CASPIAN OIL & GAS LIMITED

ABN 44 065 212 679

Financial Report
2010

Directors	Colin John Carson	Executive Chairman
	Graeme Leslie Parsons	Executive Director
	Michael John Sandy	Non-Executive Director
	Jürg Walker	Non-Executive Director
Company Secretaries	Susmit Mohanlal Shah	
	Colin John Carson	
Chief Executive Officer	Graeme Leslie Parsons	
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Auditors	HLB Mann Judd	
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	Perth Western Australia 6000	
Stock Exchange Listings	Australian Securities Exchange	(Code – CIG)
	Berlin and Frankfurt Securities Exchanges	
	(Third Market Segment)	

Overview

Caspian holds interests in prospective oil and gas licences grouped on the rim of the historic Fergana Basin in the Kyrgyz Republic, Central Asia, and is a 20% participant in a syndicate which has successfully bid for a block in the Pannonian Basin in western Romania.

The Fergana Basin was estimated by the US Department of Energy[1] to hold four billion barrels of recoverable oil, with about one billion recovered and three billion yet to be discovered or produced as at 1995. Caspian has a group of four licences located around the town of Mailisu on northern margin of the Fergana Basin, and three larger acreage licences on the southern part of the basin.

During the year Santos funded the completion of the interpretation of 2D seismic recorded within the blocks in 2008/9. A number of significant leads were identified. All require further seismic to delineate to drilling prospects. With a changing focus after four and half years of activity in the Caspian acreage, Santos advised in February 2010 that it was withdrawing from the farmin, leaving Caspian with 100% in the licences except Mailisu III, where Caspian (70%) is in a joint venture with the Kyrgyz government oil company, Kyrgyzneftigas (KNG).

During the year Caspian drilled two wells, East Mailisu #1 and Mailisu III #6, using its own drilling rig. While both of the wells intersected oil in the Palaeogene carbonate reservoir, East Mailisu #1 was plugged and abandoned as non-commercial. Work is underway to bring Mailisu III #6 into production. Caspian recorded around 26km of 2D seismic in the West Mailisu licence in order to high-grade several prospective leads. Interpretation of the 2010 seismic defined two prospects which are currently under consideration for drilling or further seismic, preferably in conjunction with a farm-in partner.

The Kyrgyz Republic

The Kyrgyz Republic is located in Central Asia, bordering Kazakhstan to the north, Uzbekistan to the west, Tajikistan to the southwest and the People's Republic of China to the southeast. Caspian's oil licences lie in Fergana Basin, on the old Silk Road from China, in southern Kyrgyz Republic. The Kyrgyz Republic is a democracy with a population of approximately 5.5 million.

Figure 1 Kyrgyz Republic

It has a competitive fiscal regime with low tax rates, 10% income tax and modest royalties on oil production. As a member of the World Trade Organisation (WTO) it has a free market economy with freedom to transfer funds, export oil and exchange currency.

Following civil unrest in April 2010, during which the president was removed from office, a national unity transitional government was installed. In June 2010, a new constitution was adopted with 90% voter support and an interim president was elected. Violence in the south of the country in June further destabilised the political situation and damaged investor confidence. National elections are scheduled for October 2010. After the elections, it is hoped that the stability will improve conditions for ongoing investment.

Activity Review

Santos Joint Venture

On 26 February 2010 Santos withdrew from the farm-in of Caspian's Kyrgyz acreage. Upon Santos' withdrawal Caspian's wholly owned subsidiary, JSC Textonic, retains 100% equity in the licences. Santos spent more than US$16m and recorded around 430km of 2D seismic across six of our licences which revealed numerous oil and gas targets requiring further seismic which Caspian is actively promoting to potential new farminees.

Contract Drilling

During the first part of the year (May-October 2009), the Company provided drilling services to SPC (a Santos subsidiary) to generate cash flow. The company drilled two wells in the south of Kyrgyzstan; this work generated a direct cash flow of around of US$1 million.

Figure 2 Drilling in Southern Kyrgyz Republic

East Mailisu

The East Mailisu #1 prospect, drilled in October, encountered fair to good live oil shows in Bed V and good gas shows in the Cretaceous aged Bed XIV over the interval 1,016-1,030m. However, wireline logs indicated that neither zone would likely flow at commercial rates and the well was plugged and abandoned.

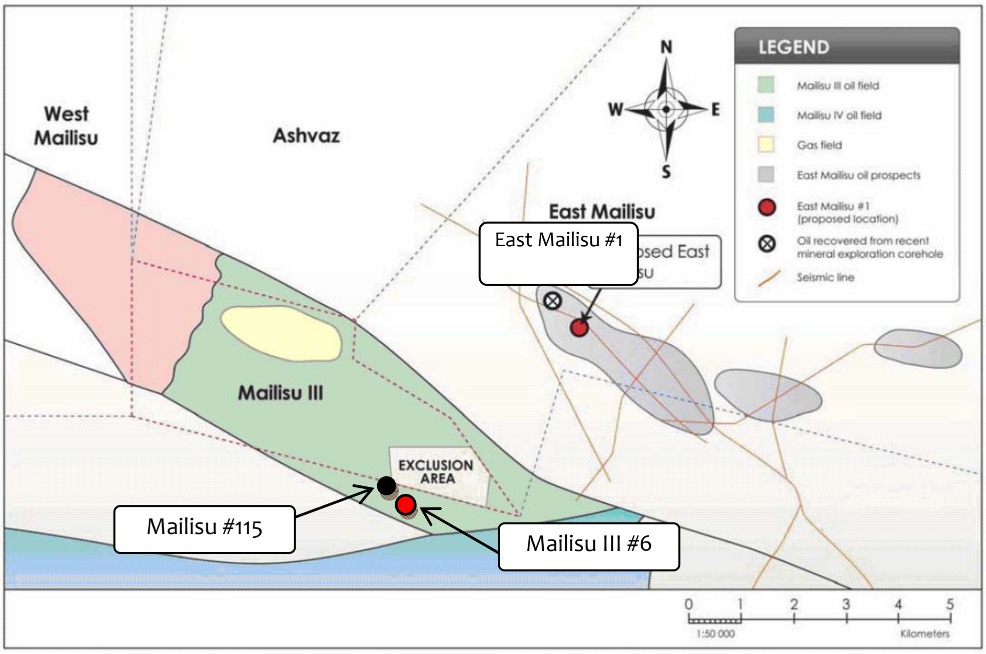


Figure 3 Mailisu III field and East Mailisu structure

Mailisu III #6

Mailisu III #6 was drilled to a total depth of 1,470m in November. Good shows were recorded in the main reservoir (Beds V & VII) and the well was cased as a future oil producer. While an initial test of Bed VII failed, larger, deeper-penetrating charges were used to re-perforate the zone. The re-perforation was successful and an inflow into the wellbore was observed with oil being recovered on the perforating line. Tubing has been run and the zone awaits acidising before an assessment of its potential is undertaken.

The well was an appraisal well located in the south-eastern corner of the Mailisu III licence just outside an exclusion area. Total production from the exclusion area is close to 700,000 barrels. The closest well, Mailisu # 115, some 400m distant, has produced close to 300,000 barrels with minimal water.

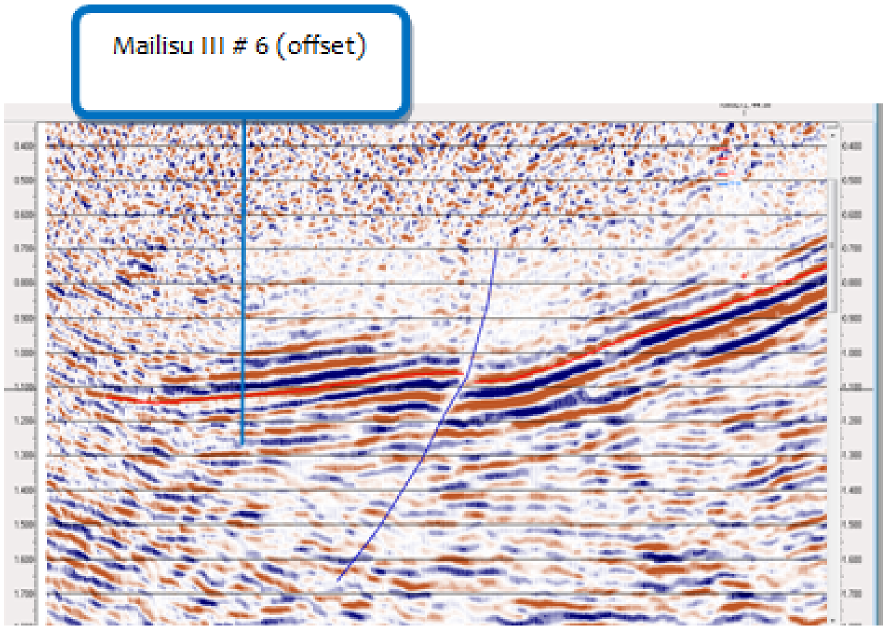


Figure 4 Seismic through the Mailisu III # 6 location

Mailisu III #2 – Completion

Mailisu III #2 was drilled in 2008 and although good gas and oil shows were recorded while drilling, the well was left uncompleted due to a poor casing cement job. During 2010 the gas section of the well was plugged and abandoned and attempts were made to complete the well for oil over Beds V & VII. In spite of oil being present in the annulus, a number of perforations over the prospective horizons failed to access the oil. The well was suspended.

Geological / Geophysical Review

A total of 25 prospects and leads have been identified with opportunities in all blocks, with Prospective Resources totalling 242 mmbbl. The opportunities range up to 55 mmbbl mean reserves (unrisked) and average of around 10 mmbbl across the portfolio. In addition, the Company has identified several attractive gas prospects. More seismic followed by drilling is required to assess the potential of these prospects and leads.

As an outcome of this review the company recorded 26km of 2D seismic in the West Mailisu block. The purpose of this seismic was to high-grade several of the leads the review had identified. Two prospects have emerged from the new seismic and the company is reviewing options to get at least one tested.

The prospects are located about 4.5km south of the Kyzyl Alma gas field (see Figure 5) which produced some 12bcf from early Jurassic sands as well as oil from the basal Jurassic. There is also potential for oil from the Palaeogene carbonates which are productive a few kilometres to the east in the Mailisu IV oil field. Figures 6 to 10 show details of the individual prospects (called West Mailisu Central and West Mailisu East). The structures lie to the south of a major reverse fault. They cover areas of 250 and 360 acres respectively. With stacked reservoir providing multiple targets there are combined potential reserves of around 4mmbbls and 9.5 bcf.

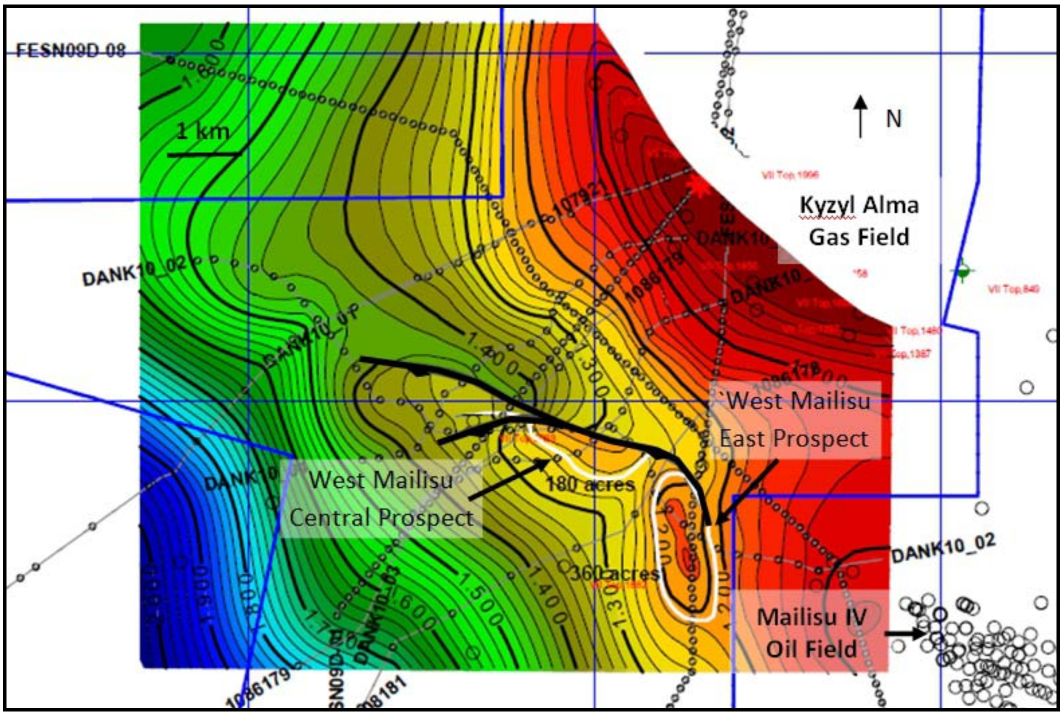


Figure 5 West Mailisu Prospects

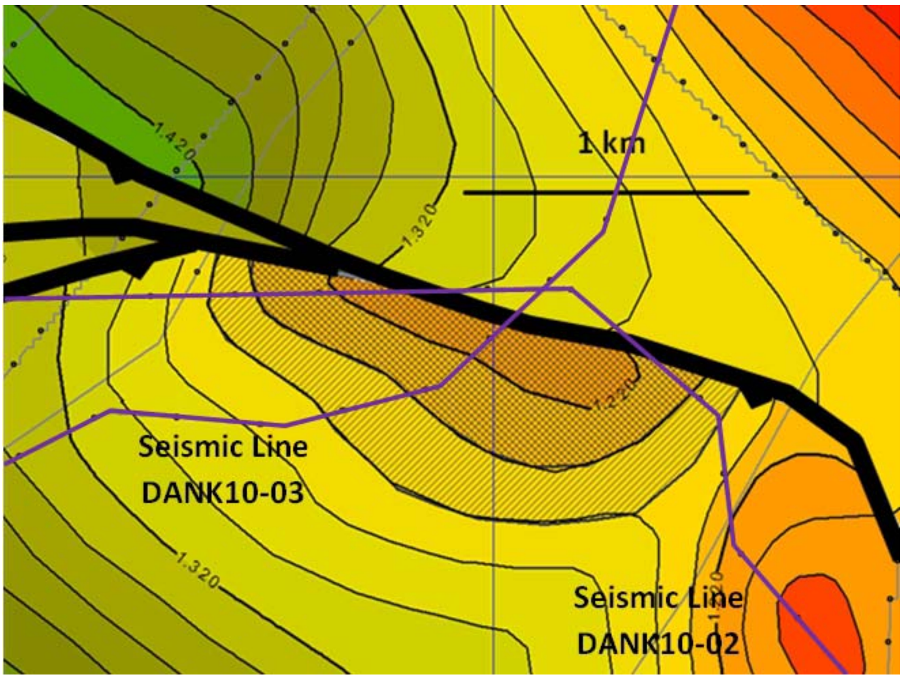


Figure 6 West Mailisu Central Prospect Detail

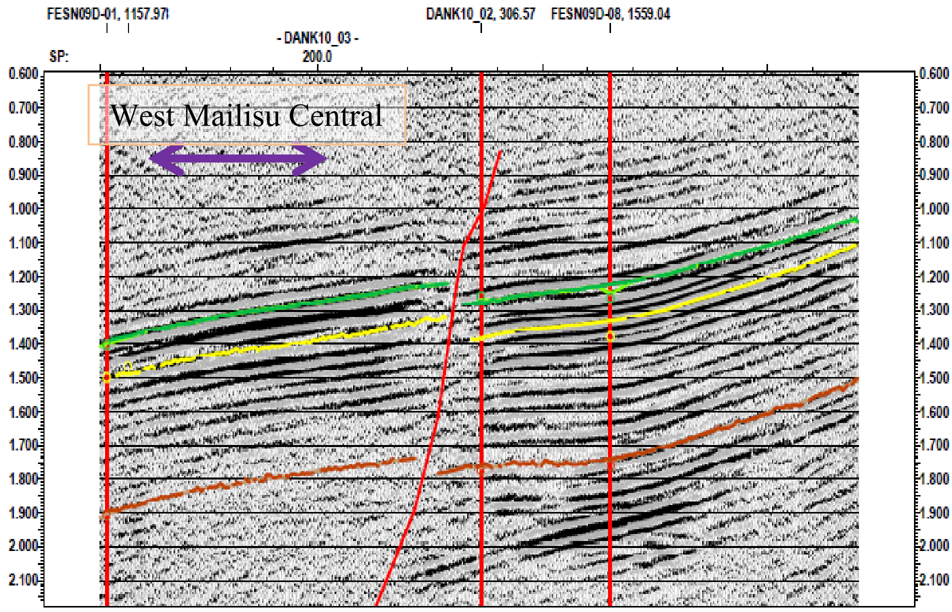


Figure 7 Seismic Line Dank10-03 through West Mailisu Central

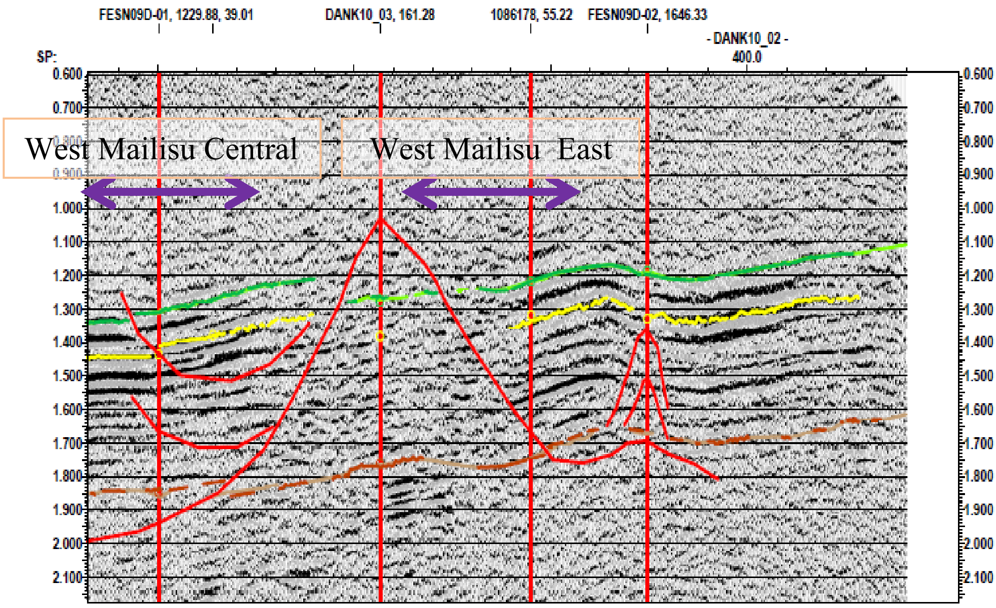


Figure 8 Seismic Line Dank10-02 through West Mailisu Central and East

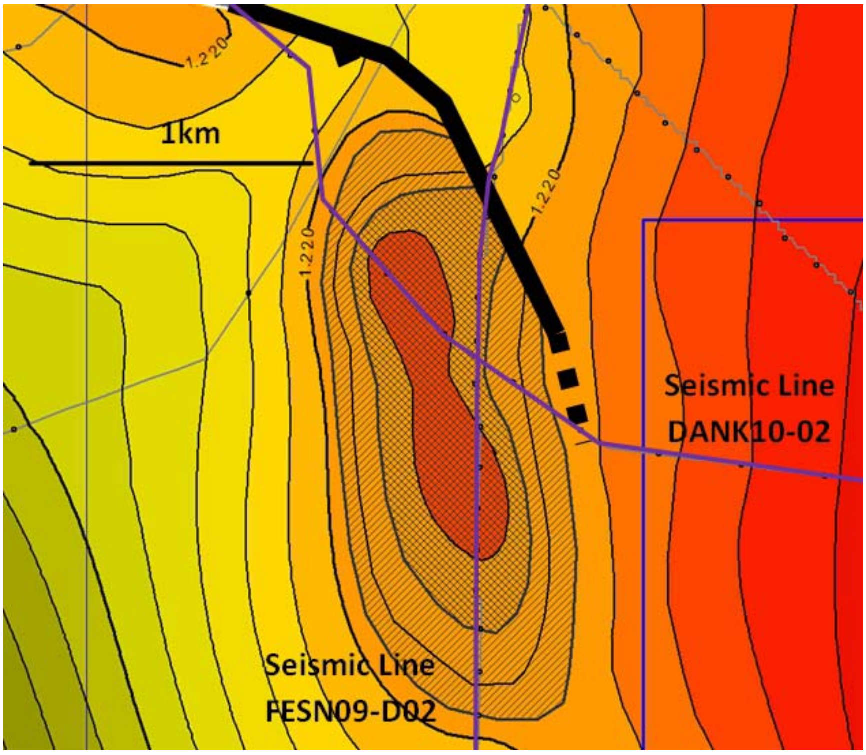


Figure 9 West Mailisu East Prospect detail

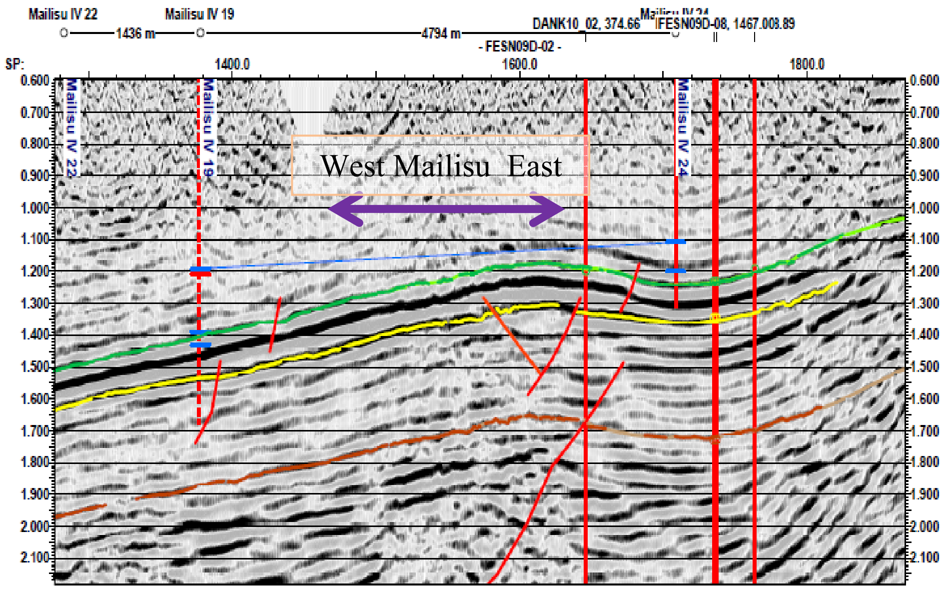


Figure 10 Seismic Line FENS09-D02 through West Mailisu East

Ak-Bura Licence - Tashbuluk Structure

The Tashbuluk Structure in Ak-Bura is an example of the potential of this licence. Seismic Line FESN08C-09 indicates the presence of a potentially large structure. This feature is mapped over an area of 27km² with potential resources of more than 32mmbbls oil. The structure lies at a depth of over 4km, and, if successful, could be expected to flow at over 1,000bopd. More seismic is required to define the structure before drilling could be considered.

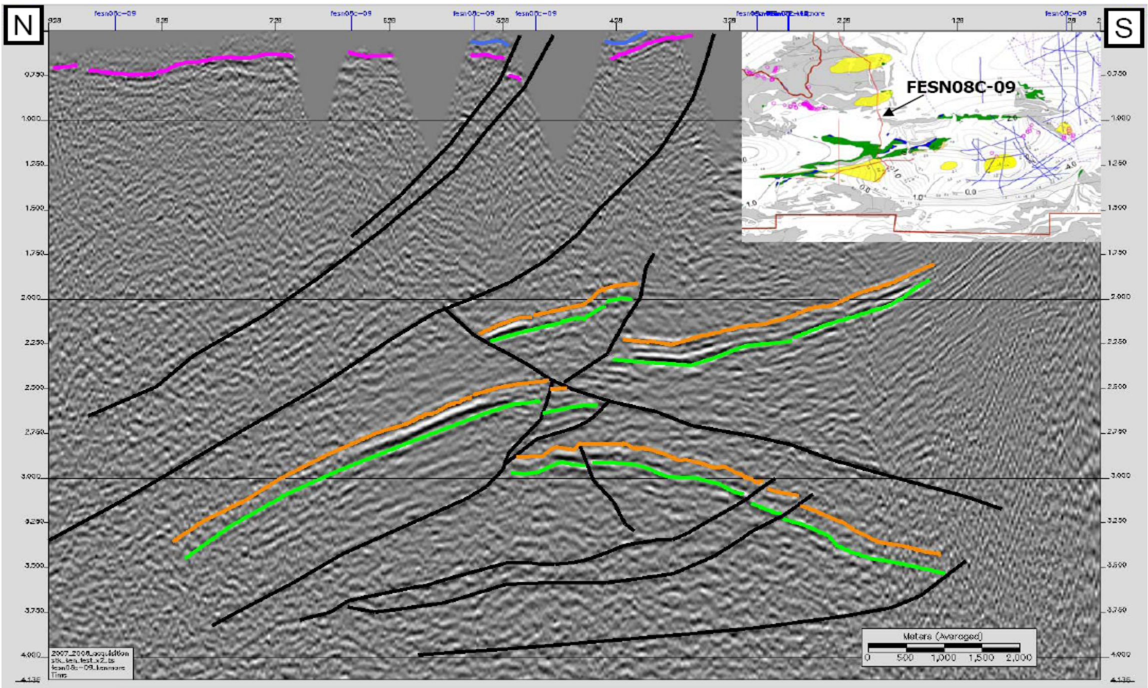


Figure 11 Seismic Line - FESN08C-09 – Ak-Bura Licence

Farmout Activity

Following the withdrawal of Santos from the 2005 farm-in deal, the Company is now seeking alternative farmout participants. Several companies have signed confidentiality agreements and received proprietary data to evaluate the opportunity. The current political uncertainty has had a significant impact on the Company's farmout endeavours. In addition, the Company's exploration licences, other than West Mailisu, East Mailisu and Mailisu III, are due to expire in December 2010 and applications have been lodged to extend them given the recent political events and the global financial crisis. It is hoped that successful national elections in October and extensions to the licences will facilitate their attractiveness to potential farminees.

Caspian Production Operations

During the current year a total of the 520 tons (~3,800 bbls) of oil was produced. Current oil production is around 50 barrels of oil per day. Production was limited pending granting of production licences over the Mailisu III, Ashvaz and Charvak production areas in September 2010. Oil is now being sold to the nearby KPC refinery at Jalal Abad, with regular road tanker shipments.

2010-2011 Indicative Kyrgyz Work Programme

Activity	Timing	Comments	Potential Impact
Completion of Seismic Interpretation	October 2010		High-grading of Prospects and Leads
Mailisu III # 6 – completion	3Q 2010	Acidise and complete as an Oil Producer	20-30 bopd
Drill West Mailisu East #1	4Q 2010 – 2Q 2011	Exploration Well – dependent on finding farminee	Up to 3.5 mmboe (5.9 bcf gas and 2.4mmbbls oil). Production could be in 2011
Seismic Acquisition – East Mailisu, Akbura & Sulukta	4Q 2010 – 2Q 2011	Extent of coverage dependent on finding farminee	Defining potential large leads indicated from seismic review

Romania

A bidding group comprising Audax Resources (ADX), Caspian Oil & Gas and Sibinga Petroleum, was awarded the exploration block EX-10 PARTA in the southern Pannonian Basin, western Romania.

Caspian Oil & Gas will hold a 20% interest in the block with Audax managing the operations. The PARTA block covers an area of 1,221 sq km. Located within the block are seven (excised) producing oil and gas fields. Following a detailed seismic review the group considers the block to be underexplored with many attractive undrilled seismically-identified targets.

Audax on behalf of the group will enter into negotiations with the National Agency for Minerals and Resources ("NAMR") to discuss and finalise the terms of the royalty-based exploration agreement.

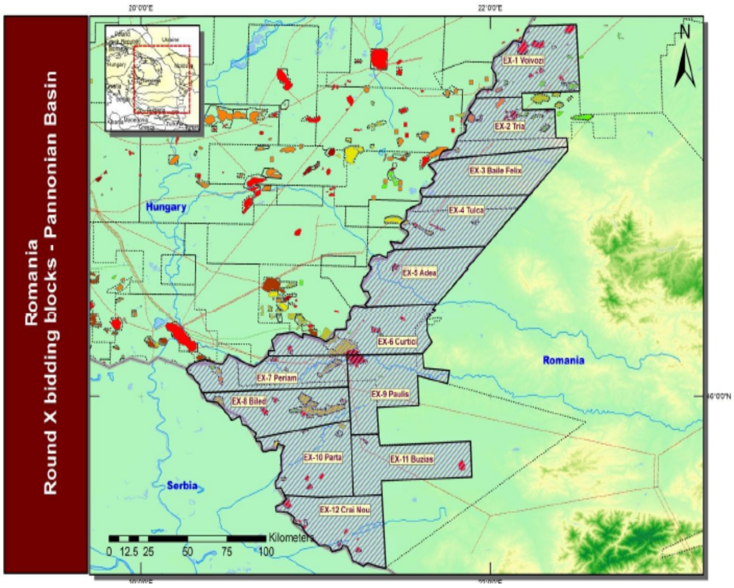


Figure 12 Location Map Romania

An active work programme will commence once licence formalities are completed with 2D and 3D seismic acquisition and at least two wells being drilled in the first three years. Given the more stable political environment and more advanced nature of the prospects, Caspian is seeking to focus a higher percentage of its resources to opportunities similar to this Romanian licence.

Other Activities

Caspian holds a number of mineral assets where exploration is funded by other companies. These include shares in gold explorer Perseus Mining Limited, royalties on the Tengrela and Grumesa gold projects, the Mansounia gold joint venture with Burey Gold Limited and diamond joint ventures in the Democratic Republic of Congo ("DRC") and Ghana.

The sale of Perseus Mining Ltd and Paramount Mining Ltd shares raised Caspian $807,000 during the financial year. As at 29 September 2010 the market value of Caspian's investments in listed mineral companies is $5,210,930.

Caspian's joint venture partners were not active on the Pramkese and Osenase licences in Ghana's Birim diamond field or its two licences at Tshikapa in the Democratic Republic of Congo.

Given the feasibility studies in progress on the Tengrela and Grumesa gold projects in West Africa, the Caspian Group's 0.5% royalty on gold production from those projects has the potential to provide a regular cash flow from 2013.

Burey Gold Ltd has announced a resource on the Mansounia gold project in Guinea. At a 0.7g/t Au cut-off, the resource is 437,000 oz at 1.0g/t Au (67,000 oz indicated and 370,000 inferred). Burey will commence a delayed drilling program to follow up on open ended higher grade gold mineralisation. Burey can earn an interest in the project by completing a feasibility study with at least 200,000 oz gold reserves, at which time Caspian's equity would reduce to 7% and Caspian would be entitled to a US$500,000 cash payment. Mansounia is located 2km south of the operating Kiniero gold mine.

Caspian holds a 0.5% NSR on gold production from the Tengrela project in Ivory Coast and the Grumesa project in Ghana, both of which have gold resources exceeding one million ounces. Feasibility studies are currently being undertaken on both projects.

At Tshikapa in the DRC, joint venture partner BRC Diamondfields is evaluating the use of the Airborne Electromagnetic Geophysical technique to detect the weathered portions of kimberlite intrusions even in complex geology.

Diamonds are the principal focus for joint venture partner Paramount Mining on the Osenase Project in Ghana, which is also prospective for gold and tantalum minerals. Rock samples excavated from the "Francis Pit" hard rock diamond locality were analysed by Scanning Electron Microscope, XRF and geochemical assay. Results suggest the material is ultramafic in nature, similar to diamond-bearing non-kimberlitic rocks found at Dachine, French Guiana and Wawa, Canada. Paramount Mining is planning exploration on each of its three licence areas in 2010/11.

Notes:

1. "Oil and Gas Resources of the Fergana Basin (Uzbekistan, Tadzhikistan, and Kyrgyzstan)": January 1995, Energy Information Administration Office of Oil and Gas, U.S. Department of Energy.

The information in this report that relates to oil and gas exploration results and hydrocarbon reserves is based on information compiled by Mr Graeme Parsons, who is a petroleum geoscientist. Mr Parsons is a Director and full-time employee of the Company. Mr Parsons has more than five years experience in this discipline and he consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

Your Directors present their report together with the financial report of Caspian Oil & Gas Limited ("the Company") and its controlled entities, (collectively referred to as the "consolidated entity"), for the year ended 30 June 2010 and the auditor's report thereon.

DIRECTORS

The names and details of the Directors in office during or since the end of the financial year are as follows. Directors were in office for the entire year unless otherwise stated.

Colin John Carson CPA FCIS FCIM - Executive Chairman and Joint Company Secretary (Appointed 10 October 1994)

Colin Carson has been involved as a director and company secretary of a number of Australian public companies since the early 1980s and is responsible for the operations of the Company, joint venture negotiations and corporate and legal matters. Mr Carson also serves on the audit committee of the Company. During the past three years he has also served as a director of the following listed companies:

Perseus Mining Limited *
Manas Resources Limited * appointed 17 October 2007

Graeme Leslie Parsons BSc – Executive Director and Chief Executive Officer (Appointed 18 October 2006)

Mr Parsons is a Petroleum Geoscientist with over 25 years experience in the Australian and international oil and gas sectors. His skills set covers a broad spectrum across the petroleum industry including exploration (geology & geophysics including basin & acreage evaluation), appraisal, development, operations (drilling, completions, fraccing), project management, production forecasting, economic evaluation, reserves estimation, portfolio analysis and Government and landholder relations. During the past three years he has not served as a director of any other listed company.

Jürg Walker - Non-Executive Director (Appointed 20 May 2002)

Jürg Walker is a European portfolio manager and investor. He has over 20 years experience in the Swiss banking industry, operating his own portfolio management company after leaving his position as senior vice president of a private bank in Zurich. He has not served as a director of any other listed company during the past three years.

Michael John Sandy BSc (Hons) – Non-Executive Director (Appointed 23 September 2005)

Michael Sandy is a petroleum geologist with over 30 years resource industry experience. During the past three years he has also served as a director of the following listed companies:

Burleson Energy Limited *
Tap Oil Limited *
Hot Rock Limited * appointed 7 June 2007

DIRECTORS - continued

Reginald Norman Gillard BA FCPA FAICD JP - Non-Executive Chairman
(Appointed 6 July 1994, resigned 31 August 2010)

After practising as an accountant for over 30 years, during which time he formed and developed a number of service related businesses, Reg Gillard now focuses on corporate management, corporate governance and the evaluation and acquisition of resource projects. Mr Gillard also served on the audit committee of the Company. During the past three years he has also served as a director of the following listed companies:

Aspen Group Limited *	
Platina Resources Limited *	appointed 2 July 2009
Perseus Mining Limited *	
Eneabba Gas Limited *	
Tiger Resources Limited *	
Pioneer Nickel Limited	ceased 13 June 2008
Elemental Minerals Limited	ceased 30 June 2008
Lindian Resources Limited	appointed 30 October 2006, ceased 19 August 2010

* denotes current directorship

COMPANY SECRETARIES

Susmit Mohanlal Shah BScEcon CA
(Appointed 30 April 2003)

Susmit Shah is a Chartered Accountant with over 25 years experience. Over the last 15 years, Mr Shah has been involved with a diverse range of Australian public listed companies in company secretarial and financial roles.

Colin John Carson
(Appointed 20 June 1994)

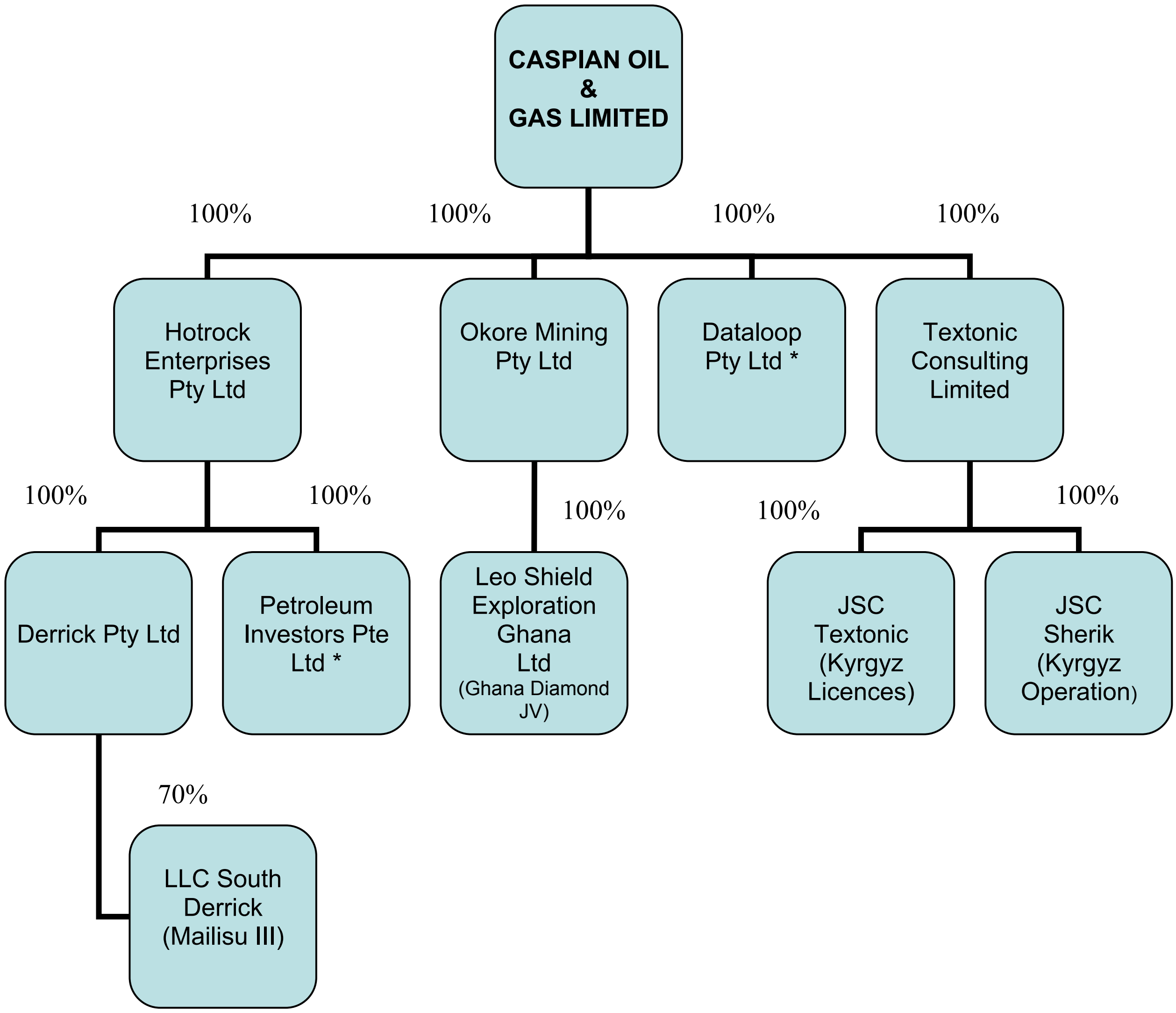
For details relating to Colin Carson, please refer to the details on Directors above.

CORPORATE INFORMATION

Corporate Structure

Caspian Oil & Gas Limited is a limited liability company that is incorporated and domiciled in Australia. It has prepared a consolidated financial report incorporating the entities that it controlled during the financial year, which are outlined in the following illustration of the consolidated entity's corporate structure.

CASPIAN OIL & GAS LIMITED – GROUP STRUCTURE AT 30 JUNE 2010



* Non-operating subsidiary

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the course of the financial year were oil exploration and project development and contract drilling in the Kyrgyz Republic in Central Asia.

RESULTS AND DIVIDENDS

The consolidated loss after tax for the year ended 30 June 2010 was $14,673,866 (2009: $5,555,012). No dividends were paid during the year and the Directors do not recommend payment of a dividend.

EARNINGS PER SHARE

Basic loss per share for the year was 1.16 cents (2009: 0.50 cents).

REVIEW OF OPERATIONS

A review of operations of the consolidated entity during the year ended 30 June 2010 is provided in the "Review of Operations" immediately preceding this Directors' Report.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

- Following an upgrade of the Sherik rig, two wells were drilled on a contract basis for SPC. While Caspian had no rights to the wells, the rig hire revenue contributed substantially towards funding Caspian's overhead and corporate costs.
- In October 2009 the Company raised $2.37 million through a share placement at 1.5 cents per share to clients of Patersons Securities Limited and shareholders participated in an additional raising of $0.92 million on similar terms via a Share Purchase Plan.
- The Company held investments valued at in excess of $4.0 million at 30 June 2010 and retains joint venture and royalty interests in a number of West African mineral projects.
- Santos International Operations Limited ("Santos"), a subsidiary of Australia's second largest oil and gas company, was funding exploration on Textonic's seven Kyrgyz licences under a three phase farm-in but on 26 February 2010 elected not to continue with Phase 3 of the deal. Following its withdrawal Caspian retains 100% of the licences and will actively seek other farm-in participants.

EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial year to the date of this report no matter or circumstance has arisen which has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.

LIKELY DEVELOPMENTS

The consolidated entity is seeking a new joint venture partner to assist with funding exploration in the Kyrgyz Republic, as detailed in the "Review of Operations". The level of ongoing exploration in the Kyrgyz Republic will depend on successfully attracting such partners. The consolidated entity will continue participating in its Romanian oil exploration joint venture and will continue to assess other opportunities.

DIRECTORS' MEETINGS

The number of meetings of the Company's Directors and the number of meetings attended by each Director during the year ended 30 June 2010 are:

	Directors' meetings held during period of office	Directors' meetings attended	Audit Committee meetings held during period of office	Audit Committee meetings attended
R N Gillard	6	6	2	2
C J Carson	6	6	2	2
G Parsons	6	6		
J Walker	6	3		
M J Sandy	6	6		

The audit committee consisted of R N Gillard and C J Carson.

DIRECTORS' INTERESTS

The interests of each Director in the shares and options of Caspian Oil & Gas Limited at the date of this Report are as follows:

	Fully Paid Ordinary Shares	Options Over Ordinary Shares
C J Carson	14,188,484	-
G L Parsons	1,600,000	4,000,000
J Walker	82,978,610	-
M J Sandy	3,500,000	-

Options granted to directors' and officers and analysis of share-based payments granted as remuneration

The Company did not grant any options over unissued ordinary shares during or since the end of the financial year to directors as part of their remuneration

The Company has not granted any options over unissued ordinary shares during or since the end of the financial year to officers as part of their remuneration.

DIRECTORS' INTERESTS - continued

During or since the end of the financial year, 5,000,000 options over unissued ordinary shares in the Company held by Directors of the Company lapsed.

SHARE OPTIONS

As at the date of this report, there are 20,350,000 options to subscribe for unissued ordinary shares in the Company, comprising:

	Number	Exercise Price (cents)	Expiry Date
Unlisted Options:	850,000	10	31 December 2010
	1,300,000	10	31 December 2011
	2,000,000	10	31 May 2011
	2,000,000	12	31 May 2011
	8,100,000	3	31 December 2010
	6,100,000	3	31 October 2013

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate. There are no options to subscribe for shares in any controlled entity.

Options issued during the year were as follows:

- 6,100,000 unlisted options were allotted to employees and consultants of the Company.

No options were issued after 30 June 2010 and up to the date of this report.

Further details of these options are provided in Note 19 to the financial statements.

Shares issued on exercise of options

During or since the end of the financial year, the Company did not issue any ordinary shares as a result of the exercise of options.

REMUNERATION REPORT (audited)

This report outlines the remuneration arrangements in place for the Directors and executives (as defined under section 300A of the Corporations Act 2001) of Caspian Oil & Gas Limited.

It also provides the remuneration disclosures required by paragraphs Aus 25.2 to Aus 25.6 and Aus 25.7.1 to Aus 25.7.2 of AASB 124 "Related Party Disclosures", which have been transferred to the Remuneration Report in accordance with Corporations Regulations and have been audited.

The following were Directors and executives of the Company during or since the end of the financial year.

Non-Executive Directors
Mr Reginald Gillard – resigned 31 August 2010
Mr Michael Sandy
Mr Jürg Walker

Executive Directors
Mr Graeme Parsons
Mr Colin Carson

Other Senior Management
The term 'senior management' is used in this remuneration report to refer to the following persons. Except as noted the named persons held their current position for the whole of the financial year and since the end of the financial year:

Susmit Shah – Company Secretary.

Mr Shah's services are provided by Corporate Consultants Pty Ltd, a company in which Mr Gillard and Mr Shah are directors and have beneficial interests.

There have been no changes of the CEO or key management personnel after reporting date and the date the financial report was authorised for issue other than the resignation of Mr Gillard as Non-executive Chairman.

Remuneration Philosophy

The Board reviews the remuneration packages applicable to the Executive Directors and Non-Executive Directors on an annual basis. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and level of performance, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. Independent advice, where necessary, is obtained on the appropriateness of remuneration packages.

Remuneration Committee

The Company does not have a formally constituted Remuneration Committee of the Board. The Directors consider that the Company is not of a size nor are its affairs of such complexity as to justify the formation of a Remuneration Committee.

The Board assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodical basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and management team.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive Director remuneration is separate and distinct.

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

REMUNERATION REPORT – (audited) - continued

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at a shareholders meeting on 29 November 2005 when the shareholders approved an aggregate remuneration of $200,000 per year.

Directors' fees cover all main Board activities. Fees may also be paid to Non-Executive Directors for additional consulting services provided to the Company. Non-Executive Directors are entitled to receive options (subject to shareholder approval) as it is considered an appropriate method of providing sufficient reward whilst maintaining cash reserves.

The Board reviews the remuneration packages applicable to the Non-Executive Directors on an annual basis. The Board considers fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process. Remuneration packages include a mix of fixed remuneration and equity-based remuneration. There is no separate profit-share plan. Options have been issued to Directors and employees as an incentive and in recognition of the fact that the fixed cash component of remuneration is comparatively modest. There are no other non-cash benefits available to directors or employees.

The remuneration of the Non-Executive Directors for the year ending 30 June 2010 is detailed in Table 1 of this report.

Senior Manager and Executive Director Remuneration

Objective

The Company aims to reward executives with a level of remuneration commensurate with their position and responsibilities within the Company and so as to:

- align the interests of the Executive Directors with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

Structure

Remuneration consists of the following key elements:

- Fixed remuneration
- Variable remuneration

Fixed Remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration, which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the Board and the process consists of a review of companywide, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practice. Independent advice, where necessary, is obtained, on the appropriateness of remuneration packages is obtained.

The fixed remuneration component of the Executive Directors for the year ending 30 June 2010 is detailed in Table 1 of this report.

REMUNERATION REPORT (audited) - continued

Variable Remuneration – Long Term Incentive ('LTI')

Objective

The objective of the LTI plan is to reward executives and senior managers in a manner which aligns this element of remuneration with the creation of shareholder wealth.

As such LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance.

Structure

LTI grants to executives are delivered in the form of options. The issue of options as part of the remuneration packages of directors is an established practice of junior public listed companies and, in the case of the Company, has the benefit of conserving cash whilst properly rewarding each of the directors and senior managers.

The remuneration of the Executive Directors and senior management for the year ending 30 June 2010 is detailed in Table 1 of this report.

Employment Agreements

Mr Parsons has entered into an agreement with the Company to be employed as the Chief Executive Officer and an Executive Director of the Company. The contract commenced in March 2008, was revised in January 2009 and there is no specific termination date.

The terms of the arrangement during the year included:

- remuneration of $250,000 per annum, inclusive of superannuation contributions; and
- either party can terminate the agreement by giving six months written notice.

Company Secretarial services provided by Mr Shah are charged to the Company by Corporate Consultants Pty Ltd (CCPL), a company in which Mr Gillard and Mr Shah have a beneficial interest. Remuneration for office space, accounting, company secretarial and administrative services provided by CCPL throughout the year is included in Note 25.

REMUNERATION REPORT (audited) - continued

Table 1 Director and executive remuneration for the year ended 30 June 2010

	Primary Director's Salary / Fees $	Post Employment Super-annuation $	Equity Value of Options (A) $	Total $
Directors :				
Reginald Gillard				
2010	**38,333**	**3,450**	**-**	**41,783**
2009	30,000	2,700	-	32,700
Colin Carson				
2010	**118,667**	**11,240**	**-**	**129,907**
2009	114,667	10,670	-	125,337
Graeme Parsons				
2010	**216,475**	**16,858**	**-**	**233,333**
2009	229,358	20,642	29,095	279,095
Jürg Walker				
2010	**26,667**	**-**	**-**	**26,667**
2009	22,500	-	-	22,500
Michael John Sandy				
2010	**38,583**	**450**	**-**	**39,033**
2009	30,865	2,025	-	32,890
Total, all specified directors				
2010	**438,725**	**31,998**	**-**	**470,723**
2009	427,390	36,037	29,095	492,522
Senior Managers:				
Susmit Shah				
2010	**-**	**-**	**11,230**	**11,230**
2009	-	-	565	565
Total, senior managers				
2010	**-**	**-**	**11,230**	**11,230**
2009	-	-	565	565

(A) The fair value of options is calculated at the date of grant using a Black and Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account.

The following factors and assumptions were taken into account in determining the fair value of options on the grant date.

Grant Date	Expiry Date	Fair value per option	Exercise price	Price of shares on grant date	Expected Volatility	Risk free interest rate	Dividend yield
28 November 2008 [1]	31 May 2011	0.77 cents	10 cents	1.3 cents	101%	5.25%	-
28 November 2008 [1]	31 May 2011	0.68 cents	12 cents	1.3 cents	101%	5.25%	-

(1) These options were granted on 28 November 2008 to Mr Parsons as part of his remuneration package.

REMUNERATION REPORT (audited) - continued

Table 2 Options granted as part of remuneration for the year ended 30 June 2010 (in accordance with the LTI plan)

Grant Date	Expiry Date	Fair value per option	Exercise price	Price of shares on grant date	Expected Volatility	Risk free interest rate	Dividend yield
24 May 2010[1]	31 October 2013	0.04 cents	3 cents	0.9 cents	107%	4.50%	-

(1) These options were granted to employees and consultants of the Company. These options vested immediately upon grant.

Table 3 Options granted as part of remuneration for the year ended 30 June 2009 (in accordance with the LTI plan)

Grant Date	Expiry Date	Fair value per option	Exercise price	Price of shares on grant date	Expected Volatility	Risk free interest rate	Dividend yield
19 June 2009 [1]	30 June 2012	1.67 cents	3 cents	1.7 cents	395%	3.00%	-

(1) These options were granted to employees and consultants of the Company.

	Value of options granted at grant date	Value of options exercised at exercise date	Value of options lapsed at time of lapse	Total value of options granted, exercised and lapsed	Value of options lapsed during year	Value of options included in remuneration for the year	% remuneration consisting of options for the year
	$	$	$	$	$	$	
Directors :							
Reginald Gillard							
2010	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2009	-	-	-	-	-	-	-
Colin Carson							
2010	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2009	-	-	-	-	-	-	-
Graeme Parsons							
2010	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2009	29,095	-	-	29,095	-	29,095	10%
Jürg Walker							
2010	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2009	-	-	-	-	-	-	-
Michael Sandy							
2010	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2009	-	-	-	-	-	-	-
Total, all specified Directors							
2010	**-**	**-**	**-**	**-**	**-**	**-**	
2009	29,095	-	-	29,095	-	29,095	

REMUNERATION REPORT (audited) - continued

	Value of options granted at grant date	Value of options exercised at exercise date	Value of options lapsed at time of lapse	Total value of options granted, exercised and lapsed	Value of options lapsed during year	Value of options included in remuneration for the year	% remuneration consisting of options for the year
	$	$	$	$	$	$	
Senior Managers							
Susmit Shah							
2010	**11,230**	**-**	**-**	**11,230**	**-**	**11,230**	**100**
2009	565	-	-	565	-	565	100
Total, senior managers							
2010	**11,230**	**-**	**-**	**11,230**	**-**	**11,230**	
2009	565	-	-	565	-	565	

For details on the valuation of the options, including models and assumptions used, please refer to Note 19. There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Company's Constitution requires it to indemnify Directors and officers of any entity within the consolidated entity against liabilities incurred to third parties and against costs and expenses incurred in defending civil or criminal proceedings, except in certain circumstances. An indemnity is also provided to the Company's auditors under the terms of their engagement. Directors and officers of the consolidated entity have been insured against all liabilities and expenses arising as a result of work performed in their respective capacities, to the extent permitted by law. The insurance premium, amounting to $14,298, relates to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever the outcome.
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

ENVIRONMENTAL REGULATIONS

The consolidated entity's operations are not subject to any significant Australian environmental laws but its exploration, development and contract drilling activities in the Kyrgyz Republic and Africa are subject to environmental laws, regulations and permit conditions. There have been no known material breaches of environmental laws or permit conditions while conducting operations in the Kyrgyz Republic or Africa during the year, including operations conducted by joint venture partners.

NON-AUDIT SERVICES

There have been no non-audit services provided by the auditors during the year.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor, HLB Mann Judd, has provided the Board of Directors with an independence declaration in accordance with section 307C of the Corporations Act 2001. The independence declaration is set out on the next page and forms part of this Directors' Report.

Signed in accordance with a resolution of Directors.

C J Carson
Executive Chairman
Perth, 30 September 2010

HLB Mann Judd

Accountants | Business and Financial Advisers

Auditor's Independence Declaration

As lead auditor for the audit of the financial report of Caspian Oil & Gas Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Caspian Oil & Gas Limited.

Perth, Western Australia	**M R W OHM**
30 September 2010	**Partner, HLB Mann Judd**

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
Level 4, 130 Stirling Street Perth WA 6000. PO Box 8124 Perth BC 6849 Telephone +61 (08) 9227 7500. Fax +61 (08) 9227 7533.
Email: hlb@hlbwa.com.au. Website: http://www.hlb.com.au

Caspian Oil & Gas Limited
Statement of Comprehensive Income
For the Year Ended 30 June 2010

	Notes	Consolidated 2010 $	2009 $
Revenue from ordinary activities	2	**4,564,834**	3,182,246
Cost of sales and services	2	**(4,625,619)**	(3,052,215)
Gross Profit / (Loss)		**(60,785)**	130,031
Other income	3	**380,793**	6,677,005
		320,008	6,807,036
Depreciation expense	4	**(122,982)**	(135,508)
Impairment of plant & equipment	4	**-**	(1,812,692)
Employee, directors and consultants costs		**(1,942,348)**	(2,017,721)
Write-down of mineral interest acquisition and exploration expenditure	16	**(11,912,259)**	(6,846,653)
Other expenses from ordinary activities	4	**(1,016,285)**	(1,549,474)
Loss before income tax benefit		**(14,673,866)**	(5,555,012)
Income tax benefit relating to ordinary activities	6	**-**	-
Loss after tax benefit		**(14,673,866)**	(5,555,012)
Other comprehensive Income			
Exchange differences on translation of foreign operations		**(2,578,839)**	(1,416,360)
Net change in fair value of available-for-sale financial assets		**2,999,612**	(25,591,545)
Income tax relating to components of other income		**-**	-
Total comprehensive loss for the year		**(14,253,093)**	(32,562,917)
Loss attributable to:			
Owners of the Parent		**(14,501,622)**	(5,555,012)
Non-controlling Interests		**(172,244)**	-
		(14,673,866)	(5,555,012)
Comprehensive loss attributable to:			
Owners of the Parent		**(14,136,040)**	(32,562,917)
Non-controlling Interests		**(117,053)**	-
		(14,253,093)	(32,562,917)
Basic loss per share	7	**(1.16) cents**	(0.50) cents

	Notes	Consolidated 2010 $	2009 $
Current Assets			
Cash and cash equivalents	9	**3,216,256**	1,510,196
Receivables	10	**133,831**	1,044,272
Inventories	11	**2,762,653**	4,855,905
Other	12	**239,817**	259,596
Total Current Assets		**6,352,557**	7,669,969
Non-Current Assets			
Receivables	10	**270,610**	402,384
Available for sale investments	14	**4,003,783**	1,596,462
Property, plant and equipment	15	**3,049,561**	4,760,389
Mineral interest acquisition, exploration and development expenditure	16	**1,194,480**	11,536,374
Other	12	**211,158**	925,830
Total Non-Current Assets		**8,729,592**	19,221,439
Total Assets		**15,082,149**	26,891,408
Current Liabilities			
Payables	17	**432,400**	1,243,509
Total Current Liabilities		**432,400**	1,243,509
Total Liabilities		**432,400**	1,243,509
Net Assets		**14,649,749**	25,647,899
Equity			
Issued capital	18	**99,362,502**	96,268,599
Reserves	18	**2,934,847**	2,408,225
Accumulated losses		**(87,530,547)**	(73,028,925)
Parent entity interest		**14,766,802**	25,647,899
Non-controlling interests		**(117,053)**	-
Total Equity		**14,649,749**	25,647,899

	Consolidated				
	Issued Capital	**Accumulated Losses**	**Reserves**	**Non-controlling Interest**	**Total Equity**
	$	**$**	**$**	**$**	**$**
Balance at 1 July 2008	96,268,599	(67,473,913)	29,342,775	-	58,137,461
Loss attributable to members of the parent entity	-	(5,555,012)	-	-	(5,555,012)
Currency translation differences	-	-	(1,416,360)	-	(1,416,360)
Revaluation of available-for-sale financial assets	-	-	(25,591,545)	-	(25,591,545)
Total comprehensive loss for the year	-	(5,555,012)	(27,007,905)	-	(32,562,917)
Fair value of options issued	-	-	73,355	-	73,355
Balance at 30 June 2009	**96,268,599**	**(73,028,925)**	**2,408,225**	**-**	**25,647,899**
Balance at 1 July 2009	**96,268,599**	**(73,028,925)**	**2,408,225**	**-**	**25,647,899**
Loss attributable to members of the parent entity	-	(14,501,622)	-	(172,244)	(14,673,866)
Currency translation differences	-	-	(2,634,030)	55,191	(2,578,839)
Revaluation of available-for-sale financial assets	-	-	2,999,612	-	2,999,612
Total comprehensive loss for the year	-	(14,501,622)	365,582	(117,053)	(14,253,093)
Shares issued during the year	3,296,414	-	-		3,296,414
Share issue expenses	(202,511)	-	-		(202,511)
Fair value of options issued	-	-	161,040		161,040
Balance at 30 June 2010	**99,362,502**	**(87,530,547)**	**2,934,847**	**(117,053)**	**14,649,749**

	Notes	Consolidated 2010 $	2009 $
Cash Flows from Operating Activities			
Cash receipts in the course of operations		**5,510,881**	2,541,699
Cash payments in the course of operations		**(5,119,972)**	(9,712,008)
Interest received		**57,842**	33,864
Net Cash provided by / (used) in Operating Activities	23(a)	**448,751**	(7,136,445)
Cash Flows from Investing Activities			
Payments for exploration and development expenditure		**(2,781,700)**	(997,435)
Loans (to) / repaid by other entities		**53,048**	(413,687)
Reimbursements from joint venture partners		**-**	471,197
Payments for property, plant and equipment		**(60,118)**	(3,420,458)
Proceeds on disposal of property, plant and equipment		**24,408**	13,949
Payments for investments		**-**	(194,701)
Proceeds on disposal of investments		**807,439**	8,946,995
Net Cash provided by / (used in) Investing Activities		**(1,956,923)**	4,405,860
Cash Flows from Financing Activities			
Proceeds from share issues		**3,296,414**	-
Share issue expenses		**(202,511)**	-
Net Cash provided by Financing Activities		**3,093,903**	-
Net Increase / (Decrease) in Cash Held		**1,585,731**	(2,730,585)
Cash at the beginning of the financial year		**1,510,196**	4,051,753
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		**120,329**	189,028
Cash at the end of the Financial Year	9	**3,216,256**	1,510,196

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and complies with other requirements of the law. The financial report has also been prepared on a historical cost basis, except for available-for-sale investments, which have been measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian dollars.

The Company is a listed public company, incorporated and domiciled in Australia and operating in Australia, the Kyrgyz Republic and West and Central Africa.

The group has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

Adoption of new and revised standards

Changes in accounting policies on initial application of Accounting Standards

In the year ended 30 June 2010, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

During the year, certain accounting policies have changed as a result of new or revised accounting standards which became operative for the annual reporting period commencing on 1 July 2009.

The affected policies and standards are:

- Principles of consolidation – revised AASB 127 *Consolidated and Separate Financial Statements and changes made by AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity and Associate*
- Business combinations – revised AASB 3 *Business Combinations*
- Segment reporting – new AASB 8 *Operating Segments*

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2010. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

Statement of compliance

The financial report was authorised for issue on 30 September 2010.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

Basis of consolidation

The consolidated financial statements comprise the financial statements of Caspian Oil & Gas Limited and its subsidiaries as at 30 June each year (the "Group"). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation - continued

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the Group controls another entity

Unrealised gains or transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the statement of comprehensive income and within equity in the consolidated statement of financial position. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised within equity attributable to owners of Caspian Oil & Gas Limited.

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Changes in accounting policy

The group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control, joint control or significant influence from 1 July 2009 when a revised AASB 127 Consolidated and Separate Financial Statements became operative.

Previously transactions with non-controlling interests were treated as transactions with parties external to the group. Disposals therefore resulted in gains and losses in profit and loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings / accumulated losses.

Previously when the group ceased to have control, joint control or significant influence over an entity, the carrying amount of the investment at the date control, joint control or significant influence ceased became its cost for the purposes of subsequently accounting for the retained interests in associates, jointly controlled entity or financial assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Significant accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Exploration and evaluation expenditure

The Board of Directors determines when an area of interest should be abandoned. When a decision is made that an area of interest is not commercially viable, all costs that have been capitalised in respect of that area of interest are written off. The Directors' decision is made after considering the likelihood of finding commercially viable reserves.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees and consultants by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of options is determined using a Black and Scholes model, using the assumptions detailed in Note 19.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue is capable of being reliably measured.

Revenue from the sale of goods is recognised upon the transfer to the buyer of all significant risks and rewards of ownership.

Revenue from the rendering of a service is recognised by reference to the stage of completion of the contract.

All revenue is stated net of the amount of goods and services tax (GST).

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments readily convertible to cash.

Receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Receivables - continued

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

Foreign currency transactions and balances

The functional and presentation currency of Caspian Oil & Gas Limited is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date.

All differences in the consolidated financial report are taken to the statement of comprehensive income with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of a net investment, at which time they are recognised in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.
Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date the fair value was determined.

The functional currencies of the overseas subsidiaries are as follows:

Leo Shield Exploration Ghana Limited	Ghanaian cedis (GHC)
Textonic Consulting Limited	Canadian dollars (CDN$)
JSC Textonic	SOMS (KGS)
JSC Sherik	SOMS (KGS)
LLC South Derrick	SOMS (KGS)

As at the reporting date, the assets and liabilities of these overseas subsidiaries are translated into the reporting currency of Caspian Oil & Gas Limited at the rate of exchange ruling at the balance date and the statement of comprehensive income is translated at the weighted average exchange rates for the period.

The exchange differences on the retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity is recognised in the statement of comprehensive income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Taxes

Income tax

Deferred income tax is provided for on all temporary differences at balance date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law. The carrying amount of deferred tax assets is reviewed at each balance date and only recognised to the extent that sufficient future assessable income is expected to be obtained.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

In the Kyrgyz Republic, the GST [referred to as Value Added Tax (VAT)] laws do not allow the Company's subsidiaries to claim VAT as an input tax credit for the reason that they are not generating sufficient production revenues at present. The accumulated VAT balance is permitted to be carried forward for recovery when sufficient production revenues are generated. The consolidated entity's accounting policy is to carry forward this amount as a non-current receivable on the same basis as mineral exploration expenditure.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Investments and other financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

During the year, the Group has held loans and receivables and available-for-sale investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets held for trading ("financial assets at fair value"), investments intended to be held to maturity or loans and receivables. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on balance date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment

Items of plant and equipment are carried at cost less accumulated depreciation and impairment losses (see accounting policy impairment testing).

Plant and equipment

Plant and equipment acquired is initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

All assets have limited useful lives and are depreciated/amortised using the straight line method over their estimated useful lives commencing from the time the asset is held ready for use, with the exception of exploration, evaluation and development costs in the production phase which is amortised on a units of production basis over the life of economically recoverable reserves. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. The estimated useful lives used in the calculation of depreciation for plant and equipment for the current and corresponding period are between three and ten years.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

Mineral interest acquisition and exploration expenditure

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

(i) the rights to tenure of the area of interest are current; and

(ii) at least one of the following conditions is also met:

(a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; or

(b) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, seismic, exploratory drilling and sampling and associated activities and an allocation of depreciation and amortisation of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Mineral interest acquisitions, exploration and development expenditure - continued

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any).

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

Impairment testing

The carrying amount of the Group's assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. Where such an indication exists, a formal assessment of recoverable amount is then made and where this is in excess of carrying amount, the asset is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or cash generating unit. In estimating value in use, a pre-tax discount rate is used which reflects current market assessments of the time value of money and the risks specific to the asset. Any resulting impairment loss is recognised immediately in the statement of comprehensive income.

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Joint ventures

Joint venture interests are incorporated in the financial statements by including the Group's proportion of joint venture assets and liabilities under the appropriate headings.

Where part of a joint venture is farmed out and in consideration the farminee undertakes to carry out further expenditure in the joint venture area of interest, expenditure incurred prior to farmout is carried forward without adjustment unless the terms of the farmout indicate that the expenditure carried forward is excessive based on the diluted interest retained. Provision is then made to reduce expenditure carried forward to a recoverable amount.

Any cash received in consideration for farming out part of a joint venture interest is treated as a reduction in the carrying value of the related mineral property.

Payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Contributions are made by the Group to superannuation funds as stipulated by statutory requirements and are charged as expenses when incurred.

Share-based payment transactions

Equity settled transactions

The Group provides benefits to employees, consultants and contractors of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There is no formal Employee Option Plan in place at present and options are issued when necessary in order to provide these benefits to employees, consultants and contractors.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black-Scholes model, further details of which are given in Note 19.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Caspian Oil & Gas Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Equity settled transactions: - continued

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 7).

Issued capital

Issued capital is recognised at the fair value of the consideration received by the Company.

Transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Earnings per share

Basic earnings per share is determined by dividing the net result attributable to members, adjusted to exclude costs of servicing equity (other than dividends), by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is determined by dividing the net result attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and any expenses associated with dividends and interest of dilutive potential ordinary shares, by the weighted average number of ordinary shares (both issued and potentially dilutive) adjusted for any bonus element.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Caspian Oil & Gas Limited.

Change in accounting policy
The Group has adopted *AASB 8 Operating Segments* from 1 July 2009. AASB 8 replaces *AASB 114 Segment Reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in a change in the number of reportable segments presented by the Group as operating segments are reported in a manner that is consistent with internal reporting provided to the chief operating decision maker.

2. REVENUE FROM ORDINARY ACTIVITIES

	Note	Consolidated 2010 $	2009 $
Revenues from operating activities			
Revenue from oil production		**93,146**	192,937
Costs from oil production		**(34,278)**	(72,432)
		58,868	120,505
Rendering of services revenue		**4,125,843**	2,464,167
Costs of services rendered		**(4,308,826)**	(2,545,002)
		(182,983)	(80,835)
Sales of consumables		**345,845**	525,142
Costs of consumables		**(282,515)**	(434,781)
		63,330	90,361
Gross profit / (Loss)		**(60,785)**	130,031

3. OTHER REVENUE

Interest – other parties		**59,885**	20,907
		59,885	20,907
Net gain on disposal of property, plant and equipment		**8,973**	-
Net gain on disposal of available-for-sale investments		**214,189**	6,341,456
Foreign exchange gains		**97,746**	314,642
		320,908	6,656,098
		380,793	6,677,005

4. LOSS FROM ORDINARY ACTIVITIES

Loss from ordinary activities before income tax has been determined after:

(a) Expenses

Depreciation of plant and equipment		**122,982**	135,508
Share based payments to consultants, directors and employees		**161,040**	73,355
Impairment of plant and equipment		**-**	1,812,692
Mineral interest acquisition, exploration and development expenditure written-off		**11,912,259**	6,846,653
Movement in provision for employee entitlements		**27,626**	5,696
Other expenses include:			
West African administrative and overhead costs		**1,542**	18,946
Travel and accommodation		**148,777**	378,277
ASIC and ASX fees		**31,714**	29,620

	Consolidated	
	2010	2009
	$	$
5. AUDITORS' REMUNERATION		
Audit services:		
- Auditors of the company-HLB Mann Judd	**41,500**	32,000
- Other auditors	**14,394**	18,099
	55,894	50,099

Other services:

- There were no non-audit services provided by the auditors of the Company

6. INCOME TAX BENEFIT

(a) The prima facie tax benefit at 30% on loss from ordinary activities is reconciled to the income tax provided in the financial statements as follows:

	2010	2009
Loss from ordinary activities	**14,673,866**	5,555,012
Prima facie income tax benefit @ 30%	**4,402,160**	1,666,504
Tax effect of temporary differences:		
Options issued to employees and consultants	**(48,312)**	(22,007)
Foreign exchange (losses) not deductible	**-**	-
Profit on sale of investments against capital losses	**64,257**	1,902,437
Capitalised exploration costs (net recouped)	**(2,838,603)**	(1,715,871)
Share issue costs amortised	**94,235**	104,191
Other non-deductible items	**(18,935)**	(10,376)
Income tax benefit adjusted for temporary differences	**1,655,302**	1,924,878
Deferred tax asset not brought to account	**(1,655,302)**	(1,924,878)
Income tax attributable to operating losses	**-**	-

(b) The potential deferred tax asset arising from tax losses and temporary differences have not been recognised as an asset because recovery of tax losses is not yet considered sufficiently probable.

	2010	2009
Australian tax losses	**2,591,805**	2,261,153
Foreign tax losses	**9,337,935**	8,011,595
Australian capital losses	**7,522,675**	7,739,658

The future benefits associated with these losses will only be obtained if the conditions in Note 1 (Income taxes) are satisfied and if:

a) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;

b) the Group continues to comply with the conditions for deductibility imposed by the relevant tax legislation; and

c) no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for losses.

For the purposes of income tax, Caspian Oil & Gas Ltd and its 100% owned Australian subsidiaries have not formed a tax consolidated group. Tax consolidation is not expected to have a material effect on the group's deferred tax asset.

	Consolidated	
	2010	2009
	cents	cents

7. LOSS PER SHARE

	2010 cents	2009 cents
Basic loss per share	**(1.16)**	(0.50)

	2010 $	2009 $
Loss used in calculation of earnings per share	**(14,501,622)**	(5,555,012)

	2010 No.	2009 No.
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**1,265,226,285**	1,111,738,580

The Company's potential ordinary shares, being its options granted, are not considered dilutive as the conversion of these options would result in a decrease in the net loss per share.

8. SEGMENT INFORMATION

The directors have considered the requirements of AASB 8 – Operating Segments and the internal reports that are reviewed by the chief operating decision maker (the Board) in allocating resources and have concluded that, during the year, Caspian operated in the oil exploration and contract drilling industry, mineral exploration industry and investing activities within the geographical segments, Australia, Ghana and the Kyrgyz Republic.

8. SEGMENT INFORMATION - continued

	Investing		Mineral Exploration		Oil Exploration and Contract Drilling		Eliminations		Consolidated	
	2010 $	**2009 $**	**2010 $**	**2009 $**	**2010 $**	**2009 $**	**2010 $**	**2009 $**	**2010 $**	**2009 $**
Business segments (Primary Segment)										
Revenue										
Revenue from external customers	**-**	-	**-**	128	**4,564,834**	3,182,118	**-**	-	**4,564,834**	3,182,246
Other external revenue	**371,820**	6,677,005	**-**	-	**8,973**	-	**-**	-	**380,793**	6,677,005
Intersegment revenue	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total segment revenue	**371,820**	6,677,005	**-**	128	**4,573,807**	3,182,118		-	**4,945,627**	9,859,251
Results										
Operating loss before income tax	**(1,076,547)**	5,141,251	**30,201**	(124,337)	**(13,627,520)**	(10,571,926)		-	**(14,673,866)**	(5,555,012)
Income tax benefit									**-**	-
Net loss									**(14,673,866)**	(5,555,012)
Assets										
Segment assets	**7,170,665**	2,197,724	**13,630**	46,772	**7,897,854**	24,646,912	**-**	-	**15,082,149**	26,891,408
Non-current assets acquired	**512**	203,867	**-**	4,155	**2,509,856**	4,554,811	**-**	-	**2,510,368**	4,762,833
Liabilities										
Segment liabilities	**212,186**	632,613	**91,784**	119,524	**128,430**	491,372	**-**	-	**432,400**	1,243,509
Other segment information										
Depreciation	**7,273**	16,138	**49**	65	**115,660**	119,305	**-**	-	**122,982**	135,508
Non-cash expenses other than depreciation	**103,519**	65,468	**657**	142,454	**11,900,317**	8,540,701		-	**12,004,493**	8,748,623

	Consolidated	
	2010	**2009**
	$	**$**

9. CASH AND CASH EQUIVALENTS

Cash assets	**2,390,540**	1,492,172
Deposits at call	**825,716**	18,024
	3,216,256	1,510,196

- Cash at bank and deposits at call earn interest at floating rates based on daily bank deposit rates.

10. RECEIVABLES

Current

Trade debtors	**-**	1,005,402
Sundry debtors	**133,831**	38,870
	133,831	1,044,272

Aging of past due but not impaired		
60 - 90 days	**-**	-
> 180 days	**-**	71,371
Total	**-**	71,371

Non-current

Loans to outside parties	**270,610**	402,384
	270,610	402,384

Terms and conditions relating to the above financial instruments:

- Trade and sundry debtors are non-interest bearing and generally on 30 day terms.
- Loan advances have been made to subsidiaries. The loans are interest free, unsecured and repayable only when the borrower's cash flow permits.

	Consolidated	
	2010	**2009**
	$	**$**

11. INVENTORIES

Raw materials and stores – at cost	**2,762,653**	4,855,905

	Consolidated 2010 $	Consolidated 2009 $
12. OTHER		
Current		
Prepayments	**239,817**	259,596
Non-current		
VAT withheld	**211,158**	925,830

- VAT has been withheld in the Kyrgyz Republic and is only refundable when the Kyrgyz companies generate sufficient revenues. For that reason the amounts have been classified as non-current.

13. SUBSIDIARIES

Name of subsidiary	Notes	Place of Incorporation	Group Interest 2010 %	Group Interest 2009 %
Parent Entity				
Caspian Oil & Gas Limited		Australia		
Subsidiaries				
Dataloop Pty Ltd		Australia	**100**	100
Hotrock Enterprises Pty Ltd (ii)		Australia	**100**	100
Okore Mining Pty Ltd		Australia	**100**	100
Leo Shield Exploration Ghana Ltd	(a)	Ghana	**100**	100
Textonic Consulting Limited (i)	(a)	Canada	**100**	100
(i) Subsidiaries of Textonic Consulting Limited				
JSC Textonic	(a)	Kyrgyz Republic	**100**	100
JSC Sherik	(a)	Kyrgyz Republic	**100**	100
(ii) Subsidiary of Hotrock Enterprises Pty Ltd				
Derrick Pty Ltd (iii)		Australia	**100**	100
Petroleum Investors Pte Ltd	(a)	Singapore	**100**	100
(iii) Subsidiary of Derrick Pty Ltd				
LLC South Derrick	(a)	Kyrgyz Republic	**70**	70

Notes: (a) Not audited by HLB Mann Judd.

14. AVAILABLE-FOR-SALE INVESTMENTS

	Notes	Consolidated 2010 $	Consolidated 2009 $
At fair value:			
Listed shares		**4,003,783**	1,596,462
		4,003,783	1,596,462

Available-for-sale investments consisted of investments in ordinary shares and therefore have no fixed maturity date or coupon rate. At the date of this report, the total of available for sale investments based on market prices at 29 September 2010 have increased from $4,003,783 to $5,210,930.

15. PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2010 $	Consolidated 2009 $
Plant and equipment - at cost	**7,947,163**	8,756,092
Accumulated depreciation	**(3,084,910)**	(2,183,011)
Accumulated impairment expense	**(1,812,692)**	(1,812,692)
Total property, plant and equipment net book value	**3,049,561**	4,760,389
Reconciliation:		
Carrying amount at the beginning of the year	**4,760,389**	4,610,838
Additions	**60,118**	3,420,458
Disposals	**(15,435)**	(45,255)
Depreciation	**(122,982)**	(135,508)
Impairment loss	**-**	(1,812,692)
Depreciation capitalised to exploration	**(1,065,013)**	(1,201,263)
Assets transferred to inventory	**(1,140)**	-
Foreign currency translation difference movement	**(566,376)**	(76,189)
Carrying amount at the end of the year	**3,049,561**	4,760,389

The impairment loss of $1,812,692 recognised during the previous year reflected the Directors judgment that following a fall in asset values worldwide during the previous year, the Group's drill rig (particularly following the extensive upgrades in the previous and current year) can be replaced at a lower price at balance date.

16. MINERAL INTEREST ACQUISITION, EXPLORATION AND DEVELOPMENT EXPENDITURE

	Consolidated 2010 $	Consolidated 2009 $
Balance at the beginning of the year	**11,536,374**	17,903,610
Expenditure incurred during the year	**2,450,249**	1,147,674
Reimbursement of expenditure from joint venture partner	**-**	(39,479)
Write off of exploration expenditure	**(11,912,259)**	(6,846,653)
Foreign currency translation difference movement	**(879,884)**	(628,778)
Carried forward	**1,194,480**	11,536,374

The expenditure above relates principally to the exploration and evaluation phase. The ultimate recoupment of this expenditure is dependent upon the successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

17. PAYABLES

Current

	Consolidated 2010 $	Consolidated 2009 $
Trade creditors and accruals	**236,918**	1,075,653
Employee benefits	**195,482**	167,856
	432,400	1,243,509

Terms and conditions relating to the above financial instruments:

(a) Trade and other creditors are non-interest bearing and are normally settled on 30 day terms.

(b) A deposit was previously received for the proposed sale of the Ghana heap leach plant. This amount is refundable upon sale of the plant to another party.

18. ISSUED CAPITAL AND RESERVES

Share capital

1,331,500,513 (2009: 1,111,739,580) ordinary shares, fully paid	**99,362,502**	96,268,599
	99,362,502	96,268,599

a) Ordinary shares

Movements in Ordinary Shares (last two years):	**Number**	Number	**$**	$
Balance at 1 July	**1,111,739,580**	1,111,739,58 0	**96,268,599**	96,268,599
Share placement at issue price of 1.5 cents on 8 October 2009	**158,260,933**	-	**2,373,914**	-
Share purchase plan at issue price of 1.5 cents on 13 November 2009	**61,500,000**	**-**	**922,500**	-
Transaction costs arising from share issue	**-**	-	**(202,511)**	-
Balance at 30 June	**1,331,500,513**	1,111,739,58 0	**99,362,502**	96,268,599

18. ISSUED CAPITAL AND RESERVES - continued

(b) ***Share Options***

Options to take up ordinary shares in the capital of the Company have been granted as follows:

Exercise Period	Note	Exercise Price	Opening Balance 1 July 2009	Options Issued 2009/10	Options Exercised/ Cancelled/ Expired 2009/10	Closing Balance 30 June 2010
			Number	*Number*	*Number*	*Number*
On or before 30 Nov 2009	(ii)	$0.10	5,000,000	-	(5,000,000)	-
On or before 31 Dec 2009	(ii)	$0.08	5,000,000	-	(5,000,000)	-
On or before 31 Mar 2010	(ii)	$0.08	2,100,000	-	(2,100,000)	-
On or before 30 Jun 2010	(ii)	$0.08	6,950,000	-	(6,950,000)	-
On or before 30 Jun 2010	(ii)	$0.09	2,000,000	-	(2,000,000)	-
On or before 31 Dec 2010		$0.10	850,000	-	-	850,000
On or before 31 Mar 2010	(ii)	$0.10	21,500,039	-	(21,500,039)	-
On or before 31 Dec 2011		$0.10	1,300,000	-	-	1,300,000
On or before 31 May 2011		$0.10	2,000,000	-	-	2,000,000
On or before 31 May 2011		$0.12	2,000,000	-	-	2,000,000
On or before 31 Dec 2010	(ii)	$0.03	8,500,000	-	(400,000)	8,100,000
On or before 31 Oct 2013	(i)	$0.03	-	6,100,000	-	6,100,000
			57,200,039	6,100,000	(42,950,039)	20,350,000

(i) 6,100,000 unlisted options were issued to employees and consultants as part of their remuneration package for the financial year ending 30 June 2010.

(ii) 42,950,039 options lapsed during the year ended 30 June 2010.

(c) ***Terms and conditions of issued capital***

Ordinary Shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

18. ISSUED CAPITAL AND RESERVES - continued

	Option Premium reserve $	Equity based compensation reserve $	Consolidated Financial assets reserve $	Foreign currency translation reserve $	Total $
(d) Reserves					
Balance at 1 July 2008	589,000	2,273,500	27,489,278	(1,009,003)	29,342,775
Fair value of options issued	-	73,355	-	-	73,355
Revaluation of available for sale financial assets	-	-	(25,591,545)	-	(25,591,545)
Currency translation differences	-	-	-	(1,416,360)	(1,416,360)
Balance at 30 June 2009	589,000	2,346,855	1,897,733	(2,425,363)	2,408,225
Balance at 1 July 2009	589,000	2,346,855	1,897,733	(2,425,363)	2,408,225
Fair value of options issued	-	161,040	-	-	161,040
Revaluation of available for sale financial assets	-	-	2,999,612	-	2,999,612
Currency translation differences	-	-	-	(2,634,030)	(2,634,030)
Balance at 30 June 2010	589,000	2,507,895	4,897,345	(5,059,393)	2,934,847

Option premium reserve:

The option premium reserve is used to accumulate proceeds received from the issuing of options and accumulate the value of options issued in consideration for services rendered.

Equity based compensation reserve:

The equity based compensation reserve is used to record the fair value of options issued but not exercised.

Financial assets reserve:

The financial assets reserve is used to record fair value changes on available-for-sale investments.

Foreign currency translation reserve:

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

19. SHARE BASED PAYMENT PLANS

The Company makes share based payments to consultants and/or service providers from time to time, not under any specific plan. The Company also may issue options to directors of the parent entity. Specific shareholder approval is obtained for any share based payments to directors of the parent entity.

The expense recognised in the statement of comprehensive income in relation to share-based payments is disclosed in Note 4.

The following table illustrates the number and weighted average exercise prices of and movements in share options issued during the year:

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2010	**2010**	**2009**	**2009**
Outstanding at the beginning of the period	**$0.085**	**57,200,039**	$0.095	61,810,039
Forfeited / Expired during the period	**$0.085**	**(42,950,039)**	$0.099	(18,610,000)
Exercised during the period	**-**	**-**	-	-
Granted during the period	**$0.03**	**6,100,000**	$0.064	14,000,000
Outstanding at the end of the period	**$0.053**	**20,350,000**	$0.085	57,200,039
Exercisable at the end of the period		**20,350,000**		47,400,039

The outstanding balance as at 30 June 2010 is shown in Note 18 (b) above.

The fair value of the equity-settled share options is estimated as at the date of grant using a Black-Scholes model taking into account the terms and conditions upon which the options were granted. The fair value of shares issued is calculated by reference to the market value of the shares trading on the Australian Securities Exchange on or around the date of grant.

The following table lists the inputs to the model used for the years ended 30 June 2009 and 30 June 2010:

	2010	**2009**
Volatility (%) - range	**106%**	95% - 395%
Risk-free interest rate (%) - range	**4.5%**	3% - 7.25%
Expected life of option (years)	**3.5 years**	1.5 to 2.5 years
Exercise price (cents)	**3 cents**	3 - 12 cents
Weighted average share price at grant date (cents)	**0.9**	2.3

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

There were no other share based payments, not under any plans during the financial year.

20. FINANCIAL INSTRUMENTS

Overview

The Company and Group have exposure to the following risks from their use of financial instruments:
- credit risk
- liquidity risk
- market risk

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the group through regular reviews of the risks.

	Consolidated	
	2010	**2009**
	$	**$**
Cash	**3,216,256**	1,510,196
Receivables	**404,441**	1,446,656
Available-for-sale investments	**4,003,783**	1,596,462
Other-Non-Current VAT Receivable	**211,158**	925,830
Total Assets	**7,835,638**	5,479,144
Payables	**236,918**	1,075,653
Total Liabilities	**236,918**	1,075,653

(a) Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

(i) Investments

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating.

(ii) Receivables

As the Group operates in the mineral exploration sector, it does not have trade receivables and therefore is not exposed to credit risk in relation to trade receivables. However, from May 2009, the Group has undertaken contract drilling and therefore has trade receivables and is exposed to credit risk.

The Group has established an allowance for impairment that represents their estimate of incurred losses in respect of other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures. Trade receivables are closely monitored and assessed for collectibility. The management does not expect any counterparty to fail to meet its obligations.

Presently, the Group undertakes exploration and evaluation activities in Australia, West Africa and the Kyrgyz Republic. At the balance sheet date there were no significant concentrations of credit risk.

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure.

20. FINANCIAL INSTRUMENTS - continued

(b) Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

Due to the nature of the Group's activities and the present limited operating revenue, the Company has to raise additional capital from time to time in order to fund its exploration activities. The decision on how and when the Company will raise future capital will depend on market conditions existing at that time and the level of forecast activity and expenditure.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of between three and six months, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. These are based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Consolidated	**Less than 3 months**	**3 months – 1 year**	**1 – 5 years**
	$	$	$
30 June 2010			
Non-interest bearing	145,134	-	91,784
30 June 2009			
Non-interest bearing	956,129	-	119,524

(c) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices which will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on investments, purchases and borrowings that are denominated in a currency other than the respective functional currency of Group entities, primarily the Australian dollar (AUD). The currencies in which these transactions are primarily are denominated are AUD and USD.

The Group has not entered into any derivative financial instruments to hedge such transactions and anticipated future receipts or payments that are denominated in a foreign currency.

The Group's investments in its subsidiaries are not hedged as those currency positions are considered to be long term in nature.

20. FINANCIAL INSTRUMENTS - continued

(ii) Exposure to currency risk

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

	30 June 2010		30 June 2009	
	Assets	**Liabilities**	Assets	Liabilities
	$	**$**	$	$
United States Dollar	**2,071,803**	**-**	899,302	-
Kyrgyz Som	**393,826**	**144,480**	2,885,311	416,338
Ghana Cedi	**12,145**	**91,784**	45,252	119,524
	2,477,774	**236,264**	4,051,095	610,896

The following significant exchange rates applied during the year:

	Average rate		**Reporting date spot rate**	
	2010	2009	**2010**	2009
	$	$	**$**	$
United States Dollar	**0.88**	0.75	**0.86**	0.80
Kyrgyz Som	**39.29**	29.34	**39.76**	34.81
Ghana Cedi	**1.29**	0.97	**1.25**	1.22

(iii) Sensitivity analysis

A 10 percent strengthening of the Australian dollar against the above currencies at 30 June would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

		Consolidated	
		2010	**2009**
		$	**$**
(Profit) or loss	(i)	**(188,346)**	(132,889)
Equity	(ii)	**(203,774)**	(378,643)

(i) this is mainly attributable to the exposure on USD receivables

(ii) this is mainly related to the translation of foreign denominated financial assets and liabilities at balance date

A 10 percent weakening of the Australian dollar against the above currencies at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(iv) Interest Risk

The Group's exposure to the risk of changes in market interest rate relates primarily to the Group's cash and cash equivalents.

20. FINANCIAL INSTRUMENTS - continued

At the reporting date the interest rate profile of the Company's and the Group's interest-bearing financial instruments is as follows:

	Consolidated Carrying Amount 2010 $	Consolidated Carrying Amount 2009 $
Variable rate Instruments at call		
Financial assets	**2,595,049**	526,734
Financial liabilities	**-**	-
	2,595,049	526,734

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below, where interest is applicable. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2009.

	Profit or (Loss)		Equity	
Consolidated	**100bp increase $**	**100bp decrease $**	**100bp increase $**	**100bp decrease $**
30 June 2010				
Variable rate instruments	25,950	(25,950)	25,950	(25,950)
Cash flow sensitivity (net)	25,950	(25,950)	25,950	(25,950)
30 June 2009				
Variable rate instruments	5,267	(5,267)	5,267	(5,267)
Cash flow sensitivity (net)	5,267	(5,267)	5,267	(5,267)

(d) Net Fair Values

As of 1 July 2009, the Company has adopted the amendments to AASB 7 Financial Instruments: Disclosures which require disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table present the group's assets and liabilities measured and recognised at fair value at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

Consolidated

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Available-for-sale financial assets	4,003,783	-	-	4,003,783
	4,003,783	-	-	4,003,783
Liabilities				
Derivatives used for hedging	-	-	-	-
	-	-	-	-

20. FINANCIAL INSTRUMENTS - continued

(e) Capital Management

Management controls the capital of the Group in order to ensure that the Group can fund its operations on an efficient and timely basis and continue as a going concern. There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's cash projections up to twelve months in the future and any associated financial risks. Management will adjust the Group's capital structure in response to changes in these risks and in the market.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

21. COMMITMENTS

(a) Exploration expenditure commitments

For those mineral concessions where the consolidated entity is not the titleholder, the earning of equity interest is by incurring exploration expenditure of specified amounts by certain dates. Where the consolidated entity or its joint venture partners are the concession holder, renewal will be subject to satisfying the relevant authority as to the adequacy of exploration programs by comparison to work programs submitted at the time of grant of the concession. It is estimated that the consolidated entity is required to make the following outlays to satisfy joint venture and exploration permit conditions. These commitments are subject to variation dependent upon matters such as the results of exploration on the mineral concessions.

	Consolidated	
	2010	**2009**
	$	**$**
Within one year	**3,260,742**	1,716,000
One year or later and not later than five years	**1,529,960**	860,000
Later than five years	**-**	-
	4,790,702	2,576,000

(b) Remuneration commitments

Mr Parsons has entered into an agreement with the Company whereby either party can terminate the agreement by giving six months written notice.

	Consolidated	
	2010	**2009**
	$	**$**
Within one year	**125,000**	100,000
One year or later and not later than five years	**-**	-
Later than five years	**-**	-
	125,000	100,000

22. CONTINGENT LIABILITIES

(a) Acquisition of investment in Textonic Consulting Limited

The terms of the agreement under which Caspian Oil & Gas Limited acquired the first 50% of the issued capital of Textonic Consulting Ltd require additional consideration to be paid in the future if certain performance criteria are achieved. 33,638,298 shares in the issued capital of Caspian Oil & Gas Limited are required to be issued to the vendors at any time in the future upon independent certification of 100 million barrels of recoverable oil in proved and probable reserves on the Kyrgyz oil projects acquired from the vendors as long as the Company retains a direct or indirect equity interest in the Kyrgyz oil projects at that time.

An amount of $50,000 is payable to another party (unrelated to the vendors of the shares in Textonic Consulting Ltd) upon commencement of successful commercial production of oil from licences held by CJSC Textonic in the Kyrgyz Republic.

23. CASH FLOW STATEMENTS

	Consolidated	
	2010	**2009**
	$	**$**
(a) Reconciliation of the loss from ordinary activities to net cash used in operating activities		
Loss from ordinary activities after income tax	**(14,673,866)**	(5,555,012)
Add back non-cash items:		
Depreciation	**122,982**	135,508
Impairment of plant & equipment	**-**	1,812,692
(Profit)/loss on sale of plant and equipment	**(8,973)**	2,386
(Profit)/loss on sale of investments	**(214,189)**	(6,341,456)
Employee and consultants' options	**161,040**	73,355
Exploration expenditure write-off	**11,912,259**	6,846,653
Employee benefits provision	**27,626**	5,696
Foreign currency (gain)/loss	**(97,746)**	(314,642)
Change in assets and liabilities:		
(Increase)/decrease in receivables	**1,658,676**	(724,335)
(Increase)/decrease in inventories	**1,857,310**	(3,061,249)
(Increase)/decrease in other assets	**19,779**	123,160
(Decrease)/increase in payables	**(316,147)**	(139,201)
Net cash provided by / (used in) operating activities	**448,751**	(7,136,445)

(b) Non-cash financing and investing activities

There were no non-cash financing and investing activities during the year.

	Consolidated	
	2010	2009
	$	$

24. EMPLOYEE BENEFITS

The aggregate employee benefit liability is comprised of:

Annual leave accrual and long service leave provision – current	**195,482**	167,856

25. DIRECTOR AND EXECUTIVE DISCLOSURES

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-Executive Directors
Mr Reginald Gillard
Mr Jürg Walker
Mr Michael Sandy

Executive Directors
Mr Colin Carson
Mr Graeme Parsons

Other Key Management Personnel
Susmit Shah – Company Secretary. Mr Shah's services are provided by Corporate Consultants Pty Ltd, a company in which Mr Gillard and Mr Shah are directors and have beneficial interests.

The key management personnel compensation included in "employee, directors and consultants cost" are as follows:

	Consolidated	
	2010	2009
	$	$
Short-term employee benefits	**438,725**	427,390
Post-employment benefits	**31,998**	36,037
Share-based payments	**11,230**	29,660
	481,953	493,087

There have been no changes of the CEO or key management personnel after reporting date and the date the financial report was authorised for issue other than the resignation of Mr Gillard as chairman.

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation and some equity instruments disclosures as permitted by Schedule 5B to the Corporations Regulations 2001 is provided in the Remuneration Report section of the Directors' Report. Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year-end.

Loans to key management personnel and their related parties

There were no loans outstanding at the reporting date to key management personnel and their related parties.

Other key management personnel transactions

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Transactions between related parties are on normal commercial terms and conditions unless otherwise stated.

25. DIRECTOR AND EXECUTIVE DISCLOSURES - continued

	Consolidated 2010 $	2009 $
(i) Accounting, secretarial and corporate service fees paid or payable to Corporate Consultants Pty Ltd, a company in which Mr Gillard and the company secretary, Mr Susmit Shah, are directors and have beneficial interests.	**119,708**	131,198
(ii) Rent paid or payable to Ledgar Road Partnership, an entity in which Mr Gillard and Mr Carson both have a beneficial interest.	**3,262**	2,289
(iii) Taxation services paid or payable to Icon Financial Management Pty Ltd, an entity in which Mr Gillard is a director and has a beneficial interest.	**6,011**	5,240
Balances due to Directors and Director Related Entities at year end		
- included in trade creditors and accruals	**35,977**	105,178

Shareholdings
The numbers of shares in the Company held during the financial year by directors, including shares held by entities they control, are set out below.

30 June 2010	**Balance at 1 July 2009**	**Received as Remuneration**	**Options Exercised**	**Other Movements(a)**	**Balance at 30 June 2010**
Parent entity directors					
Reginald Gillard	1,749,428	-	-	-	1,749,428
Colin Carson	9,188,484	-	-	5,000,000	14,188,484
Graeme Parsons	1,000,000	-	-	600,000	1,600,000
Jürg Walker	82,978,610	-	-	-	82,978,610
Michael Sandy	1,500,000	-	-	2,000,000	3,500,000
Senior manager					
Susmit Shah	1,000,000	-	-	-	1,000,000

30 June 2009	**Balance at 1 July 2008**	**Received as Remuneration**	**Options Exercised**	**Other Movements(a)**	**Balance at 30 June 2009**
Parent entity directors					
Reginald Gillard	1,749,428	-	-	-	1,749,428
Colin Carson	20,111,247	-	-	(10,922,763)[i]	9,188,484
Graeme Parsons	-	-	-	1,000,000	1,000,000
Jürg Walker	82,978,610	-	-	-	82,978,610
Michael Sandy	1,500,000	-	-	-	1,500,000
Senior manager					
Susmit Shah	1,000,000	-	-	-	1,000,000

(a) Other Movements

Shares purchased or sold during the financial year.

(i) Transferred pursuant to a Family Court Order.

25. DIRECTOR AND EXECUTIVE DISCLOSURES - continued

<u>Option holdings</u>
The numbers of options in the Company held during the financial year by Directors, including shares held by entities they control, are set out below.

30 June 2010	Balance at 1 July 2009	Received as Remuneration	Options Exercised / (Expired)	Other Movements	Balance at 30 June 2010	Vested and exercisable at year end
Parent entity directors						
Reginald Gillard	-	-	-	-	-	-
Colin Carson	-		-	-	-	-
Graeme Parsons	9,000,000	-	(5,000,000)	-	4,000,000	4,000,000
Jürg Walker	-	-	-	-	-	-
Michael Sandy	-	-	-	-	-	-
Senior manager						
Susmit Shah	600,000	400,000	-	-	1,000,000	1,000,000

30 June 2009	Balance at 1 July 2008	Received as Remuneration	Options Exercised / (Expired)	Other Movements	Balance at 30 June 2009	Vested and exercisable at year end
Parent entity directors						
Reginald Gillard	2,500,000	-	(2,500,000)	-	-	-
Colin Carson	3,500,000		(1,575,000)	(1,925,000)	-	-
Graeme Parsons	5,000,000	4,000,000	-	-	9,000,000	9,000,000
Jürg Walker	1,500,000	-	(1,500,000)	-	-	-
Michael Sandy	1,000,000	-	(1,000,000)	-	-	-
Senior manager						
Susmit Shah	650,000	600,000	(650,000)	-	600,000	-

<u>Other transactions with directors</u>

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or the Group since the end of the previous financial year and there were no material contracts involving Directors' interests subsisting at year end.

26. NON DIRECTOR RELATED PARTIES

(a) Transactions with Related Parties - Subsidiaries

Wholly Owned Group

The parent entity incurs exploration expenditure on behalf of the subsidiaries.

Transactions between related parties are on normal commercial terms and conditions unless otherwise stated.

(b) Transactions with Other Related Parties

There were no transactions with other related parties during the year.

27. PARENT ENTITY DISCLOSURES

a) Financial position

	30 June 2010 $	30 June 2009 $
ASSETS		
Current assets	**3,160,477**	588,097
Non current assets	**11,701,454**	25,692,415
TOTAL ASSETS	**14,861,931**	26,280,512
LIABILITIES		
Current liabilities	**212,186**	632,613
TOTAL LIABILITIES	**212,186**	632,613
EQUITY		
Contributed equity	**99,362,502**	96,268,599
Accumulated losses	**(91,976,500)**	(74,719,082)
Equity based compensation reserve	**2,507,895**	2,346,855
Financial assets reserve	**4,166,848**	1,162,527
Option premium reserve	**589,000**	589,000
TOTAL EQUITY	**14,649,745**	25,647,899

b) Financial performance

	Year Ended 30 June 2010 $	Year Ended 30 June 2009 $
Net Loss for the year	**(17,257,418)**	(2,396,351)
Other comprehensive income / (loss)	**3,004,321**	(25,596,254)
Total comprehensive income / (loss)	**(14,253,097)**	(27,992,605)

c) Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

Caspian Oil & Gas Limited has not entered into a deed of cross guarantee with its subsidiary company.

d) Contingent liabilities of the parent entity

Caspian Oil & Gas Limited has no contingent liabilities as at 30 June 2010. For details on commitments, see Note 21.

28. EVENTS OCCURRING AFTER THE REPORTING DATE

There are no matters or circumstances that have arisen since 30 June 2010 that have or may significantly affect the operations, results, or state of affairs of the consolidated entity in future financial years.

1. In the opinion of the directors of Caspian Oil & Gas Limited (the 'Company'):

   a. the accompanying financial statements, notes and the additional disclosures are in accordance with the Corporations Act 2001 including:

      i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year then ended; and

      ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

   b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

   c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards as disclosed in Note 1.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2010.

This declaration is made in accordance with a resolution of the Directors.

Colin Carson

C J Carson
Executive Chairman

Dated at Perth, 30 September 2010

HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of
CASPIAN OIL & GAS LIMITED

Report on the Financial Report
We have audited the accompanying financial report of Caspian Oil & Gas Limited ("the company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 26 to 61.

Directors' Responsibility for the Financial Report
The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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HLB Mann Judd

Accountants | Business and Financial Advisers

Independence
In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion
In our opinion:

(a) the financial report of Caspian Oil & Gas Limited is in accordance with the Corporations Act 2001, including:
   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report
We have audited the Remuneration Report included in pages 19 to 24 of the directors' report for the year ended 30 June 2010.The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion
In our opinion the Remuneration Report of Caspian Oil & Gas Limited for the year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Perth, Western Australia
30 September 2010

M R W OHM
Partner