GROWTH THROUGH PARTNERSHIP

ANNUAL REPORT AND ACCOUNTS 2008

ROXI
PETROLEUM PLC

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.

Contents

"Our policy is to work in partnership with local interests when acquiring and developing assets"

Clive Carver
Non-executive Chairman

Financial Highlights

2008

- $190 million acquisition of 59% Eragon Petroleum plc ("Eragon")
- Farm-out arrangements concluded with Canamens Energy in respect of Ravninnoe and BNG
- $60 million extension to BNG assets
- $289 million total assets on balance sheet
- $44 million loss for the period

2009

- $24 million equity line at credit secured
- $5 million convertible loan for Galaz

Operational Highlights

Eragon acquisition provides massive growth in value of the portfolio:

- Early production from Jurassic reservoirs;
- Appraisal of 55 million barrels C1+C2 reserves;
- Access to large exploration upside potential.

Seismic Operations

- Completion of the 193km² Ravninnoe 3D seismic programme
- Completion of the 30km² Galaz seismic programme
- Completion of the 121km² Beibars 3D seismic programme
- Completion of 25% of the 366km² BNG 3D seismic programme

Drilling Operations

- Munaily H2 – depleted Jurassic Sands
- Galaz
  - NK1 oil bearing Arksum Sands to be tested
  - NK3 oil bearing Arksum and Jurassic Sands
  - NK4 oil bearing Arksum and Jurassic Sands
  - NK5 oil bearing Arksum and Jurassic Sands
  - NK6 oil bearing Arksum and Jurassic Sands

Well Re-entries Operations

The Company also undertook the re-entry of 5 wells in Ravninnoe, Galaz and Munaily. Only two were successfully put on to test by Galaz. In general the condition of the 20 (or more) year-old wells has confirmed that reactivation of these wells is unlikely to be commercially viable.

"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

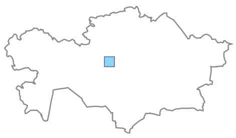
BNG Contract Area: Existing Well

BNG

The BNG Contract Area covers 1,561 km^2 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 2,000 meters and the pre-Salt Carboniferous horizons at 4,000 meters to 5,000 meters.

Galaz: Workover Rig

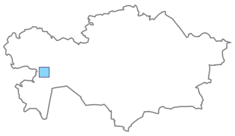
Galaz



The Galaz Contract Area covers 30 km^2 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 has been extended to 14 May 2011. 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.

Ravninnoe Contract Area: Workover Rig

Ravninnoe



The Ravninnoe Contract Area covers 121 km^2 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 lower Carboniferous/ Devonian horizons at depths of approximately 4,000 to 4,500 meters.

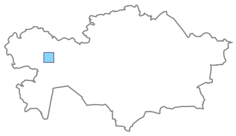
Beibars Contract Area

Beibars

The Beibars Contract Area covers 167 km^2 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.

Munaily Contract Area: Workover Rigs

Munaily



The Munaily Contract Area covers 0.69 km^2 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:

11 million barrels

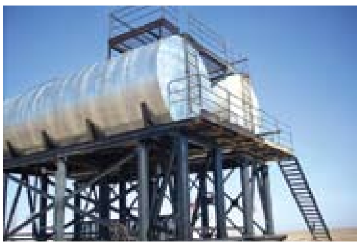
C1 + C2:

39 million barrels

C1 + C2 + C3:

249 million barrels

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



Galaz Field

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%
Total	C1	2.7	1.5	
	C2	7.0	3.8	
	C3	50.2	29.3	

(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%
Total	C1	19.9	10.8	
	C2	50.6	28.0	
	C3	360.1	210.3	

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%
BNG	Not Evaluated Yet			
Total	Proven	0.7	0.3	
	Probable	4.1	2.0	
	Possible	6.7	3.4	

Qualified Person

Duncan McDougall, Technical Director of Roxi Petroleum and a Fellow in the Geological Society, London, has reviewed and approved the technical disclosure in this announcement. He holds a BSc in Geology and has 27 years international experience of exploration, appraisal, and development of oilfields in a variety of environments.

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

2007

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

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

October
- Announced option to buy 50% of ADA Group

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

Offices in Almaty

2008

January
- Eragon readmission document published
- Resumption of trading in Roxi shares
- Seismic work in Ravninnoe completed
- First of 5 well re-entries Ravninnoe commences
- Seismic work in Galaz completed

February
- Approval by shareholders of the Eragon acquisition
- Extension of the ADA option

March
- Completion of the Eragon acquisition

April
- BNG awarded an extension to its existing Contract Area

2009

October
- 3D Seismic on BNG commenced

November
- Spud 1st of 4 wells on Galaz

May
- 3D Seismic in Beibars commenced
- Drilling first well in Galaz commenced
- Test Production from re-entered well in Galaz commenced
- $24 million GEM equity line of credit secured
- 3D acquisition on BNG completed
- Testing Galaz wells commenced
- Extensions of Galaz contract awarded
- Drill first well on Galaz
- Acquired 3D seismic on Beibers

June
- US $5 million convertible loan from Arawak Energy to bring Galaz into production
- Publication of the results for the year ended 31 December 2008

Annual Report and Accounts 2008

July
- Annual General Meeting

September
- First well on Ravninnoe to spud
- Publication of the results for the six months to 30 June 2009
- First well expected to be drilled at Ravninnoe

October
- First well on BNG
- Pilot production from BNG planned

November
- Pilot production on Galaz planned

Galaz: Well # 26

The principal ingredients for a successful oil and gas company are high quality assets, effective working relations with the in-country regulators and access to capital.

Ravninnoe: Workover Rig

From the interest shown by third parties we have an attractive portfolio of assets, to date we have encountered no material issues in our dealings with local regulators and we have of late entered into a number of innovative ways to fund the business despite the shortage of development capital.

I am pleased to present the results for the year ended 31 December 2008.

The principal ingredients for a successful oil and gas company are good assets, effective working relationships with the local regulators and access to capital.

From the interest shown by third parties we have an attractive portfolio of assets, to date we have encountered no material issues in our dealings with local regulators and we have of late entered into a number of innovative ways to fund the continued development of the assets despite the shortage of development capital.

Eragon

In March 2008 we completed the acquisition of a 59% interest in Eragon plc, the holding company for three oil and gas assets in Kazakhstan. The consideration for these assets was US$190 million, payable predominantly in Roxi shares issued at a price of 65p per share.

In May 2008, we successfully extended the contract territory at one of our new assets, BNG, to 1,561 km^2 for an additional $60 million, again predominantly payable in Roxi shares issued at a price of 65p per share.

Two of the three assets acquired, BNG and Galaz, have already exceeded our expectations, with Galaz producing on a test basis at up to 1200 bopd and very encouraging early seismic results at BNG.

A shortage of funding in the second half of 2008 resulted is us moving more slowly than we had hoped on the assets we acquired at the time of our IPO in May 2007. However, the farm-out with Canamens Energy Asia Limited ('Canamens'), a London based specialist funding company with an interest in Kazakhstan, in respect of our Ravninnoe asset should allow us to make significant progress in the current financial year.

Operating environment

We continue to enjoy extremely strong and effective working relationships with the various regulatory bodies in Kazakhstan. We are also pleased to continue to have a strong Kazakh presence on our share register. Our approach of growth through partnership has attracted the interest of a number of international companies and investors considering investments in the Kazakh energy sector who do not have the local infrastructure and experience Roxi enjoys.

Funding

The climate for raising money for small exploration and development companies was markedly different in 2008 than it was at the time of our IPO in May 2007. Throughout the summer and autumn of 2008 we sought without success to raise significant additional funding from a range of international financial investors. In this we are not alone as financial investors were deterred by the general economic situation and the falling oil price. By the autumn it was clear that we needed to find an alternative way to fund the continued development of our assets.

In September 2008, we announced a farm-out of 20 per cent of our interest in Ravninnoe with Canamens. To date we have received US$5.5 million from Canamens to develop the Ravninnoe assets.

Since the year end the financial position of the Company has improved. In January 2009 Roxi announced a further farm out arrangement with Canamens this time in respect of our asset at BNG. To date we have received US$8 million under this arrangement which is subject to Roxi shareholder approval at a forthcoming General Meeting.

In May 2009, we announced a US$24 million equity line of credit facility with GEM, a $2.7 billion fund based in New York. This facility is intended to provide a safety net in the funding of our existing operations, should more conventional forms of development finance be unavailable.

In June 2009, we announced a US$5 million loan from Arawk Energy Limited ("Arawak"), which is owned by Vitol, one of the world's largest oil trading groups. Arawak also has interests in Kazakhstan. The Arawak loan is principally to assist us move Galaz into full production and if not repaid by June 2010 will convert into 31 million of Roxi shares representing 8 per cent of the total shares in issue.

To facilitate the Arawak loan we agreed with Kuat Oraziman a director of the Company, to subordinate and postpone repayment of US$14.5 million loans to Kuat Oraziman due in June and July 2009 for a twelve month period in return for issuing 36 million of warrants on terms equivalent to the 18 million warrants issued in favour of Arawak. US$10 million of Mr Oraziman's loans have been placed on the same commercial terms as the Arawak loan.

The combination of the farm-outs put in place with Canamens, the convertible loan from the Arawak, the facility from GEM, the rescheduling of the loan repayment due to Mr Oraziman and the marketability of our producing asset at Galaz leave us in a far stronger financial position that was the case throughout much of 2008.

Management incentives

In common with many companies the management incentives put in place at the time of our IPO no longer fulfil their main purposes, that of retaining and motivating key management. In addition, now our financial outlook appears better than for some time, we have started to recruit staff to continue the development of the Company's assets who would not be sufficiently motivated by the arrangements put in place in 2007. We, therefore, intend to adjust the existing incentive scheme in respect of the unvested options previously announced.

Outlook

We are focused on developing our existing portfolio of assets against the backdrop of a stronger financial position and a steadying oil price. The sustained interest shown by potential investors in our assets and the progress made to date on limited funds causes us to believe the prospects for the Company are strong.

I would like to thank all our employees and our advisers for their commitment over the last twelve months.

Clive Carver

Chairman
29 June 2009

Our greatest success since our formation has been the completion of the acquisition of a 59 per cent interest in Eragon.

Munaily Field

There can be no doubt that 2008 was a difficult year for many small Exploration & Production companies, including Roxi. While we were delighted to complete the acquisition of a 59 per cent interest in Eragon plc at the start of the year the constraints imposed on the enlarged group by the lack of readily available development finance later in the year were severe. As a result, difficult decisions were required to ensure the Company's survival.

We waited as long as prudent to secure significant new funding for an enlarged portfolio of assets and to fund the acquisition of ADA and ADA Oil which had been announced in October 2007. Only when we believed it was clear that such funding would not be forthcoming on commercially acceptable terms did we consider selling down the level of our interest in the assets we owned to assist in funding our existing work programme commitments.

The farm-out arrangements we have negotiated with Canamens Energy Central Asia Limited ("Canamens") in respect of our BNG assets has provided the means of meeting our expanding work commitments on these assets for the current year and provided a mechanism to allow further years to be funded depending on progress.

The Canamens farm-out arrangements concerning Ravininnoe provide the means to get the important first well drilled on this asset.

The farm-out arrangements we entered into with KazRosMunai. which allowed the drilling of four new wells at Galaz, has already been demonstrated to work with test production at these new wells running at a level of up to 1200 bopd.

These farm-outs together with the additional funding measurers put in place since the year end and announced in May and June 2009 should significantly ease the operational difficulties in fulfilling our work programme commitments.

Strategy

Over the medium-term we have identified Central Asia as the area of our planned operations but in the short-term we 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 established in the territories in which we wish to operate. We believe working with well-respected and experienced 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.

We have retained 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 and elsewhere, our greatest success since our formation 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 remains our firm view that the interests in the assets acquired as part of the purchase of Eragon have outstanding development potential. Galaz is already producing and BNG looks extremely promising. The

Eragon assets have already been fully integrated into the Company's financial and operational structures.

Infrastructure

The enlarged Company's activities are run from modern offices in Almaty. There is a regional office in the Caspian sea port of Aktau, which is the centre of operations for BNG, Ravninnoe and Beibars. A small operations office has also been established in Atyran for logistical ease. A branch office in Kyzlorda has been established to service the Galaz asset.

Staffing

The Roxi team is now some 72 strong in total comprising 45 in the main Almaty office and 27 in the regional offices and field locations. Of these employees 22 are technical staff, 15 are financial staff, 17 are operational staff and 18 fulfil other activities. 66 of our staff are Kazakh nationals.

As a consequence of the deteriorating economic situation 34 staff left Roxi in July 2008, followed by our Chief Operating Officer in September. Additionally, in September the board and senior management agreed to an ongoing 20 per cent cut in their pay, which will be repaid when the Company is able to do so without jeopardising its work programme commitments.

In November 2008, further reductions to staff were made and 28 staff left the Company.

In December 2008, a general salary reduction of 20 per cent was made to all staff with the exception of Galaz field staff.

In total these actions have saved some US$140,000 per month.

Assets update

BNG Contract Area

Exploration

Following the acquisition of Eragon plc in March 2008, Roxi held a 58.41 per cent interest in "BNG Ltd" LLP which operates the Ayrshagyl block in the South Pre-Caspian Basin. An extension was granted by the Ministry for Energy and Mineral Resources in Q2 2008, enlarging the Contract Area by 139km^2. In Q2 2008, a contract to acquire 366km^2 of 3D seismic was signed to cover the Yelemes and Arhshagyl structures.

The first block of 160km^2 3D seismic was completed over the old Yelemes-54 discovery and Yelemes -1 discoveries. These discoveries were made in the 1980's, but never appraised. The seismic is currently being processed in Almaty by PGS Kazakhstan prior to interpretation a selection of appraisal drilling locations in Q3 2009.

The acquisition of the full 366km^2 3D survey was completed in May 2009. The full dataset is planned to be processed in Q3 2009 and will be used to evaluate the deep and intermediate exploration potential in the area for further drilling in Q4 2009.

In January 2009, Roxi entered into a conditional farm-out agreement with Canamens such that in return for interests totalling 35 per cent of the interest held by BNG, Canamens agreed to advance BNG an initial US$5 million and to fund a maximum of US$50 million of the 2009 and 2010 BNG work programmes.

Geologists at work

Because of the size of these arrangements relative to the size of the Company the approval of Roxi shareholders is required before the farm-out agreement can be implemented in full. Accordingly, a General Meeting will be convened to consider and if thought fit to approve the proposed BNG farm-out arrangements.

If the proposals are approved Roxi's interest in the BNG Contract area asset would fall from 58.41 per cent to 37.96 per cent.

The carrying value of the Roxi's BNG assets reflects the value implied by the proposed Canamens farm-out arrangements.

Ravninnoe Contract Area

Proven oil discovery – appraisal and development

At the start of 2008, Roxi held a 50 per cent interest and operational control of the Ravninnoe field, in the south of the pre-Caspian Basin discovered in the 1980's. A 168km^2 3D seismic programme which was commenced at the end of 2007 was completed in Q1 2008, and initial processing was completed in Q2 2008. The discovered carboniferous reservoirs are currently being evaluated and a well will be drilled in Q3 2009. Both shallow and deeper exploration prospectivity is also being evaluated.

The re-entry programme for old wells on Ravninnoe field was suspended after encountering damaged casing in both wells 8 and 5.

In November 2008, Roxi entered into a farm-out arrangement with Canamens such that for a maximum total interest of 32.5 per cent Canamens would advance US$5 million and up to a further US$22.5 million to fund the Ravninnoe 2009 and 2010 work programmes.

To date US$5.5 million has been received from Canamens in respect of this farm-out arrangement, which have facilitated tha plans and preparation for the first well on Ravninnoe.

The Ravninnoe farm-out arrangements were approved by Roxi shareholders in General Meeting on 22 December 2008. On completion of the Ravninnoe farm-out arrangements Roxi's interest in the Ravninnoe field will be 30 per cent.

The carrying value of Roxi's Ravninnoe assets reflects the valuation implied by the Canamens farm-out arrangements.

Galaz Contract Area

Proven oil filed – appraisal and development targeting early production

Following the completion of the acquisition of Eragon plc in March 2008 Roxi held a 50.15 per cent interest in Galaz LLP, based in Kyzylorda. The Contract Area contains the North West Konus field discovered in 1992. 3D seismic acquisition was completed in Q1 2008 and processed in Q2 2008.

Well NK1 was drilled in Q2 2008 to appraise the Arskum "M2" sands, and is currently suspended pending evaluation to establish flow. The results of the well have confirmed that the Arskum "M2" sands are not the primary reservoir in NW Konus and that Upper Jurassic intervals provide the best potential for development.

In November 2008, Roxi entered into an arrangement with KazRosMunai LLP whereby they agreed to drill up to nine new wells (four to a depth of

1400 metres and a further five to a depth of 2800 metres) for a total cost of US$17 million in return for a maximum interest of 32.5 per cent interest in the Galaz Contract Area.

The four wells have been drilled successfully. The company is in discussions with KazRosMunai over the possibility of an equity stake in Galaz and Company being transfered in exchange for these services. The drilling of further wells will become optional to Galaz. A futher 1.5 per cent of Galaz and Company LLP was sold for $500,000. Following completion of the farm-out arrangements Roxi's interest in the Galaz assets would be 30.09 per cent. At 31 December 2008 Roxi's interest was 50.14 per cent.

Galaz Contract Area: Drilling Rig

Testing of the four wells commenced in April 2009. Over an initial 50 day period Galaz has produced 35,500 production barrels (4,704 tonnes) of oil, equivalent to an average rate of 709 bopd of light 38° API oil, which has been sold for an aggregate of $133,000.

GOST reserves currently being finalized prior to consideration by the State Geological Committe. SPE reserves estimates will be calculated after completing testing.

The carrying value of Roxi's Galaz assets reflects the value implied by the KazRosMunai farm-out arrangements.

Beibars Contract Area

Exploration

Roxi holds a 50 per cent interest and operational control of Beibars exploration Contract Area in the Mangishlak Basin near Aktau. A 121 km^2 3D seismic programme (delayed from 2007 due to the issuance of a military polygon on the Contract Area) was acquired in Q2 2008.

Following the delays caused as a result of the military intervention a force majeure event has been requested by the Ministry for Energy and Mineral Resources in respect of the Beibars asset. Consequently all work programme expenditure has been deferred by at least 12 months, pending resolution of the military polygon that was awarded over the Beibars contract.

The seismic data acquired in 2008 is being evaluated to potential drilling locations.

The carrying value of Roxi's Beibars assets is based on original cost, which the directors consider to be appropriate based on their assessment of its underlying value.

Munaily Contract Area

Proven oil field – rehabilitation targeting early production

Following completion of the acquisition of Eragon plc in March 2008, Roxi holds a 58.41 per cent interest in "Munaily Kazakhstan" LLP which operates the Munaily Field in the South Pre-Caspian Basin.

Well H1 was shut in after a successful three month test period at average rates of approximately 100 bopd under natural flow. C1 category reserves have been calculated at $1.1 million and have been approved by the State Geological Commission for approval.

On 22 December 2008, Munaily and BT Corporation signed a SPA for the sale of Munaili for $3 million. $1 million was payable on signing of which $500,000 was paid in December 2008. BT went on to drill this asset but did not pay the balance of the consideration due.

Munaily: Well # H1

Therefore the SPA has been cancelled and agreement has been reached to resell the asset for a total amount of $3.5 million. The cancellation and the new contract are currently being finalised. On completion Roxi would have no interest in this asset.

Roxi has not ascribed any value to its Munaily assets.

ADA update

We remain interested in the assets in ADA and ADA Oil. However, the vastly different economic conditions today compared to those prevailing when the ADA and ADA Oil acquisition was originally negotiated in the summer of 2007 make funding the acquisition, as originally structured, impossible.

Discussions continue with ADA and ADA oil with a view to Roxi becoming involved in the development of these assets.

North Karamandybas

At the time of the IPO in May 2007, we were in discussions to acquire an interest in an asset with near term production potential at North Karamandybas. As reported at the time and subsequently, the board resolved not to complete the acquisition until the outcome of a legal challenge to the existing ownership of the asset was known.

Although the dispute has moved on significantly the ultimate ownership has still to be determined.

The acquisition envisaged in May 2007 will not now take place and a deposit of US$1 million is now due to be repaid to Roxi.

Accordingly, we have made a full provision against the receipt of this amount, which we will continue to hold until the money is received or it becomes clear it will not be repaid.

Social programmes

Under Kazakh regulations part of our obligations under the various work programmes on the assets in which we have interest are paid in the form of contributions to local social programmes. In 2008 Roxi made significant contributions to:

- Kyzylorda region social fund (Galaz) $333,000
- Atyrau region social obligation fund (Munaily) $83,000
- Mangistau regional social obligation fund (BNG) $625,000

These contributions, while mandatory, help secure the good standing of the Company with the local regional authorities and with centrally based regulators. Roxi is pleased to have assisted in the developments of these projects.

Environmental

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

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.

The new Tax Code has four principal objectives:

- the reduction of the general burden of tax on non natural resource sections
- the increase in economic returns from natural resources extraction
- the optimisation of tax privileges
- the improvement of the tax administration system

The reduction of corporate income tax from 30 per cent to 15 percent results in a corresponding reduction in deferred tax from 30 per cent to 15 per cent. The original valuations of Roxi's assets were based on of a level at deferred tax at 30 per cent.

Galaz: Oil Transport Truck

Outlook

There is no doubt that 2008 was a difficult year for Roxi. Despite this the quality of our assets leads us to believe that the prospects for the company are very strong provided we are able to fund their development.

To survive we were forced to sell down our participations in Ravninnoe, BNG and Galaz to allow us to fund our commitments under work programmes established during times when funding was easier to obtain.

For a company in only its second full year of life the progress Roxi has made in some of the worst market conditions in a generation are worth noting:

- We have a developed infrastructure and a portfolio of diverse and exciting assets that have attracted interest from a number of larger international companies
- At Galaz we are already producing at the rate of up to 1200 barrels per day
- We have established relationships with international industry partners such as Canamens and Arawak Vitol that we hope to build upon over the short- and medium-terms
- We have secured our immediate short-term funding needs

We therefore look forward with confidence to a brighter future for Roxi than in recent times.

Rob Schoonbrood

Chief Executive Officer
29 June 2009

Clive Carver

Rob Schoonbrood

Clive Carver

(aged 48)
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.

He spent five years at Seymour Pierce, where he was a director and head of corporate finance, and 6 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 (FinnCap).

He is also a qualified corporate treasurer.

Rob Schoonbrood

(aged 64)
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 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.

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.

Duncan McDougall

Kuat Oraziman

Paul Puxon

Duncan McDougall

(aged 50)
Technical Director

Duncan McDougall has 27 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 16 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

(aged 47)
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.

Paul Puxon

(aged 59)
Company Secretary

Paul Puxon has 37 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.

Directors' Report and Business Review

The Directors present their second annual report on the operations of the Company and the Group, together with the audited financial statements for the year ended 31 December 2008. The Chairman's statement and the Chief Executive's Statement on pages 8 to 15 form part of the business review for this year.

Results and dividends

The consolidated income statements is set out on page 27 and shows the loss for the year.

The Directors do not recommend the payment of a dividend.

The portion and performance of the Group is discussed below and further details are given in the Business Review on pages 2 to 7.

Principal activity

The principal activity of the Company and the Group 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 the 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 controlling interests in three principal assets, Ravninnoe, Beibars, and North Karamandybas.

Following the acquisition of 59% of Eragon Petroleum Plc which was approved by shareholders on 29 February 2008 the Group has controlling interests 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.

In accordance with the SPA US$188.5 million of the consideration has been satisfied by the issue of 145,000,000 new Ordinary Shares at an agreed 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 US$60 million was paid for an extension to the BNG Contract Area by the issue of 46,153,846 shares at an agreed 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'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 Company in the country. The Company is focused on developing our existing portfolio of assets against the backdrop of a stronger financial position and a steadying oil price. It still intends in time to enlarge the portfolio on an ongoing basis to become a significant sized oil and gas concern.

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;
- 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 evaluate and aim to accumulate other under-developed oil and gas assets located in Central Asia when the current assets are settled;
- 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.

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.

The Group reported a loss for the year of US$43.9 million and had total equity of US$210.3 million at 31 December 2008.

The Directors intend to manage the activities of the Company in a conservative manner.

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 Company's key strengths include:

Experienced team

The Company benefits from an experienced team of proven oil and gas executives who also have in-depth experience of operating in Kazakhstan and 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.

- *Significant near term production*

  The Directors believe the Company's existing reserves can be exploited to achieve further 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 prove to be significantly higher, that the Contract Areas have historically been inadequately and/or poorly explored, and that the Contract Areas offer outstanding development potential.

- *Further acquisition opportunities*

  The Directors consider that the establishment of the Group and the Eragon acquisition 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 Group to further add to its portfolio of oil assets in the future.

Principal risks and uncertainties

The Company and the Group is subject to various risks relating to political, economic, legal, social, industry, business and financial conditions. The following risk factors, which are not exhaustive, are particularly relevant to the Company and 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 readmission document dated 31 January 2008, which can be found on the Company's website www.roxipetroleum.com.

- *Financing risks*

  The development of the Group's assets will depend upon the Group's ability to obtain financing primarily through the raising of new capital and farm-ins. There is no absolute assurance that the Group will be successful in obtaining the required financing. The Group continually monitors the financing arrangements to ensure the continuation of the operational activities.

- *Exploration risk*

  There is no assurance that the Group's exploration activities will be successful. Accordingly, the Group seeks to reduce this risk by reviewing the level of investment made in each project, as well as engaging qualified personnel to undertake detailed assessments of the areas under exploration.

- *Environmental and other regulatory requirements*

  Existing and possible future environmental legislation, regulations and actions could cause additional expense, capital expenditures, restrictions and delays in the activities of the Group, the extent of which cannot be predicted. Before exploration and production can commence the Group must obtain regulatory approval and there is no assurance that such approvals will be obtained. No assurance can be given that the new rules and regulations will not be enacted or existing legislations will not be applied in a manner which could limit or curtail the Group's activities.

- *Operational risks*

  The Group currently operates primarily in Kazakhstan. The nature of the Group's investments requires the commitment of significant funding through its investment in and exploration and evaluation expenditure in Kazakhstan. It is the nature of oil and gas operations that each project is long-term. It may be many years before the exploration and evaluation expenditures incurred are proven to be viable and for progress to reach commercial production. To control these risks the board arranges for the provision of technical support, directly or through appointed agents and also commissions technical research and feasibility studies both prior to entering into these commitments and subsequently during the life of these projects.

There also exists a risk that the market perception of the relevant market risk discount rate in the assessment of assets values in Kazakhstan worsens.

In addition, operational risks include equipment failure, well blowouts, pollution, fire and the consequences of bad weather. Where the Group is project operator, it takes an increased responsibility for ensuring that all relevant legislation is met.

Directors' Report and Business Review

Continued

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 2007 and a further 3 assets within the Eragon Group were acquired in 2008, as detailed in Note 15 to the financial statements.

Financing and treasury

The Group's cash position at 31 December 2008 was US$411,000.

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

Events after the balance sheet date

Other than as disclosed in this annual report, including Note 30 to the financial statements, there have been no material events between 31 December 2008 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 year 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 year (as calculated in the prescribed manner is 42 days, (2007: 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 together with 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 is 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 officers and 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.

Key performance indicators ("KPIs")

The Directors are of the opinion that finding prospective accumulations of hydrocarbons is the appropriate KPI at this stage of the Group's business.

Given the nature of the business and that the Group is in the early 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. However the Directors constantly review the overall expenditure in comparison to budget and the Group's cash position. Information in respect of reserves is contained in the business review.

Going Concern

After making enquiries 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. Further information in respect of the Group's financing are contained in the Chairman's Statement and the Chief Executive's statement.

Continued

Directors and Directors' interests

The Directors of the Company who served during the year were:

Director	Role
Mr C Carver	Non-executive Chairman
Mr R Schoonbrood	Chief Executive Officer
Mr D Barker	Chief Operating Officer (resigned 2 September 2008)
Mr D McDougall	Executive Technical Director
Mr K Oraziman	Executive Director

Biographical details of the current Directors are set out on pages 16 –17.

Details of the Directors' individual remuneration, service contracts and interests in shares and share options are shown in the Remuneration Committee Report on pages 23 – 24.

Financial instruments

Details of the use of financial instruments by the Company and its subsidiary undertakings are contained in note 27 of the financial statements.

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 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 were granted to the Directors and employees under the 2008 Long-Term Incentive Plan.

Details of the options granted are set out in note 26 of the financial statements.

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 is 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 them 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 Soy 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 of 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 complies 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 positions, 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 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 entities' financial positions and financial performance.

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

Mr Paul Puxon
Company Secretary

29 June 2009

Remuneration Committee Report

Remuneration Committee

The Remuneration Committee comprises Clive Carver, Kuat Oraziman and Rob Schoonbrood and is chaired by Clive Carver.

Remuneration policy

The Company's policy is to provide remuneration packages that will attract, retain and motivate its Directors and senior management. This consists of a basic salary, ancillary benefits and other performance related remuneration appropriate to their individual responsibilities and having regard to the remuneration levels of comparable posts. The Remuneration Committee determines the contract term, basic salary, and other remuneration for the members of the board and the senior management team.

Service contracts

Details of the current directors' service contracts are as follows:

	Date of service agreement/ appointment letter	Date of last renewal of appointment
Executive		
Rob Schoonbrood	1st January 2008	1st January 2008
Duncan McDougall	1st January 2008	1st January 2008
Kuat Oraziman	1st January 2008	1st January 2008
Non-Executive		
Clive Carver	1st January 2008	1st January 2008

Basic salary and benefits

The basic salaries of the Directors who served during the financial period are established by reference to their responsibilities and individual performance. The amounts received by the directors are set out below in US$.

	Salary / fees	Benefits	Total
Clive Carver	146,248	–	146,248
Rob Schoonbrood	403,651	73,467	477,119
David Barker	399,996	113,630	513,626
Duncan McDougall	350,680	92,094	442,774
Kuat Oraziman	56,551	–	56,551

In September 2008, the Directors and the senior management team agreed to pay reductions of 20 per cent., which are reflected in the numbers disclosed above. The 20 per cent pay reduction has continued throughout 2009 to date and will only be reversed and refunded when doing so will not materially affect the Company's ability to comply with its existing work programme commitments.

Bonus schemes

The Company has a bonus scheme for the executive directors and senior management team. No bonus are payable in respect of the year to 31 December 2008.

Share options

The Remuneration Committee recognises the importance of an effective share based incentive scheme for board members and senior management.

The Remuneration Committee recognises that, following the fall in the share price of the Company, largely for reasons associated with the general economic slowdown, the principal purpose of the existing option arranges, namely to attract, retain and motivate the board and senior management, is not being met by the current arrangements.

Remuneration Committee Report

Continued

The Remuneration Committee also notes that it is proving difficult to attract interest from the best candidates to join the senior management team using options granted at historic levels. However the Remuneration Committee believes it would be inappropriate to issue to new subordinate staff, options incentives on terms materially better than those who they would be working for and who have helped turn around the Company's financial position.

The Remuneration Committee recognises the need for a balance between the interests of the directors and the senior management team and those of shareholders, many of whom have incurred significant falls in the value of their shareholdings. However, the Remuneration Committee believes it would not be in the best interests of the Company to leave the existing arrangements unaltered.

The Remuneration Committee intends to make adjustments to the current option arrangements in the days following the publication of the results for the year ended 31st December 2008.

The current interests of the current Directors in the share options agreements are now:

	Granted	Option price	Expiry date
Clive Carver	1,345,660	38p	21 May 2017
Rob Schoonbrood	5,786,338	38p	21 May 2017
Duncan McDougall	2,018,490	38p	21 May 2017
Kuat Oraziman	672,830	38p	21 May 2017

	Granted	Option price	Expiry date
Clive Carver	1,603,178	65p	19 March 2018
Rob Schoonbrood	6,893,231	65p	19 March 2018
Duncan McDougall	2,404,612	65p	19 March 2018
Kuat Oraziman	801,589	65p	19 March 2018

On behalf of the Directors of Roxi Petroleum Plc

Clive Carver

Clive Carver

Chairman of Remuneration Committee
29 June 2009

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 on 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 one non-executive Director and three executive Directors as follows:

Mr C Carver	Non-executive Chairman
Mr R Schoonbrood	Executive
Mr D McDougall	Executive
Mr K Oraziman	Executive

The Board retains full and effective control over the Company. The Company holds Board meeting 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 of meetings

The Board met 7 times during the financial period with the following attendance:

	2008	2007
Mr C Carver	7	8
Mr R Schoonbrood	6	12
Mr D McDougall	7	–
Mr K Oraziman	3	3

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, will determine and examine any matters relating to the financial affairs of the Company 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 amounts 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, will review 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' dealing and will take all reasonable steps to ensure compliance by the Company's applicable employees. The Company 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 polices 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 group and parent company financial statements (the ''financial statements'') of Roxi Petroleum Plc for the year ended 31 December 2008 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated and company cash flow statements, the consolidated and company statements of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

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

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

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. This other information comprises only the Highlights, the Business Review, the Chairman's Statement, the Chief Executive's Statement, the Directors' Report and Business Review, the Remuneration Committee Report and the Report on Corporate Governance. 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 group's and company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- the 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.

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors
London
29 June 2009

Roxi Petroleum Plc
Consolidated Income Statement

	Notes	Year to 31 December 2008 $'000	Period from 13 October 2006 to 31 December 2007 $'000
Revenue	11	518	–
Cost of sales		(518)	–
		–	–
Impairment of unproven oil and gas assets	11	(67,412)	–
ADA Acquisition costs	12	(6,679)	–
IPO costs		–	(1,446)
Share-based payments	26	(3,102)	(2,224)
Impairment of investment in RS Munai	12	(1,025)	(2,983)
Other administrative expenses		(15,281)	(5,421)
Administrative expenses		(93,499)	(12,074)
Operating loss	4	(93,499)	(12,074)
Finance cost	7	(1,870)	(56)
Finance income	8	1,297	1,659
Loss before taxation		(94,072)	(10,471)
Taxation	9	50,132	(2)
Loss after taxation		(43,940)	(10,473)
Loss attributable to minority interests		(12,082)	(988)
Loss attributable to equity shareholders		(31,858)	(9,485)
		(43,940)	(10,473)
Basic and diluted loss per ordinary share (US cents)	10	9.5	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 33 to 63 form part of these financial statements.

Roxi Petroleum Plc

Consolidated Statement of Changes in Equity

	Share capital $'000	Share premium $'000	Shares to be issued $'000	Cumulative translation reserve $'000	Other reserves $'000	Retained earnings $'000	Total $'000	Minority interests $'000	Total equity $'000
Total equity as at 13 October 2006	–	–	–	–	–	–	–	–	–
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	–	–	–	–
Total equity as at 31 December 2007	**33,707**	**52,711**	**–**	**1,334**	**2,378**	**(7,261)**	**82,869**	**35,551**	**118,420**

Roxi Petroleum Plc
Consolidated Statement of Changes in Equity

	Share capital $'000	Share premium $'000	Shares to be issued $'000	Cumulative translation reserve $'000	Other reserves $'000	Retained earnings $'000	Total $'000	Minority interests $'000	Total equity $'000
Total equity as at 1 January 2008	33,707	52,711	–	1,334	2,378	(7,261)	82,869	35,551	118,420
Currency translation differences and total income and expense recognised directly in equity	–	–	–	1,566	–	–	1,566	1,546	3,112
Loss for the year	–	–	–	–	–	(31,858)	(31,858)	(12,082)	(43,940)
Total recognised income and expense for the period	–	–	–	1,566	–	(31,858)	(30,292)	(10,536)	(40,828)
Arising on acquisition of Eragon	30,145	33,100	20,175	–	–	–	83,420	45,424	128,844
Arising on share issues	697	98	–	–	–	–	795	–	795
Arising on employee share options	–	–	–	–	–	3,102	3,102	–	3,102
Total equity as at 31 December 2008	**64,549**	**85,909**	**20,175**	**2,900**	**2,378**	**(36,017)**	**139,894**	**70,439**	**210,333**

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value
Shares to be issued	Amount subscribed for unissued share capital
Cumulative translation reserve	Losses arising on retranslating the net assets of overseas operations into US Dollars
Other reserves	Cumulative fair value of warrants issued
Retained earnings	Cumulative losses recognised in the consolidated income statement
Minority interests	The interest of non-controlling interest in the net assets of the subsidiaries

The notes on pages 33 to 63 form part of these financial statements.

Roxi Petroleum Plc

Parent Company Statement of Changes in Equity

	Share capital $'000	Share premium $'000	Shares to be issued $'000	Cumulative translation reserve $'000	Other reserves $'000	Retained earnings $'000	Total $'000
Total equity as at 13 October 2006	–	–	–	–	–	–	–
Loss for the period and total recognised income and expense for the period	–	–	–	–	–	(6,702)	(6,702)
Arising on share issues	33,707	55,089	–	–	–	–	88,796
Arising on employee share options	–	–	–	–	–	2,224	2,224
Arising on warrants	–	(2,378)	–	–	2,378	–	–
Foreign exchange	–	–	–	–	–	–	–
Total equity as at 31 December 2007	**33,707**	**52,711**	**–**	**–**	**2,378**	**(4,478)**	**84,318**

	Share capital $'000	Share premium $'000	Shares to be issued $'000	Cumulative translation reserve $'000	Other reserves $'000	Retained earnings $'000	Total $'000
Total equity as at 1 January 2008	33,707	52,711	–	–	2,378	(4,478)	84,318
Loss for the period and total recognised income and expense for the period	–	–	–	–	–	(46,599)	(46,599)
Arising on acquisition of Eragon	30,145	33,100	20,175	–	–	–	83,420
Arising on share issue	697	98	–	–	–	–	795
Arising on employee share options	–	–	–	–	–	3,102	3,102
Total equity as at 31 December 2008	**64,549**	**85,909**	**20,175**	**–**	**2,378**	**(47,975)**	**125,036**

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value
Shares to be issued	Amount subscribed for unissued share capital
Cumulative translation reserve	Losses arising on retranslating the net assets of overseas operations into US Dollars
Other reserves	Cumulative fair value of warrants issued
Retained earnings	Cumulative losses recognised in the consolidated income statement

The notes on pages 33 to 63 form part of these financial statements.

Roxi Petroleum Plc
Consolidated and Parent Company Balance Sheets

at 31 December 2008

	Notes	Group 2008 $'000	Company 2008 $'000	Group 2007 $'000	Company 2007 $'000
Assets					
Non-current assets					
Unproven oil and gas assets	11	273,034	–	110,142	–
Available for sale financial assets	12	–	–	5,525	4,500
Property, plant and equipment	13	1,530	62	615	67
Investments in subsidiaries	14	–	103,323	–	36,972
Other receivables	17	2,246	27,876	4,970	16,065
Restricted use cash		66	–	16	–
Total non-current assets		**276,876**	**131,261**	**121,268**	**57,604**
Current assets					
Inventories	16	507	–	815	2
Other receivables	17	11,395	295	4,665	814
Cash and cash equivalents	18	411	152	30,144	28,229
Total current assets		12,313	447	35,624	29,045
Total assets		**289,189**	**131,708**	**156,892**	**86,649**
Equity and liabilities					
Capital and reserves attributable to equity holders of the parent					
Share capital	19	64,549	64,549	33,707	33,707
Share premium		85,909	85,909	52,711	52,711
Shares to be issued		20,175	20,175	–	–
Other reserves		2,378	2,378	2,378	2,378
Retained earnings		(36,017)	(47,975)	(7,261)	(4,478)
Cumulative translation reserve		2,900	–	1,334	–
		139,894	125,036	82,869	84,318
Minority interests		70,439	–	35,551	–
Total equity		**210,333**	**125,036**	**118,420**	**84,318**
Current liabilities					
Trade and other payables	20	17,837	1,672	2,059	2,330
Short-term borrowings	21	17,889	5,000	61	–
Current provisions	22	5,648	–	1,908	–
Total current liabilities		**41,374**	**6,672**	**4,028**	**2,330**
Non-current liabilities					
Borrowings	23	3,900	–	3,900	–
Deferred tax liabilities	24	30,513	–	29,809	–
Non-current provisions	22	3,069	–	669	–
Other payables	25	–	–	66	1
Total non-current liabilities		**37,482**	**–**	**34,444**	**1**
Total liabilities		**78,856**	**6,672**	**38,472**	**2,331**
Total equity and liabilities		**289,189**	**131,708**	**156,892**	**86,649**

The notes on pages 33 to 63 form part of these financial statements.

These financial statements were approved and authorised for issue by the board of Directors on 29 June 2009 and were signed on its behalf by:

Clive Carver

Clive Carver
Director

Rob Schoonbrood
Director

Roxi Petroleum Plc

Consolidated and Parent Company Cashflow Statements

	Notes	Year to 31 December 2008 Group $'000	Year to 31 December 2008 Company $'000	Period from 13 October 2006 to 31 December 2007 Group $'000	Period from 13 October 2006 to 31 December 2007 Company $'000
Cash flows from operating activities					
Cash received from customers		1,377	–	–	–
Payments made to suppliers for goods and services		(8,567)	(3,951)	(8,588)	(2,750)
Interest paid		–	–	(11)	(11)
Interest received		212	212	1,198	1,198
Net cash from operating activities		(6,978)	(3,739)	(7,401)	(1,563)
Cash flows from investing activities					
Purchase of plant, property and equipment		(897)	(2)	(474)	(65)
Additions to unproven oil and gas assets	11	(21,874)	–	(4,603)	–
Acquisition of subsidiaries, net of cash acquired	15	(2,561)	(3,423)	(16,399)	(16,424)
Option fees, deposits and prepayment of acquisition costs		(3,200)	(3,200)	(7,530)	(7,530)
Net cash flow from investing activities		(28,532)	(6,625)	(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		795	795	72,767	72,767
Repayment of borrowings		(1,250)	–	(3,531)	–
New loans		6,250	5,000	–	–
Issue of loans		–	(23,508)	(2,741)	(18,970)
Net cash from financing activities		5,795	(17,713)	66,495	53,797
Net increase/(decrease) in cash and cash equivalents		(29,715)	(28,077)	30,088	28,215
Effects of exchange rates		(18)	–	56	14
Cash and cash equivalents at beginning of period		30,144	28,229	–	–
Cash and cash equivalents at end of period		411	152	30,144	28,229

The notes on pages 33 to 63 form part of these financial statements.

Notes to the Financial Statements

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 29 June 2009.

1 Principal accounting policies

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

1.1 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 year ended 31 December 2008.

The financial statements have been prepared on the going concern basis based upon projected future cash flows and planned work programmes. The farm out arrangement with Canamens on BNG (described in note 30.2) requires shareholder approval and the directors are confident based on assurances from major shareholders this will be achieved. The GEM facility (described in note 30.7) includes a restriction on the number of shares that can be issued in any single drawdown based upon the average volume of shares traded over a period. The directors are confident, based upon historical trading volumes that this restriction will not have a significant impact on the Company's ability to drawdown on this agreement as required.

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$46,599,000 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 3.

2 Accounting standards issued but not adopted

New standards and interpretations

The IFRS financial information has been drawn up on the basis of accounting policies consistent with those applied in the financial statements for the period to 31 December 2007. The following standards, interpretations and amendments to existing standards have been adopted for the first time in 2008:

International Accounting Standards (IAS/IFRS)

IFRS 7 – Financial Instruments: disclosures and a complementary amendment to IAS1 – Presentation of Financial Statement – Capital disclosures.

IAS 39 & IFRS 7 – Amendment – Reclassification of Financial Instruments.

International Financial Reporting Interpretations (IFRIC)

IFRIC 11 – (IFRS 2) Group and treasury share transactions;

IFRIC 13 – Customer loyalty programmes;

IFRIC 14 – IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction;

IFRS 7 introduces new requirements aimed at improving the disclosure of information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. Where those risks are deemed to be material to the Group it requires disclosures based on the information used by key management. It replaces the disclosure requirements in IAS 32 'Financial Instruments: disclosure and presentation'. It is applicable to all entities that report under IFRS.

The amendment to IAS 1 introduces disclosures about the level and management of an entity's capital.

The Group has applied IFRS 7 and the amendment to IAS 1 to the accounts for the year beginning 1 January 2008.

The adoption of these standards, interpretation and amendments did not affect the Group results of operations or financial positions.

The IASN and IFRIC have issued the following standards and interpretations which are effective for reporting periods beginning after the date of theses financial statements:

2 Accounting standards issued but not adopted continued

International Accounting Standards (IAS/IFRS)

IAS 1 – Amendment – Presentation of financial statements : a revised presentation;

IFRS 8 – Operating segments;

IAS 23 – Amendment – Borrowing costs;

IFRS 2 – Amendment – Share based payment: vesting conditions and cancellations;

IAS 27 – Amendment – Consolidated and separate financial statements;

IFRS 3 – Revised – Business combinations;

IFRS 1* – Revised – First time adoption to IFRS

IAS 32 & IAS 1* – Amendment – Puttable financial instrument and obligations arising on liquidation;

Improvements to IFRSs*

IFRS 1 & IAS 27* – Amendment – Cost of an investment in a subsidiary, jointly-controlled entity or associate;

IAS 39* – Amendment – Financial Instruments: recognition and measurement: eligible hedged Items;

IAS39* – Amendment – Reclassification of financial assets: effective date and transition;

IFRS7* – Amendment – improving disclosures about financial instruments;

International Financial Reporting Interpretations (IFRIC)

IFRIC 15* – Agreements for the construction of real estate;

IFRIC 16* – Hedges of a net investment in a foreign operation ;

IFRIC 17* – Distributions of non-cash assets; to owners; and

IFRIC 18 * – Transfers of assets from customers;

*These have not been endorsed by the EU.

The Group is evaluating the impact of the above pronouncements but they are not expected to be material to the Group's earnings or to shareholders' funds.

2.1 Basis of consolidation

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.

2.2 Operating Loss

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

2.3 Foreign currency translation

2.3.1 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 presentation currency, unless otherwise stated. RS Munai LLP, Beibars Munai LLP, Ravninnoe Oil LLP, Munaily Kazakhstan LLP, Galaz and Co LLP, and BNG LTD. LLP, Roxi Petroleum Services LLP and Roxi Petroleum Kazakhstan LLP, subsidiary undertakings of the Group, undertake their activities in Kazakhstan and the Kazakh Tenge is their functional currency. The functional currency for all RS Munai BV, Beibars BV, Ravninnoe BV, Galaz Energy BV and BNG Energy BV is the USD as the significant transactions of these companies are in USD.

2.3.2 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.

2.3.3 Consolidation

For the purpose of consolidation all assets and liabilities of Group entities with a foreign functional currency are translated at the rate prevailing at the balance sheet date. The income statement is translated at the exchange rates approximating to those ruling when transaction took place. Exchange difference arising on retranslating the opening net assets from the opening rate and results of operations from the average rate are recognised directly in equity (the "cumulative translation reserve").

2.4 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.

2.5 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.

2.6 Unproven oil and gas assets

The Group applies the successful efforts based method of accounting for oil and gas operations having regard to the requirements of IFRS6 "Exploration for and Evaluation of Mineral Resources". Under the successful efforts based method of accounting, costs are capitalised if they lead to or represent the development of the oil and gas assets that either have to be appraised or have been appraised as successful. If evaluation of the oil and gas asset leads to the conclusion that the asset is not economic, the costs incurred acquiring this asset are expensed through the income statement. If evaluation of the oil and gas asset leads to the conclusion that the asset has economic value but the costs incurred acquiring and developing this asset exceed this value, the excess costs are expensed through the income statement. The costs incurred to evaluate potential assets prior to grant of exploration and production licenses are expensed.

Exploration and evaluation costs are initially capitalised within "Intangible assets" as unproven oil and gas assets. Such exploration and evaluation costs include costs of licence acquisition and costs that have been incurred after the grant of the license where the properties still have to be evaluated and where production of hydrocarbons has yet to commence. Costs related to such unevaluated properties are not amortised until such time as the related property has been appraised and production commences.

Impairment Review

Impairment reviews of development and/or producing assets are carried on a field-by-field basis. At each reporting date, the net book values of the development and/or producing assets are compared to the net present values of expected future cash flows from the relevant fields. If the net book value is higher than the underlying economic value of the asset, then the difference is written off to the income statement as impairment. Expected future cash flows are calculated using production profiles and costs determined on a field-by-field basis by inhouse engineers, using appropriate petroleum engineering techniques, and using oil price forecasts which are developed by the Group for business planning purposes.

Exploration and appraisal assets are regarded as intangible fixed assets until it has been established whether they are associated with commercially producible reserves of hydrocarbons or not. If the efforts associated with the costs of these assets are successful, these assets are reclassified into development and/or producing assets, which are subject to regular impairment reviews on a field-by-field basis. If the efforts associated with the costs of these assets are unsuccessful, the carrying cost of these assets is written off to the income statement in accordance with the successful efforts based accounting method.

2.7 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
– buildings	over 10 years
– 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.

2.8 Investments (Company)

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.

2.9 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 cash, available for sale financial assets and other receivables. Cash and cash equivalents are defined as short term cash deposits which comprise cash on deposit available by giving notice of no more than 3 months.

The Group's financial liabilities are non-interest bearing trade and other payables and other interest bearing borrowings, which are stated initially at fair value and subsequently at amortised cost. Available for sale financial assets are measured at fair value and other receivables are initially measured at fair value and subsequently at amortised 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.

2.10 Inventories

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

2.11 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.

2.12 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.

2.13 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 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 services are related to the issue of shares for cash the fair value of these services are offset against share premium and recognised as a separate component of equity.

Fair value is measured using the binomial 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.

2.14 Segmental 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 material revenues from third parties and so has no reportable segments as defined under IAS 14.

2.15 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for oil & gas products provided in the normal course of business, net of discounts, VAT and other sales related taxes to third party customers. Revenues are recognised when the risks and rewards of ownership together with effective control are transferred to the customer and the amount of the revenue and associated costs incurred in respect of the relevant transaction can be reliably measured. Revenue is not recognised unless it is probable that the economic benefits associated with the sales transaction will flow to the Group.

The Group accounts for oil revenues relating to test production by crediting revenue for the proceeds, net of VAT, with an offsetting charge to cost of sales resulting in no net margin being recognised.

2.16 Interest receivable

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

3 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.

3.1 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 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 commercially 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.

3.2 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 and the Group's Readmission Document dated 31 January 2008.

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.

3.3 Income taxes

The Group has significant carried forward tax losses in several jurisdictions. Significant judgement 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.

3 Critical accounting estimates and judgements continued

3.4 Decommissioning

Provision was made in the accounts for future decommissioning costs to plug and abandon wells. The costs of provisions should be 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.

3.5 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 26.

3.6 Subsidaries

Entities in which we have a 50% or greater interest have been clarrified as subsidaries as they are controlled by the Group.

4 Operating loss

Group operating loss for the period has been arrived after charging:

	2008 $'000	2007 $'000
Depreciation of property, plant and equipment	289	47
Auditors' remuneration (note 5)	665	450
Staff costs (note 6)	6,770	5,319
Share based payment remuneration (all equity settled)	3,102	2,224
Impairment of unproven oil and gas assets (note 11)	67,412	–
ADA acquisition costs (note 12)	6,679	–
Impairment of investment in RS Munai LLP (note 12)	1,025	2,983
IPO costs	–	1,446

5 Group Auditor's remuneration

Fees payable by the Group to the Company's auditor and its associates in respect of the year:

	2008 US$'000	2007 US$'000
Fees for the audit of the annual financial statements	225	300
Auditing of accounts of associates of the Company	112	60
Other services	118	–
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its subsidiaries	830[1]	251[2]
	1,285	611

[1] of these amounts which relate to the acquisition of Eragon Petroleum Limited, the potential ADA acquisition and the readmission US$620,000 has been treated as acquisition costs and US$210,000 changed to the income statement.

[2] 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.

Continued

6 Employees and Directors

Staff costs for the Group during the period	Group 2008 US$'000	Company 2008 US$'000	Group 2007 US$'000	Company 2007 US$'000
Wages and salaries	6,047	213	2,869	123
Social security costs	413	–	82	34
Pension costs	310	–	144	–
Share-based payments	3,102	3,102	2,224	2,224
	9,872	**3,315**	**5,319**	**2,381**

Average monthly number of people employed (including executive Directors)	Group 2008 US$'000	Company 2008 US$'000	Group 2007 US$'000	Company 2007 US$'000
Technical	28	–	5	–
Field operations	11	–	3	–
Finance	21	–	6	–
Administrative and support	49	2	13	2
Other	10	–	2	–
	119	**2**	**29**	**2**

Key management compensation	Group 2008 US$'000	Company 2008 US$'000	Group 2007 US$'000	Company 2007 US$'000
Salaries and short-term employee benefits	1,638	211	945	137
Benefits	–	–	–	–
Share-based payments	2,030	2,030	2,224	2,224
	3,668	**2,241**	**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 23.

7 Finance cost

	Group 2008 $'000	Group 2007 $'000
Unwinding of fair value adjustments on loans	355	–
Loan interest payable	730	–
Interest payable on bank overdrafts	–	15
Unwinding of discount on provisions	446	39
Foreign exchange losses	339	2
	1,870	**56**

Continued

8 Finance income

	Group 2008 $'000	Group 2007 $'000
Interest receivable on bank deposits	212	1,198
Other	1,085	–
Foreign exchange gains	–	461
	1,297	**1,659**

9 Taxation

Analysis of charge for the period	Group 2008 $'000	Group 2007 $'000
Current tax	(605)	2
Deferred tax	50,737	–
Taxation	**50,132**	**2**

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

	Group 2008 $'000	Group 2007 $'000
Loss on ordinary activities before tax	(94,072)	(10471)
Tax on the above at 28.5% (2007: 30%)	(26,811)	(2,932)
Effects of:		
Non deductible expenses	3,605	1462
Release of deferred tax liability due to change in future tax rates	(40,624)	–
Effect of different tax rates overseas	9,531	–
Tax losses carried forward	4,167	1,472
Total taxation	**(50,132)**	**2**

The deferred tax credit for the year relates to the recalculation of deferred tax liabilities taking into account the lower corporation tax rates resulting from the new Kazakh tax legislation effective from 1 January 2009, where there is a phased reduction from 30% in 2008 to 15% in 2011.

Corporate tax in 2008 is calculated at 28.5% being weighted average of the UK corporation tax rate that was applicable in the year.

10 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 including shares to be issued.

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 32,291,987 (2007: 23,879,712) potentially dilutive ordinary shares.

The calculation of earnings per share is based on:

	2008	2007
The basic weighted average number of Ordinary shares in issued during the period	336,462,416	96,275,231
The loss for the period attributable to equity shareholders ($'000)	31,858	9,485

11 Unproven oil and gas assets

	Group 2007 $'000
Cost at 13 October 2006	–
Acquisition of subsidiaries (see note 15)	99,003
Additions	5,155
Foreign exchange difference	5,984
Cost at 31 December 2007	**110,142**

	Group 2008 $'000
Cost at 1 January 2008	110,142
Acquisition of subsidiaries (see note 15)	203,887
Additions	21,874
Sales from test production	(518)
Foreign exchange differences	5,061
Impairment	(67,412)
Cost at 31 December 2008	**273,034**

Unproven oil and gas assets represent five licences held by Kazakh subsidiaries. The directors have carried out an impairment review of these assets on a field by field basis. In carrying out this review the directors have taken into account potential net present values of expected future cash flows and values implied by farm-in agreements / sale and purchase agreements ("SPA"s) entered into during the year and following the year end. Due to the early stage of development of these assets, the directors consider the values implied by recent farm-in agreements and SPAs to be the best indicator of value currently available. Accordingly where the value implied by these farm-in agreements / SPAs is below the net book values, a provision has been made to reduce the carrying value of that asset to the value implied by the farm-in agreement / SPA.

As a result of the impairment review, the directors have made provisions totalling US$67,412,000, comprising Ravninnoe (US$51,524,000), BNG (US$14,281,000) and Munaily (US$1,607,000), with an offsetting release of deferred tax of US$10,112,000.

Included within unproved oil and gas assets is an amount of US$20,218,000 in respect of the Beibars asset which is currently under a Force Majeure event as a result of the issuance of a military polygon on the contract area.

12 Available for sale financial assets

	Group 2007 $'000	Company 2007 $'000
Cost at 13 October 2006	–	–
Additions		
Eragon consideration *	2,500	2,500
ADA option **	2,000	2,000
Acquisition of subsidiary ***	4,008	–
Impairment ***	(2,983)	–
Net book value at 31 December 2007	**5,525**	**4,500**

	Group 2008 $'000	Company 2008 $'000
Net book value at 1 January 2008	5,525	4,500
Additions – ADA option**	3,200	3,200
Impairment		
North Karamandybas ***	(1,025)	–
ADA option **	(5,200)	(5,200)
Reclassification of Eragon consideration *	(2,500)	(2,500)
Net book value at 31 December 2008	**–**	**–**

*US$2,500,000 is part payment of consideration in 2007 in relation to Eragon acquisition in 2008 (see note 15.2).

**In the period ended 31 December 2007 a payment of US$2,000,000 was made in relation to the ADA Option Agreement dated 25 September 2007 (which was amended, restated and replaced on 30 January 2008) which granted an option to the Group to acquire an indirect 50% interest in ADA Oil LLP and ADA LLP. This option initially expired on 31 March 2008, but this was extended in the year ended 31 December 2008 to 30 September 2008 for a consideration of $3,200,000. As this option was not exercised and has now expired all amounts including prepayments of US$225,000 and costs incurred in the year have been provided against.

*** Relates to the North Karamandybas project (RS Munai), which as disclosed in note 14 has been fully impaired.

Notes to the Financial Statements

Continued

13 Property, plant and equipment

Group	Motor Vehicles $'000	Buildings $'000	Other $'000	Total $'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**
Acquisition of subsidiaries	40	162	99	301
Additions	–	526	371	897
Disposals	(13)	–	–	(13)
Foreign exchange difference	3	2	3	8
Cost at 31 December 2008	**277**	**816**	**772**	**1,865**
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**
Charge for the period	81	47	161	289
Disposals	(10)	–	(1)	(11)
Depreciation at 31 December 2008	**93**	**59**	**183**	**335**
Net book value at:				
31 December 2007	225	114	276	615
31 December 2008	**184**	**757**	**589**	**1,530**
Company				
Cost at 13 October 2006	–	–	–	–
Additions	–	–	68	68
Cost at 31 December 2007	**–**	**–**	**68**	**68**
Additions	–	–	2	2
Cost at 31 December 2008	**–**	**–**	**70**	**70**
Depreciation at 13 October 2006	–	–	–	–
Charge for the period	–	–	1	1
Foreign exchange difference	–	–	–	–
Depreciation at 31 December 2007	**–**	**–**	**1**	**1**
Depreciation on acquisition	–	–	–	–
Charge for the period	–	–	7	7
Impairment	–	–	–	–
Foreign exchange difference	–	–	–	–
Depreciation at 31 December 2008	**–**	**–**	**8**	**8**
Net book value at:				
31 December 2007	–	–	67	67
31 December 2008	–	–	62	62

14 Investments (Company)

Fixed asset investments	Company $'000
Cost	–
At 13 October 2006	–
Additions	39,955
At 31 December 2007	**39,955**
Additions	90,866
At 31 December 2008	**130,821**
Impairment	
Amounts provided at 13 October 2006	–
Impairment in 2007	2,983
At 31 December 2007	**2,983**
Impairment in 2008	24,515
At 31 December 2008	**27,498**
Net book value at:	
31 December 2007	**36,972**
31 December 2008	**103,323**

As described in note 11 provision has been made against the carrying values of the unproven oil and gas assets of the Group. As a result a provision has also been made against the carrying values of the Company's investments in Eragon Petroleum Limited and Ravninnoe BV.

Additionally as the Group was not able to complete the legal transfer of ownership of subsurface use rights from the North Karamandybas vendors to RS Munai LLP (subsidiary of RS Munai BV), the investment of US$3,983,000 in the North Karamandybas project was considered by the directors to be impaired and was written down to its estimated net recoverable value of US$Nil (2007: US$1,000,000). The directors are continuing to seek recovery of an amount of US$1,000,000 which is potentially recoverable from the vendor who was unable to prove title to the asset.

Notes to the Financial Statements

Continued

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

Name of undertaking	Country of incorporation	Effective holding and proportion of voting rights held 2008	Effective holding and proportion of voting rights held 2007	Nature of business
RS Munai BV (formerly Sytero BV)	Netherlands	100%	100%	Holding company
Beibars BV (formerly Sytero 2 BV)	Netherlands	100%	100%	Holding company
Ravninnoe BV (formerly Sytero 3 BV)	Netherlands	100%	100%	Holding company
BNG Energy BV (formerly Sytero 5 BV)	Netherlands	59%*	–	Holding company
Galaz Energy BV (formerly Sytero 4 BV)	Netherlands	59%*	–	Holding company
RS Munai LLP	Kazakhstan	50%*	50%*	Exploration company
Beibars Munai LLP	Kazakhstan	50%*	50%*	Exploration company
Ravninnoe Oil LLP	Kazakhstan	50%*	50%*	Exploration company
BNG Ltd. LLP	Kazakhstan	58%*2	–	Exploration company
Galaz and Company LLP	Kazakhstan	50%*1	–	Exploration company
Munaily Kazakhstan LLP	Kazakhstan	58%*2	–	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
Munaili BV	Netherlands	100%	–	Dormant
Eragon Petroleum Limited	England	59%	–	Holding company

*Indirect shareholding of parent Company

[1]85% indirect subsidiary of Eragon Petroleum Limited

[2]99% indirect subsidiary of Eragon Petroleum Limited

RS Munai LLP, Beibars Munai LLP and Ravninnoe Oil LLP , Munaily Kazakhstan LLP, Galaz and Co. LLP, BNG LTD. 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.

Notes to the Financial Statements

Continued

15 Acquisitions

15.1 Acquisitions in 2007

As described in its admission document dated 16 May 2007 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 assessment of the fair values of the assets and liabilities acquired as at the date of acquisition is as follows:

	Book values $'000	Fair value adjustments $'000	Fair values $'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

15.2 Acquisitions in 2008

On 3 March 2009, the Company completed the acquisition of 59% of the Eragon group which includes Galaz Energy BV (formerly Sytero 4 BV) and BNG Energy BV (formerly Sytero 5 BV). Galaz Energy BV owns interests in Galaz and Company LLP and BNG Energy BV owns interests in BNG LTD LLP and Munaily Kazakhstan LLP.

The provisionally determined fair values of the assets and liabilities acquired as at the date of acquisition is as follows:

	Book values $'000	Fair value adjustments $'000	Fair values $'000
Unproven oil and gas assets	72,595	131,292	203,887
Property, plant and equipment	301	–	301
Inventories	55	–	55
Other receivables	816	31,910	32,726
Cash and cash equivalents	862	–	862
Other payables	(19,879)	–	(19,879)
Long-term borrowings	(29,166)	(2,400)	(31,566)
Deferred taxation	(10,708)	(39,388)	(50,096)
Net assets	**14,876**	**121,414**	**136,290**
Minority interests			(45,424)
Net assets acquired			90,866
Consideration:			
– Ordinary shares			63,245
– Shares to be issued			20,175
– Cash			1,500
– Expenses			5,946
Total consideration			**90,866**
Related cash flows:			
– Cash consideration			1,500
– Expenses			1,923
– Cash acquired			(862)
			2,561

Fair value of shares based on their market valuation at the date of completion.

16 Inventories

	Group 2008 $'000	Company 2008 $'000	Group 2007 $'000	Company 2007 $'000
Materials and supplies	507	–	815	2
	507	–	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. All amounts are held at the lower of cost and net realisable value.

17 Other receivables

	Group 2008 $'000	Company 2008 $'000	Group 2007 $'000	Company 2007 $'000
Amounts falling due after one year:				
Advances paid	473	–	541	1
Prepayment	84	–	4,023	4,592
Intercompany receivables	–	27,730	–	11,470
Other receivables	1,689	146	406	2
	2,246	27,876	4,970	16,065
Amounts falling due within one year:				
Amounts due from related parties	–	–	2,741	4
Advances paid	93	25	1,004	108
Prepayments	70	26	13	–
Other receivables	11,232	244	907	702
	11,395	295	4,665	814

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

Intercompany receivables bear interest at LIBOR plus 2%, are repayable on demand and are shown net of a provision of US$8,648,000.

Included within other receivables is an amount of US$10,900,000 in respect of an indemnity against a loan included within short-term borrowings as detailed in note 29.1.

All amounts above include financial assets of Group US$478,000 (2007: US$4,054,000) and Company US$36,768,000 (2007: US$12,178,000).

18 Cash and cash equivalents

	Group 2008 $'000	Company 2008 $'000	Group 2007 $'000	Company 2007 $'000
Cash at bank and in hand	411	152	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 2008 $'000	Company 2008 $'000	Group 2007 $'000	Company 2007 $'000
US Dollar	163	53	27,959	27,565
Sterling	99	99	574	574
Kazakh Tenge	123	–	1,473	90
Euro	26	–	138	–
	411	**152**	**30,144**	**28,229**

19 Called up share capital

Group and Company

Authorised at 31 December 2007 and at 31 December 2008 Ordinary shares of 10p each		Number 1,000,000,000	$'000 188,000
Issued and fully paid			
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
Balance at 31 December 2007		168,207,490	33,707
Partial consideration for Eragon Petroleum Limited[1]	3 March 2008	151,923,077	30,145
Ordinary Shares issued[2]	20 Nov 2008	4,725,000	697
Balance at 31 December 2008		324,855,567	64,549

[1] As detailed in note 30.9 on 7 May 2009 the Company issued a further 48,461,538 shares in respect of this acquisition.

[2] The Company agreed to issue 7,087,500 fully paid ordinary shares in respect of finder's fees in respect of this fundraising.

20 Trade and other payables – current

	Group 2008 $'000	Company 2008 $'000	Group 2007 $'000	Company 2007 $'000
Trade payables	10,937	440	1,392	1,546
Taxation and social security	865	86	271	215
Accruals	2,606	442	–	–
Other payables	2,570	74	396	569
Intercompany payables	–	630	–	–
Deferred income	859	–	–	–
	17,837	1,672	2,059	2,330

21 Short-term borrowings

	Group 2008 $'000	Company 2008 $'000	Group 2007 $'000	Company 2007 $'000
Other loans	17,889	5,000	61	–
	17,889	**5,000**	**61**	**–**

Other loans include a US$5,000,000 interest free loan to the Company that is repayable within 30 days written notice, and a US$10,000,000 loan repayable together with accrued interest at LIBOR plus 3 percent in July 2009.

22 Provisions

Group only	Employee holiday provision	Liabilities under Social Programs	Abandonment funds	2007 Total '000
Balance at 13 October 2006	–	–	–	–
On acquisition	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**

Group only	Employee holiday provision	Liabilities under Social Development Program	Abandonment fund	2008 Total $'000
Balance at 1 January 2008	29	2,053	495	2,577
On acquisition	–	4,245	744	4,989
Increase in provision	171	135	267	573
Unwinding of discount	–	409	44	453
Foreign exchange difference	–	110	15	125
Balance at 31 December 2008	**200**	**6,952**	**1,565**	**8,717**
Non-current provisions	–	1,504	1,565	3,069
Current provisions	200	5,448	–	5,648
Balance at 31 December 2008	**200**	**6,952**	**1,565**	**8,717**

a) Beibars Munai LLP

During 2007 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 that 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 contact 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.

Beirbars Munai LLP did not fulfil its obligations under social program in 2008 due to force-majeure circumstances (see Note 11)

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

b) Ravninnoe Oil LLP

During 2007 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 will expire in April 2011. The contract territory was increased in June 2008.

In accordance with the terms of the contract and addendums Ravninnoe Oil LLP remains committed to the following:

- Investing not less that 1% of total investments in professional training of Kazakhstani personnel engaged in work under the contract;
- Investing US$300,000* over the exploration period in the social development in the region;
- Executing a minimum work program of US$17,350,000 over the first 3 years of the exploration period;
- Executing a minimum work program of $14,644,400 over the final 2 years of the exploration period;
- Due to expansion of the contract area additional investment of US$710,000 during the exploration period should be performed; and
- 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.

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

c) Munaily Kazakhstan LLP

Munaily Kazakhstan LLP, a subsidiary undertaking, signed a contract #1646 dated 31 January, 2005 with the Ministry of Energy and Mineral Resources of RK for exploration and extraction of hydrocarbons on Munaliy deposit located in Atyrau region.

The contract is valid for 25 years: exploration period of 3 years, production – 22 years. Based on Addendum #3 dated 4 March, 2008 the exploration period is further extended for 2 years – up until 31 January, 2010.

In accordance with the terms of the contract and addendums Munialy Kazakhstan LLP remains committed to the following:

- Social development of Atyrau region – US$650,000*over the period of the contract;
- To allocate US$400,000* to the Astana city development program;
- To fund a minimum work program of US$17,000,000;
- Professional education of engaged Kazakhstan personnel – not less than 1% of total investments;
- 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; and
- If Munaily Kazakhstan LLP progresses to the production phase it is obliged within 90 days to enter into Additional Agreement to the Contract which will determine the payment of the remaining historic costs for the amount of US$1,580,000.

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

22 Provisions continued

d) BNG Ltd LLP

BNG Ltd LLP a subsidiary, signed a contract #2392 dated 7 June, 2007 with the Ministry of Energy and Mineral Resources of RK for exploration at Airshagyl deposit, located in Mangistau region. Under Addendum No, 1 dated 17 April 2008 contract area was increased.

Contract is valid for 4 years and expires on 7 June, 2011.

In accordance with the terms of the contract and addendums BNG Ltd LLP remains committed to the following:

- Investing US$2,500,000* to the development of Astana City no later than second year of the Contract;
- Investing US$2,500,000* over the exploration period in the social development in the region;
- To fund minimum work program during the exploration period of US$64,600,00;
- Investing not less that 1% of total investments in professional training of Kazakhstani personnel engaged in work under the contract; 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

e) Galaz and Company LLP

Galaz and Company LLP, a subsidiary undertaking, signed an exploration contract #593 dated 12 December, 2000 with the Ministry of Energy and Mineral Resources of RK at North-West Konys deposit located in Kyzyl-Orda region.

Based on Addendum #4 dated 27 April, 2009 the contract is further extended for 2 years and expires on 14 May, 2011.

In accordance with the terms of the contract and addendums Galaz and Company LLP remains committed to the following:

- Investing 3% of total exploration expenditures for social development of the region and 2% for social infrastructure development, with a further US$120,000 to be allocated during the extension to the Kzyl-Orda Contract under Annex No. 2;
- Investing not less that 1% of total investments in professional training of Kazakhstani personnel engaged in work under the contract;
- To create a liquidation fund in the amount of US$130,000 by providing financial and bank guarantees;
- To pay royalties of 2% of hydrocarbons volume produced in the event of test production of hydrocarbons under the Kzyl-Orda Conctract; and
- To fund minimum work program of US$18,924,000.

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

23 Borrowings

	Group 2008 $'000	Company 2008 $'000	Group 2007 $'000	Company 2007 $'000
Other loans	3,900	–	3,900	–
	3,900	**–**	**3,900**	**–**

Other loans bear interest at 4% per annum and are repayable in May 2012.

24 Deferred tax

Deferred tax liabilities comprise:

	Group 2008 $'000	Group 2007 $'000
Deferred tax on exploration and evaluation assets acquired	30,513	29,809
	30,513	**29,809**

In accordance with IAS12 the Group recognises deferred taxation on fair value uplifts to its oil and gas projects arising on acquisition. These liabilities reverse as these fair value uplifts are depleted or impaired.

The deferred tax liability recognised as part of the cost of the acquisition is detailed in note 15.

The movement on deferred tax liabilities was as follows:

	Group 2008 $'000	Group 2007 $'000
At beginning of the period	29,809	–
Acquired during the period	50,096	28,107
Foreign exchange	1,344	1,702
Release of deferred tax liability due to change in future tax rates	(40,624)	–
Impairment of oil and gas asset	(10,112)	–
	30,513	**29,809**

Release of deferred tax liability relates to changes in future tax rates, and represents the directors best estimate of the future movements in future tax rates, see Note 15.

The Group also has accumulated tax losses to carry forward and offset against future profits. This represents an unprovided deferred tax asset of approximately US$5,596,000 (2007: US$1,472,000).

25 Other payables

	Group 2008 $'000	Company 2008 $'000	Group 2007 $'000	Company 2007 $'000
Other payables	–	–	66	1

26 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 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	13,856,600	38p
As at 31 December 2007	**13,856,600**	
Granted	17,433,076	65p
As At 31 December 2008	**31,289,676**	

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	1,745,660	38p	21 May 2017
As at 31 December 2007	**13,856,600**		
Directors	14,427,692	65p	3 March 2019
Employees	3,005,384	65p	3 March 2019
As at 31 December 2008	**31,289,676**		

Fair value is measured using a binomial 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:

Expected volatility	(%)	60
Expected life	(periods)	2-5
Risk-free rate	(%)	5.75
Fair value per option	(p)	11.8 – 16.7

The 2007 options were granted, conditional on Admission and vest in four equal instalments over a two year period from Admission.

During 2008, there were two tranches of share options granted in relation to the Eragon acquisition and the BNG Contract Area Extension.

Eragon Acquisition

These options will vest as follows:

- 12.5 per cent. of the options granted to each recipient, up to a total 50 per cent., will vest every 6 months from the date of grant over a period of 2 years.
- 12.5 per cent. of options granted to each recipient, up to a total of 50 per cent., will vest upon the achievement of the follwing targets, the achievement of which is also subject to the criteria described further below:

Target Production Rate from the Company's interests in the Eragon assets	% of options vesting
200 bopd	12.5 per cent.
400 bopd	12.5per cent
500 bopd	12.5 per cent.
1000 bopd	12.5 per cent

BNG Contract Extension

These options will be granted upon the award of the extension to the BNG Contract Area and 25 per cent. of the options granted to each recipient will vest every 6 months from the date of grant over a period of 2 years.

27 Financial instrument risk exposure and management

In common with all other businesses, the Group and Company are exposed to risks that arise from its use of financial instruments. This note describes the Group and Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The significant accounting policies regarding financial instruments are disclosed in note 1.

There have been no substantive changes in the Group or Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principle financial instruments

The principle financial instruments used by the Group and the Company, from which financial instrument risk arises, are as follows:

Financial assets	Group 2008 $'000	Company 2008 $'000	Group 2007 $'000	Company 2007 $'000
	Loans and receivables		Loans and receivables	
Intercompany receivables	–	27,730	–	11,470
Other receivables	11,944	415	4,054	708
Cash and cash equivalents	411	152	30,144	28,229
	12,355	**28,297**	**34,198**	**40,407**

As at 31 December 2008, the carrying value of available for sale financial assets for the Group and Company were US$nil (2007: Group US$5,525,000; Company US$4,500,000).

Financial liabilities	Group 2008 $'000	Company 2008 $'000	Group 2007 $'000	Company 2007 $'000
	Financial liabilities at amortised cost		Financial liabilities at amortised cost	
Trade and other payables	16,978	1,672	2,059	2,330
Borrowings	21,789	–	3,961	–
	38,767	**1,672**	**6,020**	**2,330**

Fair value of financial assets and liabilities

At 31 December 2008 and 2007, the fair value and the book value of the Group and Company's financial assets and liabilities were materially the same.

Principal financial instruments

The principal financial instruments used by the Group and Company, from which financial instrument risk arises, are as follows:

- available for sale financial assets
- other receivables
- cash at bank
- trade and other payables
- borrowings

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group and Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group and Company's finance function. The Board receives regular reports from the finance department through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the Group and Company's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk arises principally from the Group's other receivables. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument. The maximum exposure to credit risk equals the carrying value of these items in the financial statements.

When commercial exploitation commences sales will only be made to customers with appropriate credit rating.

Credit risk with cash and cash equivalents is reduced by placing funds with banks with high credit ratings.

Capital

The Company and Group define capital as share capital, share premium, shares to be issued, retained earnings and borrowings. In managing its capital, the Group's primary objective is to provide a return for its equity shareholders through capital growth. Going forward the Group will seek to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through new share issues or the issue of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

There has been no other significant changes to the Group's management objectives, policies and processes in the year nor has there been any change in what the Group considers to be capital.

Liquidity risk

Liquidity risk arises from the Group and Company's management of working capital and the amount of funding committed to its exploration programme. It is the risk that the Group or Company will encounter difficulty in meeting its financial obligations as they fall due.

The Group and Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to raise new equity finance and debt sufficient to meet the next phase of exploration expenditure, where relevant development expenditure, and overheads.

The Board receives cash flow projections on a periodic basis as well as information regarding cash balances. The Board will not commit to material expenditure in respect of its ongoing exploration programmes prior to being satisfied that sufficient funding is available to the Group to finance the planned programmes.

Trade and other payables are due on demand. Non-current borrowings consist of US$3,900,000 with a fixed rate of interest and is due for repayment in May 2012.

Short-term borrowings consist of US$10,000,000 with variable rate of interest LIBOR plus 3% and is due for repayment in July 2009.

Interest rate risk

The long-term borrowings of the Group are at a fixed rate of 4% per annum. The short-term borrowings are at variable rates linked to LIBOR and interst free. As a result the Group is exposed to interest rate risk.

There is no significant interest rate risk in respect of temporary surplus funds invested in deposits and other interest bearing accounts with financial institutions as the operations of the Group are not dependent on the finance received. However, it is the Group's policy to manage the interest rate risk over the cash flows on its invested surplus funds by using only substantial financial institutions when such funds are invested.

Currency risk

The Group and Company's policy is, where possible, to allow group entities to settle liabilities denominated in their functional currency (primarily US Dollar and Kazakh Tenge) in that currency. Where Group or Company entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them) cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

In order to monitor the continuing effectiveness of this policy, the Board receives periodic forecasts, analysed by the major currencies held by the Group and Company.

The Group and Company is primarily exposed to currency risk on purchases made from suppliers in Kazakhstan, as it is not possible for the Group or Company to transact in Kazakh Tenge outside of Kazakhstan. The finance team, along with its advisors, carefully monitors movements in the US Dollar / Kazakh Tenge rate and chooses the most beneficial times for transferring monies to its subsidiaries, whilst ensuring that they have sufficient funds to continue its operations.

Continued

In February 2009, the Kazakh Tenge was devalued against the US dollar by approximately 25% for its year end rate of 120 Kazakh Tenge to one dollar. The effect of a 25% weakening of the Kazak Tenge against the US dollar at the balance sheet date would, all other variables held constant, have resulted in a decrease in net assets by US$62,470,000 and an increase in loss after tax of US$3,118,000. A 25% strengthening in the exchange rate would, on the same basis, have increased net assets by US$62,470,000 and a decrease in loss after US$3,118,000.

28 Share warrants

During the period ended 31 December 2007 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 26. No warrants have been exercised.

29 Related party transactions

The Company has no ultimate controlling party.

29.1 Acquisition of Eragon Petroleum Plc (now Eragon Petroleum Limited ("Eragon"))

The Eragon Acquisition (see note 15.2) comprises certain related party transactions because:

- A director of the Company, Kuat Oraziman, has a beneficial interest in 42.5 per cent. of the issued capital of Baverstock GmbH ("Baverstock") and is a director of and holds 50 per cent. of the issued share capital of both Vertom International N.V. ("Vertom") and Vertom International BV.
- Dae Han New Pharm Co Limited ("Dae Han") has a beneficial interest in 17 per cent. of the issued share capital of Baverstock.
- A director of the Company Duncan McDougall is a director of and together with his wife owns Saxford Limited.

In particular, the Group entered into the following related party transactions as a result of this acquisition:

(a) Eragon Acquisition Agreement

Baverstock was the vendor of the 59 per cent. interest in Eragon which was acquired by the Company on 3 March 2009.

(b) Consulting Services Agreement

On 30 January 2008 the Company entered into a consulting services agreement with Vertom which replaced an earlier consulting services agreement dated on or about 1 October 2007. Under this agreement Vertom granted an option to the Company, exercisable on or before 30 April 2008 whereby the Company could obtain consulting services from Vertom. The consideration for the grant of the option was US$31,200,000 which was payable 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 at an agreed price of 65 pence per share. These amounts have been included within the consideration payable in respect of the Eragon acquisition. Further details of this option can be found in the Company's admission document dated 31 January 2008.

(c) Facilitation Agreement

On 30 January 2008 the Company entered into a facilitation agreement with Vertom whereby Vertom provided coordination services among the various parties to the Eragon Acquisition for a fee of US$500,000. These amounts have been included within the consideration payable in respect of the Eragon Acquisition.

(d) Loan Agreements

At the date of the Eragon Acquisition, there were the following interest bearing borrowings within Sytero 4 BV and Sytero 5 BV (both wholly owned subsidiaries of Eragon):

- US$7,500,000 borrowed by Sytero 5 BV from Dae Han in July 2007, repayable together with interest accrued at LIBOR plus 2% in July 2009.
- US$14,500,000 borrowed by Sytero 4 BV from Dae Han in July 2007 repayable together with interest accrued at LIBOR plus 2% in July 2009.
- US$10,000,000 borrowed by Sytero 4 BV from Kuat Oraziman in July 2007, repayable together with interest accrued at LIBOR plus 3% in July 2009.

These loans are included in the liabilities acquired as a result of the Eragon Acquisition. As at 31 December 2008, only the balance of US$10,000,000 due to Kuat Oraziman remained outstanding from the Group, and is included within short-term borrowings (note 21).

(e) Baverstock indemnity

Under an agreement between the Company and Baverstock approved in January 2008, Baverstock agreed to take responsibility for the payments of the sums due under the Loan Agreements detailed in (d) above, and to fully and effectively discharge, indemnify and hold harmless the Company, Eragon Petroleum Limited, and as applicable Sytero 4 BV and Sytero 5 BV from any obligation or liability arising from the terms of, or in connection with, each of the Loan Agreements.

Accordingly an asset equal to the fair value of the liabilities under the Loan Agreements has been recognised on the acquisition of Eragon.

In June 2008 the two loans from Dae Han were formally novated from Sytero 4 BV and Sytero 5 BV to Baverstock. Under these agreements Dae Han agreed to release Sytero 4 BV and Sytero 5 BV from their obligations under these loan agreements, and Baverstock agreed to take the place of Sytero 4 BV and Sytero 5 BV in respect of these obligations.

(f) Saxford Limited

Saxford Limited was retained as a subcontractor by PJT Corporate Services Pty Ltd ("PJT") to perform certain services under the Eragon Project Management Agreement. Under the agreement between Saxford Limited and PJT dated 8 November 2007 Saxford Limited received from the fees payable to PJT US$50,000 in cash and 153,847 new ordinary shares in the Company issued at the direction of PJT.

29.2 Acquisitions in 2007

In the period ended 31 December 2007, the Company entered into the following transactions with a director of the Company Kuat Oraziman:

(a) Beibars Munai LLP

Kuat Oraziman sold 8.7 per cent. of the participation interests in Beibars Munai LLP to Beibars BV (a wholly owned subsidiary of the Company) and remains a participant in Beibars Munai LLP;

(b) Ravninnoe Oil LLP

Kuat Oraziman sold 8.3 per cent. of the participants interests in Ravninnoe Oil LLP to Ravninnoe BV (a wholly owned subsidiary of the Company) and remains a participant in Ravninnoe Oil LLP.

29 Related party transactions continued

29.3 Other loan agreements

In addition to the Loan Agreements detailed in 29.1(d) above, the Group has the following borrowings from related parties:

(a) Vertom loan to Ravninnoe Oil LLP

At the date of acquisition (16 May 2007) of Ravninnoe BV and its 50% subsidiary Ravninnoe Oil LLP, there was a US$7,500,000 due from Ravninnoe Oil LLP to Vertom International BV under a loan agreement dated 11 May 2007. This loan bears interest at 4% per annum, and the capital together with interest fall due for repayment in May 2012.

Under this loan agreement $3,600,000 of the amounts borrowed were agreed to be repaid only from the net income of the residual participants or Ravninnoe Oil LLP. Accordingly on acquisition only US$3,900,000 was recognised as a liability for the Group, which is included within borrowings (note 23) as at 31 December 2008 and 31 December 2007.

No repayments have been made in respect of this loan agreement.

(b) Loans from Kuat Oraziman

On 28 August 2008 Kuat Oraziman lent the Roxi Petroleum Kazakhstan LLP (a wholly owned subsidiary of the Company) Kazakh Tenge 149,775,000 (approximately US$1,250,000) interest free for a period of six months. This loan was repaid by on 21 November 2008, as a condition of the loan agreement dated 17 November 2008 below.

Under a loan agreement dated 17 November 2008 Kuat Oraziman lent the Company US$5,000,000 interest free, repayable within 30 days of written notice. The balance outstanding under this loan agreement as at 31 December 2008 of US$5,000,000 is included within short-term borrowings (note 21)

29.4 ADA Option Agreement

On 30 January 2008 the Company, Kuat Oraziman and Vertom 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, Kuat 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 initially expired on 31 March 2008 but this was extended to 30 September 2008 for consideration of US$3,200,000.

As this option was not exercised and has now expired all amounts have been provided against as detailed in note 12.

29.5 Ravninnoye SPA

As detailed in note 30.1, on 14 November 2008 Kuat Oraziman together with the Group entered into an SPA with Canamens Energy BV for the sale of part of Ravninnoe Oil LLP.

29.6 Key management remuneration

Key management comprises of the directors, and details are set out in note 6.

In September 2008, the directors and the senior management agreed to defer 20% of their salaries and fees, until such time that the reinstatement and the refund would not materially affect the Company's ability to continue to comply with existing work programme commitments. As at 31 December 2008, the amount due to the directors in respect of this deferral was approximately US$100,000 (2007: US$nil)

30 Post balance sheet events

30.1 Ravninnoe farm-in

On 14 November 2008 the Company, Kuat Oraziman, Ravninnoe BV, Vertom International BV and Canamens Energy BV signed an SPA to farm out part of Ravninnoe Oil LLP ("Ravninnoe").

Under the SPA the initial consideration of $5,000,000 was payable by Canamens Energy BV (the purchaser) to Kuat Oraziman in exchange for 10 per cent of the equity of Ravninnoe (stage 1) and $1,750,000 of the Company's loans to Ravninnoe (being 10% of the total loans from the Company, Ravninnoe BV and Vertom International BV to Ravninnoe). Additionally the purchaser has the option to purchase an additional 22.5% of the equity and loans from Ravninnoe BV and Kuat Oraziman for a cash consideration of $8.5m (stage 2), that would be required to be lent to Ravninnoe for the purposes of drilling a well. This would leave the Company with an interest of 30% in Ravninnoe. Subject to taking up the option for stage 2, the purchaser has the option to fund the drilling of a further well in the amount of $8,500,000.

If prior to 30 June 2010 the flow rates from the well funded by stage 2 are above 900 barrels of oil per day for 45 consecutive days and the oil price is above US$100 per barrel for the same period, then a further US$5,000,000 is payable by the purchaser to Ravninnoe BV.

As the required waivers for the transfer of the interests to Canamens were not received until June 2009, no stages of this SPA have yet completed.

In December 2008 Canamens advanced the initial payment of US$5,000,000 for the purchase of a 10% interest from Kuat Oraziman, which was lent by Kuat Oraziman to the Company (note 29.3(b)).

On 27 April 2009 this advance of US$5,000,000 was formalised as a prepayment from Canamens to Kuat Oraziman and the Company. This amount bears interest at LIBOR plus 0.5%, is secured on Kuat Oraziman's stake of 12.5% in Ravninnoe and is repayable prior to 30 July 2009.

In January 2009 Canamens placed the US$8,500,000 required for stage 2 into escrow, of which US$500,000 has since been received by the Group under a second prepayment agreement date dated 29 April 2009, which allows up to US$1,500,000 to be advances from escrow for the purpose of fulfilling the 2009 work program for Ravninnoe.

Amounts advances under the second prepayment agreement bear interest at LIBOR plus 0.5%, is secured on 100% of the shares of Ravninnoe BV and is repayable prior to 30 July 2009.

30.2 BNG farm-in

On 15 January 2009 the Company, Eragon Petroleum Limited, BNG Energy BV and Lifecare Hungary Holdings BV (part of the Canamens group) signed an SPA to farm out part of BNG Ltd LLP ("BNG"). This agreement was amended on 6 April 2009.

Under the amended SPA the initial consideration of $7,999,999 is payable by Lifecare Hungary Holdings BV (the purchaser) to BNG Energy BV in exchange for 6 per cent of the equity in BNG and 6% of the loans due from BNG to Roxi Petroleum Plc and BNG Energy BV (stage1). Additionally the purchaser has the option to purchase an additional 17% of the equity and loans for a cash consideration of $24,000,000 (stage 2), that would be required to be lent to BNG for the work program. Subject to taking up the option for stage 2, the purchaser has the option to acquire a further 12% of the equity and loans for $23,000,000.

The completion of this SPA is subject to shareholder approval and obtaining the relevant waivers from the Kazakh authorities.

Following the year end BNG Energy BV has received as prepayments amounts totalling US$7,999,000 from Lifecare Hungary Holdings BV. These amounts are secured on BNG and repayable prior to 30 June 2009.

30 Post balance sheet events continued

30.3 Galaz SPAs

During the year, KazRosMunai LLP entered a farm-in arrangement with the Company to earn an interest of up to 32.5 per cent of Galaz & Company LLP in return for KZT2,040,000,000 (US$17,000,000). Further to these arrangements, on 13 November 2008, Galaz Energy BV (a wholly owned subsidiary or Eragon) and KazRosMunai LLP signed an SPA for the sale of 32.5% of Galaz and Company LLP for a total consideration of KZT2,040,000,000 (US$17,000,000 at an exchange rate of KZT120:US$1). The consideration has not been received and accordingly the SPA has not completed.

KazRosGeophysics LLP has drilled four wells during the year, at a cost of KZT7,330,000,000 (approximately $6,000,000). The Company is in discussions with KazRosMunai LLP and KazRosGeophysics LLP over the possibility of an equity stake in Galaz and Company LLP being transferred in exchange for these services.

Additionally on 13 November 2008 Galaz Energy BV signed another SPA for the sale of 1.5% of Galaz and Company LLP for a total consideration of KZT60,000,000 (approximately US$500,000). The consideration has been received however the SPA has not been completed.

30.4 Munaili SPA

On 22 December 2008 BNG Energy BV (a wholly owned subsidiary of Eragon) and Corporation BT LLP signed an SPA for the sale of 58.41% of Munaili Kazakhstan LLP for a total consideration of KZT 369,750,000 (US$3,000,000 at an exchange rate of KZT120.25:US$1). Of the consideration KZT120,250,000 (approximately US$1,000,000) was payable within 3 days. Only US$500,000 was received in respect of this consideration, and accordingly the SPA has not completed.

The US$500,000 received has been included within other payables (note 20) as at 31 December 2008.

30.5 Loans

On 30 March 2009 the Company repaid $450,000 to Kuat Oraziman in respect of US$5,000,000 borrowed under the loan agreement dated 17 November 2008.

Following the year end Vertom International BV lent US$1,800,000 to Ravninnoe Oil LLP.

30.6 Vitol loan

On 16 June 2009 the Company entered into a loan agreement with Arawak Energy Limited (part of the Vitol group). Under this agreement Arawak Energy Limited ("Arawak") agreed to lend the Company US$5,000,000, with approximately 75% for the Galaz Work Program and approximately 25% for general administrative purposes. The loan carried interest at 7 per cent. above LIBOR and is repayable in 12 months at the Company's option. In the event it is not repaid the loan will based on today's exchange rate convert into approximately 31,000,000 shares in the Company at 10p per share.

In consideration for entering into the loan agreement, the Company has issued Arawak warrants to subscribe for up to 18,000,000 shares in the company, exercisable before 31 March 2010 at 10p per share, or before 30 September 2010 at 15p per share, or before 31 March 2011 at 20p per share.

A condition of this loan is that it ranks ahead of the $14,550,000 of loans outstanding to Kuat Oraziman. Accordingly Kuat Oraziman has agreed to subordinate these loans and defer repayment of these amounts whilst the loan from Arawak is outstanding. In return for this agreement the Company has agreed to place US$10m of the loans from Kuat Oraziman on the same commercial terms as negotiated with Arawak (from the date of drawdown of the Arawak loan) and issue 36,000,000 warrants on the same commercial terms as those to Arawak

30.7 Gem facility

On 1 June 2009 date the Company entered into a £15,000,000 (approximately US$24,000,000) equity line of credit with GEM Global Yield Fund Limited ("GEM") and GEM Investment Advisors Inc ("GEMIA"). Under the terms of the equity line of credit the company is entitled to require GEM to subscribe for shares over a three year period at an issue price equal to 90 per cent of the average closing bid price for the 15 trading days following delivery of a subscription notice. The Company will control the timing and the maximum amount of any draw down under this credit line and is not obliged to draw on the funds on offer. The Company has agreed to pay GEMIA fees totalling £225,000 (approximately $360,000) in respect of this agreement. In addition, pursuant to the terms of the equity line of credit, the Company has agreed to issue to GEM warrants to subscribe for up to 9 million shares at a price of 13.75p per share at any time over the next five years.

30.8 Share split

On 28 May 2009 each of the issued ordinary shares of 10p each in the capital of the Company were sub-divided and re-designated (in the case of the deferred shares) into one ordinary share of 1p in the capital of the Company and one deferred share of 9p in the capital of the Company. Additionally each of the authorised but unissued ordinary shares of 10p each were subdivided into 10 ordinary shares of 1p each.

30.9 Share issues

On 7 May 2009 the Company issued 48,461,538 ordinary shares of 10p each in respect of the Eragon Acquisition.

On 2 June 2009 the Company issued 3,215,020 ordinary shares of 1p each for a total cash consideration of US$500,000.

30.10 Devaluation of Kazakh Tenge

In February 2009 the Kazakh Tenge was devalued by approximately 25 percent to a rate of approximately KZT150 to US$1. A substantial proportion of the Group's costs are payable in Kazakh Tenge and the effect of the reduction of the Tenge is discussed in note 27.

30.11 Galaz licence

Following the year end, the Ministry of Energy and Mineral Resources extended the exploration period under the Subsoil Use Contract until 14 May 2011.

Company Information

Directors
Mr C Carver (Non-Executive Chairman)

Mr R Schoonbrood (Chief Executive Officer)

Mr D McDougall (Executive Technical Director)

Mr K Oraziman (Executive Director)

Company Secretary
Mr P Puxon

Registered Office and Business address
11 Gough Square,
London, EC4A 3DE

Company Number
5966431

Nominated Adviser and Broker
WH Ireland
24 Martin Lane,
London, EC4R 0DR

Solicitors
McCarthy Tetrault
5 Old Bailey, 2nd floor,
London, EC4M 7BA

Chadbourne & Parke LLP
43 Dostyk Avenue
Almaty 050010, Kazakhstan

Auditors
BDO Stoy Hayward LLP
55 Baker Street,
London, W1U 7EU

Share Register
Capital Partners Limited
The Registry, 34 Beckenham Road,
Beckenham,
Kent, BR3 4TU

Public relations
College Hill
The Registry, Royal Mint Court,
London, EC3N 4QN

Principal Banker
Citibank Kazakhstan
Park Palace, Building A,
2nd Floor, 41 Kazibek Bi Str.,
Almaty, 050010
Kazakhstan

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.

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Almaty office 7th Floor, 152a Karasai Batyra Street, 050026 Almaty, Kazakhstan
UK office 11 Gough Square, London, EC4A 3DE
Website www.roxipetroleum.com