be able to resolve the Group's current financial situation in the near future given the solid foundation of production and cash flow provided by its post-salt discoveries to date.

Our strategy

Max Petroleum's strategy is substantially to increase reserves, production and cash flow from its existing and future shallow, post-salt discoveries in its Blocks A&E licence area, while continuing to pursue the higher impact exploration potential of its pre-salt portfolio. The Group's Licence is located in the Pre-Caspian Basin in Western Kazakhstan, offering a unique combination of high quality exploration opportunities in both the post and pre-salt with significant existing transportation and production infrastructure. The Group has approximately 40% of its acreage covered with regional 3D seismic data, which was used to develop its existing prospect inventory.

As the Group proceeds to the end of the exploration period of the Licence in March 2013, the Board and management's principal focus is to complete the post-salt exploration programme, with an expectation of generating two to three additional discoveries, and retain the optionality to complete the NUR-1 well and evaluate the Emba B prospect at a future date. Additionally, the Group is working hard to ensure that its existing shallow discoveries transfer smoothly into the Licence's 25-year appraisal and production period. Raising additional capital and restructuring the Group's balance sheet are key parts of the equation to unlock shareholder value, and will be an ongoing focus of the Group as it works through the remainder of fiscal year 2013.

Operations review

Post-salt drilling programme

Since January 2010, the Group has drilled five discoveries out of 14 exploration wells, a success rate of 36%. To date, the Group has made six post-salt discoveries including the Zhana Makat, Borkyldakty, Uytas, Asanketken, East Kyzylzhar I, and Sagiz West fields, all of which are in various stages of testing, appraisal, or development.

During the year ended 31 March 2012, the Group drilled a total of 17 wells, including five exploration wells that led to two discoveries and 12 appraisal and development wells, of which 11 were successful. Subsequent to 31 March 2012, Max Petroleum has drilled two shallow appraisal wells, ASK-J1 and ASK-J2, in the Asanketken Field. Both wells are currently on test production.

During the remainder of fiscal year 2013, the Group intends to drill its remaining post-salt exploration portfolio of seven prospects, and up to four appraisal and development wells at Sagiz West and Zhana Makat.

BUSINESS REVIEW CONTINUED

The Group's remaining post-salt exploration prospects are as follows

Prospect name	Description	Well depth (m)	CoS (%)	P10 (mmbo)	Pmean (mmbo)	P90 (mmbo)
Baichonas West ¹	4-way closure	1,400	46	20	10	3
Besbolek North-East	4-way closure	1,800	38	20	10	2
Dossor North-West	4-way closure	1,400	35	13	7	2
Eskene North	4-way closure	1,400	31	18	9	2
Tolegen West	4-way closure	1,600	26	15	8	2
Uytas North	4-way closure	900	38	22	11	2
Karasaı South	4-way closure	1,600	34	25	12	2
Sum of Mean Potential Resource (mmbo)					67	

¹ Includes multi zone Jurassic target and single zone Triassic target

In August 2012, the Group entered into a US\$7 million equity for services agreement with its shallow drilling contractor, Zhanros Drilling LLP ("Zhanros"), to drill up to four post-salt wells in exchange for up to 90,322,581 ordinary shares at a price of 5p per share. The Zhanros agreement allows the Group to proceed with its shallow drilling programme at a critical time while the Group works through a broader capital restructuring.

The Group currently has one rig under contract with Zhanros that is drilling the BCHW-1 well on the Baichonas West Prospect and has awarded tenders for two additional Zhanros rigs, which can be used to complete the shallow exploration programme subject to the Group obtaining the requisite financing to drill the wells. The Group expects to generate two to three additional shallow discoveries out of its remaining post-salt prospect inventory, assuming it is able to drill the entire portfolio.

Production

During the fiscal year ended 31 March 2012, the Group produced 1,027,000 bbls, or 2,807 bopd, an increase of approximately 33% from total production of 773,000 bbls, or 2,118 bopd, in the prior year. The Zhana Makat Field continued to perform well, averaging 2,344 bopd during the year. Additionally, production commenced at five new fields, at various times throughout the year.

Kazakh regulations require each field to progress through incremental regulatory stages of appraisal and development, including the testing and appraisal phase ("Test Production"), trial production ("TPP") and then full field development ("FFD"). Test Production may last between one and three years depending upon the complexity of the field, during which time the Group may produce each zone in a well for up to 90 days in order to gather information necessary to move onto TPP. TPP typically lasts two to three years, during which time the field may be fully appraised and wells can be produced continuously. The Group may only sell its production domestically during Test Production and TPP. Once the Group has enough information to prepare state reserves and a long-term full field development plan, it may apply for and obtain FFD status. FFD lasts for up to 25 years, during which time the Group may sell up to 80% of its production on the export market.

The rate of production from fields on Test Production can be highly variable due to the uncertain stabilised production rates which are achievable from different productive zones in new exploration and appraisal wells, downtime incurred for pressure build-up tests, recompletions to move between zones and intentional variable production rates used during testing to gather data necessary to eventually apply to move a field to TPP status.

In June 2011, Borkyldakty was granted TPP status and was able to commence continuing production operations. In September 2011, Asanketken started Test Production, followed by East Kyzylzhar I in November and Sagız West in December. Uytas was brought back onto Test

Production in January 2012, following preliminary tests in early 2011 Zhana Makat was transferred from TPP to FFD status in March 2012 The Group expects both Asanketken to move to TPP status and Borkyldakty to move to FFD status in the first half of 2013, while Sagiz West, Uytas and East Kyzylzhar I are not expected to proceed to TPP until 2014 after the Group drills more appraisal wells during 2013 to gather the additional information necessary to prepare an application for TPP

Production over the four month period from 1 April 2012 to 31 July 2012 averaged 3,900 bopd This total was impacted by weather related issues at the beginning of the period and by the variability of production from wells on Test Production As of August 2012, the Group was producing approximately 3,700 bopd from three fields, Zhana Makat, Borkyldakty, and Asanketken, with the other three fields shut-in due to Test Production constraints Furthermore, Sagiz West produced high levels of associated gas, which required production rates during testing to be curtailed due to limits on gas flaring during the tests Without regulatory restraints, the Group's current productive capacity is approximately 6,000 bopd

Production from existing discoveries for the fiscal year ended 31 March 2013 is expected to average between 3,200 and 4,000 bopd A substantial increase in average daily production to between 4,500 and 6,000 bopd is expected for fiscal year 2014 as Asanketken moves onto TPP and additional appraisal and development wells are drilled in Zhana Makat, Sagiz West, and Uytas The broad ranges of future production estimates are based upon the variability of wells on Test Production and timing of applicable regulatory approvals Test Production from any successful exploration wells drilled prior to year-end would supplement both of these ranges for estimated production, as well

Reserves and Resources

In the year ended 31 March 2012, the Group experienced substantial growth in reserves and contingent resources due to new discoveries during the year and further appraisal and analysis of existing discoveries Given the early stage of the Group's asset base, the majority of the growth is reflected in possible reserves and contingent resources, which the Group expects to convert into proved and probable ("2P") reserves as the underlying fields are more fully appraised and developed

As at 31 March 2012, the Group's competent person, Ryder Scott Company ("RSC"), estimated that the Group had 10.6 mmbo in 2P reserves with an after-tax net present value discounted at 10% ("PV10") of US\$215 million, an increase of 36% from 7.8 mmbo in 2P as at 31 March 2011 with a PV10 of US\$176 million RSC estimated that the Group's total proved, probable and possible ("3P") reserves increased by 72% to 14.6 mmbo as at 31 March 2012, with a PV10 of US\$285 million, from total 3P reserves in the prior year of 8.5 mmbo, with a PV10 of US\$194 million

As at 31 March 2012, RSC estimated the Group's oil-initially-in-place ("OIIP") for the Sagiz West and Uytas fields, the Group's two largest discoveries to date, of 101.3 mmbo and 64.9 mmbo, respectively, of which 79.8 mmbo and 27.2 mmbo were classified as in-place contingent resources The Group has internally estimated an additional 126 mmbo in non-conventional resources at Uytas from the Cretaceous Albion reservoir which cannot be recovered using conventional primary production techniques These resources were recognised by RSC in their report as being worthy of further evaluation but cannot be classified as contingent resources until they are demonstrated to be recoverable through a pilot production test The Group did not have any reserves or resources booked for either field as of 31 March 2011

The Group reported total 2P reserves as at 30 September 2011 of 13.3 mmbo, as well as in-place contingent resources at Sagiz West of 61.3 mmbo The 2P estimate included 4.8 mmbo in reserves based on the initial well drilled in the Sagiz West Field in September 2011 In December 2011, the Group drilled a second well in the Sagiz West Field, SAGW-2, that was non-productive and reduced the productive area of the eastern flank of the field from original estimates The third well, SAGW-3, drilled in February 2012, was successful in confirming the discovery and supporting the Group's view of the field's overall size and structure Given the results of SAGW-2 and the greater complexity of the field, however, the estimate for 2P reserves for Sagiz West was adjusted downward as of 31 March 2012 by 2.2 mmbo, while in-place contingent resources for the field increased by 18.5 mmbo Other changes in the estimate of 2P between the periods relate primarily to production and the revision of reserve estimates based on well performance and estimated recovery factors

A table showing the Group's reserves and resources as calculated by RSC for the years ended 31 March 2012 and 31 March 2011, and the interim period ended 30 September 2011 is presented overleaf

BUSINESS REVIEW CONTINUED

Oil reserves and contingent resources in-place¹

31 March 2012	Zhana Makat mbo	Borkyldakty mbo	Asanketken mbo	East Kyzylzhar I mbo	Sagız West mbo	Uytas mbo	Total mbo
Proved reserves	3,141	176	1,420	385	–	–	5,122
Probable reserves	1,381	276	378	132	2,566	778	5,511
Total 2P reserves	4,522	452	1,798	517	2,566	778	10,633
Possible reserves	–	–	649	–	1,360	1,971	3,980
Total 3P reserves	4,522	452	2,447	517	3,926	2,749	14,613
Contingent resources in-place	–	–	–	–	79,806	27,221	107,027

30 September 2011	Zhana Makat mbo	Borkyldakty mbo	Asanketken mbo	East Kyzylzhar I mbo	Sagız West mbo	Uytas mbo	Total mbo
Proved reserves	4,729	231	503	315	1,689	–	7,467
Probable reserves	1,446	271	472	607	3,074	–	5,870
Total 2P reserves	6,175	502	975	922	4,763	–	13,337
Possible reserves	–	–	657	–	1,468	–	2,125
Total 3P reserves	6,175	502	1,632	922	6,231	–	15,462
Contingent resources in-place	–	–	–	–	61,302	–	61,302

31 March 2011	Zhana Makat mbo	Borkyldakty mbo	Asanketken mbo	East Kyzylzhar I mbo	Sagız West mbo	Uytas mbo	Total mbo
Proved reserves	4,938	242	514	–	–	–	5,694
Probable reserves	1,414	272	461	–	–	–	2,147
Total 2P reserves	6,352	514	975	–	–	–	7,841
Possible reserves	–	–	664	–	–	–	664
Total 3P reserves	6,352	514	1,639	–	–	–	8,505
Contingent resources in-place	–	–	–	–	–	–	–

¹ As estimated by Ryder Scott Company, the Group's competent person. For reserve and resource definitions, see the glossary on pages 85 to 87.

Zhana Makat Field

The Zhana Makat Field, discovered in September 2006, continues to perform well, with average daily production of approximately 2,300 bopd for the year ended 31 March 2012 from a combination of Jurassic, Neocomian, and Triassic reservoirs

The field commenced commercial production under TPP in August 2007, with cumulative sales of 3.6 mmbbl generating US\$211 million in total revenue through 31 March 2012. Zhana Makat was approved for FFD status in March 2012, allowing the Group to continue to develop and produce the field for up to 25 years, as well as giving it a right to sell up to 80% of its crude oil production on the export market under the terms of the Licence. The Group drilled five exploration, appraisal and development wells in the field in fiscal year 2012, including two Triassic wells in the southern end of the field that were subject to 90-day Test Production constraints given the exploratory nature of the wells. The Group expects to return the Triassic wells to production under the field's FFD permit in 2013 upon receipt of the necessary regulatory approvals. The Group also plans to drill up to eight additional appraisal and development wells over the next 12 months under FFD.

Borkyldakty Field

The Borkyldakty Field was discovered in Block E in February 2010, with the BOR-1 well encountering five productive Triassic reservoirs in a small four-way anticlinal structure.

In June 2011, the Group received regulatory approval of Borkyldakty's TPP, allowing the Group to place the field on continuous production and drill further exploration and appraisal wells, if necessary, in order to gather additional data needed to proceed to FFD status. In July 2011, the Group successfully drilled and completed the BOR-3 appraisal well, encountering 28 metres of net oil pay over five Triassic sandstone reservoirs and has one additional drilling location planned in 2013. The Group expects to obtain FFD status during the first half of 2013.

Uytas Field

The Uytas Field, a shallow, four-way anticline with productive Cretaceous and Jurassic reservoirs, was discovered in Block A in October 2010. Drilled to a depth of 827 metres, the UTS-1 discovery well potentially makes Uytas the Group's largest post-salt discovery to date. Uytas is a unique field given its shallow depth, with productive Cretaceous reservoirs above 160 metres and Jurassic reservoirs between 300 and 400 metres.

Interpretation of 3D seismic data acquired in late 2011 revealed a structure larger than previously identified which enabled the Group's estimate of OIIP to increase to 184 mmbbl, including 58 mmbbl in conventional Cretaceous Aptian ("Aptian") and Jurassic reservoirs and 126 mmbbl in shallower, non-conventional Cretaceous Albion ("Albion") reservoirs. RSC estimates are in line with this assessment, estimating OIIP of 65 mmbbl for the conventional Aptian and Jurassic reservoirs as of 31 March 2012, of which 27 mmbbl are classified as contingent resources in-place. The Group has internally estimated an additional 126 mmbbl in non-conventional resources at Uytas from the Albion reservoir which cannot be recovered using conventional primary production techniques. These resources were recognised by RSC in their report as being worthy of further evaluation but cannot be classified as contingent resources until they are shown to be recoverable through a pilot production test.

Well tests have confirmed commercial productivity from the Aptian and Jurassic sandstone reservoirs, with Phase One of an appraisal and development programme expected to include approximately 30 low-cost, shallow vertical wells with 14 wells planned to be drilled in 2013, subject to financing. The Group anticipates up to 200 shallow vertical wells will eventually be drilled in the field to develop its conventional reserves, over a period of several years. Based on testing and core analysis, the Group is also planning an enhanced oil recovery pilot project using steam injection to determine the commerciality of the Albion reservoirs.

The OIIP estimates from RSC provide external confirmation of the significant size of the field. Further appraisal drilling and more production history from existing and future wells is expected to lead to much higher recoverable reserves and a higher assumed recovery factor for the field by RSC. The Group expects Uytas to move into TPP during 2014 after the Group has completed the Phase One appraisal drilling programme and the pilot project to evaluate the non-conventional Albion reservoirs.

Asanketken Field

The Asanketken Field was discovered in March 2011 with the ASK-1 well encountering 24 metres of net oil pay at depths from 1,230 to 1,302 metres in the Jurassic formation in a three-way faulted trap

The ASK-2 well confirmed the Jurassic discovery at the end of 2011, while the field's deeper Triassic objective was found to be non-productive. The Group drilled two additional Jurassic appraisal wells in the field during the quarter ended 30 June 2012, both of which are currently on Test Production

The Asanketken Field is estimated by RSC to have in-place reserves of approximately eight mmbo, with reservoirs of excellent quality from which the Group expects ultimate recovery factors of approximately 35% to 40%. Certain zones in the ASK-1 well produced at rates in excess of 1,000 bopd, and the field is currently producing approximately 1,500 bopd from three of the four wells currently on Test Production (ASK-2, ASK-J1, and ASK-J2)

The Group expects that the Asanketken Field will progress to TPP during the first half of 2013, thereby allowing continuous production from the field. FFD is expected to follow in 2014. No additional drilling is expected in the field prior to reaching FFD status. The expected rapid progress of Asanketken through the regulatory approval process is a result of the uncomplicated nature of the field and as it has already been fully appraised by the current producing wells

East Kyzylzhar I Field

The East Kyzylzhar I Field, a three-way faulted closure located in Block E, was discovered in August 2011, with the KZIE-1 exploration well encountering 17 metres of net oil pay in two Jurassic sandstone reservoirs at depths ranging from 987 to 1,251 metres.

The KZIE-2 appraisal well was drilled later in 2011, confirming the discovery. Reservoir quality is excellent with porosities ranging from 20% to 30%. The Group placed both wells on Test Production with very high initial production rates, but water cut increased rapidly in both wells. Further testing of these wells is planned later this year to determine if the water cut has been caused by a mechanical problem in the wells, as is indicated by the electric logs and other pressure data currently available. If the water production problem can be resolved, the field will move on to TPP during 2013 and the Group plans to acquire additional 3D seismic and drill additional development wells over the next several years. If not, then the field may be abandoned. The decrease in RSC 2P reserves from 30 September 2011 reflects the uncertainty of the source of the water production seen in the first two wells.

Sagiz West Field

The SAGW-1 exploration well made the initial discovery of the Sagiz West Field in Block E in September 2011, reaching a depth of 1,406 metres with electric logs indicating 27 metres of net pay, including 21 metres of oil and 6 metres of gas pay, over a 114 metre interval in the Triassic formation at measured depths between 1,177 and 1,291 metres.

Reservoir quality is very good with porosities ranging from 18% to 25%. The unsuccessful SAGW-2 appraisal well did not encounter producible hydrocarbons, limiting the eastern flank of the field. However, the SAGW-3 appraisal well confirmed the initial discovery and Group's view of the large potential size and scope of the field.

As of 31 March 2012, RSC estimated 2P reserves for Sagiz West of 2.6 mmbo and contingent resources in place of approximately 79.8 mmbo. The 2P estimate was adjusted downward by RSC from 30 September 2011 due to the results of SAGW-2 and the greater complexity of the field,

but their higher estimate of contingent resources supports the Group's view that Sagiz West has potential ultimate recoverable reserves of between 15 and 20 mmbo. The Group expects ultimate recovery factors for the field to range from 20% to 30%.

Subject to available financing, the Group is planning to acquire additional infill 3D seismic data over the field prior to 31 December 2012, and drill a fourth appraisal well, SAGW-4, in early 2013 in order to extend the field substantially further south. Development of the field will require the processing and sale of associated natural gas, and while this adds to the cost and time to develop the field, revenues from potential gas sales are expected to more than offset the additional facilities required to process the gas and deliver it to market. The associated gas is also expected to improve oil recoverability in the field.

The Group is also planning to drill up to 10 additional wells in Sagiz West during 2013, subject to financing, to appraise the field and gather enough information to design and build the field facilities required to handle the associated gas production expected when Sagiz West enters TPP. Due to the need for further appraisal drilling, and the amount of time needed to design and construct the production facilities required for TPP, the estimated start of TPP has been moved out into 2014. The Sagiz West Field is currently shut-in pending drilling additional wells that will be placed on Test Production before moving these and existing wells onto TPP.

Both the SAGW-1 and SAGW-3 wells have additional zones which will ultimately be tested, including lower porosity oil reservoirs in both wells that may respond well to hydraulic fracturing and a possible gas cap in SAGW-1. Further testing is expected to demonstrate additional value both from increased oil production and potential gas sales, but will not yield significant production in the near term and is currently being planned for during the appraisal drilling programme in 2013.

Pre-salt potential

On 4 November 2011, the Group began drilling the NUR-1 well on the Emba B prospect in Block E. The well had a target depth of 7,250 metres and targeted reservoirs with unrisked mean resource potential of 467 million barrels of oil equivalent with a 29% geological chance of success.

On 5 April 2012, the NUR-1 well reached the top of the Kungurian salt at a depth of 5,718 metres. However, upon drilling into the salt a high pressure transition was encountered resulting in the drilling tools becoming stuck. After side-tracking the well and setting casing at 5,681 metres, the Group drilled ahead. Progress was slow as the Group drilled alongside the stuck drilling tools. After clearing the old wellbore, the well reached the Kungurian salt on 19 June 2012. Due to encountering anomalously high pressures beyond the scope of the original well design, the drill pipe again became stuck at 5,722 metres, despite

using the higher density mud specified for penetrating this section. The Group was unable to free the stuck drill string and decided to suspend drilling operations and release the drilling rig in July given the need to obtain additional capital to complete the well.

Based on a review conducted by the Group's in-house technical team and external consultants with expertise in drilling high pressure, pre-salt wells, the Group believes it is technically feasible to complete the drilling of NUR-1 with certain modifications to the existing drilling programme to address the higher than expected pressures encountered in the salt. The Group is currently considering options to finance independently the completion of the well and has commenced discussions with the relevant Kazakh Government authorities to seek regulatory approval to allow completion of the drilling of NUR-1 beyond the existing deadline in March 2013.

The NUR-1 pre-salt well has been drilled and cased down to a depth of 5,681 metres. Subject to financing being obtained to complete this well, and an extension beyond the current 4 March 2013 date of expiry of the exploration period of the Licence, the Group intends to bring in another rig and finish testing the well down to its total depth of 7,250 metres. Preliminary discussions with the Kazakh regulatory authorities regarding an extension due to the unexpected high pressures encountered in NUR-1 have been constructive. The Group is continuing to work with external experts to establish how best to deal with this pressure on a resumption of drilling and how, in cooperation with the authorities, to best redesign the well so as to successfully drill through the Kungurian salt layer. Given that the well has been successfully drilled down to the current depth, a broader range of rigs fit the criteria required and would be available. The Group has incurred a total of approximately US\$39 million on NUR-1 and estimates it will require between US\$12 and 20 million in additional capital in order to finish drilling the well to its target depth at a later date.

Results of operations

The Group recognised a loss of US\$8.2 million, or US\$0.01 per ordinary share, for the year ended 31 March 2012, compared to a loss of US\$18.2 million, or US\$0.04 per ordinary share, during the prior year.

Oil sales volumes increased by 32% compared to the previous year to reach 1,004,000 bbls compared to 760,000 bbls in the previous year. The Group produced and sold 1,004,000 bbls during 2012, comprising 954,000 bbls sold into the domestic market generating US\$44.2 million in revenue, or US\$46.36 per bbl, and 50,000 bbls sold into the export market generating US\$6.0 million in revenue, or US\$120.32 per bbl. Comparatively, the Group produced and sold 760,000 bbls during 2011, including 154,000 bbls sold into the domestic market generating US\$5.7 million in revenue, or US\$36.74 per bbl, and 606,000 bbls sold into the export

BUSINESS REVIEW CONTINUED

market generating US\$49.7 million in revenue, or US\$81.93 per bbl. Oil revenues decreased by 9% from US\$55.3 million in 2011 to US\$50.2 million in 2012, as the average price per barrel decreased from US\$72.78 to US\$50.04 as substantially all of the Group's sales during the year were domestic. Exports of oil produced at Zhana Makat resumed following FFD approval, which have contributed to higher average sales prices per barrel since then.

Net cash generated from operating activities increased by 29% from US\$14.4 million for the year ended 31 March 2011 to US\$18.6 million for the year ended 31 March 2012, while cash flow from operating activities before income taxes for the comparable periods increased by 70% from US\$16.7 million to US\$28.3 million, primarily based on higher sales volumes and an increase in prepayments from domestic customers in Kazakhstan for crude oil sales.

The Group incurred US\$4.4 million in exploration and appraisal costs written-off during the current year compared to US\$7.0 million in 2011.

During the year ended 31 March 2012, the Group incurred total administrative expenses of US\$17.8 million, compared to administrative expenses of US\$15.0 million in 2011. Administrative expenses for the current and prior year principally reflect management and employee costs of the Group's operations in the United Kingdom, Kazakhstan and the United States. Administrative expenses also included non-cash share-based payment charges of US\$4.9 million in the year ended 31 March 2012, compared to US\$1.8 million in 2011.

Changes in crude oil marketing: domestic versus export

In May 2011, following correspondence and discussions with local regulatory authorities, Max Petroleum began selling 100% of its crude oil production from Zhana Makat on the domestic market pending FFD approval for the field, which was granted on 15 March 2012. Prior to May 2011, the Group had exported 80% of its crude oil production from Zhana Makat. FFD approval gives the Group the right to sell 80% of its crude oil production from the Zhana Makat Field on the export market under the terms of its Blocks A&E Licence. Similarly, production from the Group's other more recent discoveries will be sold exclusively on the domestic market until each field is approved for FFD, after which the Group will have the right to sell up to 80% of its production from that field on the export market. During the year ended 31 March 2012, the Group estimates the after-tax net proceeds from sales into

the domestic market ranged from US\$10 to 20 per barrel lower than comparable export sales. Following FFD approval, the Group has recommenced export oil sales from Zhana Makat, which have generated after-tax net proceeds that are on average US\$16 per barrel higher than comparable domestic sales.

Tax claim

During the year ended 31 March 2012, the Group paid US\$13.8 million in full settlement of a tax claim brought against the Group by the local tax authorities of the Republic of Kazakhstan (the "Tax Claim") with the aggregate costs of the Tax Claim totalling US\$18.8 million for fiscal years ended 31 March 2011 and 2012.

The Tax Claim resulted from a routine tax audit of the Group's entities in Kazakhstan for calendar years 2005 to 2008 and involved a dispute over the timing of recovery (i.e. depreciation) of the Group's costs capitalised to its oil and gas properties for tax years prior to Kazakhstan's adoption of the new Tax Code in 2009. In summary, the Group began depreciating its capitalised costs when it began producing crude oil in accordance with the terms of its subsoil use licence and the Kazakh legislation in place at the time the licence was executed. The local tax authorities, however, asserted that the Group should only begin depreciating its capital costs upon the formal declaration of a commercial discovery to the Kazakh authorities. As a result, the local tax authorities disallowed a total of US\$35 million in depreciation deductions taken by the Group during calendar years 2006 through 2008. The Group expects to recover the economic benefit of the deductions in future years.

Liquidity and capital resources

The Group finances its exploration and development activities using a combination of cash on hand, operating cash flow generated from the sale of crude oil production, borrowings under its credit facility with Macquarie Bank Limited (the "Credit Facility"), and additional debt or equity financing as required. The Group is in the last year of the exploration period of its Licence and requires approximately US\$10 to 15 million in additional exploration and appraisal capital for its shallow programme through March 2013, as well as additional capital for the future appraisal and development of its current and expected post-salt discoveries beyond fiscal year 2013.

The Group is currently producing approximately 3,700 bopd generating approximately US\$7 to 8 million per month in pre-tax revenue and significant net cash flow from operations, which is being applied in the near-term against trade payables relating to its exploration and appraisal activities and will be available to begin repaying borrowings under the Credit Facility in the medium term. The Group currently has limited or no additional borrowing capacity available under the Credit Facility. As of 15 August 2012,

the Group had borrowed a total of US\$55.2 million under the Credit Facility, including a US\$3 million letter of credit. The Credit Facility matures on 31 March 2013 and requires that the Group begin making amortisation payments of US\$2 million per month beginning in July 2012. The Group did not make an amortisation payment in July 2012 and is in ongoing discussions with Macquarie regarding the use of its net cash flow from operations to fund its shallow drilling activities, as well as the timing and amount of principal payments required prior to 31 March 2013.

Although the ongoing discussions with Macquarie have been constructive, the Group does not anticipate that additional borrowings or deferred principal payments under the Credit Facility will be available to fund its remaining shallow exploration programme. As a result, the Group is in discussions with various sources of debt and equity capital, including several operating oil and gas companies, to provide financing to finish its shallow exploration portfolio, as well as to refinance, in whole or in part, the Credit Facility.

The Group also has US\$85.6 million in Convertible Bonds that mature on 8 September 2013 and require semi-annual interest payments of US\$2.9 million on 8 September and 8 March, respectively. The Group intends to restructure the terms of the Bonds in conjunction with any future refinancing of the Credit Facility. The Group has obtained written assurances from holders representing greater than 75% of the Bonds to defer the coupon payment due 8 September 2012 until 8 December 2012 pending a broader restructuring of the Group's outstanding debt.

In August 2012, the Group entered into a US\$7 million equity for services agreement with Zhanros Drilling LLP, whereby Zhanros will drill up to four post-salt wells and fund related ancillary services in exchange for up to 90,322,581 ordinary shares at a price of 5p per share. While the Zhanros agreement does not inject any direct liquidity into the Group, it will allow for a portion of the shallow exploration portfolio to be drilled and assist in the Group's efforts to complete a broader capital restructuring.

The Group's efforts to raise traditional equity capital in the near term have been hampered by recent regulatory changes in the Republic of Kazakhstan that require the Company to list on the Kazakhstan Stock Exchange ("KASE") in order to obtain the regulatory consents necessary to conduct a traditional equity placement or rights offering. The Group understands that the KASE eligibility criteria are under review and may be amended in the near future such that the Company would be eligible to list on KASE, but the timing and ultimate resolution of this issue is uncertain.

Although the directors are working to resolve the Group's outstanding liquidity shortfall, there is an uncertainty that the Group will be able to extend or restructure the Credit

Facility or its Convertible Bonds, or that additional debt or equity financing will be available. They have concluded that this factor, together with the other matters referred to above, results in the existence of a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern. Nevertheless, based on its current production and net cash flow from operations, ongoing discussions with Macquarie, Bondholders, and other potential sources of debt and equity capital, the directors have a reasonable expectation that the Group will continue in operational existence for the foreseeable future.

Based on their short-term cash forecasts, the directors believe that the combination of these factors will provide sufficient working capital to enable the Group to continue trading and remain solvent. However, these forecasts are necessarily based on the achievement of timing and targets some of which, although believed to be reasonable by the directors, are nevertheless outside the Group's direct control. If significant delays or underperformance of production or revenue targets were to take place, these may render the Group's cash resources insufficient.

KEY PERFORMANCE INDICATORS

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

	2012	2011	2010	% Change 2012/ 2011
Crude oil sales volumes (mbo)	1,004	760	756	32%
Export sales volumes (mbo)	50	606	615	(92)%
Domestic sales volumes (mbo)	954	154	141	519%
Oil sales revenue (US\$'000)	50,243	55,309	43,348	(9)%
Export sales revenue (US\$'000)	6,016	49,651	38,885	(88)%
Domestic sales revenue (US\$'000)	44,227	5,658	4,463	682%
Average realised price (US\$ per bbl)	50.04	72.78	57.34	(31)%
Average realised export price (US\$ per bbl)	120.32	81.93	63.23	47%
Average realised domestic price (US\$ per bbl)	46.36	36.74	31.65	26%
Operating cost per bbl ¹ (US\$ per bbl)	17.39	32.49	24.97	(46)%
Production cost (US\$ per bbl)	8.22	7.64	8.17	8%
Selling and transportation cost (US\$ per bbl)	6.35	7.16	5.94	(11)%
Mineral extraction tax (US\$ per bbl)	1.20	3.64	2.86	(67)%
Export rent tax/export customs duty (US\$ per bbl)	1.62	14.05	8.00	(88)%
EBITDA ² (US\$'000)	20,342	18,004	7,221	13%
Cash generated from operations (US\$'000)	28,273	16,668	10,149	70%
Total proved and probable (2P) reserves ³ (mbo)	10,633	7,841	4,677	36%
Proved reserves ³ (mbo)	5,122	5,695	2,483	(10)%
Probable reserves ³ (mbo)	5,511	2,146	2,194	157%
Other reserves and resources				
Possible reserves ³ (mbo)	3,980	664	131	499%
Contingent resources in place ⁴ (mbo)	107,027	–	–	n/a

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

2 EBITDA is defined as operating profit/(loss) before depreciation, depletion and amortisation, share-based payment expense, exploration and appraisal costs, and impairment losses. EBITDA is a non-IFRS performance measure with no standard meaning under IFRS, and is reconciled to the income statement in note 38 to the accompanying financial statements.

3 Reserves estimated by the Ryder Scott Company, the Group's competent person.

4 Contingent resources in-place estimated by the Ryder Scott Company at 31 March 2012 for the Sagie West and Uytas fields.

1,004
Crude oil sales volumes
(mbo)

50,243
Oil sales revenue
(US\$'000)

50.04
Average realised price
(US\$ per bbl)

17.39
Operating cost per bbl¹
(US\$ per bbl)

28,273
Cash generated from operations
(US\$'000)

10,633
Total proved and probable (2P) reserves¹
(mbo)

107,027
Contingent resources in place⁴
(mbo)

Results for the year

The Group recorded a loss of US\$8.2 million for the year ended 31 March 2012 (2011: loss of US\$18.2 million). No dividends have been paid or proposed for the year (2011: none).

Revenue

The Group generated US\$50.2 million in revenue from the sale of approximately 1,004,000 bbls of crude oil production during the year, or US\$50.04 per bbl (2011: US\$55.3 million on sales of 760,000 bbls of crude oil, or US\$72.78 per bbl). The Group generated export sales of 50,000 bbls generating US\$6.0 million in revenue, or US\$120.32 per bbl (2011: 606,000 bbls generating US\$49.7 million in revenue, or US\$81.93 per bbl). Domestic sales totalled 954,000 bbls of crude oil generating US\$44.2 million in revenue, or US\$46.36 per bbl (2011: 154,000 bbls generating US\$5.7 million in revenue, or US\$36.74 per bbl).

The Group's sales volumes for the year ended 31 March 2012 exceeded one million barrels of crude oil, an increase of 32% compared to the prior year. As the Group appraises and develops its post-salt discoveries, more wells have been brought onto production. Average daily production increased from 2,118 bopd during the prior year to 2,365 bopd during the six months ended 30 September 2011 and further to 3,250 bopd during six months ended 31 March 2012. Since 31 March 2012 daily production has averaged approximately 3,900 bopd.

Changes in crude oil marketing: domestic versus export

In May 2011, following correspondence and discussions with local regulatory authorities, Max Petroleum began selling 100% of its crude oil production from Zhana Makat on the domestic market pending FFD approval for the field, which was granted on 15 March 2012. Prior to May 2011, the Group had exported 80% of its crude oil production from Zhana Makat. FFD approval gives the Group the right to sell 80% of its crude oil production from the Zhana Makat Field on the export market under the terms of its Licence. Similarly, production from the Group's other more recent discoveries will be sold exclusively on the domestic market until each field is approved for FFD, after which the Group will have the right to sell 80% of its production from that field on the export market. During the year ended 31 March 2012, the Group estimates the after-tax net proceeds from sales into the domestic market ranged from US\$10 to 20 per barrel lower than comparable export sales. Since the Group recommenced export oil sales, sales into the export market are generating after-tax net proceeds that are on average US\$16 per barrel higher than comparable domestic sales.

FINANCIAL REVIEW CONTINUED

Cost of sales

Cost of sales of US\$33.5 million (2011 US\$38.4 million) includes depreciation, depletion and amortisation of US\$16.1 million (2011 US\$13.7 million). Cost of sales before depreciation, depletion and amortisation was US\$17.5 million, or US\$17.39 per bbl (2011 US\$24.7 million, or US\$32.49 per bbl). This includes selling and transportation costs of US\$6.4 million, or US\$6.35 per bbl (2011 US\$5.4 million, or US\$7.16 per bbl), and taxes on the production and sale of hydrocarbons of US\$2.8 million, or US\$2.82 per bbl (2011 US\$13.5 million, or US\$17.69 per bbl). After cost of sales, gross profit was US\$16.7 million, or US\$16.66 per bbl (2011 US\$16.9 million, or US\$22.22 per bbl).

Operating loss

The Group's operating loss for the year was US\$5.4 million (2011 US\$5.2 million) which includes share-based payment expense of US\$4.9 million (2011 US\$1.8 million) and depreciation, depletion and amortisation of US\$16.5 million (2011 US\$14.3 million). The Group's operating loss also includes US\$4.4 million in exploration and appraisal costs related to the cost of dry holes drilled during the year (2011 US\$7.0 million, net of proceeds from the disposal of Alga Caspiygas LLP of US\$2.0 million).

Operating cash flow

The Group's net cash flow from operating activities was US\$18.6 million (2011 US\$14.4 million), consisting principally of net revenue from the production and sale of crude oil, offset by general and administrative expenses incurred to run the Group's operations in the United Kingdom, Kazakhstan and the United States. Cash generated from operations before income taxes increased by 70% from US\$16.7 million to US\$28.3 million, primarily based on higher sales volumes and an increase in prepayments from domestic customers in Kazakhstan for crude oil sales. As at 31 March 2012, the Group held cash balances of US\$3.6 million (2011 US\$25.5 million) of which US\$0.7 million was unrestricted and available for use (2011 US\$23.8 million).

In June 2011, the Group paid US\$13.8 million in full settlement of a tax claim brought against the Group by the local tax authorities of the Republic of Kazakhstan (the "Tax Claim"), more fully disclosed in note 10 to the accompanying financial statements on page 55. The Group had previously fully provided for the Tax Claim in the financial statements for the years ended 31 March 2011 and 31 March 2010. The Group expects to recover the majority of the economic value of the Tax Claim through subsequent depreciation deductions that will offset future taxable income.

Capital expenditure

Group capital expenditures for the year on an accruals basis totalled US\$90.2 million (2011 US\$37.7 million), comprising US\$70.3 million for exploration and appraisal expenditure (2011 US\$29.5 million), US\$14.7 million for the development of oil and gas properties (2011 US\$7.9 million) and US\$5.2 million for property, plant and equipment (2011 US\$0.3 million).

Exploration and appraisal expenditure of US\$70.3 million (2011 US\$29.5 million) includes US\$26.7 million relating to the NUR-1 pre-salt well, US\$30.1 million relating to 10 post-salt exploration and appraisal wells drilled during the year and US\$9.0 million of capitalised borrowing costs, of which US\$2.3 million were non-cash (2011 US\$17.4 million relating to eight post-salt exploration and appraisal wells and US\$9.8 million of capitalised borrowing costs, of which US\$5.7 were non-cash). During the year ended 31 March 2012, US\$4.4 million of exploration and appraisal expenditure relating to the cost of dry holes drilled during the year was expensed in the income statement (2011 US\$7.0 million).

Oil and gas development expenditure of US\$14.7 million (2011 US\$7.9 million) includes the cost of seven post-salt appraisal and development wells drilled during the year.

Issue of share capital

During the year ended 31 March 2012, the Company issued 100,355,247 ordinary shares, comprising

- The cashless exercise of 143,971,948 of the Credit Facility warrants, resulting in the issue of 94,793,580 new ordinary shares
- The exercise of 4,920,000 of the Bondholder warrants for total cash proceeds of US\$0.4 million, resulting in the issue of 4,920,000 new ordinary shares
- The exercise of 641,667 share options for total cash proceeds of US\$0.05 million, resulting in the issue of 641,667 new ordinary shares

Bank borrowings

In June 2007, the Group entered into a US\$100 million revolving mezzanine Credit Facility (the "Credit Facility") with Macquarie Bank Limited ("Macquarie"), secured by pledges over substantially all of the Group's assets

At 1 April 2011, the aggregate borrowing base on the Credit Facility was US\$68.5 million, with the Group's availability under the Credit Facility in any six-month period being set through semi-annual operating and capital budgets that are mutually agreed with Macquarie. The Group had borrowed US\$6.0 million under the Credit Facility as of 1 April 2011 and borrowed a further US\$44.1 million during the year to finance its pre-salt and post-salt exploration and appraisal programmes. At 31 March 2012, the Credit Facility had a total borrowing capacity of US\$58.0 million for the period through 30 June 2012, of which US\$50.2 million was borrowed and a further US\$3.0 million was reserved for outstanding letters of credit. Subsequent to year-end, the Group borrowed an additional US\$2.0 million in principal through 30 June 2012. Interest is payable monthly at LIBOR plus 6.5%.

The Credit Facility matures on 31 March 2013 and requires that the Group begin making amortisation payments of US\$2 million per month beginning in July 2012. The Group did not make an amortisation payment in July 2012 as its net cash flow from operations is being applied against trade payables relating to its exploration and appraisal activities. The Group expects cash will be available to begin repaying borrowings under the Credit Facility in the medium term. The Group is in ongoing discussions with Macquarie regarding the use of its net cash flow from operations to fund its shallow drilling activities, as well as the timing and amount of principal payments required prior to 31 March 2013.

Although the ongoing discussions with Macquarie have been constructive, the Group does not anticipate that additional borrowings or deferred principal payments under the Credit Facility will be available to fund its remaining shallow exploration programme. As a result, the Group is also in discussions with various sources of debt and equity capital, including several operating oil and gas companies, to provide financing to finish its shallow exploration portfolio, as well as to restructure or refinance, in whole or in part, the Credit Facility.

Convertible bonds

Max Petroleum completed an offering of convertible bonds on 8 September 2006 (the "Bonds"), raising a total of US\$75 million before issuance costs. The Bonds bear interest at 6.75% per annum, payable semi-annually, and are currently convertible at a conversion price of 32p per ordinary share, with a fixed exchange rate of US\$1.49 to £1, subject to certain anti-dilution adjustments. The Bondholders have a right to convert the Bonds through to final maturity. Furthermore, the holders will have certain rights to force Max Petroleum to redeem the Bonds if certain material events of default occur such as revocation of the Group's licence to its oil and gas properties in Kazakhstan. The Group has the right to redeem the Bonds 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.

Following deferral of interest payments due on 8 March 2009, 8 September 2009, and 8 September 2010 the revised principal of the Bonds at 31 March 2012 is US\$85.6 million.

The Group has obtained written assurances from holders representing more than 75% of the Bonds to defer the coupon payment due 8 September 2012 until 8 December 2012 pending a broader restructuring of the Group's outstanding debt.

Share options

At 31 March 2012, Max Petroleum has cumulatively granted a total of 199,347,963 options (2011: 196,392,213), of which 28,560,074 options (2011: 27,918,407) had been exercised, 19,285,174 options (2011: 16,599,028) had been forfeited or cancelled unexercised, and 41,764,652 options (2011: 40,903,500) had expired unexercised. Of the outstanding options at the end of the year, 74,740,693 options (2011: 53,734,365) were vested and exercisable at that date with a weighted average exercise price of 18.8p (2011: 19.1p).

Financial instruments

The financial instruments of the Group are comprised of cash resources, trade receivables and trade payables arising directly from operational activity, as well as the Group's Bonds and the Credit Facility, described in note 25 to the Group's financial statements.

FINANCIAL REVIEW CONTINUED

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 its 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 its ability to recover any losses it may incur during that period and on its 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

The exploration for, and the 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 economically or that the Group will be able to exploit the discovered resource as intended. Drilling may not result in the discovery of economically viable hydrocarbon resources either due to insufficient resources being discovered, the resources not being of sufficient quality to be developed economically or the cost of any development being in excess of that required for an economic project. Furthermore, there is a risk the Group

may be unable to complete the drilling of its remaining exploration portfolio prior to the expiry of the exploration period of its Licence in March 2013.

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.

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 Licence or failure to approve extensions or other permits necessary for the Group to continue operating its assets
- 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
- Regulations which include pre-approval from the National Bank of Kazakhstan for the issuance of equity, as well as obtaining a pre-emption waiver from the Ministry of Oil and Gas

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.

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

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.

The Group has prepared cash flow forecasts for the twelve months from the date of signing of these financial statements which indicate that it will need additional financing in order to carry out its post-salt drilling programme ahead of the expiry of the exploration phase of its Licence in March 2013, fund administrative and operating expenses, and service its Credit Facility and Bonds. The Group is working with its senior lender, Macquarie, and has initiated discussions with a number of providers of debt and equity financing, regarding the provision of additional capital.

The Group carefully monitors and manages its liquidity with regular cash forecasting. Further details of the Group's liquidity position are set out in the Directors' Report on page 28.

CORPORATE AND SOCIAL RESPONSIBILITY

Investment in the Republic of Kazakhstan and in Max Petroleum
Max Petroleum continues to invest in Kazakhstan building on over six years of operational experience. The Group recognises the importance of working closely with its domestic Kazakh partners and the value for the Group as well as the Country in being a good Kazakh corporate citizen with a long-term commitment to the Republic of Kazakhstan.

Employees

Max Petroleum has built up a capable local team in Kazakhstan with local responsibility across all areas of the business including finance, exploration and production. The team in place has managed the transition of the Group from a single field producer to a multiple field operation with extensive appraisal, development and exploration operations as well as fast-growing production.

The Group's employees can directly benefit from business success through performance linked remuneration and share options.

Max Petroleum has continued to satisfy official targets for local employment with 95% of staff employed in Kazakhstan being Kazakh nationals. At a managerial level, 71% of positions are filled by local employees and 95% of skilled, professional and supervisory positions are held by Kazakh nationals.

Education and training

The Group invests in individual and group professional training including technical and safety training, as well as Master/MBA degrees, and language and computer courses. In Kazakhstan, Max Petroleum is working with well known educational institutions and centres such as Kazakh-British Technical University, Bolashak Institutes, International Academy of Business, University of International Business, Kazakhstan oil and gas industry training centre, Atyrau Oil and Gas Institute, Accountancy Tuition Center, Karaganda State Technical University and many others. The investment by the Group in its formal training programmes for Kazakh employees totalled US\$497,000 in calendar year 2011, equivalent to US\$3,430 per employee, up from US\$324,000 in calendar year 2010, equivalent to US\$2,559 per employee. It is intended to increase spending to approximately US\$1 million in calendar year 2012.

Community

The local communities where the Group operates and recruits many of its employees from are beneficiaries of its educational and broader community programmes. These also help the Group by supporting its recruitment and retention of key staff and also show its commitment to being a responsible Kazakh corporate citizen. Max Petroleum's ongoing social investment programme has contributed a total of US\$5.1 million since 2006, including US\$0.2 million in the last year. In addition to measurable financial contributions, the Group encourages volunteering by employees to benefit charitable and community causes. In addition to its formal social contributions, the Group has made additional, voluntary charitable contributions, totalling over US\$260,000 since 2006.

During the financial year, the Group also paid a total of US\$2.5 million in Kazakh corporate and other taxes that directly and indirectly go to fund a range of local and national Government programmes.

Local content

Max Petroleum has always focused on maximising the level of its local content, and during the first half of calendar year 2012 the Group has procured 69% of goods, 71% of works and 89% of its services from certified Kazakhstan suppliers. This level is ahead of the Group's official commitment of 30% for local procurement of goods and 70% for works and services.

The Group has maximised efficiency as well as fairness and transparency by

- Increasing the number of tenders and employing extra staff in procurement
- Performing all purchases in accordance with the local rules on procurement of goods, works and services
- Increasing profile in the local market through wider advertising of tenders
- Expanding local vendor development and support practices
- Increasing its level of relations and routine communication with the governmental authorities responsible for monitoring the performance of the Group. This involves regular meetings, participation in forums and seminars organised by the Ministry of Oil and Gas, Contract Agency and the Ministry of Industry and New Technologies.

The Group fully supports the principles and intent behind the local content regulations and works with the Kazakh authorities on ways to make the application of the regulations more practical.

Health, safety and environment

Max Petroleum seeks to comply with internationally recognised standards in its systems to protect its employees, the local community and the broader physical environment.

The terms of the Group's Licence and its compliance with regulations in Kazakhstan mandate and ensure that high operational safety standards are maintained. In addition, suppliers and operating partners of the Group are required to fully comply with its health, safety and environment policies and this is a key criteria in vendor selection and evaluation.

On environmental matters, the Group has policies requiring strict adherence to the law and Licence terms and seeks to mitigate and minimise any impact of its operations on the environment, including the conducting of pre and post environmental impact assessments on all of its operations.

To adhere to the best standards of compliance with relevant environmental laws, the Group prepares an annual plan of its improvements in the area of responsible environmental practices, which is presented to the local authorities and community.

BOARD OF DIRECTORS

Michael B Young *President and CFO*

Mr Young has served as Max Petroleum's President since February 2009 and as Chief Financial Officer since September 2006. He has over 20 years of 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 currently serves as Chairman of Alpha Houston, a non-profit organisation.

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 of Triton Energy Ltd, a New York Stock Exchange listed exploration company that was sold to Amerada Hess. He is a former board member of NYSE listed Pier 1 Imports Inc, Massey Energy Inc and Ivanhoe Mines Ltd. Mr Holland is currently a director of the Financial Guaranty Insurance Corporation and the non-profit International Psoriasis Council. 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.

James A Jeffs *Executive Co-Chairman*

Mr Jeffs is a senior executive with extensive experience in investment management, investment banking and as an executive and director of public oil and gas companies. Since 1994, Mr Jeffs has been Managing Director and Chief Investment Officer of the Whittier Trust Company. Mr Jeffs was formerly Chairman of Whittier Energy Corporation, Chairman and Chief Executive Officer of Chaparral Resources, Inc. and on the Board of the Los Angeles County Employee Retirement Association. He currently serves on the Boards of NYSE listed Strategic Hotels and Resorts and previously served as a director of South Oil Co, a private, Russian-based, oil and gas company.

Lee O Kraus Jr Non-Executive Director

Mr Kraus is the Chief Executive Officer and Chairman of the Board of Blue Wolf Mongolia Holdings Corp , a NASDAQ listed company focused on natural resources in Mongolia. Mr Kraus is also a co-founder and Managing Partner of Composite Capital, LLC, an investment management and financial advisory firm with a focus on the natural resources sector. Mr Kraus is a member of the board of directors of Duraseal Holding S r l , a nanotechnology-based coatings company focused on the oil and gas, aerospace and automotive sectors. He has also served as a Managing Director at Dresdner Kleinwort and Lazard Freres & Co , LLC, and as Vice President in the investment banking group at Morgan Stanley, focusing on the oil and gas, mining, and chemical industries. He received his Bachelors degree in Electrical Engineering from Stanford University and his Masters of Business Administration from the University of Chicago.

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 to 1995, when it merged with Circus Circus Enterprises. He was a founder and director of First Independent Bank of Nevada and served on the Board from 1995 to 2004. He is a partner and sits on the board of Valor Equity Partners, an equity capital firm based in Chicago. Mr Belding serves as a board member of various community and civic organisations, including UNLV, where he has sat on the Board of Trustees since 1992. He also served as a director of the Whittier Trust Company from 1998 to 2008.

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.

Advisory Committee

James C Langdon Jr Advisory Committee

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.

Peter B Moss Jr Advisory Committee

Mr Moss served Max Petroleum as Vice President of Corporate Development and Investor Relations between May 2006 and April 2011 when he moved to Max Petroleum's Advisory Committee. Previously he held senior management positions with firms including Dresdner Kleinwort Wasserstein, Donaldson Lufkin Jenrette, Commerzbank, Merrill Lynch and GFI Group. Mr Moss is a director of Black Pearl Capital Advisors Limited, a Cayman Islands hedge fund. He is also an advisor to Stanhill Capital Management, a privately held merchant bank located in London, Hong Kong and Singapore.

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2012

The directors submit their report together with the audited consolidated and Company financial statements for the year ended 31 March 2012 of Max Petroleum Plc and its subsidiaries

Results and dividend

The Group results are set out on page 40 and show a consolidated loss of US\$8.2 million for the year ended 31 March 2012 (2011: loss of US\$18.2 million)

The directors do not propose to pay a dividend

Principal activities

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 19 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. The Group holds a 100% interest in the Blocks A&E Licence area covering over 12,455 km² in the Pre-Caspian Basin in Western Kazakhstan.

Business review

The business review is incorporated by reference, forming part of this Directors' Report. Further information about the development and performance of the Group's business during the financial year and future prospects may be found in the pages below which form part of this report:

- The Joint Chairmen's Statement on page 3
- Business Review on pages 6 to 15
- Financial Review on pages 18 to 23
- The Corporate and Social Responsibility Report on pages 24 to 25

Principal risks and uncertainties

The Group's principal risk factors and uncertainties are set out in the Financial Review on pages 22 to 23.

Key performance indicators ("KPIs")

Details of KPIs used by management are set out on page 16.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 6 to 15. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 18 to 23. In addition, note 25 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

The Group finances its exploration and development activities using a combination of cash on hand, operating cash flow generated from the sale of crude oil production, borrowings under its Credit Facility, and additional debt or equity financing as required. The Group is in the last year of the exploration period of its Licence and requires approximately US\$10 to 15 million in additional exploration and appraisal capital for its shallow programme through March 2013, as well as additional capital for the future appraisal and development of its current and expected post-salt discoveries beyond fiscal year 2013.

The Group is currently producing approximately 3,700 bopd generating approximately US\$7 to 8 million per month in pre-tax revenue and significant net cash flow from operations, which is being applied in the near-term against trade payables relating to its exploration and appraisal activities and will be available to begin repaying borrowings under the Credit Facility in the medium term. The Group currently has limited or no additional borrowing capacity available under the Credit Facility. As of 15 August 2012, the Group had borrowed a total of US\$55.2 million under the Credit Facility, including a US\$3 million letter of credit. The Credit Facility matures on 31 March 2013 and requires that the Group begin making amortisation payments of US\$2 million per month beginning in July 2012. The Group did not make an amortisation payment in July 2012 and is in ongoing discussions with Macquarie regarding the use of its net cash flow from operations to fund its shallow drilling activities, as well as the timing and amount of principal payments required prior to 31 March 2013.

Although the ongoing discussions with Macquarie have been constructive, the Group does not anticipate that additional borrowings or deferred principal payments under the Credit Facility will be available to fund its remaining shallow exploration programme. As a result, the Group is in discussions with various sources of debt and equity capital, including several operating oil and gas companies, to provide financing to finish its shallow exploration portfolio, as well as to refinance, in whole or in part, the Credit Facility.

The Group also has US\$85.6 million in Bonds that mature on 8 September 2013 and require semi-annual interest payments of US\$2.9 million on 8 September and 8 March, respectively. The Group intends to restructure the terms of the Bonds in conjunction with any future refinancing of the Credit Facility. The Group has obtained written assurances from holders representing greater than 75% of the Bonds to defer the coupon payment due 8 September 2012 until 8 December 2012 pending a broader restructuring of the Group's outstanding debt.

In August 2012, the Group entered into a US\$7 million equity for services agreement with Zhanros Drilling LLP, whereby Zhanros will drill up to four post-salt wells and fund related ancillary services in exchange for up to 90,322,581 ordinary shares at a price of \$5 per share. While the Zhanros agreement does not inject any direct liquidity into the Group, it will allow for a portion of the shallow exploration portfolio to be drilled and assist in the Group's efforts to complete a broader capital restructuring.

The Group's efforts to raise traditional equity capital in the near term have been hampered by recent regulatory changes in the Republic of Kazakhstan that require the Company to list on the Kazakhstan Stock Exchange ("KASE") in order to obtain the regulatory consents necessary to conduct a traditional equity placement or rights offering. The Group understands that the KASE eligibility criteria are under review and may be amended in the near future such that the Company would be eligible to list on KASE, but the timing and ultimate resolution of this issue is uncertain.

Although the directors are working to resolve the Group's outstanding liquidity shortfall, there is an uncertainty that the Group will be able to extend or restructure the Credit Facility or its Bonds, or that additional debt or equity financing will be available. They have concluded that this factor, together with the other matters referred to above, results in the existence of a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern. Nevertheless, based on its current production and net cash flow from operations, ongoing discussions with Macquarie, Bondholders, and other potential sources of debt and equity capital, the directors have a reasonable expectation that the Group will continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Based on their short-term cash forecasts, the directors believe that the combination of these factors will provide sufficient working capital to enable the Group to continue trading and remain solvent. However, these forecasts are necessarily based on the achievement of timing and targets some of which, although believed to be reasonable by the directors, are nevertheless outside the Group's direct control. If significant delays or underperformance of production or revenue targets were to take place, these may render the Group's cash resources insufficient.

Directors

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

		Appointed	Ceased
James A Jeffs	Executive Co-Chairman	1 July 2005	—
Robert B Holland III	Executive Co-Chairman	27 April 2006	—
Michael B Young	President and Chief Financial Officer	22 January 2008	—
Lee O Kraus, Jr	Non-executive Director	10 June 2007	—
David R Belding	Non-executive Director	29 September 2005	—
Maksut S Narikbayev	Non-executive Director	10 October 2006	—

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' REPORT

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

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 range (pence)	Share options		Ordinary shares of 0.01p each	
		31 March 2012	31 March 2011	31 March 2012	31 March 2011
James A Jeffs	4.75–20.00	17,281,271	17,281,271	107,091	107,091
Robert B Holland III	4.75–20.00	11,000,000	11,000,000	96,732	96,732
Michael B Young	4.75–20.00	10,250,000	10,250,000	235,274	235,274
Lee O Kraus, Jr	4.75–18.75	3,125,000	3,125,000	50,000	50,000
David R Belding	4.75–20.00	4,500,000	4,500,000	4,142,729	4,142,729
Maksut S Narikbayev	4.75–20.00	5,125,000	5,125,000	–	–

Further details of the directors' interests in share options are provided in the Directors' Remuneration Report on pages 33 to 36

Substantial shareholders

At 31 March 2012 the following parties had notifiable major interests of 3% or greater in the nominal value of the Company's issued 0.01p ordinary shares

	2012	
	Number of shares	Percentage
Macquarie Energy Capital Ltd	199,981,965	19.64%
Henderson Global Investors	95,528,969	9.38%
TD Waterhouse	59,432,836	5.84%
Halifax Share Dealing Limited	55,805,461	5.48%
Barclays Stockbrokers Ltd	48,269,922	4.74%
Ceske spořitelny	40,845,581	4.01%
Kachshapov Family	36,000,000	3.53%
UBS Investment Bank	30,680,300	3.01%

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 the Kachshapov Family and various companies affiliated with the Kachshapov Family, 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 NV. The ROFR grants Composite Capital, or its designee, a preemption right to acquire up to 36 million ordinary shares in the Company beneficially owned by the Kachshapov Family within 30 business days of a proposed sale of such shares by the Kachshapov Family or their 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
- (iii) Pay in accordance with contractual and other obligations

The number of days of average daily purchases included in trade creditors at 31 March 2012 was 63 days (2011: 43 days)

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.

Financial instruments risk assessment

The directors' financial instruments risk assessment is disclosed in note 25 to the accompanying financial statements on page 67.

Share capital

The Company's authorised and issued share capital at 31 March 2012 is set out in note 29 to the accompanying financial statements on page 74.

Post balance sheet events

All post balance sheet events are described in note 37 to the accompanying financial statements on page 83.

Auditors

Each of the persons who is a director at the date of approval of this annual report confirms that

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

PricewaterhouseCoopers LLP, have indicated their willingness to continue in office as auditors 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 in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' REPORT

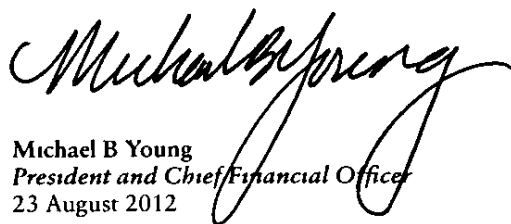
CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

The directors are responsible for the maintenance and integrity of the corporate and financial information on the Company's 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.

On behalf of the Board



Michael B Young
President and Chief Financial Officer
23 August 2012

DIRECTORS' REMUNERATION REPORT

FOR THE YEAR ENDED 31 MARCH 2012

In common with the Board's commitment to compliance with the UK Corporate Governance 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 37 and 38. 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 executive directors are eligible to participate in discretionary bonus arrangements. Bonuses are payable in cash and awarded by the Board, upon recommendations by the Compensation Committee.

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.

There have been no variations to the terms and conditions or performance criteria for share options during the year.

The share-based payment expense recognised in the income statement under IFRS 2 that relates to directors' share options amounts to US\$2.3 million (2011: US\$0.9 million).

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

DIRECTORS' REMUNERATION REPORT

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

Annual remuneration of directors

Remuneration paid to the directors in the year to 31 March 2012 was as follows

Table 1

	2012				2011	
	Salary US\$	Bonuses US\$	Fees US\$	Benefits US\$	Total US\$	Total US\$
J A Jeffs	–	–	180,000	–	180,000	120,000
R B Holland III	–	–	180,000	–	180,000	120,000
M B Young	393,750	–	–	47,286	441,036	859,635 ¹
L O Kraus, Jr	–	–	75,000	–	75,000	48,000
D R Belding	–	–	75,000	–	75,000	48,000
M S Narikbayev	–	–	125,000	–	125,000	118,250
	393,750	–	635,000	47,286	1,076,036	1,313,885

¹ Included bonus of US\$140,000 in respect of the year ended 31 March 2010, approved and paid in May 2010, and bonus of US\$225,000 in respect of the year ended 31 March 2011, approved and paid in March 2011. No bonuses were paid during the year ended 31 March 2012.

Directors' pension entitlements

The Company contributes to the 401(k) retirement savings plan of Michael B Young. The contributions paid by the Company during the year ended 31 March 2012 were US\$9,800 (2011: US\$9,800).

Directors' interests in the share capital of the Company

The interests of the directors who held office during the year ended 31 March 2012 are given in the Directors' Report.

There has been no change in the interest of any director between 1 April 2012 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 2012 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 2012	Option price (pence)	Date exercisable	Expiry date	Realised gains US\$ '000	Potentially realisable gains ⁷ US\$ '000
J A Jeffs	26 10 05	8,831,171 ¹	–	–	–	8,831,171	4 75 ⁸	26 10 06 ³	26 10 15	–	1,129
J A Jeffs	14 12 05	51,000 ²	–	–	–	51,000	4 75 ⁸	26 10 06 ³	26 10 15	–	6
J A Jeffs	06 01 06	1,280,100 ²	–	–	–	1,280,100	4 75 ⁸	26 10 06 ³	26 10 15	–	164
J A Jeffs	29 03 06	119,000 ²	–	–	–	119,000	4 75 ⁸	26 10 06 ³	26 10 15	–	15
J A Jeffs	13 10 09	2,000,000	–	–	–	2,000,000	18 75	13 10 10 ⁵	13 10 16	–	–
J A Jeffs	10 03 11	5,000,000	–	–	–	5,000,000	20 00	10 03 12 ⁵	10 03 18	–	–
R B Holland III	24 03 06	2,500,000	–	–	–	2,500,000	4 75 ⁸	24 03 07 ⁴	24 03 13	–	320
R B Holland III	29 10 07	1,000,000	–	–	–	1,000,000	4 75 ⁸	29 10 07 ⁶	29 10 14	–	128
R B Holland III	23 02 09	500,000	–	–	–	500,000	4 75	23 02 10 ⁵	23 02 16	–	64
R B Holland III	13 10 09	2,000,000	–	–	–	2,000,000	18 75	13 10 10 ⁵	13 10 16	–	–
R B Holland III	10 03 11	5,000,000	–	–	–	5,000,000	20 00	10 03 12 ⁵	10 03 18	–	–
M B Young	27 07 06	1,500,000	–	–	–	1,500,000	4 75 ⁸	27 07 07 ⁴	27 07 13	–	192
M B Young	29 10 07	500,000	–	–	–	500,000	4 75 ⁸	29 10 08 ⁵	29 10 14	–	64
M B Young	23 02 09	1,000,000	–	–	–	1,000,000	4 75	23 02 10 ⁵	23 02 16	–	128
M B Young	13 10 09	2,250,000	–	–	–	2,250,000	18 75	13 10 10 ⁵	13 10 16	–	–
M B Young	10 03 11	5,000,000	–	–	–	5,000,000	20 00	10 03 12 ⁵	10 03 18	–	–
L O Kraus, Jr	31 05 07	1,500,000	–	–	–	1,500,000	4 75 ⁸	31 05 08 ⁴	31 05 14	–	192
L O Kraus, Jr	29 10 07	1,000,000	–	–	–	1,000,000	4 75 ⁸	29 10 07 ⁶	29 10 14	–	128
L O Kraus, Jr	13 10 09	625,000	–	–	–	625,000	18 75	13 10 10 ⁵	13 10 16	–	–
D R Belding	26 10 05	2,000,000	–	–	–	2,000,000	4 75 ⁸	26 10 06 ⁴	26 10 12	–	256
D R Belding	13 10 09	500,000	–	–	–	500,000	18 75	13 10 10 ⁵	13 10 16	–	–
D R Belding	10 03 11	2,000,000	–	–	–	2,000,000	20 00	10 03 12 ⁵	10 03 18	–	–
M S Narikbayev	10 10 06	2,000,000	–	–	–	2,000,000	4 75 ⁸	10 10 07 ⁴	10 10 13	–	256
M S Narikbayev	13 10 09	1,125,000	–	–	–	1,125,000	18 75	13 10 10 ⁵	13 10 16	–	–
M S Narikbayev	10 03 11	2,000,000	–	–	–	2,000,000	20 00	10 03 12 ⁵	10 03 18	–	–
		51,281,271	–	–	–	51,281,271				–	3,042

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 17.5% 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 one third on first anniversary of date of grant and one third on second and third anniversaries of date of grant

6 Exercisable one third on date of grant, one third on first anniversary of grant and one third on second anniversary of grant

7 Calculated as the difference between the option price and closing market price at 31 March 2012 for those share options exercisable at 31 March 2012

8 Original exercise price changed to 4.75p on 23 February 2009

DIRECTORS' REMUNERATION REPORT

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

Mid-market prices of the Company's ordinary 0.01p shares during the year and at the balance sheet date were as follows

	2012		2011	
	US\$	Pence	US\$	Pence
High	0.29	18.3	0.40	25.0
Low	0.16	9.9	0.15	9.3
Closing	0.20	12.8	0.26	16.0

Approval

This report was approved by the Board of Directors and signed on its behalf by

David R Belding
Chairman of the Compensation Committee
 23 August 2012

CORPORATE GOVERNANCE REPORT

FOR THE YEAR ENDED 31 MARCH 2012

Although Max Petroleum Plc, as an AIM quoted company, is not required to comply with the UK Corporate Governance Code that was issued in 2010 by the Financial Reporting Council (the "Code"), 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 Code during the year ended 31 March 2012 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
Robert B Holland III	Executive Co-Chairman
Michael B Young	Executive Director (President and Chief Financial Officer)
Lee O Kraus, Jr	Non-executive Director
David R Belding	Non-executive Director
Maksut S Narikbayev	Non-executive Director

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

The 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. Mr Belding is the Compensation Committee Chairman. 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 33 to 36

Executive Committee

The Executive Committee comprises Messrs Jeffs, Holland, and Young and is responsible for the strategic oversight of the Group

Advisory Committee

During the year ended 31 March 2012, the Advisory Committee comprised Messrs James C Langdon and Peter B Moss, Jr, 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

CORPORATE GOVERNANCE REPORT

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

Board meetings

The Board met three times during the financial year (2011 four times) with the following attendance

	2012	2011
J A Jeffs	3	4
R B Holland III	3	4
M B Young	3	4
L O Kraus, Jr	2	4
D R Belding	2	4
M S Narikbayev	1	2

Investor relations

The Board is committed to provide regular communication with shareholders. During the year ended 31 March 2012, Tom C Randell served as Director of Investor Relations.

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 2012 which comprise the Consolidated and Company Income Statements, Consolidated and Company Statements of Comprehensive Income, Consolidated and Company Balance Sheets, Consolidated and Company Statements of Changes in Equity, Consolidated and Company Cash Flow Statements, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors
As explained more fully in the Statement of directors' responsibilities set out on page 31, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and parent company's affairs as at 31 March 2012 and of the group's and parent company's loss and cash flows for the year then ended,

- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Emphasis of matter

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 2 to the financial statements concerning the Group's ability to continue as a going concern. While the Group has been involved in ongoing efforts to resolve the Group's outstanding liquidity shortfall, there is an uncertainty that the Group will be able to continue to borrow funds under the Credit Facility and that additional equity or debt financing will be available. These circumstances, along with the other matters explained in Note 2 to the financial statements, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Jason Burkitt (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 August 2012

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

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

CONSOLIDATED AND COMPANY INCOME STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

(IN THOUSANDS OF US\$)

	Note	Group		Company	
		Year ended 31 March		Year ended 31 March	
		2012	2011	2012	2011
Revenue	5	50,243	55,309	2,122	2,519
Cost of sales	6	(33,520)	(38,422)	(1,928)	(2,289)
Gross profit		16,723	16,887	194	230
Exploration and appraisal costs		(4,360)	(7,007)	–	–
Impairment losses	7	–	–	(61)	(2,330)
Administrative expenses		(17,799)	(15,031)	(6,467)	(5,201)
Operating loss		(5,436)	(5,151)	(6,334)	(7,301)
Finance income	8	20	12	356	255
Finance costs	9	(2,672)	(12,991)	(11,134)	(20,894)
Loss before taxation		(8,088)	(18,130)	(17,112)	(27,940)
Income tax expense	10	(63)	(112)	(52)	(38)
Loss for the year	11	(8,151)	(18,242)	(17,164)	(27,978)
Loss per share					
– Basic and diluted (US cents)	15	(0.8)	(3.8)		

The notes on pages 46 to 83 are an integral part of these financial statements

CONSOLIDATED AND COMPANY STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

(IN THOUSANDS OF US\$)

	Group		Company	
	Year ended 31 March		Year ended 31 March	
	2012	2011	2012	2011
Loss for the year	(8,151)	(18,242)	(17,164)	(27,978)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	(8,151)	(18,242)	(17,164)	(27,978)

The notes on pages 46 to 83 are an integral part of these financial statements

CONSOLIDATED AND COMPANY BALANCE SHEETS

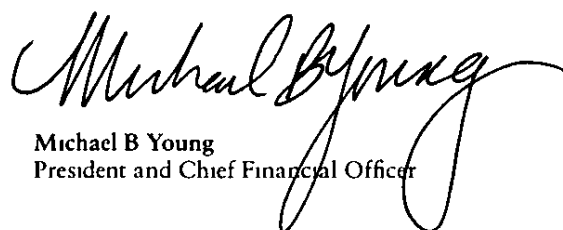
AT 31 MARCH 2012

(IN THOUSANDS OF US\$)

	Note	Group		Company	
		At 31 March		At 31 March	
		2012	2011	2012	2011
Assets					
Non-current assets					
Intangible assets – exploration and appraisal expenditure	16	175,638	147,796	–	–
Oil and gas properties	17	65,957	27,518	–	–
Property, plant and equipment	18	14,803	10,717	30	62
Investments in subsidiaries	19	–	–	130,504	128,402
Trade and other receivables	20	5,488	–	–	–
		261,886	186,031	130,534	128,464
Current assets					
Inventories	21	12,659	13,268	–	–
Trade and other receivables	20	4,283	7,124	173,825	120,938
Cash and cash equivalents	22	3,631	25,534	1,203	20,674
		20,573	45,926	175,028	141,612
Total assets		282,459	231,957	305,562	270,076
Liabilities					
Non-current liabilities					
Borrowings	23	80,872	77,989	80,872	77,989
Provision for liabilities and other charges	27	2,828	1,525	–	–
		83,700	79,514	80,872	77,989
Current liabilities					
Trade and other payables	28	32,918	18,102	3,517	3,320
Current tax liabilities		–	9,919	–	–
Borrowings	23	50,170	6,026	50,170	6,026
		83,088	34,047	53,687	9,346
Total liabilities		166,788	113,561	134,559	87,335
Net assets		115,671	118,396	171,003	182,741
Capital and reserves					
Share capital	29	8,035	8,020	8,035	8,020
Share premium	30	364,381	356,598	364,381	356,598
Other reserves	31	112,074	114,446	184,569	186,941
Accumulated deficit		(368,819)	(360,668)	(385,982)	(368,818)
Total equity		115,671	118,396	171,003	182,741

The notes on pages 46 to 83 are an integral part of these financial statements

The financial statements of Max Petroleum Plc (registered number 05419021) were approved by the Board of Directors and authorised for issue on 23 August 2012. They were signed on its behalf by



Michael B Young
President and Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2012

(IN THOUSANDS OF US\$)

	Note	Share capital	Share premium	Other reserves	Accumulated deficit	Total equity
Balance at 1 April 2010		7,942	265,043	108,691	(342,426)	39,250
Loss for the year		–	–	–	(18,242)	(18,242)
Other comprehensive income		–	–	–	–	–
Total comprehensive loss for the year		–	–	–	(18,242)	(18,242)
Issue of share capital	29, 30	78	91,555	(643)	–	90,990
Share-based payment	31	–	–	1,961	–	1,961
Convertible bond interest deferral, equity portion	31	–	–	412	–	412
Warrants issued	31	–	–	4,025	–	4,025
		78	91,555	5,755	–	97,388
Balance at 31 March 2011		8,020	356,598	114,446	(360,668)	118,396
Loss for the year		–	–	–	(8,151)	(8,151)
Other comprehensive income		–	–	–	–	–
Total comprehensive loss for the year		–	–	–	(8,151)	(8,151)
Issue of share capital	29, 30	15	7,783	(7,340)	–	458
Share-based payment	31	–	–	4,968	–	4,968
		15	7,783	(2,372)	–	5,426
Balance at 31 March 2012		8,035	364,381	112,074	(368,819)	115,671

The notes on pages 46 to 83 are an integral part of these financial statements

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

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2012

(IN THOUSANDS OF US\$)

	Note	Share capital	Share premium	Other reserves	Accumulated deficit	Total equity
Balance at 1 April 2010		7,942	265,043	181,186	(340,840)	113,331
Loss for the year		-	-	-	(27,978)	(27,978)
Other comprehensive income		-	-	-	-	-
Total comprehensive loss for the year		-	-	-	(27,978)	(27,978)
Issue of share capital	29, 30	78	91,555	(643)	-	90,990
Share-based payment	31	-	-	1,961	-	1,961
Convertible bond interest deferral, equity portion	31	-	-	412	-	412
Warrants issued	31	-	-	4,025	-	4,025
		78	91,555	5,755	-	97,388
Balance at 31 March 2011		8,020	356,598	186,941	(368,818)	182,741
Loss for the year		-	-	-	(17,164)	(17,164)
Other comprehensive income		-	-	-	-	-
Total comprehensive loss for the year		-	-	-	(17,164)	(17,164)
Issue of share capital	29, 30	15	7,783	(7,340)	-	458
Share-based payment	31	-	-	4,968	-	4,968
		15	7,783	(2,372)	-	5,426
Balance at 31 March 2012		8,035	364,381	184,569	(385,982)	171,003

The notes on pages 46 to 83 are an integral part of these financial statements

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

(IN THOUSANDS OF US\$)

	Note	Group		Company	
		2012	2011	2012	2011
Cash flows from operating activities					
Cash generated from/(used in) operations	33	28,273	16,668	(55,782)	(10,131)
Income tax paid		(9,661)	(2,291)	–	–
Net cash generated from/(used in) operating activities		18,612	14,377	(55,782)	(10,131)
Cash flows from investing activities					
Purchases of property, plant and equipment		(5,822)	(268)	(33)	–
Payment for exploration and appraisal expenditure and oil and gas properties		(67,034)	(22,721)	–	–
Disposal of subsidiary	19	–	2,000	–	–
Interest received		20	12	12	2
Net cash (used in)/generated from investing activities		(72,836)	(20,977)	(21)	2
Cash flows from financing activities					
Proceeds from issuance of ordinary shares	29, 30	458	81,166	458	81,166
Settlement of forward contract		–	(469)	–	(469)
Proceeds from borrowings	23	44,144	12,272	44,144	12,272
Repayment of borrowings	23	–	(55,000)	–	(55,000)
Interest paid		(12,224)	(9,657)	(8,251)	(8,607)
Net cash generated from financing activities		32,378	28,312	36,351	29,362
Net (decrease)/increase in cash and cash equivalents		(21,846)	21,712	(19,452)	19,233
Effects of exchange rates on cash and cash equivalents		(57)	16	(19)	14
Cash and cash equivalents at beginning of year	22	25,534	3,806	20,674	1,427
Cash and cash equivalents at end of year	22	3,631	25,534	1,203	20,674

The notes on pages 46 to 83 are an integral part of these financial statements

See note 33 for major non-cash transactions

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

1. General information

Max Petroleum Plc ("Max Petroleum" or the "Company") and its subsidiaries (together the "Group") is in the business of exploration, development and production of oil and gas assets within the Republic of Kazakhstan. The Group owns the exploration and production rights to the Blocks A&E Licence (the "Licence"), which comprises two onshore blocks extending over 12,455 km² in the Pre-Caspian Basin in Western Kazakhstan. The nature of the Group's operations and principal activities is discussed further in the Business Review on pages 6 to 15.

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. Basis of preparation

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

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 4. 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.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the asset. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 March each year. Subsidiaries are all entities over which the Company 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 Company controls another entity.

A list of the subsidiaries has been included in note 19.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from the effective date of the acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Going concern

At the date of this report, there is a combination of circumstances which results in the existence of a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern. The combination of circumstances giving rise to the material uncertainty is discussed in the Directors' Report on pages 28 and 29. After making enquiries and considering the circumstances discussed on pages 28 and 29, the directors have, at the time of approving the financial statements, a reasonable expectation that the Company and Group will have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

3.1 Adoption of new and revised standards

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the financial statements for the year ended 31 March 2011, except for the adoption of the following standards and amendments

- Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters
- IAS 24 (revised November 2009) Related Party Disclosures
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Improvements to IFRSs (2010)

The adoption of the above new and revised standards has had no effect on the reported financial results or the disclosures in these financial statements, but may impact the accounting for future transactions and arrangements

For the year ended 31 March 2012, the Group early adopted the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2011 (Statutory Instrument 2011/2198) This amended the list of categories used to disclose auditors' remuneration (note 14) Comparative disclosures for the year ended 31 March 2011 were adjusted to conform with this change in presentation

Accounting Standards and Interpretations issued but not yet adopted

At the date of authorisation of these financial statements the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not been endorsed by the European Union)

- | | |
|--------------------------------|--|
| — Amendments to IFRS 1 | Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters |
| — Amendments to IFRS 7 | Financial Instruments Disclosures (Transfers of Financial Assets) |
| — Amendments to IFRS 7 | Financial Instruments Disclosures (Offsetting Financial Assets and Financial Liabilities) |
| — IFRS 9 | Financial Instruments |
| — IFRS 10 | Consolidated Financial Statements |
| — IFRS 11 | Joint Arrangements |
| — IFRS 12 | Disclosure of Interests in Other Entities |
| — IFRS 13 | Fair Value Measurement |
| — Amendments to IAS 1 | Presentation of Financial Statements (Presentation of Items of Other Comprehensive Income) |
| — Amendments to IAS 12 | Income Taxes (Deferred Tax Recovery of Underlying Assets) |
| — Amendments to IAS 32 | Financial Instruments Presentation (Offsetting Financial Assets and Financial Liabilities) |
| — IAS 19 (revised June 2011) | Employee Benefits |
| — IAS 27 (revised May 2011) | Separate Financial Statements |
| — IAS 28 (revised May 2011) | Investments in Associates and Joint Ventures |
| — IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine |
| — Improvements to IFRSs (2011) | |

The assessment of the impact of the above Standards and Interpretations on the Group's accounting policies and on the presentation of the financial statements is at an early stage but there is not expected to be a significant impact on the financial statements of the Group in future periods, except for the adoption of IFRS 9 Financial Instruments which, depending on future transactions and arrangements, could potentially impact the measurement and disclosure of financial instruments

3.2 Significant accounting policies

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree Acquisition-related costs are recognised in profit or loss as incurred

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

3.2 Significant accounting policies continued

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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 straight-line over a period of the lower of 25 years, the remaining licence period or the expected life of the reserves from the date the seismic data has been fully evaluated. In line with IFRS 6, any pre-acquisition licence costs are directly expensed to the income statement.

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

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

Oil and gas properties

Development expenditure is stated at cost less accumulated depletion and amortisation and any impairment in value.

The cost of oil and gas properties is amortised over the total estimated reserves using a unit-of-production method. The unit-of-production rate takes into account expenditure incurred to date, together with estimated future development expenditure required to develop the underlying proved and commercial 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.

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 also the Functional Currency of the Company and its subsidiaries.

The average and year-end historical exchange rates between the US dollar and other currencies in which the Group has transacted were:

	2012		2011	
	Average rate	Closing rate	Average rate	Closing rate
British pounds ("GBP")	1.60	1.60	1.56	1.60
Kazakh tenge ("KZT")	147.05	147.77	147.01	145.70

3.2 Significant accounting policies continued

Property, plant and equipment

Property, plant and equipment is stated in the balance sheet at cost, less accumulated depreciation and any provision for impairment

The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset

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, as follows

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	5–10 years
Motor vehicles	5 years

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

Inventories

Crude oil inventories are stated 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. Net realisable value represents the estimated selling price less costs to be incurred in marketing, selling, and distribution

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 its value in use. For the purposes of assessing impairment, the exploration and appraisal expenditure subject to testing is grouped with existing cash-generating units of production fields that are located in the same geographical region

Impairment – oil and gas properties

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

Impairment – property, plant and equipment

At each balance sheet date, the Group reviews the carrying amount of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs

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 or oil and gas properties and is amortised on a unit-of-production basis as part of the depreciation, depletion and amortisation charge

The increase in the provision due to the passage of time is treated as a component of finance costs

Any adjustments to the provision arising from reassessment of the estimated cost of decommissioning are added to, or deducted from the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

3.2 Significant accounting policies continued

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 substantively 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, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Investments in subsidiaries

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

Financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

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.

Financial assets

Financial assets are classified into the following categories: financial assets "at fair value through profit or loss" ("FVTPL"), "held-to-maturity" investments, "available-for-sale" ("AFS") financial assets and "loans and receivables". The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

3.2 Significant accounting policies continued

(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.

Loans and receivables are initially measured at fair value and subsequently 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) 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 uncollectable, 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.

(c) Cash and cash equivalents

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

Financial liabilities and equity

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

(a) Equity instruments

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

(b) Trade payables

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

(c) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred, 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.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

3.2 Significant accounting policies continued

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

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

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

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 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 payment

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.

Pension obligations

The Group makes contributions to the 401(k) retirement savings plans of certain of its US based employees and directors. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

The Group does not incur any expenses in relation to pensions for its employees in other countries. 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.

4 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. Refer to page 85 of the glossary for further information on probabilities associated with proved, probable and possible reserves.

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 ongoing 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.

5 Operating segments

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

Geographical information

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

Revenue

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

	2012 US\$'000	2011 US\$'000
Republic of Kazakhstan – domestic sales	44,227	5,658
Republic of Kazakhstan – export sales	6,016	49,651
	50,243	55,309

Included in revenues arising from sales from the Republic of Kazakhstan are revenues of US\$30.5 million which arose from the Group's largest customer (2011 sales to Group's largest customer of US\$49.7 million).

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

5 Operating segments continued

Non-current assets

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

	2012 US\$'000	2011 US\$'000
United Kingdom	30	62
USA	57	151
Republic of Kazakhstan	261,799	185,818
	261,886	186,031

6 Cost of sales

	Group	
	2012 US\$ 000	2011 US\$'000
Production costs	8,248	5,804
Selling and transportation	6,379	5,441
Mineral extraction tax	1,203	2,768
Export customs duty/export rent tax	1,629	10,678
Depreciation, depletion and amortisation	16,061	13,731
	33,520	38,422

The cost of crude oil inventories recognised as an expense and included in cost of sales amounted to US\$18.7 million (2011 US\$16.1 million)

7. Impairment losses

	Group		Company	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$ 000
Impairment of loans from the Company to its subsidiaries (note 20)	–	–	60	2,328
Impairment of other amounts due from subsidiaries (note 20)	–	–	1	2
	–	–	61	2,330

8. Finance income

	Group		Company	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$ 000
Interest income on short-term bank deposits	9	12	–	2
Other interest income	11	–	11	–
Intercompany interest income	–	–	345	253
Finance income	20	12	356	255

9 Finance costs

	Group		Company	
	2012 US\$'000	2011 US\$ 000	2012 US\$'000	2011 US\$'000
Interest expense				
Interest payable on bank borrowings (note 23)	2,473	5,719	2,473	5,719
Interest payable on convertible bond (note 23)	8,660	14,706	8,660	14,706
Unwinding of discount on decommissioning provision (note 27)	134	126	–	–
Other finance costs	396	2,234	1	469
	11,663	22,785	11,134	20,894
Less				
Interest expense capitalised to exploration and appraisal expenditure	(8,991)	(9,794)	–	–
Finance costs	2,672	12,991	11,134	20,894

9 Finance costs continued

Interest payable on the Bonds for the year ended 31 March 2011 included US\$4.0 million in relation to the fair value of the warrant exercisable into 30 million ordinary shares which vested as a result of the Company's election to defer convertible bond cash interest due on 8 September 2010 (see note 31).

Other finance costs include interest of US\$0.3 million (2011: US\$1.6 million) payable to the tax authorities of the Republic of Kazakhstan in relation to the Tax Claim brought against the Group (see note 10). Other finance costs for the year ended 31 March 2011 also included a loss on settlement of a forward foreign exchange contract of US\$0.5 million.

Interest expense of US\$9.0 million (2011: US\$9.8 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 11% (2011: 15%) to the average cumulative expenditure on such assets. The borrowing costs capitalised are included in "additions" to intangible assets – exploration and appraisal expenditure.

10. Income tax expense

	Group		Company	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Current tax				
Current tax on profits for the year	52	112	52	38
Adjustments in respect of prior years	11	–	–	–
Total current tax	63	112	52	38
Deferred tax (note 26)	–	–	–	–
Income tax expense	63	112	52	38

The Group's principal business activities are in the Republic of Kazakhstan, where corporate income tax ("CIT") applies at a rate of 20% of taxable income. Taxes on the production and sale of hydrocarbons are accounted for as cost of sales (see note 6). 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 26% (2011: 28%) applicable to the loss of the Group, as follows:

	Group	
	2012 US\$'000	2011 US\$'000
Loss before taxation	(8,088)	(18,130)
Tax calculated at 26% (2011: 28%)	(2,103)	(5,076)
Effect of lower foreign tax rates	(850)	(260)
Expenses not deductible for tax purposes/non-taxable income	2,209	592
Adjustments in respect of prior years	11	–
Temporary differences not recognised	796	4,856
Income tax expense	63	112

The tax on the Company's loss before tax differs from the theoretical amount that would arise using the UK statutory rate of 26% (2011: 28%) applicable to the loss of the Company, as follows:

	Company	
	2012 US\$'000	2011 US\$'000
Loss before taxation	(17,112)	(27,940)
Tax calculated at 26% (2011: 28%)	(4,449)	(7,823)
Expenses not deductible for tax purposes/non-taxable income	877	1,244
Temporary differences not recognised	3,624	6,617
Income tax expense	52	38

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

10 Income tax expense continued

Tax Claim

During the year ended 31 March 2012 the Group paid US\$13.8 million in full settlement of a tax claim brought against the Group by the local tax authorities of the Republic of Kazakhstan (the "Tax Claim")

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

Including amounts paid in previous years towards the Tax Claim, in aggregate US\$18.8 million has been settled, comprising US\$9.9 million of income taxes, penalties of US\$4.9 million and interest of US\$4.0 million.

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

The final legal appeal to review the Tax Claim was rejected by the Supervisory Panel of the Supreme Court of the Republic of Kazakhstan during the current year. The Group expects to recover the majority of the economic value of the Tax Claim through subsequent depreciation deductions that will offset future taxable income.

11 Loss for the year

Loss for the year is stated after charging

	Group		Company	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Exchange loss	70	720	21	494
Staff costs, net of capitalisation	7,496	8,057	1,180	1,613
Operating lease rentals (note 35)	2,291	1,589	247	250
Depreciation, depletion and amortisation (note 12)	16,520	14,306	65	108
Impairment losses (note 7)	–	–	61	2,330
Exploration and appraisal costs	4,360	7,007	–	–
Share-based payments, net of capitalisation	4,898	1,842	2,866	1,213
Auditors' remuneration (note 14)	506	645	299	391

Exploration and appraisal costs for the year ended 31 March 2011 are presented net of US\$2.0 million proceeds from the disposal of Alga Caspiygas LLP (see note 19).

12 Depreciation, depletion and amortisation

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

	Group							
	2012		2011					
	Intangible assets – exploration and appraisal expenditure US\$'000	Oil and gas properties US\$'000	Property, plant and equipment US\$'000	Total US\$'000	Intangible assets – exploration and appraisal expenditure US\$'000	Oil and gas properties US\$'000	Property, plant and equipment US\$'000	Total US\$'000
Cost of sales	6,830	7,814	1,417	16,061	6,204	6,457	1,070	13,731
Administrative expenses	41	–	418	459	30	–	545	575
Total	6,871	7,814	1,835	16,520	6,234	6,457	1,615	14,306

A portion of depreciation, depletion and amortisation is also included in crude oil inventory valuation at each balance sheet date.

12 Depreciation, depletion and amortisation continued

	Company	
	2012 Property, plant and equipment US\$'000	2011 Property, plant and equipment US\$'000
Administrative expenses	65	108

13. Employees and key management

The monthly average number of staff employed during the financial year was as follows

	Group		Company	
	2012 Number	2011 Number	2012 Number	2011 Number
Administrative	68	71	5	6
Exploration and production operations	87	78	–	–
Directors	6	6	6	6
	161	155	11	12

Staff costs in respect of those directors and employees were as follows

	Group		Company	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Wages and salaries	11,862	12,385	1,119	1,495
Social security	1,144	1,209	61	114
Pension costs – defined contribution plans	52	54	–	5
Share options granted to directors and employees	4,968	1,961	2,866	1,213
	18,026	15,609	4,046	2,827

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 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

	2012 US\$'000	2011 US\$'000
Salaries and short-term employee benefits	1,076	1,314
Post-employment benefits	10	10
Share-based payment	2,298	918
	3,384	2,242

None of the Company's directors exercised share options while serving in their capacity as directors during the years ended 31 March 2012 and 2011, respectively

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

14 Auditors' remuneration

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

	Group	
	2012 US\$ 000	2011 US\$ 000
Fees payable to the Company's auditor and their associates for the audit of the Company's annual financial statements	307	336
Fees payable to the Company's auditor and their associates for other services to the Group		
– The audit of the Company's subsidiaries	44	106
– Audit-related assurance services ¹	117	123
– Taxation compliance services	34	26
– Other taxation advisory services	–	33
– Other assurance services	–	21
– Other services	4	–
Total	506	645

¹ Includes interim review

15 Loss per share

	Group	
	2012	2011
Loss attributable to owners of the Company (US\$'000)	(8,151)	(18,242)
Weighted average number of ordinary shares in issue (thousands)	969,447	484,236
Basic and diluted loss per share (US cents)	(0.8)	(3.8)

Basic loss per share

Basic loss per share is calculated by dividing the loss attributable to owners 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 year 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 2012 and 2011, respectively

16 Intangible assets – exploration and appraisal expenditure

	Group Total US\$ 000
Cost	
At 1 April 2010	262,087
Additions	29,508
Disposals	(115,136)
Amounts written off to exploration and appraisal costs	(8,997)
Change in estimate for decommissioning provision	(23)
At 31 March 2011	167,439
Additions	70,327
Disposals	–
Amounts written off to exploration and appraisal costs	(4,360)
Transfers to oil and gas properties	(31,156)
Transfers to property, plant and equipment	(786)
Change in estimate for decommissioning provision	623
At 31 March 2012	202,087
Accumulated amortisation and impairment	
At 1 April 2010	128,598
Amortisation charge for the year	6,234
Disposals	(115,189)
At 31 March 2011	19,643
Amortisation charge for the year	6,871
Disposals	(3)
Transfers to oil and gas properties	(62)
At 31 March 2012	26,449
Net book value	
At 31 March 2011	147,796
At 31 March 2012	175,638

Included within exploration and appraisal expenditures at 31 March 2012 was a decommissioning asset of US\$0.4 million (2011 US\$0.2 million). At 31 March 2012, the Group had entered into contractual commitments for the acquisition of intangible assets amounting to US\$1.4 million (2011 US\$1.8 million).

In assessing whether there were any indicators of impairment for intangible exploration and appraisal expenditure, management considered the carrying value of the assets compared to their expected recoverable amounts. The assessment for Blocks A&E was based on an estimate of the value of the estimated mean risked resources in the Licence area. While this estimate is very uncertain due to the risks inherent to oil and gas exploration, management of the Company is comfortable that the fair value of the Group's Blocks A&E exploration assets significantly exceeds its book value.

The net book value of exploration and appraisal expenditure at 31 March 2012 includes US\$27.0 million directly relating to the NUR-1 pre-salt well (2011 US\$0.3 million). The Group suspended drilling of NUR-1 and released the rig in July 2012, see note 37.

Astrakhansky Licence

In January 2011, the Group relinquished control of the Astrakhansky Licence to the Ministry of Oil and Gas of the Republic of Kazakhstan after failing to comply with the work obligations stipulated under the licence and therefore, recorded a disposal of the related assets during the year ended 31 March 2011. The Group had previously recorded a charge of US\$116.2 million to impair the related assets to US\$nil during the year ended 31 March 2010, including US\$115.1 million classified as exploration and appraisal assets.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

17 Oil and gas properties

	Group Total US\$ 000
Cost	
At 1 April 2010	37,814
Additions	7,887
Change in estimate for decommissioning provision	(129)
At 31 March 2011	45,572
Additions	14,713
Transfers from exploration and appraisal expenditure	31,156
Change in estimate for decommissioning provision	546
At 31 March 2012	91,987
Accumulated depletion and amortisation	
At 1 April 2010	11,642
Charge for the year	6,412
At 31 March 2011	18,054
Charge for the year	7,914
Transfers from exploration and appraisal expenditure	62
At 31 March 2012	26,030
Net book value	
At 31 March 2011	27,518
At 31 March 2012	65,957

Included within oil and gas properties at 31 March 2012 was a decommissioning asset of US\$1.1 million (2011 US\$0.2 million)

In assessing whether there were any indicators of impairment for oil and gas producing assets and associated property, plant and equipment (notes 17 and 18) at 31 March 2012, management considered the carrying value of the assets compared to their expected recoverable amounts. The expected recoverable amounts for the Group's producing fields were based on the competent person's report at 31 March 2012. The results of the comparison indicate that the discounted future net income from extracting the Group's proved and probable reserves significantly exceed the book value of the assets.

In estimating the expected recoverable amount of its producing fields, forecast production rates were based on historical performance from wells now on production. Test data and other related information were used to estimate the anticipated initial production rates for those wells or locations that are not currently producing. An estimated rate of decline was then applied to the depletion of reserves. The revenue assumptions depend on the anticipated full field development date for each field. Prior to full field development, all production is sold domestically within Kazakhstan and once full field development has been achieved, 80% of production is allocated to international sales and 20% to domestic sales. The international sales price is based on a Brent crude futures strip covering the period to 2033, where prices per barrel range from US\$94 to US\$123. The domestic sales price estimates commence at US\$53/bbl in 2012 and are escalated at 2% annually. The discount rate used was 10%.

18. Property, plant and equipment

	Group				
	Improvements to leasehold property US\$ '000	Office systems, equipment and furniture US\$ '000	Plant and equipment US\$ '000	Motor vehicles US\$ '000	Total US\$ '000
Cost					
At 1 April 2010	422	2,067	12,704	917	16,110
Additions	–	27	239	2	268
At 31 March 2011	422	2,094	12,943	919	16,378
Additions	–	54	4,810	305	5,169
Transfers from exploration and appraisal expenditure	–	–	786	–	786
Disposals	–	(75)	–	–	(75)
At 31 March 2012	422	2,073	18,539	1,224	22,258
Accumulated depreciation					
At 1 April 2010	271	1,087	2,270	431	4,059
Charge for the year	94	349	979	180	1,602
At 31 March 2011	365	1,436	3,249	611	5,661
Charge for the year	57	249	1,367	196	1,869
Disposals	–	(75)	–	–	(75)
At 31 March 2012	422	1,610	4,616	807	7,455
Net book value					
At 31 March 2011	57	658	9,694	308	10,717
At 31 March 2012	–	463	13,923	417	14,803

At 31 March 2012, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to US\$1 0 million (2011 US\$1 2 million)

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

18 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 2010	422	164	586
Additions	–	–	–
At 31 March 2011	422	164	586
Additions	–	33	33
Disposals	–	(75)	(75)
At 31 March 2012	422	122	544
Accumulated depreciation			
At 1 April 2010	271	145	416
Charge for the year	94	14	108
At 31 March 2011	365	159	524
Charge for the year	57	8	65
Disposals	–	(75)	(75)
At 31 March 2012	422	92	514
Net book value			
At 31 March 2011	57	5	62
At 31 March 2012	–	30	30

19. Investments in subsidiaries

	Company	
	2012 US\$'000	2011 US\$'000
Cost		
At 1 April	207,679	206,931
Capital contribution to subsidiaries related to share-based payment	2,102	748
At 31 March	209,781	207,679
Provision for impairment		
At 1 April	(79,277)	(79,277)
Impairment loss for the year (note 7)	–	–
At 31 March	(79,277)	(79,277)
Net book value at 31 March	130,504	128,402

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

19 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
Samek International LLP	Kazakhstan	100% ¹	100%	Operating company	31 December
Max Exploration Services, Inc	USA	100%	100%	Operating company	31 December
Madiran Investment B V	Netherlands	100%	100%	Holding company	31 December
Max Astrakhanskiy Holdings B V	Netherlands	100% ¹	100%	Holding company	31 March
Max Petroleum Holdings B V	Netherlands	100%	100%	Holding company	31 March
Cooperative Samek U A	Netherlands	100% ¹	100%	Cooperative	31 December
Cooperative Alga U A	Netherlands	100% ¹	100%	Cooperative	31 December
Max Petroleum Astrakhanskiy Holding Ltd	British Virgin Islands	100%	100%	Holding company	31 March
Vasse Investments Ltd	British Virgin Islands	100% ¹	100%	Holding company	31 March

¹ Indirect shareholding of Parent Company

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

The Company disposed of its indirectly held subsidiary Alga Caspiygas LLP on 27 January 2011 for cash consideration of US\$2.0 million. A gain of US\$2.0 million arose on disposal, being the proceeds of disposal less the carrying amount of the subsidiary's net assets, and was included in the consolidated income statement for the year ended 31 March 2011 within exploration and appraisal costs.

20 Trade and other receivables

	Group		Company	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Trade receivables	–	1,460	–	–
Advances to suppliers	1,297	1,543	–	–
Other prepayments	653	518	180	203
Loans from the Company to its subsidiaries ¹ (note 34)	–	–	169,624	116,935
Other amounts due from subsidiaries (note 34)	–	–	3,745	3,381
Other receivables	7,821	3,603	276	419
	9,771	7,124	173,825	120,938
Non-current portion	(5,488)	–	–	–
Current portion	4,283	7,124	173,825	120,938

¹ Loans from the Company to its subsidiaries are repayable on demand. The loans are non-interest bearing, except for a loan of US\$45.5 million (2011: US\$40.2 million) which bears interest at the rate of two times LIBOR (US\$ 90 day).

Group

Other receivables include recoverable Kazakh VAT of US\$7.2 million (2011: US\$2.7 million).

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

20. Trade and other receivables continued

Impairment losses

The movements in the Group and Company provisions for impairment of trade and other receivables were as follows

	Group		Company	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Balance at the beginning of the year	-	1,064	147	38,104
Impairment losses recognised	-	-	61	2,330
Amounts written off during the year as uncollectible	-	-	-	(40,287)
Disposal of subsidiary	-	(1,064)	-	-
Balance at the end of the year	-	-	208	147

Further disclosure on the credit quality of financial assets that are neither past due nor impaired and the Group's policy for managing credit risk can be found in note 25

Group

The Group's other receivables are stated net of a provision for impairment of US\$nil (2011 US\$nil)

Financial assets that are less than three months past due are not considered impaired. As of 31 March 2012, financial assets of US\$nil (2011 US\$nil) were past due but not impaired. There were no financial assets against which a doubtful debt allowance had been raised, at 31 March 2012 or 2011, respectively. The ageing analysis of these financial assets is as follows

	Group 2012			Group 2011		
	Gross US\$'000	Impairment US\$'000	Net US\$'000	Gross US\$'000	Impairment US\$'000	Net US\$'000
Trade and other receivables	9,771	-	9,771	7,124	-	7,124
Less prepayments and other non-financial assets	(9,484)	-	(9,484)	(5,364)	-	(5,364)
Financial assets within trade and other receivables	287	-	287	1,760	-	1,760
Not past due	287	-	287	1,760	-	1,760
Past due 0-30 days	-	-	-	-	-	-
Past due 31-365 days	-	-	-	-	-	-
Past due more than one year	-	-	-	-	-	-
Total	287	-	287	1,760	-	1,760

20 Trade and other receivables continued

Company

Loans from the Company to its subsidiaries and other amounts due from subsidiaries are stated net of provisions for impairment of US\$0.2 million and US\$nil respectively (2011: US\$0.1 million and US\$nil respectively)

Financial assets that are less than three months past due are not considered impaired. There were no financial assets past due to the Company at 31 March 2012 or 2011, respectively. The ageing analysis of Company's financial assets is as follows:

	Company 2012			Company 2011		
	Gross US\$'000	Impairment US\$'000	Net US\$'000	Gross US\$'000	Impairment US\$'000	Net US\$'000
Trade and other receivables	174,033	(208)	173,825	121,085	(147)	120,938
Less: prepayments and other non-financial assets	(234)	–	(234)	(346)	–	(346)
Financial assets within trade and other receivables	173,799	(208)	173,591	120,739	(147)	120,592
Not past due	173,799	(208)	173,591	120,739	(147)	120,592
Past due 0–30 days	–	–	–	–	–	–
Past due 31–365 days	–	–	–	–	–	–
Past due more than one year	–	–	–	–	–	–
Total	173,799	(208)	173,591	120,739	(147)	120,592

21 Inventories

	Group	
	2012 US\$'000	2011 US\$'000
Materials and supplies	11,304	12,248
Crude oil inventory	1,355	1,020
Total inventory	12,659	13,268

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.

22 Cash and cash equivalents

	Group		Company	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Cash at bank and on hand	3,631	25,534	1,203	20,674

Group

Included in cash at bank and on hand are amounts of US\$2.0 million (2011: US\$1.6 million) required to be deposited in an environmental restoration and rehabilitation fund under the terms of its Licence.

Group and Company

Under the terms of the Group's Credit Facility with Macquarie Bank Limited (note 23), 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 2012 amounted to US\$0.9 million (2011: US\$0.1 million), and is included in the total of cash at bank and on hand for the Group and Company, above.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

23. Borrowings

	Group and Company	
	2012 US\$'000	2011 US\$'000
Bank borrowings due within one year	50,170	6,026
Current debt	50,170	6,026
Convertible bond	80,872	77,989
Non-current debt	80,872	77,989
Total borrowings	131,042	84,015

Bank borrowings

In June 2007, the Group entered into a US\$100 million revolving mezzanine Credit Facility (the "Credit Facility") with Macquarie Bank Limited ("Macquarie"). The material provisions of the Credit Facility are as follows

- Interest payable monthly at LIBOR plus 6.5%
- Principal repayments commence on 31 July 2012, comprising seven monthly payments of US\$2.0 million until 31 January 2013, US\$4.0 million on 28 February 2013 and the remaining balance on 31 March 2013
- Secured by pledges in favour of Macquarie over substantially all of the Group's assets

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

	Group and Company
	US\$'000
Balance at 1 April 2010	58,579
Drawdown of loan facility	12,272
Repayment of loan facility	(64,825)
Balance at 31 March 2011	6,026
Drawdown of loan facility	44,144
Balance at 31 March 2012	50,170

The fair value of the floating rate bank borrowings at 31 March 2012 approximates to their gross carrying value of US\$50.2 million (2011: US\$6.0 million)

At 31 March 2012, the Group was in breach of its banking covenants relating to certain financial ratios

At 31 March 2012, the Credit Facility had a total borrowing base of US\$58.0 million available through 30 June 2012, of which US\$50.2 million was borrowed and a further US\$3.0 million was reserved for outstanding letters of credit

Convertible bonds

Max Petroleum completed an offering of convertible bonds on 8 September 2006 (the "Bonds"), raising a total of US\$75 million before issuance costs. Cash interest payments due on 8 March 2009, 8 September 2009 and 8 September 2010 were deferred and converted into additional principal (i.e. payment in kind or "PIK"), resulting in a revised principal of US\$85.6 million

The Bonds bear interest at 6.75% per annum, payable semi-annually, and are convertible at a price of 32p per ordinary share, with a fixed exchange rate of US\$1.49 to £1. The Bondholders have a right to convert the Bonds through to final maturity on 8 September 2013. 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 Licence to its oil and gas properties in Kazakhstan. The Group has the right to redeem the Bonds 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.

Amendments to the Bonds in May 2009 were deemed to be a substantial modification, triggering a debt extinguishment and recognition of new debt under the requirements of IAS 39 Financial Instruments: Recognition and Measurement.

23 Borrowings continued

Following the debt extinguishment, the fair value of the Bonds was estimated and allocated between long-term debt and equity. The additional principal arising from the interest PIKs occurring on 8 September 2009 and 8 September 2010 were also allocated between long-term debt and equity. The long-term debt component is measured at amortised cost using an effective interest rate of 11%. The option to convert interest into PIK was for two years and expired on 8 September 2010.

Movements in the Bonds during the year are analysed as follows

	Group and Company		
	Gross US\$ '000	Bond discount ¹ US\$'000	Net US\$ '000
Balance at 1 April 2010	81,902	(11,277)	70,625
8 September 2010 interest PIK added to principal	3,686	(412)	3,274
Notional interest incurred	–	4,090	4,090
Balance at 31 March 2011	85,588	(7,599)	77,989
Notional interest incurred	–	2,883	2,883
Balance at 31 March 2012	85,588	(4,716)	80,872

1 On initial recognition, the equity component of the convertible bond is booked as a bond discount, which is subsequently amortised over the maturity of the Bonds using the effective interest rate.

The fair value of the Bonds at 31 March 2012 and 2011, determined by reference to the published closing price quotation from the Channel Islands Stock Exchange on that date, was as follows

	Group and Company	
	2012 US\$'000	2011 US\$'000
Fair value of convertible bond	48,266	50,937

Interest expense

During the year ended 31 March 2012, the Group incurred US\$11.1 million (2011: US\$20.4 million) in interest expense in respect of the Bonds and the Credit Facility, of which US\$9.0 million (2011: US\$9.8 million) was capitalised to intangible assets – exploration and appraisal expenditure.

24 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 23), there are no significant differences between the book values and the fair values of the financial assets and financial liabilities of the Group and Company as at 31 March 2012 and 2011.

25. Financial risk management

Capital risk management

The Group is engaged in the exploration and production of oil and gas assets in the Republic of Kazakhstan. The Group's strategy is substantially to increase reserves, production and cash flow from its existing and future shallow, post-salt discoveries in its Blocks A&E Licence area, while continuing to pursue the higher impact exploration potential of its pre-salt portfolio.

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 Bonds and Credit Facility (note 23), cash and cash equivalents (note 22), and equity attributable to owners of the Company (notes 29, 30 and 31), comprising issued share capital, reserves and retained earnings.

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 2012

25. Financial risk management continued

To maintain or adjust the capital structure, the Group may put in place new debt facilities, issue new shares for cash or repay or restructure existing debt facilities as appropriate

The Group and Company's capital and net debt were made up as follows

	Group		Company	
	2012 US\$'000	2011 US\$ 000	2012 US\$'000	2011 US\$ 000
Bank borrowings	50,170	6,026	50,170	6,026
Convertible bond	80,872	77,989	80,872	77,989
Less cash and cash equivalents	(3,631)	(25,534)	(1,203)	(20,674)
Net debt	127,411	58,481	129,839	63,341
Equity	115,671	118,396	171,003	182,741
Capital and net debt	243,082	176,877	300,842	246,082

Net debt is calculated as debt, as shown in the borrowings note (note 23), less cash and cash equivalents

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 and cash equivalents 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.

In relation to an equity placing in March 2011 (see note 29), the Group entered into a foreign currency forward contract to convert the placing proceeds from pounds sterling to US dollars. This was settled during the year ended 31 March 2011 and there were no derivatives outstanding at 31 March 2011 or 31 March 2012. In relation to its principal operating activities, the Group has not entered into any derivatives or other hedging instruments during either the year ended 31 March 2012 or the year ended 31 March 2011.

Credit risk

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

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

The Group sells to a small number of domestic crude buyers in Kazakhstan and has one international customer for its export sales. There is no credit risk arising from domestic sales of crude oil in the Republic of Kazakhstan 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.

25. Financial risk management continued

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	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Trade and other receivables (note 20)	9,771	7,124	173,825	120,938
Less prepayments and other non-financial assets	(9,484)	(5,364)	(234)	(346)
Receivables classified as financial assets	287	1,760	173,591	120,592
Cash and cash equivalents (note 22)	3,631	25,534	1,203	20,674
	3,918	27,294	174,794	141,266

The Group's trade and other receivables not classified as financial assets include US\$7.2 million (2011: US\$2.7 million) of recoverable Kazakh VAT (note 20).

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 23) and cash and cash equivalents (note 22)) on the basis of expected cash flow and projected amount of capital expenditure required.

Further discussion of the Group's liquidity and capital resources may be found on page 14 of the Business Review.

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 2012							
Convertible bond ¹	2,889	2,889	88,476	–	–	94,254	81,241
Bank borrowings	50,170	–	–	–	–	50,170	50,170
Trade and other payables	18,195	–	–	–	–	18,195	18,195
	71,254	2,889	88,476	–	–	162,619	149,606
At 31 March 2011							
Convertible bond ²	2,889	2,889	5,777	88,476	–	100,031	78,358
Bank borrowings	6,026	–	–	–	–	6,026	6,026
Trade and other payables	5,745	1,102	–	–	–	6,847	6,847
	14,660	3,991	5,777	88,476	–	112,904	91,231

1 The above convertible bond carrying value of US\$81.2 million includes US\$0.4 million of accrued interest, included within trade and other payables in the balance sheet.

2 The above convertible bond carrying value of US\$78.4 million includes US\$0.4 million of accrued interest, included within trade and other payables in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

25. Financial risk management continued

	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 2012							
Convertible bond ¹	2,889	2,889	88,476	–	–	94,254	81,241
Bank borrowings	50,170	–	–	–	–	50,170	50,170
Trade and other payables	2,808	–	–	–	–	2,808	2,808
	55,867	2,889	88,476	–	–	147,232	134,219
At 31 March 2011							
Convertible bond ²	2,889	2,889	5,777	88,476	–	100,031	78,358
Bank borrowings	6,026	–	–	–	–	6,026	6,026
Trade and other payables	2,422	–	–	–	–	2,422	2,422
	11,337	2,889	5,777	88,476	–	108,479	86,806

1 The above convertible bond carrying value of US\$81.2 million includes US\$0.4 million of accrued interest, included within trade and other payables in the balance sheet

2 The above convertible bond carrying value of US\$78.4 million includes US\$0.4 million of accrued interest, included within trade and other payables in the balance sheet

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 commodity prices, foreign currency exchange rates and interest rates. The Group has not entered into any derivative instruments to mitigate the commodity price risk associated with its underlying oil revenues.

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's entities, being the US dollar. The currency in which these transactions and balances are primarily denominated is the US dollar, and as such, the Group is not exposed to significant foreign exchange risk. There were no foreign currency financial derivatives in place at 31 March 2012 or 31 March 2011. 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, receivables and payables denominated in GBP and KZT.

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

In US\$ '000 equivalent	Group 2012			Group 2011		
	GBP	KZT	EUR	GBP	KZT	EUR
Trade and other receivables	174	–	–	253	–	–
Cash and cash equivalents	39	47	66	362	277	60
Trade and other payables	(398)	(8,745)	(35)	(331)	(4,745)	(64)
Net exposure	(185)	(8,698)	31	284	(4,468)	(4)

25 Financial risk management continued

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			Company		
	2012			2011		
	GBP	KZT	EUR	GBP	KZT	EUR
Trade and other receivables	174	–	–	253	–	–
Cash and cash equivalents	36	–	–	362	–	–
Trade and other payables	(398)	–	–	(328)	–	(30)
Net exposure	(188)	–	–	287	–	(30)

Foreign currency sensitivity analysis

The following tables detail the Group's and Company'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			Group		
	2012			2011		
	GBP	KZT	EUR	GBP	KZT	EUR
Profit or (loss)	19	870	(3)	(28)	447	–
Equity	–	–	–	–	–	–

Effect in US\$ 000	Company			Company		
	2012			2011		
	GBP	KZT	EUR	GBP	KZT	EUR
Profit or (loss)	19	–	–	(29)	–	3
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	
	2012 US\$'000	2011 US\$'000
Fixed rate instruments		
Convertible bond	(85,588)	(85,588)
Variable rate instruments		
Cash and cash equivalents	3,631	6,134
Bank borrowings	(50,170)	(6,026)
	(46,539)	108

The above analysis excludes cash and cash equivalents of US\$nil held in non-interest bearing accounts at 31 March 2012 (2011 US\$19.4 million).

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

25 Financial risk management continued

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

	Company	
	2012 US\$'000	2011 US\$'000
Fixed rate instruments		
Convertible bond	(85,588)	(85,588)
Variable rate instruments		
Cash and cash equivalents	1,203	1,274
Intercompany loans	45,493	40,158
Bank borrowings	(50,170)	(6,026)
	(3,474)	35,406

The above analysis excludes cash and cash equivalents of US\$nil held in non-interest bearing accounts at 31 March 2012 (2011 US\$19.4 million)

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

The sensitivity analyses below have been determined based on the exposure to interest rates at the balance sheet date. For variable rate instruments, the analysis is prepared assuming the amount of the instrument outstanding at the balance sheet date was outstanding for the whole year. At the balance sheet 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			
	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 2012				
Variable rate instruments	(931)	1,003	-	-
At 31 March 2011				
Variable rate instruments	2	(2)	-	-
	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 2012				
Variable rate instruments	(69)	567	-	-
At 31 March 2011				
Variable rate instruments	708	(128)	-	-

25 Financial risk management continued

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.

26 Deferred income tax

Group

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 2012, the Group had deferred tax liabilities arising from temporary differences of US\$15.1 million (2011 US\$8.5 million), which was fully offset against US\$15.1 million of available deferred tax assets arising from losses (2011 US\$8.5 million). There was no deferred tax recognised in the income statement during the year (2011 US\$nil). The Group did not recognise other potential deferred tax assets arising from losses of US\$25.6 million (2011 US\$28.6 million) as there is insufficient evidence of future taxable profits. Unrecognised losses of US\$1.0 million can be carried forward for up to 10 years, US\$2.8 million can be carried forward up to 20 years and the balance of losses of US\$21.8 million can be carried forward indefinitely.

At 31 March 2012, the Group had other deferred tax assets of US\$1.0 million (2011 US\$1.2 million) in respect of the exploration assets pool, depreciation, share-based payments and other temporary differences which had not been recognised because of insufficient evidence of future taxable profits.

There are no significant unrecognised temporary differences associated with undistributed profits of subsidiaries at 31 March 2012 and 2011, respectively.

Company

At 31 March 2012 and 2011 respectively, the Company had no recognised deferred tax assets or liabilities.

At 31 March 2011, the Company had not recognised potential deferred tax assets arising from losses of US\$32.4 million (2011 US\$31.4 million) as there is insufficient evidence of future taxable profits. The losses can be carried forward indefinitely.

At 31 March 2012, the Company had other deferred tax assets of US\$0.1 million (2011 US\$0.2 million) in respect of share-based payments and other temporary differences which had not been recognised because of insufficient evidence of future taxable profits.

27 Provision for liabilities and other charges

	Group Provision for decommissioning costs US\$ 000
Balance at 1 April 2010	1,551
Additions	122
Utilisation of provision	(156)
Unused amounts reversed	(57)
Changes in estimates	71
Adjustment for change in real discount rate	(132)
Unwinding of discount (note 9)	126
Balance at 31 March 2011	1,525
Additions	698
Unused amounts reversed	(51)
Changes in estimates	432
Adjustment for change in real discount rate	90
Unwinding of discount (note 9)	134
Balance at 31 March 2012	2,828

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

27 Provision for liabilities and other charges continued

The decommissioning provision reflects the present value of internal estimates of future decommissioning costs of the Group's oil and gas wells as at the relevant balance sheet date determined using local pricing conditions and requirements. These costs are expected to be incurred between 2017 and 2034. The timing of payments related to provisions is uncertain and is dependent on various items which are not always within management's control.

The amount provided at 31 March 2012 was revised to include estimated decommissioning costs of new wells drilled in the year and for revised estimates related to the timing of payments.

The provision has been estimated using existing technology, at current prices, and discounted using a real discount rate of 2.6% (2011: 3.1%).

28. Trade and other payables

	Group		Company	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Trade payables	14,994	4,160	303	146
Other payables	1,427	3,675	–	–
Loans payable by the Company to its subsidiaries	–	–	2,000	2,000
Social security and other taxes	711	5,117	340	528
Accruals and deferred income	15,786	5,150	874	646
	32,918	18,102	3,517	3,320

The Group's accruals and deferred income at 31 March 2012 include US\$13.0 million of prepayments from domestic customers in Kazakhstan for crude oil sales (2011: US\$0.1 million).

The Group's other payables at 31 March 2011 include US\$3.6 million of interest payable to the Kazakh tax authorities in relation to the Tax Claim, see note 10.

29. Share capital

The Company has two classes of share capital, which carry no right to fixed income: ordinary shares and deferred shares. Neither class of share is redeemable by the holder.

The holders of ordinary shares are entitled:

- To receive notice of, attend and vote at any general meeting of the Company
- To receive dividends as may be declared from time to time and any distribution
- On a return of capital on a winding up, to receive payment of the nominal capital of 0.01p for each ordinary share held and a share in the Company's residual assets

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 2012, the Company issued 100,355,247 ordinary shares, comprising:

- The cashless exercise of 143,971,948 of the Credit Facility warrants, resulting in the issue of 94,793,580 new ordinary shares
- The exercise of 4,920,000 of the Bondholder warrants for total cash proceeds of US\$0.4 million, resulting in the issue of 4,920,000 new ordinary shares
- The exercise of 641,667 share options for total cash proceeds of US\$0.05 million, resulting in the issue of 641,667 new ordinary shares

29 Share capital continued

During the year ended 31 March 2011, the Company issued 481,682,114 ordinary shares, comprising

- The issue of 309,846,935 new ordinary shares to institutional investors at 17p per share, generating cash proceeds of US\$85.2 million (GBP52.7 million)
- The exercise of 133,971,947 of the Credit Facility warrants for proceeds of US\$9.8 million, used to pay down the principal amount outstanding under the Company's Credit Facility, resulting in the issue of 133,971,947 new ordinary shares
- The exercise of 27,580,000 of the Bondholder warrants for total cash proceeds of US\$2.2 million, resulting in the issue of 27,580,000 new ordinary shares
- The cashless exercise of 13,700,000 of the Credit Facility warrants, resulting in the issue of 9,789,899 new ordinary shares
- The exercise of 493,333 share options for total cash proceeds of US\$0.03 million, resulting in the issue of 493,333 new ordinary shares

All shares issued are fully paid up

	Number of shares	
	Issued share capital	
	Ordinary shares of 0.01p each	Deferred shares of 14.99p each
At 1 April 2010	436,451,497	28,253,329
Increase	481,682,114	—
At 31 March 2011	918,133,611	28,253,329
Increase	100,355,247	—
At 31 March 2012	1,018,488,858	28,253,329

	Nominal value		
	Issued share capital		
	Ordinary shares of 0.01p each US\$ 0.00	Deferred shares of 14.99p each US\$ 0.00	Total all classes US\$ 0.00
At 1 April 2010	78	7,864	7,942
Increase	78	—	78
At 31 March 2011	156	7,864	8,020
Increase	15	—	15
At 31 March 2012	171	7,864	8,035

Authorised share capital

On 13 October 2009 a special resolution was passed to replace the Company's Articles of Association. Under the new Articles of Association, effective 1 October 2009, the Company no longer has an authorised share capital and thus no longer has a statutory restriction on the maximum allotment of shares.

30 Share premium

	Group and Company	
	2012 US\$'000	2011 US\$'000
At 1 April	356,598	265,043
Premium on shares issued during the year	7,783	97,800
Expenses of issue of equity shares	—	(6,245)
At 31 March	364,381	356,598

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

31. Other reserves

	Group				
	Reserve arising on purchase of minority interest US\$ 000	Convertible bond equity reserve US\$ 000	Share based payment reserve US\$ 000	Warrant reserve US\$ 000	Total other reserves US\$ 000
At 1 April 2010	(72,495)	14,421	59,234	107,531	108,691
Issue of share capital – cashless exercise of warrants	–	–	–	(643)	(643)
Share-based payment	–	–	1,961	–	1,961
Convertible bond interest deferral, equity portion	–	412	–	–	412
Warrants issued to Bondholders	–	–	–	4,025	4,025
At 31 March 2011	(72,495)	14,833	61,195	110,913	114,446
Issue of share capital – cashless exercise of warrants	–	–	–	(7,340)	(7,340)
Share-based payment	–	–	4,968	–	4,968
At 31 March 2012	(72,495)	14,833	66,163	103,573	112,074

	Company			
	Convertible bond equity reserve US\$'000	Share based payment reserve US\$'000	Warrant reserve US\$ 000	Total other reserves US\$'000
At 1 April 2010	14,421	59,234	107,531	181,186
Issue of share capital – cashless exercise of warrants	–	–	(643)	(643)
Share-based payment	–	1,961	–	1,961
Convertible bond interest deferral, equity portion	412	–	–	412
Warrants issued to Bondholders	–	–	4,025	4,025
At 31 March 2011	14,833	61,195	110,913	186,941
Issue of share capital – cashless exercise of warrants	–	–	(7,340)	(7,340)
Share-based payment	–	4,968	–	4,968
At 31 March 2012	14,833	66,163	103,573	184,569

Credit Facility warrants

In June 2007, the Group entered into a US\$100 million revolving mezzanine Credit Facility with Macquarie

In February 2009, the Company amended the Credit Facility (the “2009 Amendment”) and issued Macquarie an amended and restated warrant deed to subscribe for up to 547,918,106 new ordinary shares in the Company (the “Warrant Deed”), which included vesting criteria linked to the level of the available borrowing basis under the Credit Facility. The Warrant Deed replaced warrants previously issued to Macquarie in 2007 and 2008. The 2009 Amendment and Warrant Deed were approved by the Company’s shareholders in a general meeting on 12 May 2009.

On closing the 2009 Amendment on 23 February 2009, Macquarie was entitled to subscribe for up to 121,759,579 ordinary shares at 4 54p per ordinary share as a result of amounts already drawn down under the Credit Facility. This right was subject to shareholder approval of the Warrant Deed which was received on 12 May 2009.

On 12 August 2009, the amount of the borrowing base commitment under the Credit Facility was increased from US\$50 million to US\$80 million. Accordingly, Macquarie’s entitlement to subscribe for a further 243,519,158 additional shares under the Warrant Deed vested on that date. The total vested warrants under the Warrant Deed amounted to an aggregate of 365,278,737 ordinary shares of the Company with exercise prices between 4 54p and 5 67p.

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

31 Other reserves continued

On 2 March 2011, in accordance with the terms of an amendment to extend the maturity date of the facility to 31 March 2013, Macquarie agreed to cancel the final tranche of unvested warrants exercisable into 182,639,369 ordinary shares of the Company at an exercise price of 6 13p per ordinary share

Exercise and expiry date

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

Anti-dilution provisions

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

Anti-dilution grant

On 16 September 2011, an anti-dilution adjustment event pursuant to the Warrant Deeds, resulting from the exercise of employee share options, triggered aggregate adjustments of an additional 215,951 ordinary shares underlying the Warrant Deeds at an exercise price of 13 8p based on 95% of five day VWAP of 14 6p as at 16 September 2011

The warrant table below sets out the Credit Facility warrants outstanding at 31 March 2012 and 2011

	2012			2011		
	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	192,448,914	5.2	—	522,760,230	5.3	—
Anti-dilution warrant grant	215,951	13.8	—	—	—	—
Exercised	(143,971,948)	5.1	14.4	(147,671,947)	4.5	15.6
Cancelled	—	—	—	(182,639,369)	6.1	—
Outstanding at end of year	48,692,917	5.5	—	192,448,914	5.2	—

During the year ended 31 March 2012, holders of Credit Facility warrants elected for the cashless exercise of their right to subscribe for 143,971,948 ordinary shares at exercise prices ranging from of 4 54p to 5 67p per share, resulting in the issue and allotment of 94,793,580 new ordinary shares and the transfer of US\$7.3 million from the warrant reserve to share capital and share premium

During the year ended 31 March 2011, holders of Credit Facility warrants elected for the cashless exercise of their right to subscribe for 13,700,000 ordinary shares at an exercise price of 4 54p per share, resulting in the issue and allotment of 9,789,899 new ordinary shares and the transfer of US\$0.6 million from the warrant reserve to share capital and share premium. On 10 March 2011, Macquarie exercised 133,971,947 of the Credit Facility warrants, generating proceeds of US\$9.8 million which were used to pay down the principal amount outstanding under the Company's Credit Facility

Of the outstanding Credit Facility warrants at 31 March 2012, 48,692,917 were fully vested and exercisable (2011: 192,448,914)

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

31. Other reserves continued

Convertible bond warrants

On 8 March 2009, 8 September 2009 and 8 September 2010, the Company elected to defer the cash interest payments due on its Bonds into additional principal, which each vested a five year warrant exercisable at 5p per ordinary share over 30 million ordinary shares (the "Bondholder warrants")

The warrant table below sets out the Bondholder warrants outstanding at 31 March 2012 and 2011

	2012			2011		
	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	13,260,000	5 0	–	10,840,000	5 0	–
Bondholder warrant grants	–	–	–	30,000,000	5 0	–
Exercised	(4,920,000)	5 0	16.8	(27,580,000)	5 0	18 0
Outstanding at end of year	8,340,000	5 0	–	13,260,000	5 0	–

Of the outstanding Bondholder warrants at 31 March 2012, 8,340,000 were fully vested and exercisable (2011 13,260,000)

32 Share-based payment

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

Share options are typically granted with an exercise price equal to the closing market price of the Company's shares on the date of grant

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. Options are forfeited if the director or employee leaves the Group before the options vest

The share options operate on a wholly equity-settled principle – the Group has no legal or constructive obligation to repurchase or settle the options in cash

The vesting terms of the share options are as follows

- Options granted 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
- 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
- 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 subsoil licences in oil and gas properties in Kazakhstan, and the AIM admission of the Company. The option vests in part on the first anniversary of grant and proportionately thereafter with a term of 10 years

The maximum term of options granted is 10 years and in the normal course of granting, seven years

32 Share-based payment continued

The share option table below sets out the options granted, exercised and outstanding at 31 March 2012 and 2011

	2012			2011		
	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	110,971,278	19 0	–	70,617,044	18 3	–
Granted	2,855,750	14 0	–	42,261,900	19 9	–
Forfeited or cancelled	(2,586,146)	17 4	–	(1,400,833)	16 5	–
Expired	(861,152)	16 7	–	(13,500)	4 8	–
Exercised	(641,667)	4 8	14 6	(493,333)	4 8	17 3
Outstanding at end of year	109,738,063	19 0	–	110,971,278	19 0	–

Of the outstanding options at the end of the year, 74,740,693 options (2011 53,734,365) were vested and exercisable at that date with a weighted average exercise price of 18 8p (2011 19 1p)

In respect of options granted to strategic consultants and advisors, when measuring share-based payment transactions the Group considers that the value of the services received cannot be reliably measured and therefore the fair value of the equity instruments granted is used as a proxy

The Black-Scholes valuation model is used to determine the fair value of the share options issued by the Company. For options granted during the year ended 31 March 2012, the expected volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of the Company's share price over the last four and a half years

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

	2012 Weighted average	2011 Weighted average
Exercise price of option contract	14 0	19 9
Share price on date of grant	14 0	15 8
Expected term before option exercise	4.0 years	4 0 years
Risk free interest rate	1 4%	2 4%
Expected dividend yield	–	–
Expected share volatility	119 0%	117 2%

The model also assumes lengths of vesting period to date of exercise from 3 5 to 4 5 years

The directors concluded that the average fair value of the options issued during the current year was 10 8p (2011 11 7p). The Group has recorded a charge to administrative expenses in its consolidated income statement for the value of services of US\$4 9 million (2011 US\$1 8 million), net of adjustments for unvested options cancelled or forfeited during the year, and net of US\$0 1 million (2011 US\$0 1 million) capitalised to exploration and appraisal expenditure. The share-based payment reserve is stated as US\$66 2 million (2011 US\$61 2 million)

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

32 Share-based payment continued

For those options outstanding at year-end, 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

	2012				2011			
	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	53,303,402	15.3	4.1	4.75–120.5	53,603,402	15.3	5.1
Employees	4.75–201.75	43,619,492	21.1	4.4	4.75–201.75	44,086,040	21.1	5.4
Advisory Committee	4.75–20	6,187,500	12.5	3.4	4.75–20	6,654,167	12.9	4.1
Other advisors and consultants	4.75–120.5	6,627,669	40.9	3.7	4.75–120.5	6,627,669	40.9	4.7
	4.75–201.75	109,738,063	19.0	4.2	4.75–201.75	110,971,278	19.0	5.1

¹ The directors' share options at 31 March 2012 include 2,022,131 options held by past directors of the Company (2011: 2,322,131)

The average closing market price of the Company's ordinary 0.01p shares during the year was 13.3p (2011: 16.7p)

The Company did not modify or vary any share option arrangements during the year ended 31 March 2012 or 2011

33 Notes to the cash flow statement

Reconciliation to cash generated from/(used in) operations

	Group		Company	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Loss before tax	(8,088)	(18,130)	(17,112)	(27,940)
Adjustments for				
– Depreciation, depletion and amortisation (note 12)	16,520	14,306	65	108
– Share-based payment charge (note 11)	4,898	1,842	2,866	1,213
– Exploration and appraisal expenditure written-off (note 16)	4,360	8,997	–	–
– Gain on disposal of subsidiary (note 19)	–	(1,999)	–	–
– Foreign exchange loss	70	114	19	(14)
– Impairment losses (note 7)	–	–	61	2,330
– Finance income (note 8)	(20)	(12)	(356)	(255)
– Finance costs (note 9)	2,672	12,991	11,134	20,894
– Change in provisions	–	(57)	–	–
Changes in working capital				
– Inventories	147	(337)	–	–
– Trade and other receivables	(3,094)	(1,241)	(52,655)	(8,544)
– Trade and other payables	10,808	194	196	2,077
Cash generated from/(used in) operations	28,273	16,668	(55,782)	(10,131)

33 Notes to the cash flow statement continued
Summary of non-cash transactions

	Group		Company	
	2012 US\$'000	2011 US\$ 000	2012 US\$'000	2011 US\$ 000
Investing transactions				
Share-based payment capitalised to exploration and appraisal assets	70	119	–	–
Share-based payment contribution to subsidiaries	–	–	2,102	748
Non-cash interest expense capitalised to exploration and appraisal assets	2,328	5,667	–	–
Depreciation, depletion and amortisation (note 12)	16,520	14,306	65	108
Exploration and appraisal expenditure written-off (note 16)	4,360	8,997	–	–
Change in estimate for decommissioning provision (notes 16 and 17)	1,169	95	–	–
Financing transactions				
Non-cash issuance of ordinary shares (note 29)	7,340	10,468	7,340	10,468
Repayment of Credit Facility from warrant exercise proceeds (note 23)	–	9,825	–	9,825
Offset of tax claim interest instalments against other tax liabilities (note 10)	–	873	–	–
Unwinding of discount on decommissioning provision (note 27)	134	126	–	–
Convertible bond non-cash interest	2,883	11,818	2,883	11,818

34 Related party disclosures

The Company has no ultimate controlling party

Key management personnel

Disclosures related to the remuneration of key management personnel as defined in IAS 24 “Related Party Disclosures” are given in note 13

Intercompany transactions

During the year, the Company

- Invoiced rechargeable costs with mark-up to subsidiaries of US\$2.1 million (2011 US\$2.5 million)
- Incurred recharges from subsidiaries of US\$0.2 million (2011 US\$0.1 million)
- Received interest of US\$0.3 million (2011 US\$0.3 million) from subsidiaries on Group loans
- Provided funding (net of repayments) to its subsidiaries of US\$52.7 million (2011 US\$8.1 million)
- Waived loans receivable from its subsidiaries of US\$nil (2011 US\$40.3 million)
- Received loans from its subsidiaries of US\$nil (2011 US\$2.0 million)

During the year, the Company’s subsidiaries settled US\$1.8 million of liabilities to third parties on behalf of the Company (2011 US\$2.1 million)

The amount of loans repayable on demand from subsidiary undertakings to the Company at 31 March 2012 totalled US\$169.6 million, of which US\$45.5 million was interest bearing (2011 US\$116.9 million and US\$40.2 million, respectively). Loans receivable are stated net of provisions for impairment of US\$0.2 million (2011 US\$0.1 million) (note 20)

The amount of loans payable on demand by the Company at 31 March 2012 to its subsidiaries totalled US\$2.0 million (2011 US\$2.0 million), all of which were non-interest bearing

Accounts receivable from subsidiary undertakings to the Company at 31 March 2012 totalled US\$3.7 million (2011 US\$3.4 million)

NOTES TO THE FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 MARCH 2012

35 Operating lease arrangements

The lease payments under operating leases recognised as an expense in the year were as follows

	Group		Company	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Lease payments during the year	24,096	7,306	247	250
Less Lease payments capitalised to exploration and appraisal expenditure	(21,805)	(5,717)	–	–
Lease payments recognised as an expense (note 11)	2,291	1,589	247	250

Lease payments during the year include drilling rig rental costs of US\$19.8 million (2011 US\$4.5 million)

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

	Group		Company	
	2012 US\$'000	2011 US\$'000	2012 US\$'000	2011 US\$'000
Within 1 year	1,745	1,470	167	110
Within 2–5 years	372	389	275	2
	2,117	1,859	442	112

36 Commitments and contingencies

The Group is committed under its Licence to certain future expenditures including a minimum work programme and reimbursement of historical costs incurred by the Government of the Republic of Kazakhstan. The Group's commitments under its Licence are as follows

	Group	
	2012 US\$'000	2011 US\$'000
Minimum work programme	55,397	39,918
Historical costs	24,201	23,346
	79,598	63,264

The minimum work programme is agreed with the Ministry of Oil and Gas of the Republic of Kazakhstan (the "MOG") and covers exploration and production activities in Blocks A&E. It also includes social infrastructure contributions and commitments for the training of local personnel. Qualifying exploration, development and operating expenditure incurred by the licence holder are deductible from these future commitments. During the year-ended 31 March 2012, the Group and the MOG signed an amendment to the Licence to transfer the Zhana Makat Field to Full Field Development ("FFD") and extend the minimum work programme to 2020. The Group expects that the future revenues generated from operating the Field will significantly exceed its obligations under the minimum work programme.

The total commitment at 31 March 2012 includes US\$24.2 million of historical costs incurred by the Republic of Kazakhstan for the exploration of Blocks A&E prior to the Group's acquisition of the Licence (2011 US\$23.3 million). Historical costs become payable from the date when a certain field is transferred to the production stage under FFD and the amount payable for the field is determined by the Government of the Republic of Kazakhstan in a separate agreement. The amount of historical costs allocated to each discovery is determined based on a mining allotment agreed with the Government of the Republic of Kazakhstan once a commercial discovery has been made and FFD has started. During the year ended 31 March 2011, the Group recognised an estimated historical costs liability of US\$1.0 million in relation to the commercial discovery at Zhana Makat, included within trade and other payables. The liability for Zhana Makat was revised to US\$0.1 million during the year ended 31 March 2012 following final determination of the mining allotment.

37 Post balance sheet events

Amendment to the Blocks A&E Licence

In July 2012, the Group and the Ministry of Oil and Gas of the Republic of Kazakhstan signed an amendment to the Licence which increased the minimum work programme. Accordingly, the Group's commitments under its subsoil contract increased from US\$79.6 million (note 36) to US\$85.3 million.

Suspension of NUR-1 well

Subsequent to 31 March 2012, the Group encountered difficulties drilling the NUR-1 well and, due to financial constraints, has suspended the well and released the rig. There is significant uncertainty whether the Group will be able to raise the necessary funding in order to be able to complete the drilling of the well prior to the expiry of the Licence and thus may not be able to fully recover the carrying amount of its intangible exploration and appraisal asset. Capitalised costs directly associated with NUR-1 totalled US\$27.0 million at 31 March 2012 and had increased to US\$39.3 million at the date of this report.

Credit Facility

Subsequent to 31 March 2012, the Company has borrowed a further US\$2.0 million under its Credit Facility with Macquarie Bank (note 23), resulting in a total balance of US\$55.2 million, including a US\$3 million letter of credit, as of the date of this report.

The Credit Facility matures on 31 March 2013 and requires that the Group begin making amortisation payments of US\$2 million per month beginning in July 2012. The Group did not make an amortisation payment in July 2012 as its net cash flow from operations is being applied against trade payables relating to its exploration and appraisal activities. The Group expects cash to be available to begin repaying borrowings under the Credit Facility in the medium term. The Group is in ongoing discussions with Macquarie regarding the use of its net cash flow from operations to fund its shallow drilling activities, as well as the timing and amount of principal payments required prior to 31 March 2013.

38 Non-IFRS measures

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

A reconciliation of operating profit to EBITDA is shown below:

	Group		
	2012 US\$ 000	2011 US\$ 000	2010 US\$ 000
Operating profit/(loss)	(5,436)	(5,151)	(126,251)
Depreciation, depletion and amortisation (note 11)	16,520	14,306	13,295
Share-based payment expense, net of capitalisation (note 11)	4,898	1,842	2,130
Exploration and appraisal costs (note 11)	4,360	7,007	1,799
Impairment losses	-	-	116,248
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	20,342	18,004	7,221

SUPPLEMENTAL DISCLOSURE – OIL AND GAS RESERVES AND RESOURCES (UNAUDITED)

The Group's estimates of proved and probable reserve quantities are taken from the Group's Competent Person's evaluation report for the Group's oil fields as of 31 March 2012. 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. Refer to the glossary for definitions.

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 2011	7,841	–	7,841
Revisions of previous estimates	(81)	–	(81)
Discoveries and extensions	3,900	–	3,900
Acquisitions	–	–	–
Divestitures	–	–	–
Production	(1,027)	–	(1,027)
Balance at 31 March 2012	10,633	–	10,633

Group proved plus probable reserves

	Oil Mbbbls	Gas Bcf	Mboe
At 1 April 2010	4,677	–	4,677
Revisions of previous estimates	2,323	–	2,323
Discoveries and extensions	1,614	–	1,614
Acquisitions	–	–	–
Divestitures	–	–	–
Production	(773)	–	(773)
Balance at 31 March 2011	7,841	–	7,841

Discoveries and extensions during the year ended 31 March 2012 comprise the Sagız West, East Kyzylzhar I and Uytas fields, for further details see the Business Review on pages 11 and 12.

The revision in the reserve numbers in 2011 was due to a combination of factors, including higher crude oil prices and the stable performance of the Zhana Makat Field. Discoveries and extensions during 2011 comprised discoveries at Borkyldakty and Asanketken and an extension of the Zhana Makat Field for Triassic reserves at the southern end of the field.

Group proved plus probable plus possible reserves ("3P")

The Group's 3P reserves increased from 8.5 mmbo at 31 March 2011 to 14.6 mmbo at 31 March 2012. This includes an increase in possible reserves of 3.3 mmbo arising from discoveries at the Sagız West and Uytas fields, 1.3 mmbo and 2.0 mmbo, respectively. For further details see the Business Review on pages 11 and 12.

Contingent resources and oil-initially-in-place

As at 31 March 2012, the Group's Competent Person estimated oil-initially-in-place for the Sagız West and Uytas fields, of 101.3 mmbo and 64.9 mmbo, respectively, of which 79.8 mmbo and 27.2 mmbo were classified as in-place contingent resources. For further details see the Business Review on pages 11 and 12.

GLOSSARY

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

2P reserves

proved plus probable reserves

3D seismic

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

3P reserves

proved plus probable plus possible reserves

accumulation

an individual body of petroleum-in-place

barrel

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

bbl

barrel of oil

bboe

billions of barrels of oil equivalent

bcf

billions of cubic feet

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

Chance of Success ("CoS")

The Geological Chance of Success is intended to evaluate the probability that a functioning petroleum system is in place for each prospective reservoir. The chance of success is the chance of the geological model being correct and that a discovery may occur. The chance of success is evaluated based on technical assessment of five key geological variables: trap, reservoir, source and timing, migration and seal.

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.

contingent resources

contingent resources are those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from known accumulations, but the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies. Contingent resources may include, for example, projects for which there is currently no viable market, or where commercial recovery is dependent on the development of new technology, or where evaluation of the accumulation is insufficient to assess commerciality.

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".

FFD

full field development

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.

GLOSSARY

CONTINUED

lead

a project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect

Licence

the Group's licence for the exploration and production of hydrocarbons in Blocks A&E

mbbls

thousands of barrels of oil

mbo

thousand barrels of oil

mboe

thousands of barrels of oil equivalent

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

mmbo

millions of barrels of oil

mmboe

millions of barrels of oil equivalent

natural gas

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

oil

a mixture of liquid hydrocarbons of different molecular weights

oil-initially-in-place

oil-initially-in-place ("OIIP") is that quantity of oil which is estimated to exist originally in naturally occurring accumulations. OIIP is, therefore, that quantity of oil which is estimated, as of a given date, to be contained in known accumulations, plus those quantities already produced therefrom, plus those estimated quantities in accumulations yet to be discovered. It is recognised that not all of the OIIP quantities may constitute potentially recoverable resources since the estimation of the proportion which may be recoverable can be subject to significant uncertainty and will change with variations in commercial circumstances, technological developments and data availability

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

P10

the quantity for which there is a 10% probability that the quantities actually recovered will equal or exceed the estimate

P90

the quantity for which there is a 90% probability that the quantities actually recovered will equal or exceed the estimate

petroleum

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

possible reserves

possible reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than probable reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of proved plus probable plus possible ("3P"), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate

post-salt

above the salt layer

pre-salt

below the salt layer

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.

PV10

after-tax net present value discounted at 10%

reserves

reserves are those quantities of petroleum which are anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy the following criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates as proved, probable or possible.

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

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.

TD

total depth of a well, when drilling has finished

TPP

trial production project

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

CORPORATE DIRECTORY

Joint Brokers
Oriel Securities Limited
150 Cheapside
London
EC2V 6ET

Macquarie Capital (Europe) Limited
Ropemaker Place
28 Ropemaker Street
London
EC2Y 9HD

Nominated Advisor
W H Ireland
11 St James's Square
Manchester
M2 6WH

Corporate Communications/PR
Merlin Financial Communications
11 Ironmonger Lane
London
EC2V 8EY

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Corporate Lawyer
Akin Gump Strauss Hauer & Feld
8th Floor
10 Bishops Square
London
E1 6EG

Chartered Accountants and Statutory Auditors
PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Registered Office
2nd Floor
81 Piccadilly
London
W1J 8HY

Corporate Secretary
GHCP Services Limited
A W Harvey FCCA
2nd Floor
81 Piccadilly
London
W1J 8HY

Company Number
05419021

Max Petroleum Plc

London Office
2nd Floor
81 Piccadilly
London W1J 8HY
United Kingdom
Tel +44 20 7355 9590
Fax +44 20 7355 9591

Almaty Office

4th Floor
32A Manas Street
Almaty 050008
Republic of Kazakhstan
Tel +7 7272 378 382
Fax +7 7272 378 381

Houston Office

9 Greenway Plaza
Suite 550
Houston
TX 77046
United States of America
Tel +1 713 395 6200
Fax +1 713 395 6222

info@maxpetroleum.net
www.maxpetroleum.com
