

GROWTH THROUGH PARTNERSHIP

ANNUAL REPORT AND ACCOUNTS 2007



Our strategy is to target projects which have oil discoveries and exhibit a potential for considerable development and exploration upside. This strategy will allow the Company to rapidly add value to its projects by upgrading reserves levels and planning for the earliest possible production date.



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“The twin strengths of Roxi are its executive management team and our approach of seeking to work in partnership with local interests when acquiring and developing assets”

Clive Carver
Non-executive Chairman

Financial Highlights

- Successful IPO raising \$78 million to acquire and develop oil and gas contracts in Kazakhstan
- \$190 million acquisition of 59% Eragon Petroleum plc (“Eragon”) completed post year end
- Increased share ownership in Roxi by regional interests of considerable benefit
- \$157 million total assets on balance sheet
- \$10.5 million loss for the period

Operational Highlights

Eragon acquisition provides massive growth in value of the portfolio:

- 242 MMboe C1 – C3 reserves under GOST Standards
- 1,592 km² new licensed territory, including the recent BNG acquisition
- Significant exploration prospects on BNG
- Appraised development and production upside from Galaz and Munaily

Re-entries

- Five wells re-entry programme started in Ravninnoe
- Two wells re-entered in Galaz – now on test

Seismic Surveys

- Two 3D seismic surveys completed (Ravninnoe and Galaz)
- 3D seismic survey underway (Beibars)

Drilling

- One well drilled in Galaz
- Drilling tendered and to be contracted in Ravninnoe

“The period has been one of transformation for Roxi. Through our acquisition strategy, we have from scratch created a portfolio with potential for early development, exploration upside and the clear promise of further value from near-term production and cash flow”

Rob Schoonbrood
Chief Executive Officer

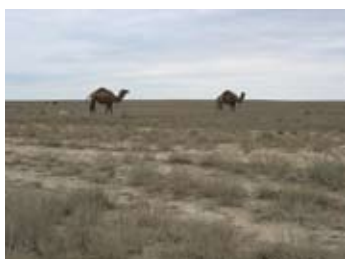
Operations



Ravninnoe Contract Area: Workover Rig

Ravninnoe

The Ravninnoe Contract Area covers 121 km² and is located approximately 100 km north east of the Tengiz oilfield in the south Emba region of the Pre-Caspian Basin, in the Atyrau and Mangistau Oblasts of West Kazakhstan. The Ravninnoe Contract Area is granted under an exploration and production SubSoil Use Contract for 25 years beginning in 2004. The total commitment for the entire exploratory period is \$15 million. The primary target for development is the discovered Middle Carboniferous reservoir at depths of 3,000 to 3,500 meters. There is also potential for exploration upside in the Devonian horizons at depths of approximately 4,000 to 4,500 meters.



Beibars Contract Area

Beibars

The Beibars Contract Area covers 167 km² on the Caspian Sea coastline approximately 30 km south of the industrial town of Aktau in the Mangistau Oblast of West Kazakhstan. The Beibars Contract Area is granted under an exploration SubSoil Use Contract for 5 years beginning in 2007 plus 2 two year extensions. The total commitment for the entire exploratory period is \$22.4 million. Geologically, the Beibars Contract Area lies on a Palaeozoic high directly north of the producing Oimasha field. Kazakh state publications describe Oimasha wells flowing at tested rates of up to 1,500 barrels of oil per day. Rates of up to 750 barrels of oil per day are also reported from Triassic fractured limestones and volcanic tuffs. The Directors consider the Beibars Contract Area to be an attractive exploration asset close to export infrastructure.





Galaz: Workover Rig

Galaz

The Galaz Contract Area covers 30 km² and is located approximately 120 km north of Kyzlorda in the Turgai basin in the Kyzlorda Oblast of South Kazakhstan. The Galaz Contract Area is granted under an exploration SubSoil Use Contract that expires on 14 May 2009. The total commitment for the entire exploratory period is \$17 million. The primary targets for development are the discovered Cretaceous sandstone reservoirs at depths of 1,200 to 1,400 meters. There is also potential for exploration upside in the Middle Jurassic horizons at depths of approximately 2,400 meters.



BNG Contract Area: Existing Well

BNG

The BNG Contract Area covers 1,561 km² and is approximately 40 km south of the Tengiz oilfield spanning the boundaries of the Pre Caspian and North Ust-Urt basins and 130 kilometers from the industrial town of Kulsary in the Mangistau Oblast of West Kazakhstan. The BNG Contract Area is granted under an exploration SubSoil Use Contract for 4 years beginning in 2007 plus 2 two year extensions. The total work commitment for the exploratory period is \$64 million. The region has been explored since the 1980s resulting in the development of several Jurassic discoveries in acreage surrounding the BNG Contract Area. The Directors believe the BNG Contract Area is highly prospective in both the Jurassic sandstones at depths of approximately 3,000 meters and the pre-Salt Carboniferous horizons at 4,000 meters to 5,000 meters.

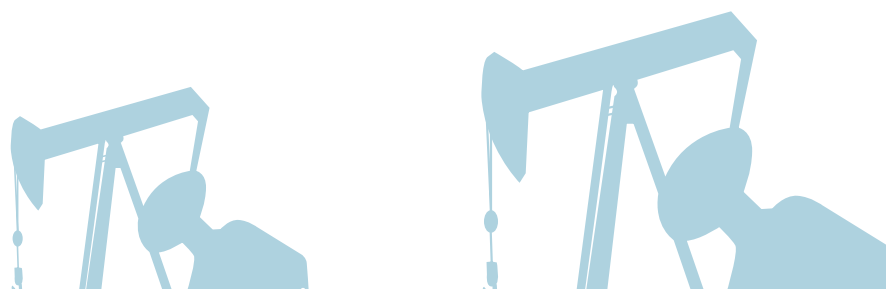


Munaily Contract Area: Workover Rigs

Munaily

The Munaily Contract Area covers 0.69 km² and is located approximately 60 km southeast of the town of Kulsary in the Atyrau Oblast of western Kazakhstan. The Munaily Contract Area is granted under an exploration and production SubSoil Use Contract that expires on 31 January 2030. The total commitment for the entire exploratory period is \$17 million. The primary targets for development are the bypassed shallow Cretaceous, Jurassic, and Triassic sandstone reservoirs at depths between 500 and 1,650 meters. The Directors consider the Munaily Contract Area to be a rehabilitation project as many wells were drilled in the 1940s and 1950s and were produced as recently as the mid 1990s.





Total reserves for all assets:

C1:

12 million barrels

C1 + C2:

40 million barrels

C1 + C2 + C3:

250 million barrels

All reported using GOST standards common in Russia and the CIS region.

GOST Recoverable Oil Reserves

(million tonnes)

Contract Area		Property Gross	Roxi Net	Interest
Ravninnoe	C1	1.4	0.7	50.00%
	C2	0.8	0.4	50.00%
	C3			
Galaz	C1			
	C2	1.7	0.8	50.14%
	C3			
BNG	C1	1.3	0.8	58.41%
	C2	4.5	2.6	58.41%
	C3	50.2	29.3	58.41%
Munaily	C1	0.2	0.1	58.41%
	C2			
	C3			



Galaz Field

(million of barrels)

Contract Area		Property Gross	Roxi Net	Interest
Ravninnoe	C1	9.9	4.9	50.00%
	C2	5.6	2.8	50.00%
	C3			
Galaz	C1			
	C2	12.6	6.3	50.14%
	C3			
BNG	C1	10.1	5.9	58.41%
	C2	32.4	18.9	58.41%
	C3	360.1	210.3	58.41%
Munaily	C1	1.2	0.7	58.41%
	C2			
	C3			

Qualified Person

Duncan McDougall, Technical Director of Roxi and a Fellow of the Geological Society, London, has reviewed and approved the technical disclosure in this reserves and resources summary. He holds a BSc in Geology and has 25 years international experience of exploration, appraisal, and development of oilfields in a variety of environments.

SPE Recoverable Reserves and Resources

(million of barrels)

		Property Gross	Roxi Net	Interest
Ravninnoe	Probable	1.3	0.6	50.00%
	Possible	2.4	1.2	50.00%
	Contingent			
	Resources (best)	2.6	1.3	50.00%
Galaz	Proven	0.7	0.3	50.14%
	Probable	2.8	1.4	50.14%
	Possible	4.3	2.2	50.14%



SPE – The Society of Petroleum Engineers

Proved Reserves

Proved Reserves are those quantities of petroleum which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined 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.

Probable Reserves

Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.

Contingent Resources

Contingent Resources are those quantities of petroleum 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 are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

GOST Standard Reserves

Category C1

C1 reserves are computed on the basis of results of geological exploration work and production drilling and must have been studied in sufficient detail to yield data from which to draw up either a trial industrial development project in the case of a natural gas field or a technological development scheme in the case of an oil field.

Category C2

C2 reserves are preliminary estimated reserves of a deposit calculated on the basis of geological and geophysical research of unexplored sections of deposits adjoining sections of a field containing reserves of higher categories and of untested deposits of explored fields. The shape, size, structure, level, reservoir types, content and characteristics of the hydrocarbon deposit are determined in general terms based on the results of the geological and geophysical exploration and information on the more fully explored portions of a deposit. Category C2 reserves are used to determine the development potential of a field and to plan geological, exploration and production activities.

Category C3

C3 resources are prospective reserves prepared for the drilling of (i) traps within the oil-and-gas bearing area, delineated by geological and geophysical exploration methods tested for such area and (ii) the formation of explored fields which have not yet been exposed by drilling. The form, size and stratification conditions of the assumed deposit are estimated from the results of geological and geophysical research. The thickness, reservoir characteristics of the formations, the composition and the characteristics of hydrocarbons are assumed to be analogous to those for explored fields. Category C3 resources are used in the planning of prospecting and exploration work in areas known to contain other reserve bearing fields.

GOST standards

GOST standards are administered by the Euro-Asian Council for Standardization, Metrology and Certification (EASC), a standards organization chartered by the Commonwealth of Independent States.

At present, the collection of GOST standards includes over 20,000 titles used extensively in conformity assessment activities in 12 countries. Serving as the regulatory basis for government and private-sector certification programs throughout the Commonwealth of Independent States, the GOST standards cover energy, oil and gas, environmental protection, construction, transportation, telecommunications, mining, food processing, and other industries.

The following countries have adopted GOST standards in addition to their own, nationally developed standards: Russia, Belarus, Ukraine, Moldova, Kazakhstan, Azerbaijan, Armenia, Kyrgyzstan, Uzbekistan, Georgia and Turkmenistan.

“Our task is now to work with our partners to develop our assets towards either production or monetization, whichever is in the best interests of our shareholders, whilst being constantly on the look out for value enhancing deals that would materially enhance our portfolio”

Rob Schoonbrood
Chief Executive Officer

October

- Announced option to buy 50% of ADA Group

August

- Acquisition of 59% of Eragon announced
- Roxi shares suspended from trading

November/December

- Acquisitions of Ravninnoe, Beibars and North Karamandybas negotiated



Workover Rig: 24 hour Operation

December

- 3D Seismic commenced in Galaz
- Move to new offices in Almaty



Offices in Almaty

May

- Admission to AIM Institutional placing raised \$78 million
- Completion of the acquisitions of Ravninnoe and Beibars
- Work starts at Ravninnoe and Beibars



Ravninnoe: Operations at Workover Rig

April

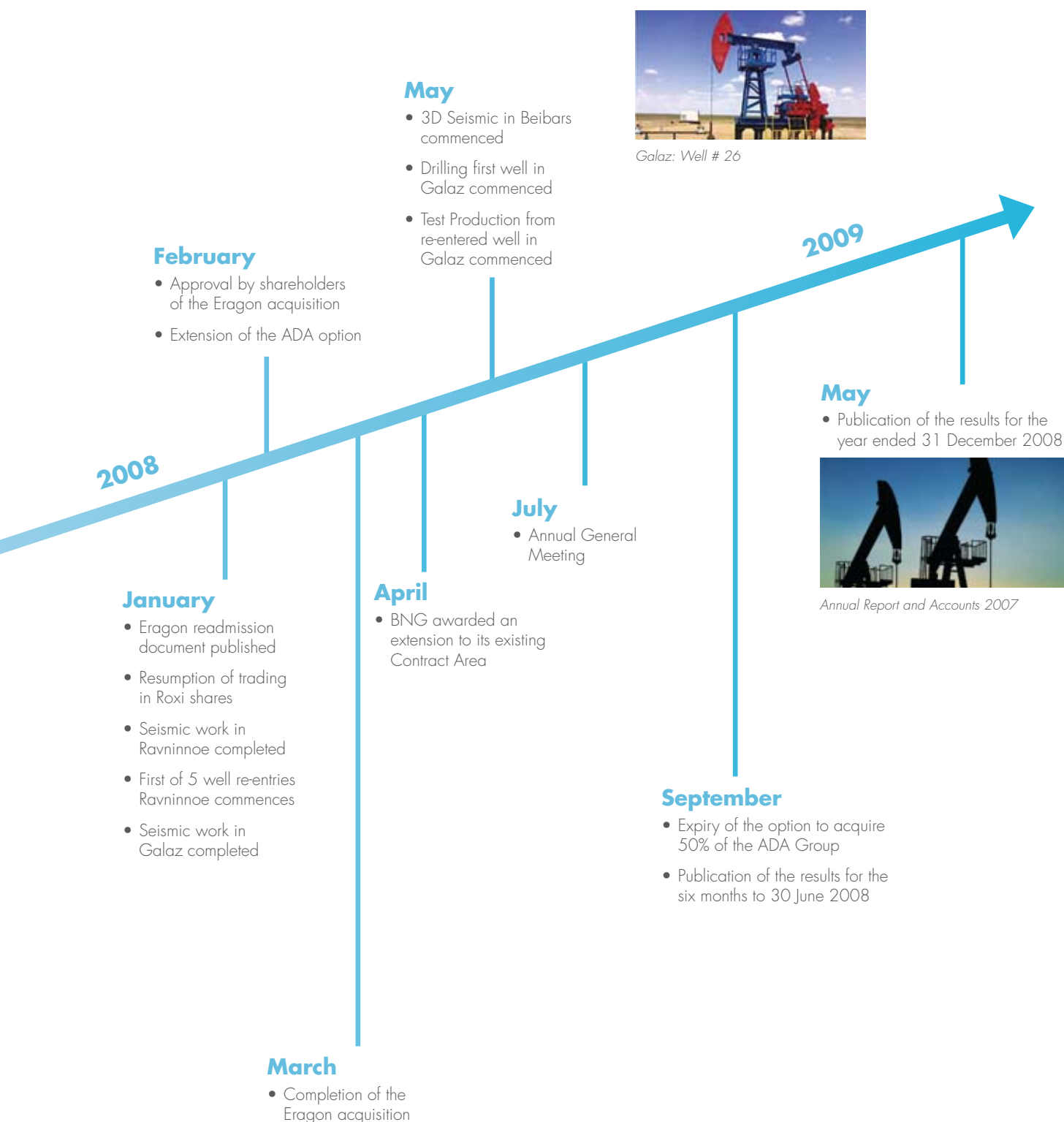
- Rob Schoonbrood Chief Executive Officer designate

October

- David Barker recruited as Chief Operating Officer
- Duncan McDougall recruited as Technical director
- Roxi Petroleum plc incorporated

2006

2007



We have come a long way in a short time and certainly further than we expected when we started. Our first annual report and accounts as a public company provides the ideal opportunity to set out what we have done to date and more importantly our plans for the future.



Ravninnoe: Workover Rig

We remain committed to developing a portfolio of attractive assets over the medium-term. Following the Eragon acquisition we now have an exciting portfolio of assets with an encouraging number of leads.

Roxi Petroleum plc was formed on 13 October 2006 and on 22 May 2007 our shares were admitted to trading on London's junior stock market, AIM. At that time we raised some \$78 million from institutional investors to pursue a strategy of building a diversified portfolio of oil and gas exploration and production assets in Central Asia within three to five years.

At the time of our admission to trading on AIM we had agreements to buy three principal assets, Ravninnoe, Beibars and North Karamandybas. Since admission we have completed the acquisition of the Ravninnoe and Beibars assets and have started work developing these assets.

As we reported at the time of admission, we resolved to await the outcome of a legal challenge regarding the ownership of the vendors' interest in North Karamandybas before completing the acquisition. At the date of this report the result of the legal challenge has not been resolved. However, whilst the time it has taken to deal with this legal challenge has proved to be far longer than we imagined, recent court proceedings lead us to believe the final outcome of the legal challenge may allow Roxi to complete its purchase of North Karamandybas on terms broadly similar to those negotiated at the time of our admission. The Directors have decided to maintain the \$3 million provision set up at the time of our interim report against the carrying value of the North Karamandybas assets.

The capital identified in May 2007 for North Karamandybas has been used for other projects while the legal challenge to the vendors' ownership is being resolved. Should we have the opportunity to acquire North Karamandybas, further funds will be required to buy and develop this asset.

On 22 August 2007, we announced the conditional acquisition of a 59 per cent. interest in Eragon, a UK company which owned three fields, BNG, Galaz and Munaily, for an aggregate purchase consideration of \$250 million, split into an initial purchase for \$190 million and a further \$60 million, which was dependent upon securing additional permissions to exploit the BNG assets. The further purchase consideration (excluding a \$1.5 million deposit) was satisfied by the issue of Roxi shares at a price of 65p per share.

Under the AIM Rules, the size and structure of the acquisition made it a reverse takeover, resulting in the Company's shares being suspended until we were able to issue an admission document containing full financial, legal, and geological details of the assets already in the Company and those we wished to purchase.

On 4 October 2007, we announced that we had purchased, for an option fee of \$2 million paid in cash, an option to acquire a 50 per cent. interest in the ADA Group for an aggregate consideration of \$425 million (including the option fee). The option was set to expire on 30 March 2008. The obligation to



include in the admission document full details of the ADA Group assets under option, was the principal reason our shares remained suspended for almost five and a half months and was a significant factor in the high level of costs associated with the Eragon acquisition.

On 31 January 2008, we published the admission document for the Eragon acquisition which allowed trading in our shares to resume. On 29 February 2008, Roxi shareholders voted to approve the Eragon acquisition which, together with the BNG extension, has now been completed by the issue of an aggregate of approximately 152 million new Roxi shares at a price 65p per share, with an additional approximately 48.5 million new Roxi shares to be issued in connection with Consulting Services Agreement, at the same price.

It is the view of the Board that the acquisition of our interest in Eragon is a major step in improving both the scale and quality of the assets previously assessed.

Following the Eragon acquisition approximately half of the shares in our Company are owned by people living in the areas in which we operate and we thank them for their support and vote of confidence.

On 19 February 2008, we announced that we had agreed with the ADA Group vendors to extend the option to acquire the ADA Group assets until 30 September 2008, as it had become clear that the delays in completing the Eragon acquisition placed in jeopardy our ability to complete the ADA Group

acquisition within the previously agreed timescale without taking undue risks in the due diligence. An extension fee of \$3.2 million (which is refundable if certain conditions are not satisfied) was paid in cash.

At that time the purchase price of the ADA Group assets was reduced from \$425 million to \$340 million (including the application and extension fees paid) and the price at which the Roxi shares are to be issued for these assets was reduced from 80p per share to 65p per share. We will make every effort to ensure we do not have another suspension in the trading of our shares should we decide to exercise the option to acquire a 50 per cent. interest in the ADA Group.

On 19 May 2008, we provided the market with an update on each of our assets, the principal details of which are summarised in the Chief Operating Officer's report. At that time, we also announced that as a result of certain costs being greater than anticipated at the time of the Eragon acquisition and the decision to advance certain elements of the work programme, in particular in respect of our fields at Galaz, in order to achieve earlier production, are seeking additional working capital required to fund the Company's development programme. Given the poor performance of our share price since the resumption of trading, it is not our intention to seek these funds from the London market. We are in advanced discussions with a number of international investors and expect to make a further announcement in this regard in the near future.

We remain committed to developing a portfolio of attractive assets over the medium-term. Following the Eragon acquisition we now have an exciting portfolio of assets with an encouraging number of leads.

The twin strengths of Roxi are its executive management team and our approach of seeking to work in partnership with local interests when acquiring and developing assets. The team, despite the relatively short time they have been together, has already made large steps in assembling and starting to develop what we believe will prove to be an impressive portfolio of assets.

These strengths have already resulted in a far greater flow of worthwhile opportunities than we had hoped to see at the time of our original admission to AIM. We look forward to an exciting 2008 and beyond. I would like to draw your attention to the formal Notice of Annual General Meeting, and my further comments thereon, set out in the accompanying document.

Thank you to everyone who has assisted us so far.

Clive Carver

Clive Carver

Non-executive Chairman
13 June 2008

Roxi Petroleum's strategy is to acquire oil and gas assets and enhance their value, either by further development or enhanced production techniques. We are mostly looking for assets that have already been discovered and/or that have promising near-term production characteristics.



Munaily Field

Working with well-respected and experienced local partners enhances our operations and manages risks

We have completed an acquisition of an 59% interest in Eragon with outstanding development potential

Over the medium-term we have identified Central Asia as the area of our planned operations but in the short-term have focused our efforts in the Republic of Kazakhstan. The oil producing regions of Kazakhstan have already witnessed significant discoveries and have an extensive extraction and distribution infrastructure.

It remains our strategy to work with local partners who are already well established in the territories in which we wish to operate. We believe working with well-respected and experienced local partners enhances our operations and manages risk through better understanding of the complicated regulatory processes as well as giving us a deeper knowledge of the local business environment.

Wherever possible we seek to retain operational and financial control and believe this is the most effective way to deliver projects on time and to budget.

Eragon Acquisition

As noted in the Chairman's report, our greatest success since our original admission has been the completion of the acquisition of a 59 per cent. interest in Eragon. This has placed

us firmly on the map in Kazakhstan as a company that has the ability to negotiate and complete a very complicated acquisition on mutually beneficial terms whilst maintaining the goodwill of our commercial partners and the Kazakh regulatory authorities.

It is our firm view that the interests in the assets acquired as part of the purchase of Eragon have outstanding development potential. In particular, the Galaz Contract Area offers the prospect of very near-term production and the BNG Contract Area offers tremendous upside in both reserves and significant levels of production.

BNG was awarded an extension to its existing Contract Area in April 2008. Accordingly, the BNG Contract Area has increased by 9.8 per cent. of the total area of the contract territory to 1,561 km². The BNG Contract Area initially covered an area of approximately 1,422 km². Within the boundaries of the BNG Contract Area the joint venture partners in Eragon and the Roxi Directors identified open acreage which they considered to be an extension of the exploration potential that existed under the original Contract Area.



Kazakhstan remains a favourable operating environment for a company such as Roxi

The awarding of the extension will help to consolidate the exploration strategy in the BNG Contract Area and increase the potential for early exploration success, the addition of reserves and early test production.

ADA Group Option

Our interest in the ADA Group remains strong. We have until 30 September 2008 to exercise the option to acquire a 50 per cent. interest in the ADA Group. The team led by Duncan McDougall, our Technical Director, is engaged on a detailed review of the seismic and other technical information concerning the ADA Group assets. Early indications are encouraging and provided these are borne out we would hope to exercise the option to acquire a 50 per cent. interest in the ADA Group in due course.

Kazakhstan

Kazakhstan remains a favourable operating environment for a company such as Roxi. We have already established good working relations with the various regulatory bodies responsible for our industry.

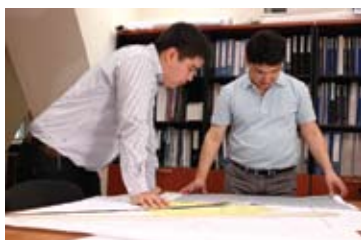
Outlook

We have made a strong start in exploiting the Eragon assets. We continue to evaluate a number of potential attractive assets in Kazakhstan, although at this stage our focus is on developing our portfolio and progressing the ADA Group acquisition.

Rob Schoonbrood

Chief Executive Officer

From a standing start in late 2006, we have now built a fully functioning exploration and production Group with effective technical, financial and operational capabilities.



Geologists at work

In December 2007, we moved into newly built offices in Almaty and have already expanded to integrate Eragon's staff

Staffing

In order to develop five assets and manage a total of ten Kazakhstan companies we now have 112 employees based in Kazakhstan comprising 70 in the main Almaty headquarters, 13 in the Aktau regional office, 13 in the Atyrau/Munaily office and field operations and 16 in the Kyzlorda/Galaz office and field operations. Of these employees 26 are technical staff, 23 financial staff, 42 operational staff and 21 fulfil other activities.

Infrastructure

In December 2007, we moved into newly built offices in Almaty and have already expanded to integrate Eragon's staff. We have opened a regional office in the Caspian Sea port of Aktau, which will be the centre of operations for BNG, Beibars and Ravninnoe, a small office in Kyzlorda to service the Galaz asset and a small office in Atyrau to service the Munaily asset.

As is normal in any asset purchase a series of regulatory filings must be submitted, reviewed and approved before actual work begins. To date, Roxi has made significant progress in getting the required permits and approvals to work in Ravninnoe, Beibars and Galaz.

Asset update

Ravninnoe Contract Area

Proven Oil discovery – appraisal and development

After completion of the 168 km² 3D seismic survey over the entire Ravninnoe Contract Area at the end of January 2008, the initial processing of the data has been completed. Roxi is very pleased with the quality of the data and is evaluating and delineating the structurally and stratigraphically closed clastic reservoirs in the Middle Carboniferous as well as the deeper potential. Current SPE reserves on Ravninnoe field are 1.9 million barrels proven + probable + possible, and a range of 1 to 10 million barrels contingent resources net to Roxi. GOST reserves for the field have been estimated at 7.7 million barrels C1+C2 net to Roxi.

Following processing and interpretation of the 3D seismic Roxi will be able to re-evaluate the current estimated resources on the Ravninnoe Contract Area.

Roxi has tendered the drilling and related equipment for the drilling of the first new well, planned in Q3 2008.



Galaz Contract Area: Drilling Rig

The rig was mobilised and the first new well, Well NK1, was spudded on 9 May 2008

In March 2008, Roxi began the first of five well re-entries planned for 2008 to establish the condition of the wellbores and possibly test-produce the reservoir. After some delays in receiving all the necessary approvals and delivering necessary equipment, work on Well #5 is progressing normally. Roxi has made preparations to re-enter Well #3 immediately following a conclusion of the works and evaluation of Well #5.

Beibars Contract Area

Exploration

Roxi planned to begin seismic acquisition in February 2008 but was prevented from starting to work by military exercises being held on the contract area. Roxi immediately entered into discussions with the local Oblast authorities and the Ministry of Energy and Mineral Resources of Kazakhstan.

In late April, Roxi obtained permission from the Kazakhstan Ministry of Defense to acquire a 121km² 3D seismic survey over the Beibars Contract Area. Seismic crews from the seismic contractor mobilized to location in May 2008 to begin acquisition of the seismic data.

Following processing and interpretation of the 3D seismic, Roxi will be able to estimate prospective resources on the Beibars Contract Area.

Galaz Contract Area (NW Konus)

Proven oil field – appraisal and development targeting early production

After the acquisition of a 30 km² of 3D seismic over the entire Galaz Contract Area (NW Konus) in January 2008, the processing of the data was completed. Roxi is evaluating the Neocomian reservoir sands as well as the exploration potential in the shallower Cretaceous sands and in the deeper undrilled Jurassic sequences.

Roxi completed a tender and awarded a contract for the drilling of the first new well in the Galaz Contract Area (NW Konus). The rig was mobilised and the first new well, Well NK1, was spudded on 9 May 2008 to drill and evaluate the Neocomian sands at an approximate depth of 1,300 meters. Roxi plans to move the rig to a second location following the successful drilling of Well NK1.

Roxi completed the re entry and installation of downhole pumps in two existing wells, #26 and #27. Well #27 was put into test production in late April 2008. The surface facilities have been installed on Well #26 and testing is also underway on this well.



Munaily: Well # H1

Currently well # H1 Munaily Contract Area, is flowing 80 to 100 barrels of oil per day

Extensive infrastructure work has been completed in the Galaz Contract Area (NW Konus) including the building of a 7km access road and the initial test production and shipping facilities. Further work is planned on an ongoing basis to complete the workers camp and finish the drilling of a technical-water well to be used for drilling and treatment facilities.

Current SPE reserves for the NW Konus field are 4.0 million barrels proven + probable + possible net to Roxi. GOST reserves for the field are 6.3 million barrels C2 net to Roxi.

BNG Contract Area (Ayrshagyl)

Exploration

BNG Ltd. LLP has been awarded an extension to its existing BNG Contract Area. Accordingly the BNG Contract Area has increased by 9.8 per cent. of the total area of the contract territory to 1,561 km².

Roxi has completed a tender for the acquisition and processing of approximately 400 km² of 3D seismic over the northern portion of the BNG Contract Area which includes the recently awarded extension area. All bids have been received and are currently

being evaluated for the award of the contract. Seismic acquisition is expected to begin in Q3 of 2008 as originally planned.

No SPE reserves or resources have yet been reported for the BNG Contract Area. Historical GOST reserves are 235 million barrels C1+C2+C3 net to Roxi.

Munaily Contract Area

Proven oil field – rehabilitation targeting early production

After the drilling of two wells in the Munaily Contract Area in the fourth quarter of 2007, Well #H1 was completed and put on test production in January 2008. The well flowed at a rate of approximately 80 barrels of oil per day over the first 30 day period. Additional prospective zones existing in the wellbore were perforated and added to the testing regime. Currently the well is flowing 80 to 100 barrels of oil per day. Roxi will continue to test the well to evaluate the reservoir.

Well #H2 was drilled to a depth of 600m and tested unsuccessfully in all potential zones. Roxi will continue to evaluate this well for further testing or abandonment.



It is only through the combined efforts of all of our co-workers that we have realised our achievements to date

Two existing wells, Well #68 and Well #83, have been re-entered. Well #68 appears to be unproductive and Well #83 is still under testing and evaluation. Roxi will continue to slowly evaluate the validity of the Munaily Contract Area to determine its financial viability.

No SPE reserves or resources have yet been reported for the Munaily Contract Area. GOST reserves are 0.7 million barrels C1 net to Roxi.

Environmental

No significant environment issues have surfaced at any of the properties acquired to date. Compliance with environment regulatory bodies is being managed from both the Aktau and Almaty offices.

Overall

We have made significant progress since start up just one year ago. We have staffed the Company with a group of qualified local professionals in order to allow us to develop all of the assets in an efficient manner. As the operations in the assets continue to increase, we will add the needed field and technical staff to

operate and move each asset into production as quickly as possible. It is only through the combined efforts of all of our co-workers that we have realised our achievements to date. We look forward to the coming year and expect to continue to report our progress and successes over the next twelve months and beyond.

David Barker

Chief Operating Officer



Galaz: Oil Transport Truck



Clive Carver

Clive Carver

(aged 47)

Non-executive Chairman

Clive Carver qualified as a chartered accountant with Coopers & Lybrand in London in 1986. Since then he has focused on the corporate finance and corporate broking arena, including working for Kleinwort Benson and Price Waterhouse Corporate Finance.

number of deals and for a variety of companies in Kazakhstan. These include initiating and implementing a Crude Oil swap agreement between Kazakhstan and Iran on behalf of CJSC Munai Impex and acting as a Senior Advisor to the management of PetroKazakhstan, with an emphasis on business with Iran, Kazakhstan and China.



Rob Schoonbrood

He spent five years at Seymour Pierce, where he was a director and head of corporate finance, and five years at Williams de Broë, where he was head of corporate finance and corporate sales. At Williams de Broë he led the team floating and fund raising for a number of natural resource companies. He is now head of corporate finance at J.M. Finn Capital Markets Limited. He is also a qualified corporate treasurer.

He was President of Unioil AG, an independent oil transport and trading company focusing on niche business around the Caspian Sea, from 2002-2003 and was Operations Director of Cobalt Energy Group, a US-based wholesale company, from 2004-2005.



David Barker

Rob Schoonbrood

(aged 63)

Chief Executive Officer

Rob Schoonbrood has 40 years energy sector experience, primarily in oil and gas, having spent the first 30 years of his career with the Royal Dutch Shell Group. He has held a variety of positions including Business Development Manager of Oil Products East for Shell International Petroleum Company in London and Chief Executive of Shell Markets Middle East/Shell Trading Middle East in Dubai.

Mr. Schoonbrood left the Royal Dutch Shell Group in 1999 and since then has acted as an independent business consultant, advising on a

David Barker

(aged 53)

Chief Operating Officer

David Barker has 30 years experience in the oil and gas industry. His early career included petroleum operations and production engineering positions with Mobil Oil Corporation and Mitchell Energy Corporation. He has served in senior management positions in publicly traded companies for over 15 years, including as president of an oil and gas company in the United States.

More recently he has direct experience in Kazakhstan initially as an oil and gas consultant advising the Kazakh government in improving its management of natural resources. He has also served as the General Director of Operations in Kazakhstan and as the director of the local subsidiaries for Big Sky Energy Corporation.



Duncan McDougall

Duncan McDougall

(aged 48)
Technical Director

Duncan McDougall has 26 years international experience of exploration, appraisal and development of oilfields in a variety of environments. He began his career in the North Sea with Charterhouse Petroleum and BP Exploration as an exploration and development geologist. For the past 15 years, he has been advising, through his firm Saxford Limited, a large variety of companies on the purchase and development of oil and gas assets in Africa, Europe, the Far East and Asia, with the large majority in the former Soviet Union.



Kuat Oraziman

Kuat Oraziman

(aged 45)
Non-executive Director

Kuat Oraziman has 20 years of business experience in Kazakhstan and abroad and nearly 10 years of oil and gas experience in Kazakhstan. His experience has included the operation of import and export businesses, the establishment and operation of an international brewery in Kazakhstan, and acting as the Kazakhstan representative of Phillips and Stork. Since 2001 Mr. Oraziman has been a director of ADA LLP.

Mr. Oraziman also holds a doctorate in science and is a trained geologist.



Brian Garvey

Brian Garvey

(aged 56) CIMA,
Group Financial Manager

Brian Garvey is a member of the Chartered Institute of Management Accountants (C.I.M.A). He has over 30 years of financial and management accounting experience. Over the last 12 years he has worked in Kazakhstan, Russia and other areas of the former Soviet Union as Financial Controller/Director of publicly traded and private companies.

Paul Puxon

(aged 57)
Company Secretary

Paul Puxon has 36 years legal experience. He qualified as a barrister in 1972. In 1985, he became a Solicitor. He subsequently joined Eversheds.

In 1998, Paul set up his own practice in London, concentrating on employment and company work.

In 1999, Paul joined RiverSoft plc as in house Counsel and Company Secretary; he provided the legal support for the IPO on the London Stock Exchange and was responsible for the Human Resources department. After the takeover of RiverSoft plc, he returned to private practice when he joined Ferguson Solicitors based in the City of London.



Paul Puxon

Directors' Report and Business Review

The Directors present their first annual report on the operations of the Company and its Group, together with the audited financial statements for the period ended 31 December 2007. The Chairman's Statement, the Chief Executive's Statement and the Chief Operating Officer's Statement on pages 6 to 15 form part of the Business Review for this period.

Results and dividends

The consolidated income statement is set out on page 30 and shows the loss for the period.

The Directors do not recommend the payment of a dividend.

Principal activity

The principal activity of the Group and the Company is to build a diversified portfolio of oil and gas exploration and production assets in Central Asia. The Group's focus is currently on Kazakhstan as a result of numerous niche onshore opportunities available under the prevailing contract regime and the extensive operational experience of the management of the Group in country.

Group overview

On admission to AIM in May 2007, the Company raised \$78 million from institutional investors to pursue a strategy of building a diversified portfolio of oil and gas exploration and production assets located in Central Asia within three to five years. At that time, the Company had agreements to buy three principal assets, Ravnninnoe, Beibars, and North Karamandybas.

Since then, completion of the acquisitions of Ravnninnoe and Beibars has occurred as planned but, as reported at the time of the initial admission, the Board resolved to await the outcome of a legal challenge regarding the ownership of the vendors' title in the North Karamandybas asset, which is the third principal asset Roxi wished to acquire at the time of the initial admission, before completing its acquisition. The dispute has yet to be resolved.

The North Karamandybas contract for sub-soil use has now expired. Nevertheless, the Board still believes the acquisition of the North Karamandybas asset may be possible should the dispute be resolved in favour of the North Karamandybas vendors and the contract be extended by the relevant government authorities. Funding raised at the time of the admission in May 2007, which

was intended to fund the acquisition and development of the North Karamandybas asset is to be used to help fund the development of the Eragon assets. Accordingly, should Roxi acquire the North Karamandybas asset, additional funding would be required. There can be no assurance that the acquisition of the North Karamandybas asset will be completed.

Following the acquisition of the Eragon assets which was approved by shareholders on 29 February 2008, the Group has a controlling interest in three additional Contract Areas: the BNG Contract Area, the Galaz Contract Area and the Munaily Contract Area, which are located in Western Kazakhstan in the Pre-Caspian and Turgai Basins. Each of these assets is at a different stage in its respective exploration cycle.

\$188.5 million of the consideration for the Eragon acquisition has been satisfied by the issue of 145,000,000 new ordinary shares at a fixed price of 65 pence per share along with the issue of 6,923,077 shares to the project manager, PJT Corporate Services Pty Ltd.

The total consideration of \$60 million pursuant to the Consulting Service Agreement will be satisfied by the issue of 46,153,846 shares at a fixed price of 65 pence per share along with the issue of 2,307,692 shares to the project manager, PJT Corporate Services Pty Ltd.

Strategy and future developments

The Group's strategy is to build, within three to five years, a diversified portfolio of oil and gas exploration and production assets in Central Asia which, in the opinion of the Directors, have potential for near-term production and substantial increases in the stated reserves. The Company intends to enlarge the portfolio on an ongoing basis to become a significant sized oil and gas concern. To date, the Company has reviewed more than 30 assets.

The key components of the Group's strategy are summarised as follows:

- The Group seeks to optimise the value of its strong management team which has extensive and diverse experience in the oil and gas sector. The management team has a commercial and operational track record worldwide including Kazakhstan, the former Soviet Union, the Middle East, Russia, the United States and Europe;

Directors' Report and Business Review

Continued

- The Group will interact with Kazakh joint venture partners which are well established in the country, and who have excellent local connections, to obtain exposure to acquisition opportunities and who can assist in commercial, operational and regulatory matters;
- The Group will continuously evaluate and aim to accumulate other under-developed oil and gas assets located in Central Asia;
- The Group will maintain a flexible corporate structure which can be easily expanded to accommodate other acquisition opportunities and is designed to protect each of its assets; and
- Through the acquisition and accumulation of a number of oil and gas fields, the Group will seek to diversify its geologic and operational risks in respect of the development of individual oil and gas fields.

The Group intends to use conservative criteria for choosing additional fields to add to the portfolio to help to generate attractive cash flows including:

- Acquiring fields with relatively low acquisition costs compared to the upside potential of the field;
- Acquiring fields that are close to the end of their appraisal phases and can be placed into long-term production in the near future to accelerate investment payback;
- Acquiring fields with significant upside in the development of the reserve base;
- Entering into joint ventures, typically with local owners, who will have an interest of up to 50 per cent. of each field; and
- Whenever possible, retaining control over the development and the operations of the joint ventures.

Current trading and prospects

Since its first admission, the Company has received only minimal income. The Directors are focused on seeking early production from the Contract Areas and from other properties which meet the investment criteria described above.

The Group made a loss for the period of \$10.5 million and had total equity of \$118 million at 31 December 2007. At the period end the financial position of the Company and Group was satisfactory, with Group debt/equity ratio of less than 1%. However further investment will require additional funds to be raised.

On 19 May 2008, the Company announced that, as the result of costs greater than expected at the time of the Eragon acquisition and the decision to move more quickly on certain assets, in particular Galaz, with a view to earlier production, the Group would over the next few months seek to raise additional working capital. To achieve this the Group is in advanced discussions with a number of international investors which are expected to be concluded in the near future.

The Directors intend to manage the activities of the Company in a conservative manner until additional funds have been raised.

Key strengths

The Directors believe that the Company's strengths will enable it to pursue a strategy to become a significant independent oil company in Central Asia. The Directors believe the Group's key strengths include:

- *Experienced team*

The Company benefits from an experienced management team of proven oil and gas executives who also have in-depth experience of operating in Kazakhstan and who have extensive contacts in the region. The Company intends to utilise these contacts through their joint venture partners to maximise the benefit to the Group's operations and acquisitions.

Directors' Report and Business Review

Continued

- **Significant near-term production**
The Directors believe the Company's existing reserves can be exploited to achieve near-term production that will drive early cash flows and will allow the business to achieve profitability and the continued expansion of the Company's business.
- **Significant possibility of additional reserves**
In addition to existing reserves, the Directors consider there is a high chance that the actual recoverable reserves will prove to be significantly higher, and that the Contract Areas have historically been inadequately and/or poorly explored, and moreover that the Contract Areas offer outstanding development potential.
- **Further acquisition opportunities**
The Directors consider that the establishment of the Group, the Eragon acquisition and the ADA Group option demonstrates the capabilities of the Directors to access and successfully negotiate interests in oil and gas assets in Kazakhstan at competitive prices. The Directors believe that there is significant opportunity for the Company to further add to its portfolio of oil assets in the short- to medium-term.
- **Title matters**
Title to oil and gas assets in jurisdictions such as Kazakhstan can be complex and may be disputed.
- **Investment agreements**
The Group has entered into a number of agreements with other participants in its assets that may be challenged on the basis that certain provisions have not been in compliance with Kazakhstan law as regards, inter alia, the choice of the governing law, the language of the contract and the provision for the removal of directors of Kazakh limited liability partnerships. The Directors, having taken legal advice, consider the risk of any challenge on these matters is low.
- **Competition approvals**
Some previous owners of interests in the Company's assets and the Eragon assets did not obtain the necessary consents that may have been required by Kazakhstan Competition Law to certain earlier transfers of those interests. Competition Law is evolving rapidly and is complex and uncertain. On certain transactions related to the earlier transfers of interests in the Company's assets and the Eragon assets, such consents may possibly have been required. If such consent were required, such acquisition may be invalidated by proceedings brought by the relevant Government agency which could lead to the setting aside of previous acquisition transactions. However, the Directors, having taken legal advice, believe that the obtaining of the requisite consents, whilst in essence after the fact, significantly reduces this possible risk to the extent that the Directors believe that such risk is now remote.
- **Environmental liabilities**
The Company and its predecessors could have generated environmental liabilities that the Company is required to remediate at its cost. The Company's operations are subject to the environmental risks inherent in the oil and gas exploration and production industries.
- **Requirement for further funding**
The Group will need to raise substantial funds to complete its development programme. There is no guarantee that the then prevailing market conditions will allow for such a fundraising or that new investors will be prepared to subscribe for ordinary shares at the same price as the then current market price.

Principal risks and uncertainties

The Company 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. A full summary of the risks factors the Directors consider relevant is set out in Part II of the Company's admission document dated 31 January 2008, which can be found on the Company's website www.roxipetroleum.com.

- **Obligations under the Contracts for Sub-Soil Use ("SSUC")**
Operations must be carried out in accordance with the terms of each SSUC, field development plan, and annual working programme, and budgets agreed with the Ministry of Energy and Mineral Resources. The law provides that fines may be imposed and SSUCs may be suspended, amended or terminated if a contractor fails to comply with its obligations under such agreements or fails to make timely payments of levies and taxes for the sub-soil use, provide the required geological information or meet other reporting requirements. Failure to comply may also lead to suspension, revocation or termination of a SSUC.

Directors' Report and Business Review

Continued

- *Loan agreements indemnity*

As described in the Company's admission document, the Company has entered into an agreement with Baverstock GmbH pursuant to which Baverstock GmbH would inter alia observe and perform the respective obligations of Sytero 4 and Sytero 5 in relation to loan obligations to Dae Han New Pharm Co. Limited and Kuat Orazimam.

Should Baverstock GmbH not meet its obligations under this agreement the Company and its Group via Sytero 4 and Sytero 5 would remain liable for this debt.

- *Dependence on key employees*

The Group's future success is substantially dependent on the continued services and performance of its senior management and other key personnel in the various areas of the Company's business. The loss of the services of certain key employees, or the inability to recruit personnel of the appropriate calibre, could have a significant adverse effect of the business of the Company.

- *Growth management*

The Directors anticipate that further expansion will be required to address the anticipated growth in the business. The Company's future success will depend, in part, on its ability to manage this anticipated expansion. Such expansion is expected to place significant demands on management, support functions, accounting, sales and marketing and other resources of the Company. If the Company is unable to manage its expansion effectively, its business and financial results could suffer.

- *Price of crude oil*

The sale of oil is likely to be the Company's primary source of revenue and such revenues are linked to the price of crude oil which is affected by a variety of factors beyond the Company's control.

- *Oil reserve estimates*

There are numerous uncertainties inherent in estimating the quantity and the quality of reserves and in projecting future rates of production, including many factors beyond the Group's control.

- *Drilling and production risks*

The Group's future success will depend, in part, on its ability to develop existing oil reserves in a timely and cost-effective manner using secondary, enhanced recovery and well stimulation techniques.

- *Government procurement risk*

The Government has the ability to require additional deliveries of crude oil to domestic refineries and these may be at prices that are materially below international market prices. The Government also has the power to require producers to supply a portion of their crude oil production to domestic refineries to meet domestic energy requirements.

- *Royalties and taxes*

The Company is required under the laws of Kazakhstan and the terms of its SSUCs to pay royalties (whether in cash or in kind) and various taxes, including excess profit tax, corporate income tax and VAT and in certain cases incur costs in respect of social infrastructure expenditure. There is also a possibility that the Government may increase taxes as oil prices increase. An increase in any of these costs could materially and adversely affect the Group's business, prospects, financial condition or results of operations.

- *Transportation risks and access*

The crude oil to be produced by the Company is expected to be transported via infrastructure owned or operated by third parties. Kazakhstan has no direct access to the open sea, and any crude oil to be exported must use routes through other countries. Kazakhstan crude oil for export must be transported through pipelines, by rail or by the Caspian Sea.

- *Exchange rate risk*

The majority of the Company's revenue is expected to be in US dollars. However certain of the Group's revenue and expenses are to be incurred in Kazakh Tenge. If the value of the US dollar falls against the Kazakh Tenge, then the Company will have less Kazakh Tenge available to pay its Kazakh Tenge expenses and its results as expressed in Kazakh Tenge will be adversely affected, as will all financial assets denominated in US dollars.

- *Social programmes*

The Company is required to invest in social programmes for the benefit of local communities, the costs of which may increase.

- *Tax risks*

The Company is subject to local and national tax regimes in Kazakhstan. The local and national tax environment in Kazakhstan changes frequently and the rules implementing those changes are usually not established on a timely basis. Non-compliance with Kazakhstan tax laws and regulations can lead to the imposition of substantial penalties and interest.

Directors' Report and Business Review

Continued

- *VAT, excess profit and social taxes*

The Company is exposed to VAT, excess profits tax ("EPT") and social tax risks resulting from uncertain provisions of tax legislation. Risks related to VAT, EPT and social taxes are uncertain because of the nature of the relevant legislation.

- *Insurance coverage*

The Company does not carry business interruption, keyman, terrorism or sabotage insurance. The Company can give no assurance that the proceeds of insurance applicable to covered risks will be adequate to cover increased expenses relating to these losses or liabilities. Accordingly, the Company may suffer material losses from uninsurable or uninsured risks or insufficient insurance coverage.

- *Risk factors relating to the Republic of Kazakhstan*

All of the Company's assets are currently located in Kazakhstan and the Company is therefore susceptible to country specific risk factors such as political, social and economic instability.

Acquisitions

The Group was admitted to the AIM market on 22 May 2007 to pursue a strategy of building a diversified portfolio of oil and gas assets located in Central Asia within three to five years. The acquisition of two principal assets was completed during the period under review, as detailed in note 16 to the financial statements. The acquisition of the third principal asset, North Karamandybas, continues to be delayed pending the outcome of a legal challenge against the vendors' title and the approval of an extension to the contract for sub-soil use.

In addition, subsequent to the end of the period the Group completed the acquisition of a 59% interest in Eragon Petroleum Plc, as detailed in note 30 to the financial statements.

Financing and treasury

The Group's cash position at 31 December 2007 was \$30,144,000.

The bulk of the Group's cash balances are held in US Dollar denominated floating rate deposits.

Events after the balance sheet date

Other than as disclosed in this annual report, including notes 30 and 31 to the financial statements, there have been no material events between 31 December 2007 and the date of this report, which are required to be brought to the attention of shareholders.

Dividend policy

The Directors do not intend to declare or pay a dividend in the immediate foreseeable future but, subject to the availability of sufficient distributable profits, intend to commence the payment of dividends when it becomes commercially prudent to do so.

Charitable and political donations

During the period the Group made no charitable or political contributions.

Corporate social responsibility

The Company will implement various social investment programs throughout the Group. The Company is committed to contribute to improving the quality of life and education of the local workforce and communities. The Company plans to work with its employees and local residents to determine what are the most effective ways to implement the social and community programs.

Supplier payment policy

It is in the Group's policy to pay suppliers in accordance with the terms and conditions agreed with them. The average number of days to pay suppliers in the current period (as calculated in the prescribed manner) is 28 days.

Employees

Staff employed by the Group are based primarily in Kazakhstan. The recruitment and retention of staff, especially at management level, is increasingly important as the Group continues to build its portfolio of oil and gas assets.

As well as providing employees with appropriate remuneration and other benefits and a safe and enjoyable working environment, the Board recognises the importance of communicating with employees to motivate them and involve them fully in the business. For the most part, this communication takes place at a local level but staff are kept informed of major developments through e-mail updates and access to the Company's website.

The Company has taken out full indemnity insurance on behalf of the Directors.

Health, safety and environment

It is the Group's policy and practice that it complies with health, safety and environmental regulations and requirements of the countries in which it operates, to protect its employees, assets and environment.

Directors' Report and Business Review

Continued

Key performance indicators ("KPIs")

Given the nature of the business and that the Group is in the start-up phase of operations, the Directors are of the opinion that analysis using financial KPIs is not appropriate for an understanding of the development, performance or position of our business at this time.

Going concern

After making enquiries, including the disclosures made in note 32 to the financial statements, the Directors have a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Financial Instruments

Details of the use of financial instruments by the Company as its subsidiary undertaking are contained in note 2.11 of the financial statements.

Directors and Directors' interests

The Directors of the Company who served during the financial period were:

Director	Role
Clive Carver	Non-executive Chairman (with effect from 29 November 2006)
Rob Schoonbrood	Chief Executive Officer (appointed 13 October 2006)
David Barker	Chief Operating Officer (appointed 29 November 2006)
Duncan McDougall	Technical Director (appointed 28 November 2007)
Kuat Oraziman	Non-executive Director (appointed 31 October 2006)
Paul Puxon	Director (with effect from 13 October 2006 to 10 April 2007)
Instant Companies Ltd	Director (with effect from 13 October 2006 to 13 October 2006)
Swift Incorporations Ltd	Director (with effect from 13 October 2006 to 13 October 2006)

Details of the Directors' individual remuneration, service contracts and interests in shares and share options are shown in the Remuneration report on pages 25 and 26.

Substantial shareholdings

The following table shows substantial shareholdings (i.e. 3% or greater) in the issued ordinary share capital of the Company as notified to it at 13 June 2008.

Name of Shareholder	Number of ordinary share	Percentage of share capital
Baverstock GmbH	145,000,000	45.29%
HSBC Global Custody	18,155,733	5.67%
Pershing Nominees Limited	15,972,959	4.99%
Credit Suisse Securities	14,925,000	4.66%

Share options and warrants

The Directors consider that an important part of the Group's remuneration policy should include equity incentives through the grant of share options to Directors and employees. At the initial admission, options over 13,456,600 ordinary shares were granted to the Board and the senior management team under the 2007 Unapproved Share Option Scheme.

The Company has issued warrants over 10,023,112 ordinary shares to WH Ireland Limited and to other providers of corporate and advisory services.

Following the completion of the Eragon acquisition and the Consulting Services Agreement, options over 17,833,076 ordinary shares will be granted to the Board, senior management and other employees of Roxi under the 2008 Long-Term Incentive Plan. A further 23,757,501 options are proposed to be granted to the Board and senior management team under the 2008 Long-Term Incentive Plan if Roxi successfully proceeds with the acquisition of a 50 per cent. interest in the ADA Group.

Details of the options granted are set out in note 27 of the financial statements.

Directors' Report and Business Review

Continued

Statement of disclosure of information to auditors

As at the date of this report the serving Directors confirm that in so far as each of the Directors are aware:

- there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

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

Directors' responsibilities

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

The Directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The Directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The Directors have chosen to prepare financial statements for the company in accordance with IFRSs.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance

and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Group will continue in business.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

By order of the Board.

Paul Puxon

Company Secretary

13 June 2008

Remuneration Committee Report

In common with the Board's commitment to apply best practice corporate governance procedures and with reference to the Combined Code on corporate governance the Board has prepared the following report. As an AIM company there is no requirement to comply with the Combined Code but it has adopted the following corporate governance procedures which the Directors believe demonstrates good corporate governance for the size of the Group. The Group discloses certain information relating to Directors' remuneration in this report, which is not audited.

Unaudited information

Remuneration Committee

The remuneration committee which comprises Clive Carver, Rob Schoonbrood and Kuat Oraziman, with Clive Carver acting as chairman, reviews the performance of the executive Directors and senior management and sets and reviews their remuneration and the terms of their service contracts, determines the payment of bonuses to the executive Directors and considers the Group's bonus and option schemes.

Remuneration policy

The Company's policy is to provide remuneration packages that will attract, retain and motivate its executive Directors and senior management. This consists of a basic salary, ancillary benefits and other performance-related remuneration appropriate to the individual's responsibilities and having regard to the remuneration levels of comparable posts.

The basic salaries of the executive Directors who served during the financial period is established by reference to their responsibilities and individual performance.

Share options

The Directors consider that an important part of the Group's remuneration policy should include equity incentives through the grant of share options to Directors and employees. At the initial admission, options over 13,456,600 ordinary shares were granted to the Board and the senior management team under the 2007 Unapproved Share Options Scheme.

Further details of the option schemes and grants made under them are set out in the note 27 to the financial statements.

Following the completion of the Eragon acquisition and the Consulting Services Agreement, options over 17,833,076 ordinary shares will be granted to the Board, senior management and other employees of Roxi under the 2008 Long-Term Incentive Plan.

Remuneration Committee Report

Continued

Remuneration of Directors

Remuneration paid to the Directors in the period ended 31 December 2007 was (in \$):

	Salary	Fees	Benefits	Bonus	Total
Clive Carver	–	152,400	–	–	152,400
Rob Schoonbrood	269,051	–	67,143	54,756	390,950
David Barker	176,743	–	62,792	44,950	284,485
Duncan McDougall	164,433	–	54,330	41,925	260,688
Kuat Oraziman		18,000	–	–	18,000
As at 31 December 2007	610,227	170,400	184,265	141,631	1,106,523

Directors' interests in the share capital of the Company

Other than through the holding of options and in respect of Kuat Oraziman, who is interested in 63,864,975 ordinary shares, and Duncan McDougall, who is interested in 153,847 ordinary shares, none of the Directors had any interests in the shares of the Company as at the date of this report.

Directors' interests in share option agreements

No Director has exercised any share options in the period. The interests of the Directors in share option agreements during the period ended 31 December 2007 were as follows:

	Number granted in period	Option price	Expiry date
Options granted on 3 May 2007			
Clive Carver	1,345,660	38p	21 May 2017
Rob Schoonbrood	5,786,338	38p	21 May 2017
David Barker	2,287,622	38p	21 May 2017
Duncan McDougall	2,018,490	38p	21 May 2017
Kuat Oraziman	672,830	38p	21 May 2017
As at 31 December 2007	12,108,940		

On behalf of the Directors of Roxi Petroleum Plc.

Clive Carver

Chairman of Remuneration Committee

13 June 2008

Report on Corporate Governance

In common with the Board's commitment to apply best practice corporate governance procedures and with reference to the Combined Code on corporate governance the Board has prepared the following report. As an AIM company there is no requirement to comply with the Combined Code but it has adopted the following corporate governance procedures which the Directors believe demonstrates good corporate governance for the size of the Group.

The Group also intends to comply with the principles of the Corporate Governance Guidelines for AIM Companies published by the Quoted Companies Alliance in 2005, so far as it is practical for a Company of its size.

Board of Directors

The Company has two non-executive Directors and three executive Directors as follows:

Clive Carver	Non-executive Chairman
Rob Schoonbrood	Executive
David Barker	Executive
Duncan McDougall	Executive
Kuat Oraziman	Non-executive

The Board retains full and effective control over the Company. The Company holds Board meetings at least once per quarter, at which financial and other reports are considered and, where appropriate, voted on. Apart from regular meetings, additional meetings are arranged when necessary to review strategy, planning, operational, financial performance, risk and capital expenditure and human resource and environmental management. The Board is also responsible for monitoring the activities of the executive management.

Board meetings

The Board met 13 times during the financial period with the following attendance:

	2007
Clive Carver (appointed as director 29 November 2006)	8
Rob Schoonbrood (appointed as director 13 October 2006)	12
David Barker (appointed as director 29 November 2006)	7
Duncan McDougall (appointed as director 28 November 2007)	–
Kuat Oraziman (appointed as director 31 October 2006)	3
Paul Puxon (resigned 10 April 2007)	7

The Board has established the following committees:

Audit Committee

The audit committee, which comprises Clive Carver and Kuat Oraziman with Clive Carver acting as chairman, determines and examines any matters relating to the financial affairs of the Group including the terms of engagement of the Group's auditors and, in consultation with the auditors, the scope of the audit. The audit committee will receive and review reports from the management and the external auditors of the Group relating to the annual and interim accounts and the accounting and internal control systems of the Group. In addition it will consider the financial performance, position and prospects of the Company and ensure they are properly monitored and reported on.

Remuneration Committee

The remuneration committee, which comprises Clive Carver, Rob Schoonbrood and Kuat Oraziman, with Clive Carver acting as chairman, reviews the performance of the executive Directors and senior management and set and review their remuneration and the terms of their service contracts, determine the payment of bonuses to the executive Directors and consider the Group's bonus and option schemes.

Rule 21

The Directors will comply with Rule 21 of the AIM Rules relating to Directors' dealings and will take all reasonable steps to ensure compliance by the Group's applicable employees. The Group has adopted and will operate a share dealing code for Directors and employees in accordance with the AIM Rules.

Internal controls

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

The Board has established and operates a policy of continuous review and development of appropriate financial controls together with operating procedures consistent with the accounting policies of the Group.

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

Independent Auditor's Report to the Shareholders of Roxi Petroleum Plc

We have audited the consolidated and parent company financial statements (the "financial statements") of Roxi Petroleum Plc for the period from 13 October 2006 to 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Balance sheets, the Consolidated and Company Cash Flow Statements, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the annual report and group and parent company financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' report is consistent with those financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Highlights, Business Review, Timeline, the Chairman's Statement, the Chief Executive's Statement, the Chief Operating Officer's Statement, the Board of Directors, the Directors' Report and Business Review, the Remuneration Committee Report, the Report on Corporate Governance and Company Information.

We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other Information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

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

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

Independent Auditor's Report to the Shareholders of Roxi Petroleum Plc

Continued

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its loss for the period from 13 October 2006 to 31 December 2007;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the company's affairs as at 31 December 2007 and of its loss for the period from 13 October 2006 to 31 December 2007;
- the consolidated and company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

Emphasis of matter – going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 32 to the financial statements concerning the Group's need to raise further funds in order to continue in its current form. These conditions indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors
London

13 June 2008

Roxi Petroleum Plc

Consolidated Income Statement

	Notes	Period from 13 October 2006 to 31 December 2007 US\$'000
Revenue		–
Cost of sales		–
		–
IPO costs		(1,446)
Share-based payments		(2,224)
Impairment of investment in RS Munai	13, 15	(2,983)
Other administrative expenses		(5,421)
Administrative expenses		(12,074)
Operating loss	5	(12,074)
Interest payable and similar charges	8	(56)
Interest receivable	9	1,659
Loss before taxation		(10,471)
Taxation	10	(2)
Loss for the period		(10,473)
Loss attributable to minority interests		(988)
Loss attributable to equity shareholders		(9,485)
		(10,473)
Basic and diluted loss per ordinary share (US cents)	11	9.9

All of the results of the Group during the period relate to continuing activities.

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

The notes on pages 34 to 56 form part of these financial statements.

Roxi Petroleum Plc

Consolidated and Parent Company Statement of Changes in Equity

Group	Share capital US\$'000	Share premium US\$'000	Cumulative translation reserve US\$'000	Other reserves US\$'000	Retained earnings US\$'000	Total US\$'000	Minority interests US\$'000	Total equity US\$'000
At the start of the period	–	–	–	–	–	–	–	–
Currency translation differences and total income and expense recognised directly in equity	–	–	1,334	–	–	1,334	2,092	3,426
Loss for the period	–	–	–	–	(9,485)	(9,485)	(988)	(10,473)
Total recognised income and expense for the period	–	–	1,334	–	(9,485)	(8,151)	1,104	(7,047)
Arising on acquisition	–	–	–	–	–	–	34,447	34,447
Arising on share issues	33,707	55,089	–	–	–	88,796	–	88,796
Arising on employee share options	–	–	–	–	2,224	2,224	–	2,224
Arising on warrants	–	(2,378)	–	2,378	–	–	–	–
At the end of the period	33,707	52,711	1,334	2,378	(7,261)	82,869	35,551	118,420

Company

At the start of the period	–	–	–	–	–	–	–	–
Loss for the period and total recognised income and expense for the period	–	–	–	–	(6,702)	(6,702)	–	(6,702)
Arising on share issues	33,707	55,089	–	–	–	88,796	–	88,796
Arising on employee share options	–	–	–	–	2,224	2,224	–	2,224
Arising on warrants	–	(2,378)	–	2,378	–	–	–	–
Foreign exchange	–	–	–	–	–	–	–	–
At the end of the period	33,707	52,711	–	2,378	(4,478)	84,318	–	84,318

Reserve

Share premium

Cumulative translation reserve

Other reserves

Retained earnings

Share capital

Minority interests

Description and purpose

Amount subscribed for share capital in excess of nominal value

Losses arising on retranslating the net assets of overseas operations into US Dollars

Fair value of warrants issued during the period

Cumulative losses recognised in the consolidated income statement

The nominal value of shares issued

The interest of the non-controlling interests in the net assets of the subsidiaries

The notes on pages 34 to 56 form part of these financial statements.

Roxi Petroleum Plc

Consolidated and Parent Company Balance Sheets

at 31 December 2007

	Notes	Group 2007 US\$'000	Company 2007 US\$'000
Assets			
Non-current assets			
Unproven oil and gas assets	12	110,142	–
Available for sale financial assets	13	5,525	4,500
Property, plant and equipment	14	615	67
Investments in subsidiaries	15	–	36,972
Other receivables	18	4,970	16,065
Restricted use cash		16	–
Total non-current assets		121,268	57,604
Current assets			
Inventories	17	815	2
Other receivables	18	4,665	814
Cash and cash equivalents	19	30,144	28,229
Total current assets		35,624	29,045
Total assets		156,892	86,649
Equity and liabilities			
Capital and reserves attributable to equity holders of the parent			
Share capital	20	33,707	33,707
Share premium		52,711	52,711
Other reserves		2,378	2,378
Retained earnings		(7,261)	(4,478)
Cumulative translation reserve		1,334	–
		82,869	84,318
Minority interests		35,551	–
Total equity		118,420	84,318
Current liabilities			
Trade and other payables	21	2,059	2,330
Short-term borrowings	22	61	–
Current provisions	23	1,908	–
Total current liabilities		4,028	2,330
Non-current liabilities			
Borrowings	24	3,900	–
Deferred tax liabilities	25	29,809	–
Non-current provisions	23	669	–
Other payables	26	66	1
Total non-current liabilities		34,444	1
Total liabilities		38,472	2,331
Total equity and liabilities		156,892	86,649

The notes on pages 34 to 56 form part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 13 June 2008 and were signed on its behalf by:


Clive Carver
 Director


Rob Schoonbrood
 Director

Roxi Petroleum Plc

Consolidated and Parent Company

Cash Flow Statements

at 31 December 2007

	Notes	Period from 13 October 2006 to 31 December 2007	
		Group US\$'000	Company US\$'000
Cash flows from operating activities			
Payments made to suppliers and employees		(8,588)	(2,750)
Interest paid		(11)	(11)
Interest received		1,198	1,198
Net cash from operating activities		(7,401)	(1,563)
Cash flows from investing activities			
Purchase of plant, property and equipment		(474)	(65)
Additions to unproven oil and gas assets		(4,603)	–
Aquisition of subsidiaries, net of cash acquired	16	(16,399)	(16,424)
Option fees, deposits and prepayment of acquisition costs		(7,530)	(7,530)
Net cash flow from investing activities		(29,006)	(24,019)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital, net of expenses relating to issue of shares		72,767	72,767
Repayment of financial aid and borrowings		(3,531)	–
Issue of financial aid and loans		(2,741)	(18,970)
Net cash from financing activities		66,495	53,797
Net increase in cash and cash equivalents		30,088	28,215
Exchange gains and losses on cash and overdrafts		56	14
Cash and cash equivalents at 13 October 2006		–	–
Cash and cash equivalents at 31 December 2007		30,144	28,229

Non-cash transactions are disclosed in note 16.

The notes on pages 34 to 56 form part of these financial statements.

Roxi Petroleum Plc

Notes to the Financial Statements

1. General

Roxi Petroleum Plc ("the Company") is a public company incorporated and domiciled in England and Wales. The address of its registered office is 11 Gough Square, London, EC4A 3DE. These consolidated financial statements were authorised for issue by the Board of Directors on 13 June 2008.

2. Principal accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. These financial statements cover the period from 13 October 2006 to 31 December 2007 and form the first set of financial statements for the Company.

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own income statement in these financial statements. The Group loss for the year included a loss on ordinary activities after tax of US\$10,473,000 in respect of the Company which is dealt with in the financial statements of the parent company.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in note 4.

As at the date of approval of these consolidated financial statements, the following interpretations were in issue but not yet effective:

- IFRS 2, Share-based Payment (revised) – effective for accounting periods beginning on or after 1 January 2009;
- IFRS 3, Business Combinations (revised) – effective for accounting periods beginning on or after 1 July 2009;
- IFRS 7, Financial Instruments: Disclosures – effective for accounting periods beginning on or after 1 January 2007;
- IFRS 8, Operating Segments – effective for accounting periods beginning on or after 1 January 2009;
- IAS 1, Presentation of Financial Statements (revised) – effective for accounting periods beginning on or after 1 January 2009;
- IAS 23, Borrowing costs (revised) – effective for accounting periods beginning on or after 1 January 2009;
- IAS 27, Consolidated and Separate Financial Statements (revised) – effective for accounting periods beginning on or after 1 July 2009;
- IAS 28, Investments in Associates (revised) – effective for accounting periods beginning on or after 1 July 2009;
- IAS31, Interest in Joint Ventures (revised) – effective for accounting periods beginning on or after 1 July 2009;
- IAS 32, Financial Instruments: Presentation (revised) – effective for accounting periods beginning on or after 1 January 2009;
- IFRIC 10, Interim Financial Reporting and Impairment – effective for accounting periods beginning on or after 1 January 2007;
- IFRIC 11, IFRS2: Group and Treasury share transactions – effective for accounting periods beginning on or after 1 March 2007;

Notes to the Financial Statements

Continued

- IFRIC 12, Service concession arrangements – effective for accounting periods beginning on or after 1 January 2008;
- IFRIC 13, Customer Loyalty Programmes – effective for accounting periods beginning on or after 1 July 2008; and
- IFRIC 14, IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – effective for accounting periods beginning on or after 1 January 2008.

The Directors intend to adopt the standards and interpretations as described above on the date they become effective. The Directors are currently assessing the impact of the adoption of these interpretations in the future periods on the Group's results.

2.2 Basis of consolidation

(a) Subsidiary undertakings

Subsidiary undertakings are entities that are directly or indirectly controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

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

2.3 Operating Loss

Operating loss is stated after crediting all operating income and charging all operating expenses, but before crediting or charging the financial income or expenses.

2.4 Foreign currency translation

2.4.1 Functional and presentational currencies

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 ("USD"), which is the Group's functional and presentational currency, unless otherwise stated. RS Munai LLP, Beibars Munai LLP, Ravninnoe LLP, Roxi Petroleum Services LLP and Roxi Petroleum Kazakhstan LLP, subsidiary undertakings of the group, undertake their activities in Kazakhstan where the Kazakh Tenge is the currency. Therefore the Kazakh Tenge is the functional and presentational currency of these entities. The functional and presentational currency for all RS Muani BV, Beibars BV and Ravninnoe BV is the USD as the significant transactions of these companies are in USD.

2.4.2 Consolidation

For the purpose of consolidation all assets and liabilities of Group entities with a foreign presentational currency are translated at the rate ruling at the balance sheet date. The income statement is translated at the average rate. Exchange differences arising on retranslating the opening net assets from the opening rate and results of operations from the average rate are recognised directly in equity.

Notes to the Financial Statements

Continued

2.4 Foreign currency translation continued

2.4.3 Transactions and balances in foreign currencies

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items, including the parent's share capital, that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise.

2.5 Current tax

Current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

2.6 Deferred tax

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets and current tax losses have not been recognised since it is uncertain that taxable profits will be available against which deductible temporary differences can be utilised.

2.7 Exploration and unproven oil and gas properties

The Group applies the full cost method of accounting for exploration and unproven asset costs, having regard to the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources'. Under the full cost method of accounting, costs of exploring for and evaluating oil and gas properties are accumulated and capitalised by reference to appropriate cost pools. Such cost pools are based on geographic areas and are not larger than a segment. The Group currently has one cost pool, being Kazakhstan.

Exploration and evaluation costs are initially capitalised within 'Intangible assets'. Such exploration and evaluation costs may include costs of licence acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, but do not include costs incurred prior to having obtained the legal rights to explore an area, which are expensed directly to the income statement as they are incurred.

Tangible assets acquired for use in exploration and evaluation activities are classified as property, plant and equipment. However, to the extent that such a tangible asset is consumed in developing an intangible exploration and evaluation asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset.

Notes to the Financial Statements

Continued

The amounts included within non-current intangible assets include the fair value that was paid for the acquisition of partnerships holding Sub Soil Use Contracts in Kazakhstan during the period ended 31 December 2007. These interests have been capitalised to the Group's Kazakhstan full cost pool.

Exploration and unproven intangible assets related to each exploration contract/prospect are not amortised but are carried forward until the existence (or otherwise) of commercial reserves has been determined. The Group's definition of commercial reserves for such purpose is proven and probable reserves on an entitlement basis.

Exploration and unproven intangible assets are reviewed for impairments if events or changes in circumstances indicate that the carrying amount may not be recoverable as at the balance sheet date. Intangible exploration and evaluation assets that relate to exploration and evaluation activities that are not yet determined to have resulted in the discovery of commercial reserves remain capitalised as intangible exploration and evaluation assets at cost, subject to meeting a pool-wide impairment test as set out below.

Such indicators include the point at which a determination is made as to whether or not commercial reserves exist. Where the exploration and evaluation assets concerned fall within the scope of an established full cost pool, the exploration and evaluation assets are tested for impairment together with all development and production assets associated with that cost pool, as a single cash generating unit. The aggregate carrying value is compared against the expect recoverable amount of the pool, generally by reference to the present value of the future net cash flows expected to be derived from production of the commercial reserves. Where the exploration and evaluation assets to be tested fall outside the scope of any established cost pool, there will generally be no commercial reserves and the

exploration and evaluation assets concerned will generally be written off in full. Any impairment loss is recognised in the income statement as additional amortisation and separately disclosed. If commercial reserves have been discovered, the related exploration and evaluation assets are assessed for impairment on a cost pool basis as set out below and any impairment loss is recognised in the income statement. The carrying value, after any impairment loss, of the relevant exploration and evaluation assets is then reclassified as development and production assets within property, plant and equipment. Development and production assets are amortised on a unit of production basis over the life of the commercial reserves of the pool to which they relate.

Abandonment

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

2.8 Restricted use cash

Restricted use cash is the amount set aside by the Group for the purpose of creating an abandonment fund to cover the future cost of the decommissioning of oil and gas wells and related facilities.

Notes to the Financial Statements

Continued

2.9 Property, plant and equipment

All property, plant and equipment assets are stated at cost or fair value on acquisition less depreciation. Depreciation is provided on a straight-line basis, at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life. Expected useful economic life and residual values are reviewed annually.

The annual rates of depreciation for class of property, plant and equipment is as follows:

- motor vehicles over 7 years;
- temporary buildings over 10 years; and
- other other 2-4 years.

The Group assesses at each balance sheet date whether there is any indication that any of its property, plant and equipment has been impaired. If such an indication exists, the asset's recoverable amount is estimated and compared to its carrying value.

2.10 Investments

Non-current asset investments in subsidiary undertakings are shown at cost less allowance for impairment. The cost of acquisition includes directly attributable professional fees and other expenses incurred in connection with the acquisition.

2.11 Financial instruments

The Group classifies financial instruments, or their component parts on initial recognition, as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement.

The Group's financial assets consist of available for sale, cash and other receivables. Cash and cash equivalents are defined as short-term cash deposits with original maturities of less than 3 months. Other receivables are initially measured at fair value and subsequently at amortised cost.

The Group's financial liabilities are non-interest bearing trade and other payables and other interest bearing borrowings, which are stated at their cost.

There are long-term loans between Group entities and from related parties which bear interest at a rate lower than that which the Directors consider the Group would bear if the facility had been granted by a third party. Such borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Fair value is calculated by discounting the non-current borrowings and receivables using an interest rate of LIBOR + 6%.

Financial instruments are recognised on the balance sheet at fair value when the group becomes a party to the contractual provisions of the instrument.

Notes to the Financial Statements

Continued

2.12 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Costs comprise all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

2.13 Other provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where there is a substantial modification of the terms of an existing liability it is accounted for as an extinguishment of the old financial instrument and recognition of a new financial instrument.

2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

2.15 Share-based payments

The Group has used shares and share options as consideration for goods and services received from suppliers and employees.

Equity-settled share-based payments to employees and others providing similar services are measured at fair value at the date of grant. The fair value determined at the grant date of such an equity-settled share-based instrument is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair value determined at the grant date of such an equity-settled share-based instrument is expensed since the shares vest immediately. Where the goods or services received are incremental to raising capital the amount expensed is recognised as a separate component of equity.

Fair value is measured using the trinomial lattice model. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

2.16 Segment analysis

The Group operates in one business and geographic segment, being the exploration for, development and production of oil and gas in the Republic of Kazakhstan. The Group has not generated any revenues from third parties and so has no reportable segments as defined under IAS 14.

2.17 Interest receivable

Interest income is recognised on a time apportioned basis using the effective interest rate method.

3. Financial risk management

3.1 Financial risk factors

The Group's international operations expose it to a variety of financial risks: market risk (foreign currency exchange rates and interest rates), liquidity risk and credit risk.

(i) Market risk

The most significant financial risk occurs on the translation of foreign operations' results into US Dollars on consolidation. The bulk of each foreign operation's operating costs are incurred in local currency. Group companies therefore do not engage in foreign exchange risk hedges.

Notes to the Financial Statements

Continued

(i) Market risk (continued)

Consistent with other similar international companies, the results of the Group's foreign operations are translated into US Dollars at the average exchange rates for the period concerned. The balance sheets of foreign operations are translated into US Dollars at the closing exchange rates. It is the Group's policy not to hedge currency translation through foreign exchange contracts or currency swaps.

The most material translation risk occurs as a result of exchange movements between US Dollar and the Kazakh Tenge.

(ii) Liquidity risk

Prudent liquidity risk management in the context of the Group implies maintaining sufficient cash in the necessary currencies to be able to pay creditors as and when they fall due.

The bulk of the Group's cash balances are held in US Dollars, Sterling or Kazakh Tenge denominated floating rate deposits as needed to fund its short-term requirements.

Borrowings consist of US\$3.9 million with a fixed rate of interest. The loan is not due for repayment for at least 5 years.

(iii) 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 credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has significant concentrations of credit risk in respect of its other receivables as there is a risk that these will not be repaid. However the majority of these receivables are due from subsidiary undertakings acquired post year end and so the Group does not expect there to be significant issues recovering these amounts.

3.2 Currency of borrowings

Management reviews the Group's exposure to currency risk, interest rate risk, liquidity risk and credit risk on a regular basis and considers that through this review they manage the exposure of the Group. No formal policies have been put in place in order to hedge the Group's exposure to currency risk or interest rate risk.

3.3 Capital risk management

The Group's aim when managing capital is to ensure the Group's ability as a going concern. The Group is funded primarily through equity as it is in the exploration phase of developing oil properties

As of 31 December 2007, the Group had no net debt.

4. Critical accounting estimates and judgements

In the process of applying the Group's accounting policies, which are described in note 2, management has made the following judgements and key assumptions that have the most significant effect on the amounts recognised in the financial statements.

4.1 Recoverability of exploration and evaluation costs

Under the full cost method of accounting for exploration and evaluation costs, such costs are capitalised as intangible assets by

Notes to the Financial Statements

Continued

reference to appropriate cost pools, and are assessed for impairment on a concession basis when circumstances suggest that the carrying amount may exceed its recoverable value and, therefore, there is a potential risk of an impairment adjustment. This assessment involved judgment as to: (i) the likely future commerciality of the asset and when such commerciality should be determined; (ii) future revenues and costs pertaining to any concession based on proved plus probable, prospective and contingent resources; and (iii) the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value.

4.2 Fair value of assets on acquisition of subsidiary undertakings

The fair values of assets acquired have been estimated based on the due diligence at the time of acquisition and the competent person's report as published in the Group's admission document dated 22 May 2007.

If the estimates of fair values are different from those initially recorded at the date of the acquisition, such differences may impact the income statement in the period in which such a determination is made.

4.3 Income taxes

The Group has significant carried forward tax losses in several jurisdictions. Significant judgment is required in determining deferred tax assets based on an assessment of the probability that taxable profits will be available against which carried forward losses can be utilised.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income statement in the period in which such a determination is made.

4.4 Decommissioning

Provision is made in the accounts for future decommissioning costs to plug and abandon wells. The costs of provisions are added to the value of the development and production asset and depreciated on the unit of production basis. The decommissioning liability is stated in the accounts at discounted present value and accreted up to the final liability by way of an annual finance charge.

The Group has potential decommissioning obligations in respect of its interests in Kazakhstan. The extent to which a provision is required in respect of these potential obligations depends, inter alia, on the legal requirements at the time of decommissioning, the cost and timing of any necessary decommissioning works, and the discount rate to be applied to such costs.

4.5 Share-based compensation

In order to calculate the charge for share-based compensation as required by IFRS2, the Group makes estimates principally relating to the assumptions used in its option-pricing model as set out in note 27.

5. Operating loss

Group operating loss for the period has been arrived after charging/(crediting):

	2007 US\$'000
Depreciation of property, plant and equipment	47
Auditors' Remuneration (note 6)	450
Staff Costs (note 7)	5,319
Share-based payment remuneration (all equity settled)	2,224

Notes to the Financial Statements

Continued

6. Group Auditor's remuneration

During the period the Group obtained the following services from the Company's auditor and its associates:

	2007 US\$'000
Fees for the audit of the annual financial statements	300
Auditing of accounts of associates of the Company	60
Services relating to corporate finance transitions entered into or proposed to be entered into by or on behalf of the Company or any of its associates	251*
	611

* of these amounts which relate to the IPO, US\$161,000 has been charged to the share premium account and US\$90,000 charged to the income statement.

7. Employees and Directors

Staff costs during the period	Group 2007 US\$'000	Company 2007 US\$'000
Wages and salaries	2,869	123
Social security costs	82	34
Pension costs	144	–
Share-based payments	2,224	2,224
	5,319	2,381

Average monthly number of people employed (including executive Directors)	Group 2007 US\$'000	Company 2007 US\$'000
Technical	5	–
Field operations	3	–
Finance	6	–
Administrative and support	13	2
Other	2	–
	29	2

Key management compensation	Group 2007 US\$'000	Company 2007 US\$'000
Salaries and short-term employee benefits	945	137
Long-term benefits	–	–
Share-based payments	2,224	2,224
	3,169	2,361

Directors' emoluments

The Director's are the key management personnel of the Company and Group. Details of Directors' emoluments and interests in shares are shown in the Remuneration Committee Report on page 26.

Notes to the Financial Statements

Continued

8. Interest payable and similar charges

	2007 US\$'000
Interest payable on bank overdrafts	15
Accretion expenses	39
Foreign exchange losses	2
	56

9. Interest receivable

	2007 US\$'000
Interest receivable on bank deposits	1,198
Foreign exchange gains	461
	1,659

10. Taxation

	2007 US\$'000
Analysis of change for the period	
Current tax	2
Deferred tax	–
Taxation	2

The tax charge for the period can be reconciled to the profit for the period as follows:

	2007 US\$'000
Loss before tax	(10,471)
Tax on the above at 28%	(2,932)
Effects of:	
Non deductible expenses	1,462
Tax losses carried forward	1,472
Total taxation	2

Notes to the Financial Statements

Continued

11. Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

In order to calculate diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares according to IAS33. Dilutive potential ordinary shares include share options granted to employees and Directors where the exercise price (adjusted according to IAS33) is less than the average market price of the Company's ordinary shares during the period. During the period the potential ordinary shares are anti-dilutive and therefore diluted loss per share has not been calculated. At the balance sheet date there were 2,668,883 potentially dilutive ordinary shares.

The calculation of earnings per share is based on:

	2007 US\$'000
The basic weighted average number of Ordinary shares in issued during the period	96,275,231
The loss for the period attributable to equity shareholders (US\$'000)	9,485

Additional shares were issued and further share options were granted after the period end. If those transactions had occurred before 31 December 2007 the number of ordinary shares or potential ordinary shares outstanding at the end of the period would be significantly different from above. For further details of these transactions refer to note 30.

12. Unproven oil and gas assets

	Group 2007 US\$'000	Company 2007 US\$'000
Cost at 13 October 2006	–	–
Acquisition of subsidiaries (see note 16)	99,003	–
Additions	5,155	–
Foreign exchange difference	5,984	–
Cost at 31 December 2007	110,142	–
Amortisation at 13 October 2006 and at 31 December 2007	–	–
Net book value at:		
13 October 2006		
31 December 2007	110,142	–

Notes to the Financial Statements

Continued

13. Available for sale financial assets

	Group 2007 US\$'000	Company 2007 US\$'000
Cost at 13 October 2006	–	–
Additions ¹	4,500	4,500
Acquisition of subsidiary ²	4,008	–
Cost at 31 December 2007	8,508	4,500
Amortisation at 13 October 2006	–	–
Impairment ²	(2,983)	–
Amortisation at 31 December 2007	(2,983)	–
Net book value at:		
13 October 2006	–	–
31 December 2007	5,525	4,500

¹US\$2,500,000 is part payment of consideration in relation to the Eragon transaction (see note 30).

¹US\$2,000,000 is in relation to the ADA Option Agreement dated 25 September 2007 which granted an option to the Group to acquire an indirect 50% interest in the Participation Interests in ADA Oil LLP and ADA LLP as detailed in the Group's readmission document dated 31 January 2008.

²The acquisition relates to the North Karamandybas project, which as disclosed in note 15 has been impaired to its net recoverable value of \$1 million.

Notes to the Financial Statements

Continued

14. Property, plant and equipment

Group	Motor Vehicles US\$'000	Buildings US\$'000	Other US\$'000	Total US\$'000
Cost at 13 October 2006	–	–	–	–
Acquisition of subsidiaries	44	107	7	158
Additions	193	–	281	474
Foreign exchange difference	10	19	11	40
Cost at 31 December 2007	247	126	299	672
Depreciation at 13 October 2006	–	–	–	–
Charge for the period	12	12	23	47
Impairment	9	–	–	9
Foreign exchange difference	1	–	–	1
Depreciation at 31 December 2007	22	12	23	57
Net book value at:				
13 October 2006	–	–	–	–
31 December 2007	225	114	276	615
Company				
Cost at 13 October 2006	–	–	–	–
Additions	66	–	–	66
Foreign exchange difference	2	–	–	2
Cost at 31 December 2007	68	–	–	68
Depreciation at 13 October 2006	–	–	–	–
Charge for the period	1	–	–	1
Foreign exchange difference	–	–	–	–
Depreciation at 31 December 2007	1	–	–	1
Net book value at:				
13 October 2006	–	–	–	–
31 December 2007	67	–	–	67

Notes to the Financial Statements

Continued

15. Investments

Fixed asset investments	Group US\$'000	Company US\$'000
Cost	–	–
At 13 October 2006	–	–
Additions	–	39,955
At 31 December 2007	–	39,955
Amounts provided at 13 October 2006	–	–
Impairment	–	2,983
At 31 December 2007	–	2,983
Net book value at:		
13 October 2006	–	–
31 December 2007	–	36,972

Additions consist of 100% holdings in RS Munai BV (previously Sytero BV), Beibars BV (previously Sytero 2 BV) and Ravninnoe BV (previously Sytero 3 BV).

The Company's principal undertakings which are included in these consolidated financial statements are:

Name of undertaking	Country of incorporation	Effective holding	Proportion of voting rights held	Nature of business
RS Munai BV	Netherlands	100%	100%	Holding company
Beibars BV	Netherlands	100%	100%	Holding company
Ravninnoe BV	Netherlands	100%	100%	Holding company
RS Munai LLP	Kazakhstan	50%*	50%*	Exploration company
Beibars Munai LLP	Kazakhstan	50%*	50%*	Exploration company
Ravninnoe LLP	Kazakhstan	50%*	50%*	Exploration company
Roxi Petroleum Services LLP	Kazakhstan	100%	100%	Management company
Roxi Petroleum Kazakhstan LLP	Kazakhstan	100%	100%	Management company
Ada BV	Netherlands	100%	100%	Dormant
Ada Oil BV	Netherlands	100%	100%	Dormant

* Indirect shareholding of the parent Company

RS Munai LLP, Beibars Munai LLP and Ravninnoe LLP have been classified as subsidiary undertakings rather than as joint ventures since in the opinion of the Directors the Company has operational control of these entities.

Subsequent to the Group's investment in RS Munai BV it has not been able to complete the legal transfer of ownership of subsurface use rights from the North Karamandybas vendors to RS Munai LLP, and therefore the Directors have concluded that the investment of US\$3,983,000 in the North Karamandybas project has been impaired and should be written down to its net realisable value of US\$1,000,000. The US\$1,000,000 is a payment for facilitation services provided in respect of the North Karamandybas acquisition, which is expected to be recoverable in the event that the vendor is unable to prove title to the asset.

Notes to the Financial Statements

Continued

16. Acquisitions

As described in its admission document dated 16 May 2007 during the period the Company completed the acquisition of RS Munai BV, Beibars BV and Ravninnoe BV. Beibars BV and Ravninnoe BV own interests in Beibars Munai LLP and Ravninnoe Oil LLP, respectively. The preliminary assessment of the fair values of the assets and liabilities acquired as at the date of acquisition is as follows:

	Book values US\$'000	Fair value adjustments US\$'000	Fair values US\$'000
Unproven oil and gas assets	5,313	93,690	99,003
Available for sale financial assets	–	4,008	4,008
Property, plant and equipment	158	–	158
Trade receivables	390	–	390
Cash and cash equivalents	25	–	25
Trade and other payables	(4,675)	3,600	(1,075)
Deferred taxation	–	(28,107)	(28,107)
Net assets	1,211	73,191	74,402
Minority interests			(34,447)
Net assets acquired			39,955
Consideration:			
• Ordinary shares			16,031
• Cash			15,750
• Obligation to fund residual participants' share of work program			7,500
• Expenses			674
Total consideration			39,955
Related cash flows:			
• Cash consideration			15,750
• Expenses			674
• Cash acquired			(25)
			16,399

The surplus of the fair value of the consideration over the other separable net assets and liabilities of the acquired entities has been attributed to the value of the negotiated rights in respect of the unproven oil and gas properties and financial assets, based on the findings contained in the relevant competent persons' reports.

17. Inventories

	Group 2007 US\$'000	Company 2007 US\$'000
Materials and supplies	815	2
	815	2

Materials and supplies are principally comprised of concrete slabs, gooks and some tubing to be used in the exploration and development of the Group's oil and gas properties in Kazakhstan.

Notes to the Financial Statements

Continued

18. Other receivables

	Group 2007 US\$'000	Company 2007 US\$'000
Amounts falling due after one period:		
Advances paid	541	1
Prepayments	4,023	4,592
Intercompany receivables	–	11,470
Other receivables	406	2
	4,970	16,065
Amounts falling due within one period:		
Amounts due from related parties	2,741	4
Advances paid	1,004	108
Prepayments	13	–
Other receivables	907	702
	4,665	814

Other receivables include recoverable Kazakh and UK VAT. The carrying amount of other receivables is a reasonable approximation of fair value.

19. Cash and cash equivalents

	Group 2007 US\$'000	Company 2007 US\$'000
Cash at bank and in hand	30,144	28,229

Funds are held in US Dollars, Sterling, Euros, Kazakh Tenge and other foreign currency accounts to enable the Group to trade and settle its debts in the local currency in which they occur and in order to mitigate the Group's exposure to short-term foreign exchange fluctuations. All cash is held in floating rate accounts.

Denomination:	Group 2007 US\$'000	Company 2007 US\$'000
US Dollars	27,959	27,565
Sterling	574	574
Kazakh Tenge	1,473	90
Euro	138	–
	30,144	28,229

Notes to the Financial Statements

Continued

20. Called up share capital

Group and Company

Authorised at 31 December 2007		Number	\$'000
Ordinary shares of 10p each		1,000,000,000	188,000
Issued and fully paid at 31 December 2007			
Ordinary shares issued	13 October 2006	2	–
Ordinary shares issued	26 October 2006	499,998	100
Partial consideration for Beibars BV	5 February 2007	10,000,000	2,004
Partial consideration for RS Munai BV	2 March 2007	20,000,000	4,008
Partial consideration for Ravninnoe BV	2 March 2007	30,000,000	6,012
Issued on admission to AIM	21 May 2007	102,444,332	20,529
Issue of vendor shares	21 May 2007	5,263,158	1,054
		168,207,490	33,707

21. Trade and other payables – current

	Group 2007 US\$'000	Company 2007 US\$'000
Trade payables	1,392	1,546
Taxation and social security	271	215
Accruals	–	–
Other payables	396	569
	2,059	2,330

22. Short-term borrowings

The short-term borrowings do not bear any interest and are due to the following:

	Group 2007 US\$'000	Company 2007 US\$'000
Other borrowings	61	–
	61	–

The amounts due are repayable on demand.

Notes to the Financial Statements

Continued

23. Provisions

Group only	Employee holiday provision	Liabilities under Social Programs	Abandonment fund	2007 Total US\$'000
Balance at 13 October 2006	–	–	–	–
Increase in provision	28	2,013	485	2,526
Foreign exchange difference	1	40	10	51
Balance at 31 December 2007	29	2,053	495	2,577
Non-current provisions	–	174	495	669
Current provisions	29	1,879	–	1,908
Balance at 31 December 2007	29	2,053	495	2,577

During the period Beibars Munai LLP, a subsidiary undertaking, and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan signed the Contract for oil exploration within the block XXXVII-10 in Mangistauskaya Oblast (Contract #2287). The contract term is until 2012 and the exploration period is 5 years.

In accordance with the terms of the contract Beibars Munai LLP has committed to the following:

- Investing not less than 5% of annual capital expenditures on exploration during the exploration period in professional training of Kazakhstani personnel engaged in work under the contract;
- Investing US\$1,000,000* to the development of Astana City during the second year of the contract term;
- Investing US\$1,000,000* in equal tranches over the exploration period in the social development in the region;
- Executing a minimum work program of US\$3,035,000 during the first year of the exploration period; and
- Transferring, on an annual basis, 1% of exploration expenditures to a liquidation fund through a special deposit account in a bank located within the Republic of Kazakhstan.

* Unpaid amounts in respect of the above social obligations are included within liabilities of social programs above.

During the period Ravninnoe Oil LLP, a subsidiary undertaking, and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan signed the Contract for oil exploration and production of hydrocarbons at a deposit located in Atyrauskaya Oblast (Contract #1401). The contract term is until 2029 and the exploration period is 5 years.

In accordance with the terms of the contract Ravninnoe Oil LLP has committed to the following:

- Investing not less than 1% of total investments in professional training of Kazakhstani personnel engaged in work under the contract;
- Investing US\$300,000* to the development of Astana City during the exploration period;
- Investing US\$300,000* over the exploration period in the social development in the region;

* Unpaid amounts in respect of the above social obligations are included within liabilities of social programs above.

Notes to the Financial Statements

Continued

23. Provisions *continued*

- Executing a minimum work program of US\$17,350,000 over the first 3 years of the exploration period as follows:
 - Year 1 – US\$350,000
 - Year 2 – US\$8,000,000
 - Year 3 – US\$9,000,000
- Executing a minimum work program of US\$14,644,400 over the final 2 years of the exploration period;
- Transferring 1% of exploration expenditures to a liquidation fund through a special deposit account in a bank located within the Republic of Kazakhstan not less than 2 years before the end of the exploration period.

24. Borrowings

The non-current borrowings are non interest bearing and are due to the following:

	Group 2007 US\$'000	Company 2007 US\$'000
Other loans	3,900	–
	3,900	–

25. Deferred tax

Deferred tax liabilities comprise:

	Group 2007 US\$'000	Company 2007 US\$'000
Deferred tax on fair value uplift on exploration and evaluation assets in acquired subsidiaries	29,809	–
	29,809	–

The deferred tax liability recognised as part of the cost of the acquisition is detailed in note 16.

The movement on deferred tax liabilities was as follows:

	2007 US\$'000
At 13 October 2006	–
Acquired during the period	28,107
Foreign exchange	1,702
	29,809

The Group also has accumulated estimated tax losses of approximately US\$1,472,000 available to carry forward and offset against future profits. This represents an unprovided deferred tax asset of approximately US\$412,000.

Notes to the Financial Statements

Continued

26. Other payables

	Group US\$'000	Company US\$'000
Liability for social sphere	67	1
	67	1

27. Share option scheme

During the period the Company issued equity-settled share-based instruments to its Directors and certain employees. Equity-settled share-based instruments have been measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based instrument is expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. Options generally vest in four equal tranches over the two years following grant.

Share options

	Number of options	Average exercise price in pence (p) per share
As at 13 October 2006	—	—
Granted	13,456,600	38p
As at 31 December 2007	13,456,600	

The options were issued to Directors and employees as follows:

Share options

	Number of options	Average exercise price in pence (p) per share	Expiry
Directors	12,110,940	38p	21 May 2017
Employees	1,345,660	38p	21 May 2017
As at 31 December 2007	13,456,600		

Fair value is measured using a trinomial lattice model that takes into account the effect of financial assumptions, including the future share price volatility, dividend yield, and risk-free interest rates. The expected volatility was determined based on both the volatility of the Company's share price since flotation and the volatility of similar quoted companies. Employee exit rates and the expected period from vesting to exercise are also considered, based on historical experience. The principal assumptions are:

Share price at grant date	(p)	38
Exercise price	(p)	38
Expected volatility	(%)	60
Expected life	(years)	2-5
Risk-free rate	(%)	5.75
Fair value per option	(p)	11.8 – 16.7

Notes to the Financial Statements

Continued

28. Share warrants

During the period the Company issued warrants over 10,023,112 Ordinary shares of the Company. These warrants entitle the holders to subscribe for Ordinary shares for cash consideration of 38p per Ordinary Share, and were issued as consideration for corporate and advisory services to the Company prior to its flotation. Warrants over 7.5m shares may be exercised at any time prior to 21 May 2017, while the remainder may be exercised at any time prior to 21 May 2010. The basis of valuation of the warrants is as per the share options as detailed in note 27.

29. Related party transactions

The Company has no ultimate controlling party.

The Eragon acquisition comprises certain related party transactions because a Director of the Company, Kuat Oraziman (the "Related Party"), has a beneficial interest in 42.5 per cent. of the issued capital of Baverstock GmbH and is a director of and holds 50 per cent. of the issued share capital of Vertom International N.V.

In particular, the Group entered into the following related party transactions:

- Eragon Acquisition Agreement – Baverstock GmbH was the vendor of the 59 per cent. interest in Eragon acquisition;
- Consulting Services Agreement – Vertom International N.V. was the provider of consulting services under this agreement; and
- Facilitation Agreement – Vertom International N.V. was party to this agreement.

The other Directors consider, having consulted with its nominated advisor and broker, WH Ireland, that the terms of each of the Eragon Acquisition Agreement, the Consulting Services Agreement and the Facilitation Agreement, are fair and reasonable in so far as the shareholders are concerned.

The Company also entered into the following transactions with the Related Party:

- The sale of 8.7 per cent. of the participation interests in Beibars Munai LLP to Beibars B.V. and the Related Party remains a participant in Beibars Munai LLP; and
- The sale of 8.3 per cent. of the participants interests in Ravninnoe Oil LLP to Ravninnoe B.V. and the Related Party remains a participant in Ravninnoe Oil LLP.

30. Acquisitions after the period

On 3 March 2008, the company completed the acquisition of a 59% interest in Eragon Petroleum Plc which through its subsidiary undertakings holds:

- 99% of the rights under and oil prospecting contract for the Aiyreshagyl site in the territory of Mangystau Oblast, which is valid until 2011;
- 99% of the rights under a contract for oil prospecting and production at the Munaily deposit in the territory of Atyrau Oblast with the Ministry of Energy and Mineral Resources which is valid until 2031; and
- 85% of the rights under a contract for hydrocarbon material prospecting at the North-Western Konys deposit in the territory of Kzyl-Orda Oblast which is valid until 2009.

Notes to the Financial Statements

Continued

30. Acquisitions after the period *continued*

The book values, together with the provisional fair values, of the assets and liabilities acquired were as follows:

	Book values US\$'000	Fair value adjustments US\$'000	Fair values US\$'000
Property, plant & equipment	301	–	301
Exploration and evaluation assets	71,220	122,150	193,370
Intangible assets	1	–	1
Cash and cash equivalents	849	–	849
Inventories	55	–	55
Other receivables	811	32,000	32,811
Other payables	(4,755)	–	(4,755)
Liabilities under the contract for sub-soil use	(8,056)	–	(8,056)
Other long-term liabilities	(38,854)	–	(38,854)
Deferred tax	(10,280)	(36,645)	(46,925)
Net assets	11,292	117,505	128,797
Minority interests			(60,082)
Net assets acquired			68,715
Consideration:			
• Consideration shares (145,000,000 ordinary shares and US\$1,500,000 cash)			60,641
• Expenses			8,074
Total consideration			68,715

Included within expenses is an amount of US\$2,824,000 representing 6,923,077 shares.

31. Other subsequent events

Material agreements

On 30 January 2008 the Company, Kuat Oraziman and Vertom International NV entered into an option agreement (the "ADA Option Agreement") which amended, restated and replaced an earlier option agreement dated 25 September 2007. Under the ADA Option Agreement, Mr Oraziman and Vertom granted an option to the Company to acquire an indirect 50% interest in the Participation Interests in ADA Oil LLP and ADA LLP.

The option may be exercised by the Company by 30 September 2008, conditional on 30 days having elapsed from re-admission to AIM and the completion of 20 consecutive dealing days of trading of the ordinary shares where the closing price at the completion of each day of trading is equal to or greater than 80p per ordinary share, and the ordinary shares not trading out of a band of 70p to 110p per ordinary share. The option initially expired on 31 March 2008 but this was extended to 30 September for consideration of US\$3,200,000. Further details of this option can be found in the Company's admission document dated 31 January 2008.

On 30 January 2008 the Company entered into a facilitation agreement with Vertom International NV whereby Vertom International NV will provide coordination services among the various parties to the Eragon Acquisition for a fee of US\$500,000.

Notes to the Financial Statements

Continued

31. Other subsequent events *continued*

On 30 January 2008 the Company entered into a consulting services agreement with Vertom International NV which replaces an earlier consulting services agreement dated on or about 1 October 2007. Under the agreement Vertom International NV grants an option to the Company, exercisable on or before 30 April 2008, whereby the Company can obtain consulting services from Vertom International NV. The consideration for the grant of the option is US\$31,200,000 and is to be paid by the Company following re-admission to AIM and on receipt of necessary government approvals under Article 71 of the Sub-soil Law. The consideration will be satisfied by the issue of 22,153,846 shares, credited as fully paid, on the agreed basis that such shares be issued at a price of 65 pence per share, and the relevant exchange rate be US\$2:£1. Further details of this option can be found in the Company's admission document dated 31 January 2008.

Admission to AIM

On 31 January 2008 the Company was re-admitted to trading on AIM.

Share transactions

Following the completion of the acquisition of Eragon Petroleum Plc, as detailed in note 30, the Company's issued share capital was increased by 151,923,077 shares to 320,130,567 shares.

Also following the completion of the acquisition of Eragon Petroleum Plc the following share options were granted:

	Number of options	Average exercise price in pence (p) per share	Expiry
Directors	10,938,462	65p	2 September 2018
Employees	2,119,231	65p	2 September 2018
Company Secretary	607,692	65p	2 September 2018
	13,665,385		

Approximately 50% of these options will vest as to one quarter every 6 months from the date of grant over a period of 2 years. The remaining options will vest based on various targets of barrels of oil production per day being met. Further details of these share options can be found in the Company's admission document dated 31 January 2008.

32. Going concern

The Directors have prepared cashflow forecasts which indicate that further funds will need to be raised to finance future working capital requirements.

These financial statements have been prepared on a going concern basis as the Directors are confident the Group will be able to raise the required funds.

These conditions indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

The financial statements do not include any adjustments that would result if the Group was unable to continue as a going concern.

Company Information

Directors

Clive Carver (Non-executive Chairman)
Rob Schoonbrood (Chief Executive Officer)
David Barker (Chief Operating Officer)
Duncan McDougall (Technical Officer)
Kuat Oraziman (Non-executive Director)

Company Secretary

Paul Puxon (Solicitor)

Company registration number

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Forward-looking statements

This document may contain forward-looking statements that relate to the Group's plans, objectives, estimates and goals. The Group's business is subject to numerous risks and uncertainties which could cause the Group's actual results and developments to be materially different from those expressed or implied by any of these forward-looking statements.

Copies of this document are available from the Group's registered office – 11 Gough Square, London, EC4A 3DE and will be available on the Company's website, www.roxipetroleum.com



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