CASPIAN OIL & GAS LIMITED

ABN 44 065 212 679

Financial Report 2011

Caspian Oil & Gas Limited
Corporate Directory

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	
Registered and Administrative Office	30 Ledgar Road Balcatta Western Australia 6021	
	PO Box 717 Balcatta Western Australia 6914	
	Telephone:	(61 8) 9240 2405
	Facsimile:	(61 8) 9240 2406
	Email address:	info@caspianogl.com
	Web site:	www.caspianogl.com
Kyrgyz Republic	Office 1, 4 Razzakova Street Bishkek Kyrgyz Republic 720040	
	Telephone:	(996) 312 665 771
	Facsimile:	(996) 312 664 171
	Email address:	office@caspianogl.kg
Share Registry	Advanced Share Registry Services 150 Stirling Highway Nedlands, Western Australia 6009	
	Telephone:	(61 8) 9389 8033
	Facsimile:	(61 8) 9389 7871
Auditors	HLB Mann Judd Level 4 130 Stirling Street Perth Western Australia 6000	
Stock Exchange Listings	Australian Securities Exchange	(Code – CIG)
	Berlin and Frankfurt Securities Exchanges (Third Market Segment)	

Contents

Dear Shareholder,

Caspian Oil & Gas has made some important progress during the year in developing its project portfolio.

Caspian has extended its exploration licences and is at the final stage in the approval process for its production licences in the Kyrgyz Republic. It continues to seek further time to explore licences where the remaining life is less than two years.

Exploration in the Krgyz Republic has focussed on West Mailisu, with a successful seismic campaign culminating in drilling the West Mailisu #2 well. The West Mailisu #2 wellsite lies adjacent to the Mailisu IV oil and gas field, which has produced 42mmbbls oil to date. West Mailisu #2 was spudded in June 2011, and by the end of July, we had reached the primary targets, the Bed III (sandstone) and the Bed V and VII (limestones). Oil shows were recorded in both Beds III and V. After a number of technical problems, we will commence flow testing Bed III in early October.

Also in Kyrgyz, we continue to search for a partner to farm-in to our licences. Two companies undertook a detailed study of our Kyrgyz acreage, but decided against the move. We have previously identified 25 prospects and leads on all blocks, with an upside estimate of Prospective Resources totalling 242 million barrels. Key seismic lines over a number of these opportunities were reprocessed and additional seismic requirements were identified.

There has been progress in our partnership with ADX Energy and Sibinga Petroleum on the PARTA Block in the Pannonian Basin in Romania, where operator ADX has commenced detailed studies of the licence. In 2010 Caspian was part of a group to bid for the PARTA Block, an area of 1,221sq km that is home to seven (excised) oil and gas fields, and we will hold a 20% interest in the block. We believe the area to be under-explored with many attractive undrilled seismically- identified targets.

ADX will move ahead with reprocessing seismic data and acquiring 2D seismic data once the final ministerial approval is obtained. We remain confident that PARTA will fulfil the potential we believe that it holds.

Finally, I take this opportunity to thank the management and staff, contractors and consultants of Caspian for their work over the past year. I hope the year ahead is another productive one.

Graeme Parsons

Overview

Caspian Oil & Gas Limited holds interests in seven oil and gas exploration licences and three production licence applications grouped on the rim of the historic Fergana Basin in the Kyrgyz Republic, Central Asia. The licences currently cover an area of more than 7,800sq km, however plans are being formulated to reduce licence sizes and to relinquish some licences.

Estimated to hold four billion barrels of recoverable oil by the US Department of Energy[1], the Fergana Basin has recovered around one billion barrels of oil to date.

Caspian has a group of four exploration licences located around the town of Mailisu and near Jalal-Abad on northern margin of the Fergana Basin, along with three larger acreage licences on the southern rim of the basin.

With a change of government in Kyrgyzstan in 2010, the Company has worked to ensure these licences were renewed. This was successfully concluded in late 2010 with all licences extended. Six were extended until 31 December 2012, although the renewals were not formalised until March 2011. The Company is seeking clarification of its ability to further extend these licences.

There was ongoing technical work which included recording an additional 8km of 2D seismic to refine the West Mailisu #2 prospect and reprocessing 241km of seismic over a number of prospects and leads. The work culminated in drilling the West Mailisu #2 well, which spudded on 13 June, 2011.

Caspian was part of a bidding group that also included ADX Energy (ADX) and Argos-Sibinga Petroleum which successfully bid for exploration block EX-10 PARTA (Parta Block) in the southern Pannonian Basin, western Romania, in July 2010. While the Parta Block concession agreement was signed on 28 January 2011, Caspian is still awaiting ministerial signature on the Licence Agreement. The operator, ADX, has advised that this approval is expected in Quarter 4, 2011.

Following finalisation of a joint venture agreement, Caspian will hold a 20% interest in the Block, with ADX holding 60% and Argos-Sibinga Petroleum holding the remaining 20%. The operator is expecting activity to commence with seismic reprocessing and 2D seismic acquisition but timing of that work remains uncertain.

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 people.

Figure 1 – Map of the 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 and exchange currency.

In April 2010, the then president was removed from office and a new constitution was adopted. National elections were held in October 2010. Presidential elections are planned for late October 2011.

Activity Review

Seismic Acquisition & Reprocessing

In order to have better definition of the West Mailisu #2 prospect, an 8km line of 2D seismic was recorded over the southern flank of the opportunity (see Figure 4). This line confirmed the rollover and separation from the nearby Mailisu IV oil field.

As part of our ongoing exploration activity, a total of 241km of 2D seismic was reprocessed in the Ak-Bura and Charvak licences. In many cases there was a dramatic improvement in the quality of the data and the work has allowed additional prospects to be delineated.

West Mailisu # 2 Well

The West Mailisu prospect in the Kyrgyz Republic lies adjacent to the Mailisu IV oil field, which has produced more than 42 million barrels (mmbbls) of oil. The West Mailisu #2 well is on Caspian's 100%-owned West Mailisu licence.

Drilling of the West Mailisu #2 well commenced on 13 June 2011 and total depth of 2,050m was reached on 31 July 2011. Good shows were recorded in the main reservoir targets - Beds III & V. The well was drilled using Caspian's own rig.

Problems occurred during an attempted isolation of Bed V for testing and preclude further evaluation of this zone. It has been decided not to test Bed V in this hole due to severe hole instability and likely formation damage.

Caspian perforated Bed III over a 10.5m interval (1,785-1,795.5m) and upon recovering water-free oil from the well will run a pump into the hole and bring the well into production.

The presence of moveable oil in Bed III within the structure confirms the validity of the hydrocarbon system (trap, reservoir, source & seal) at the location and further activities in the field will be decided after an initial production test. Preliminary estimates (unaudited) suggest that there is a potential recoverable resource ranging from 150,000 bbls (low case) to 2.2 mmbbls (high case) with a mean estimate of 1.0 mmbbls of oil within the West Mailisu structure.

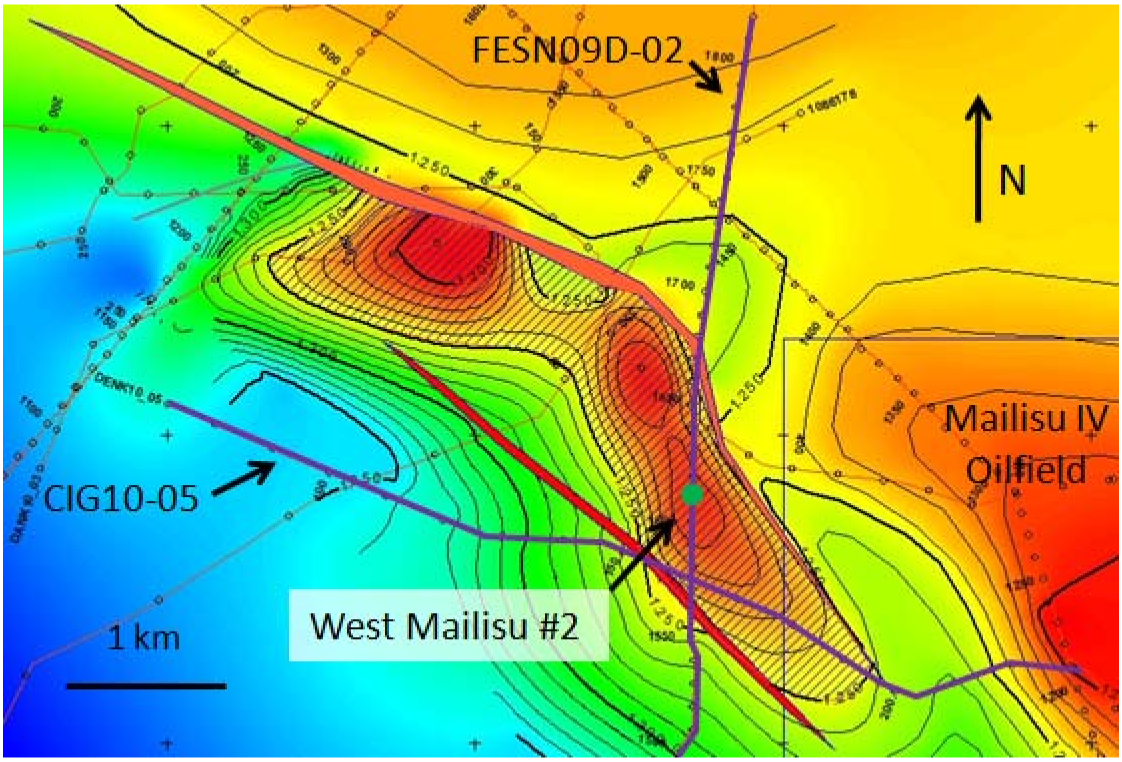


Figure 2 – Time structure map of top Eocene carbonates at West Mailisu

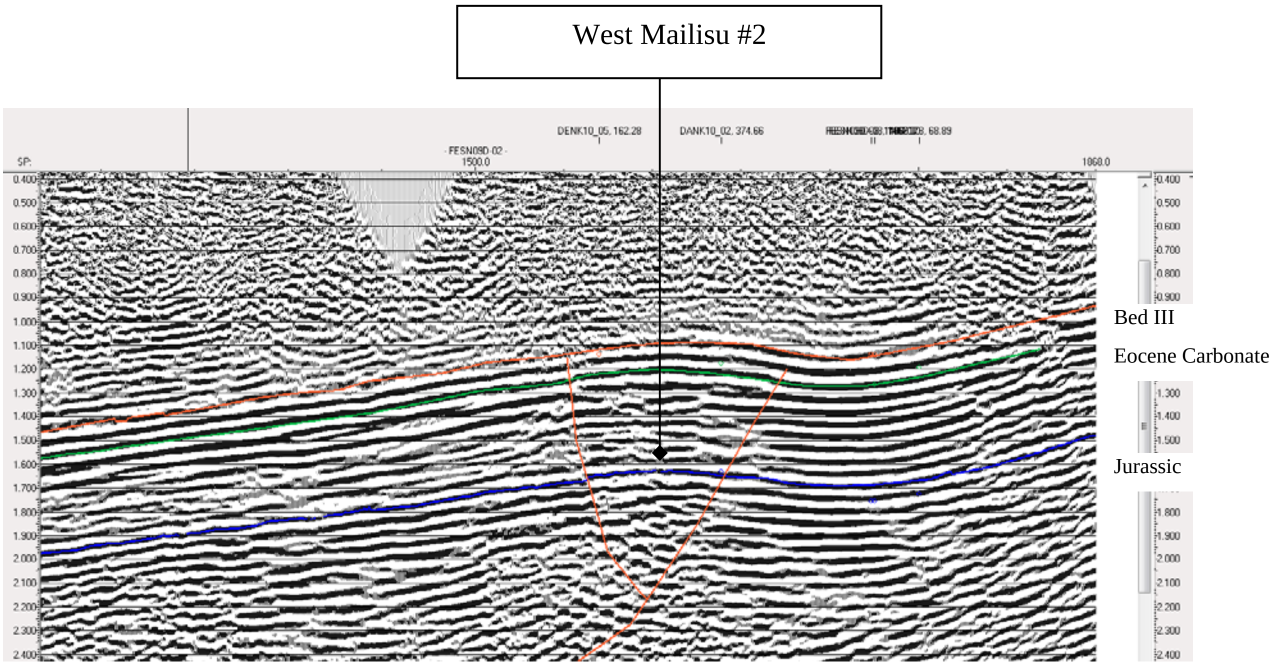


Figure 3 – West Mailisu Seismic Line FESN09-02

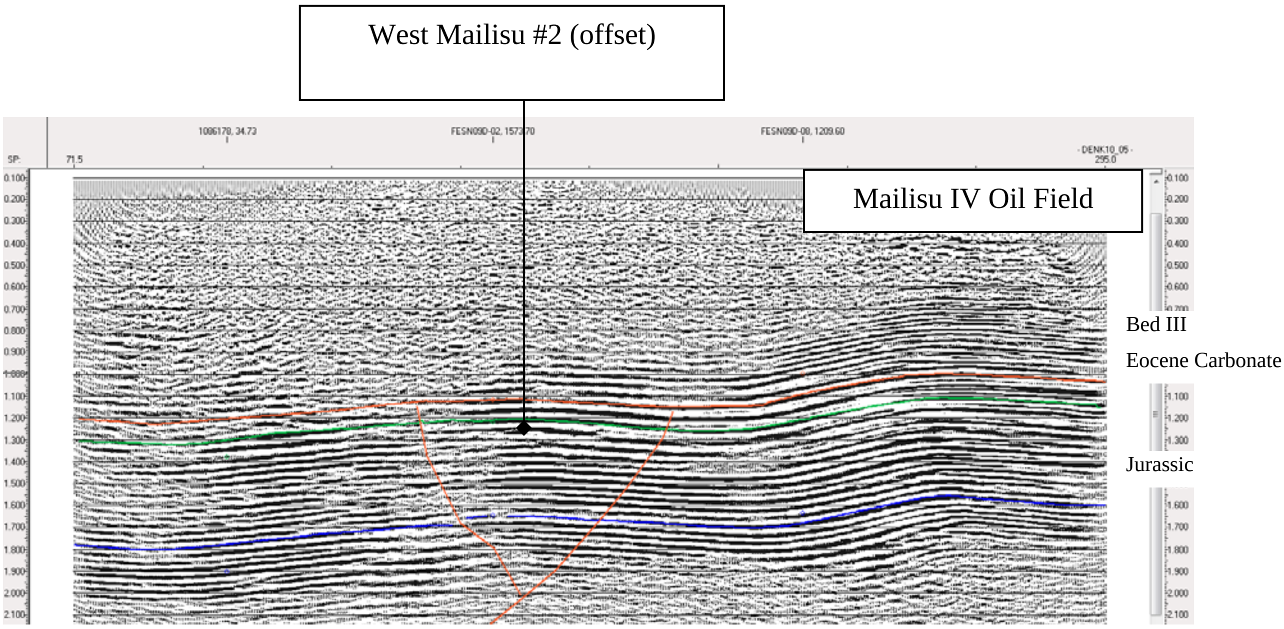


Figure 4 – West Mailisu Seismic Line CAS10-05

Licencing

In March 2011 six of Caspian's Kyrgyz exploration licences were extended until 31 December 2012. The Company is seeking clarification of its ability to further extend these licences before committing to work programs on these licences, since otherwise there is insufficient time to undertake seismic programs and drill enough wells to establish reserves and enable production licence applications before expiry. The Company will concurrently conduct a review of the licences with the view to relinquishing less prospective ones and reducing the size of licences to be retained.

The West Mailisu exploration licence's term expires in 2014 and it is not proposed to relinquish any portion of this licence at this stage.

The Company understands that all requirements for the issue of its three production licences have been met and only a final sign-off by the licencing committee is required to finalise the process.

Farmout Activity

While several companies undertook detailed reviews on the Company's Kyrgyz licences, no farmin offers have been received to date.

Caspian Production Operations

During the year ended 30 June 2011, a total of the 939 tons (~6,850 bbls) of oil was sold into the local market. This was an increase of more than 50% from the previous year. The average sale price was around $287/ton ($39.25 per bbl). Current oil production is about 14 bbls of oil per day. Revenue for the year's production amounted to US$269,155. Recent negotiations have secured higher prices for our oil which now average about US$400/ton.

2011-2012 Indicative Work Program

Activity	Timing	Comments	Potential Impact
Mailisu III # 6 –completion	**3Q-4Q 2011**	**Acidise and complete as an Oil Producer**	**20-30bopd**
West Mailisu #2 - completion	**4Q 2011**	**Test and determine if any production enhancement such as radial drilling or fraccing) could be implemented**	**20-100bopd**
2-3 additional wells in West Mailisu	**4Q 2011**	**Dependent on results of WM#2**	**100-400bopd**
Seismic Acquisition – East Mailisu, Charvak & Akbura	**3-4Q 2011**	**Extent of coverage dependent on finding farminee and licence extensions**	**Defining potential large leads indicated from earlier seismic reviews**

Romania

Caspian was part of a bidding group that also comprised ADX Energy and Argos-Sibinga Petroleum which successfully bid for exploration block EX-10 PARTA (Parta Block) in the southern Pannonian Basin, western Romania, in July 2010. The Parta Block concession agreement was signed on 28 January 2011 and is awaiting Ministerial sign-off. Following finalisation of the Joint Venture Agreement, Caspian will hold a 20% interest in the block, with the operator ADX Energy Ltd (ADX) 60%, and Argos-Sibinga Petroleum holding the remaining 20%. There have been significant delays in getting final ministerial approval due to a complex administrative process which needs to be undertaken through four ministries. While ADX Energy has advised that it expects the process to be completed by the Q4 2011, plans for seismic reprocessing and acquisition have been put on hold until this is finalised.

The Parta Block covers an area of 1,221sq 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.

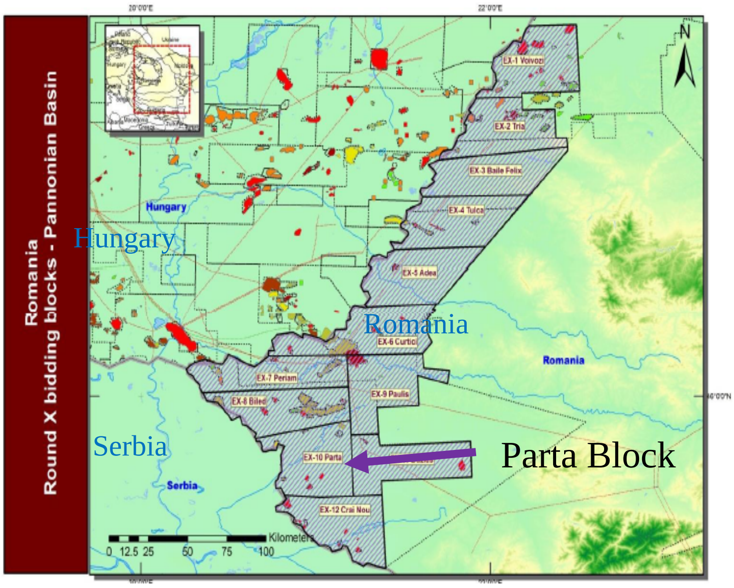


Figure 5 - Location map of the Parta Block in Romania

An active work program 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.

Minerals Activities

While Caspian has been focused on its oil interests, it retains a number of African mineral assets. These include shares in listed mineral exploration and mining companies, production royalties, a joint venture over the Mansounia gold project in Guinea with Burey Gold Limited ("Burey"), a diamond joint venture in the Democratic Republic of Congo ("DRC") and gold and diamond exploration licences in Ghana.

Company Shares

The sale of listed minerals company shares raised Caspian $2,302,000 during the year. As at the date of this report the market value of Caspian's investments in listed minerals companies was $3 million.

Mansounia Gold Project, Guinea

Mansounia is a large-tonnage, low-grade gold deposit with a near-surface sheet-like saprock resource. There is potential for additional low grade gold resources within the licence area within three separate targets and for higher grade resources at Mansounia within narrower, steeply dipping, feeder structures.

Burey (www.bureygold.com) can earn an interest in Caspian's Mansounia project by completing a feasibility study with at least a 200,000 oz gold reserve, at which time Caspian's equity would reduce to 8% and Caspian would be entitled to a US$500,000 cash payment.

Burey announced a maiden resource on the Mansounia gold project in May 2009, applying different cut-off grades. At a 0.7g/t Au cut-off, the gold resource is 437,000 oz at 1.0g/t Au (67,000 oz Indicated and 370,000 oz Inferred). At a 0.4g/t Au cut-off the resource is 830,000 oz at 0.7g/t Au (132,000 oz Indicated and 698,000 oz Inferred).

Burey has undertaken an extensive drilling program to follow up on open ended higher grade gold mineralisation and to infill and upgrade the existing Inferred gold resources. Results are pending at the date of this report.

Given the current attractive gold price, it is expected that Burey will undertake a scoping study if the recent drilling program returns positive results. Mansounia is located 2km south of the operating Kiniero Gold Mine.

Mansounia 2009 Gold Resource Estimates at Different Cut-off Grades

Cut-off Grade Aug/t	Indicated			Inferred			Total		
	Tonnes Mt	Grade Au/t	Contained Ounces Au	Tonnes Mt	Grade Au/t	Contained Ounces Au	Tonnes Mt	Grade Au/t	Contained Ounces Au
0.2	7.9	0.6	151,600	53.6	0.5	926,400	61.5	0.5	1,078,000
0.4	6.1	0.7	132,100	30.4	0.7	697,600	36.5	0.7	829,700
0.7	2.2	0.9	66,700	10.9	1.1	370,300	13.1	1.0	436,900
1.0	0.5	1.2	21,900	4.5	1.4	200,200	5.0	1.4	222,100

Ghana Licences

Paramount Mining Corporation Ltd, Caspian's joint venture partner on its Pramkese, Asamankese and Osenase Ghanaian gold and alluvial diamond exploration licences, withdrew from its farm-in in July 2011. Caspian is in discussions with potential replacement joint venture partners. These licences are located in Ghana's Birim diamond field.

DRC Licences

Joint venture partner Delrand Resources Ltd undertook limited work on Caspian's Tshikapa exploration licences in the Democratic Republic of Congo during the year. Delrand is targeting a possible source of extensive alluvial diamonds found in the area.

Royalties

Caspian holds 0.5% net smelter royalties on gold produced from the Tengrela gold project in Côte d'Ivoire and Grumesa in Ghana (projects owned by Perseus Mining Limited).

The Tengrela gold project is scheduled to commence production in 2013, and based on the projected 150,000 oz per annum gold production in the first two years and a US$1,650 / oz gold price (current spot price), the royalty would return Caspian approximately US$1.2 million in each of those years. The Sissingue project at Tengrela currently has Mineral Reserves (Probable category) of 657,000 oz gold. A reserve upgrade to reflect recent drilling is scheduled for 2012 and there are numerous drill targets at Tengrela which have the potential to add to gold reserves.

The Grumesa gold project is at the feasibility stage and has the potential to come into production at a modest rate of about 40,000 oz of gold per annum in 2013 or 2014.

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 thirty 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.

Mineral Resources and Mineral Reserves referred to at the Mansounia and Tengrela Projects above are obtained from public records of Burey Gold Limited and Perseus Mining Limited, the operators and owners of the projects respectively.

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 2011 and the auditor's report thereon.

DIRECTORS

The names and details of the Directors in office during or since the end of the previous 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 joint venture negotiations and corporate and legal matters. During the past three years he has also served as a director of the following listed companies:

Perseus Mining Limited *
Manas Resources Limited *

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

Mr Parsons is a Petroleum Geoscientist with over 30 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 35 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 *

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 three years prior to his resignation, he also served as a director of the following listed companies:

Aspen Group Limited *	
Platina Resources Limited *	
Perseus Mining Limited *	
Eneabba Gas Limited *	
Tiger Resources Limited *	
Lindian Resources Limited	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)

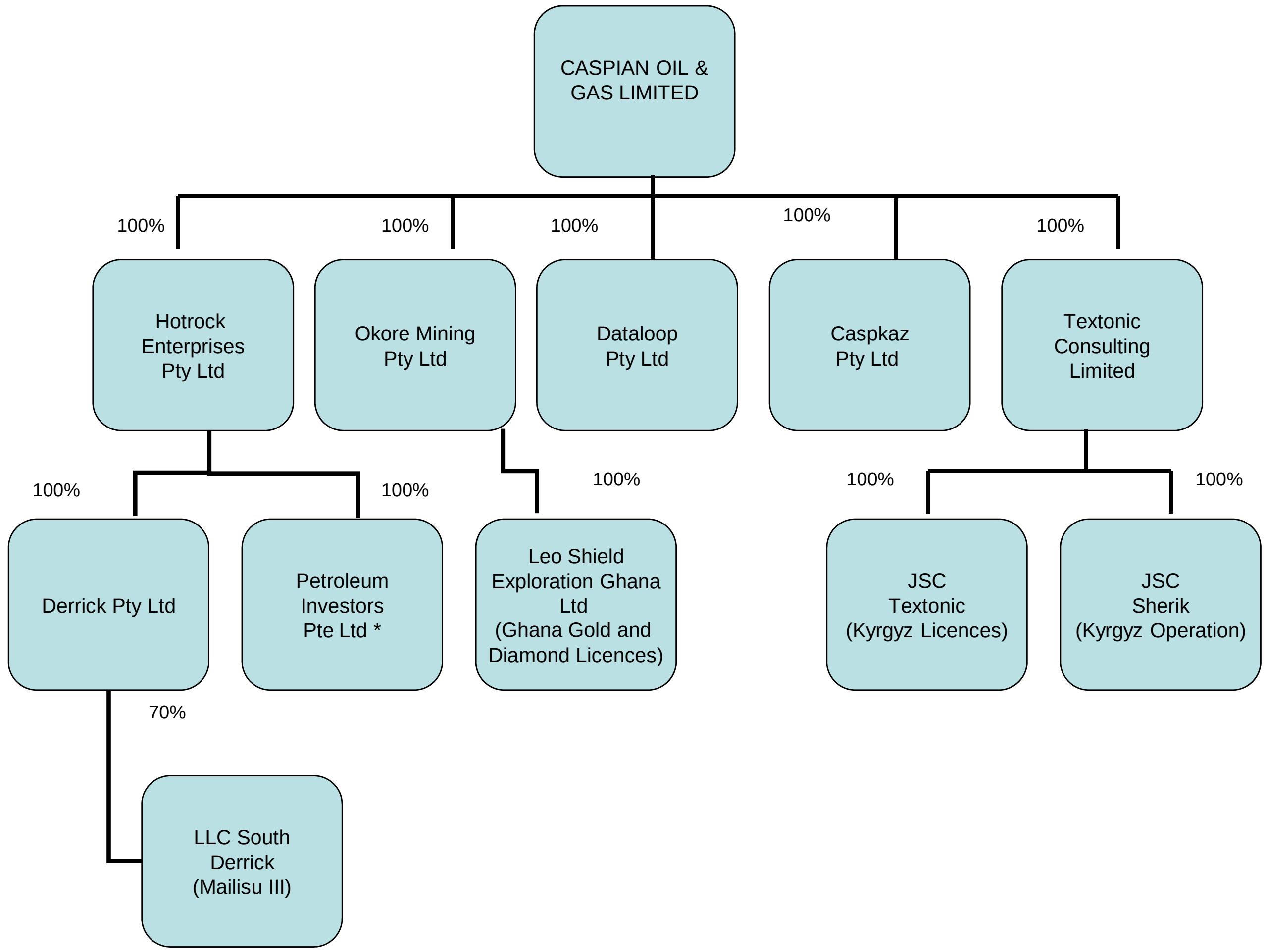
For details relating to Colin Carson, please refer to the details on Directors above.

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 2011



* Non-operating subsidiary

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the course of the financial year were oil exploration and production in the Kyrgyz Republic in Central Asia, and joint venture minerals exploration in Africa carried out by joint venture partners.

RESULTS AND DIVIDENDS

The consolidated loss after tax for the year ended 30 June 2011 was $3,646,385 (2010: $14,673,866). 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 0.27 cents (2010: 1.16 cents).

REVIEW OF OPERATIONS

A review of operations of the consolidated entity during the year ended 30 June 2011 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. The Company's net assets have decreased by $4 million since the previous reporting date due to sale of listed securities, asset impairment in relation to the Company's exploration assets and the effects of movements in exchange rate on the Group's overseas assets.

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 and the ability to extend the life of its oil exploration licences. The consolidated entity will continue to assess other opportunities, both in the oil and minerals sectors.

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 2011 are:

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

The Board previously had an audit committee comprising Mr Carson and Mr Gillard. Upon Mr Gillard's resignation as a director and chairman, Mr Carson was appointed Executive Chairman thus resulting in the Audit Committee being disbanded as there were an insufficient number of independent non-executive directors. The Board as a whole carries out the functions of an Audit Committee.

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	-
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.

During or since the end of the financial year, 4,000,000 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 5,900,000 options to subscribe for unissued ordinary shares in the Company, comprising:

	Number	Exercise Price (cents)	Expiry Date
Unlisted Options:	900,000	10	31 December 2011
	5,000,000	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:

- 400,000 unlisted options were allotted to an employee of the Company.

No options were issued after 30 June 2011 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.

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 2011 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 2011 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 2011 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 2011

	Short-term employee benefits		Post Employment	Equity	
	Director's Salary / Fees	Bonuses (A)	Super-annuation	Value of Options (B)	Total
	$	$	$	$	$
Directors :					
Reginald Gillard – resigned 31 August 2010					
2011	**7,500**	**-**	**675**	**-**	**8,175**
2010	38,333	-	3,450	-	41,783
Colin Carson					
2011	**124,000**	**-**	**12,000**	**-**	**136,000**
2010	118,667	-	11,240	-	129,907
Graeme Parsons					
2011	**229,358**	**30,000**	**20,642**	**-**	**280,000**
2010	216,475	-	16,858	-	233,333
Jürg Walker					
2011	**30,000**	**-**	**-**	**-**	**30,000**
2010	26,667	-	-	-	26,667
Michael John Sandy					
2011	**30,000**	**-**	**-**	**-**	**30,000**
2010	38,583	-	450	-	39,033
Total, all specified directors					
2011	**420,858**	**30,000**	**33,317**	**-**	**484,175**
2010	438,725	-	31,998	-	470,723
Senior Managers:					
Susmit Shah					
2011	**-**	**-**	**-**	**-**	**-**
2010	-	-	-	11,230	11,230
Total, senior managers					
2011	**-**	**-**	**-**	**-**	**-**
2010	-	-	-	11,230	11,230

(A) Following a performance review conducted by the Board, it was resolved that Mr Parsons would be paid a cash bonus in recognition of his contribution to the Group in the prior period.

(B) 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.

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.

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							
2011	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2010	11,230	-	-	11,230	-	11,230	100
Total, senior managers							
2011	**-**	**-**	**-**	**-**	**-**	**-**	
2010	11,230	-	-	11,230	-	11,230	

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 $14,828 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.

G Parsons
Executive Director and Chief Executive Officer
Perth, 29 September 2011

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 2011, 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.

Perth, Western Australia
29 September 2011

M R W OHM
Partner, HLB Mann Judd

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
Level 4 130 Stirling Street Perth 6000 PO Box 8124 Perth BC 6849 Western Australia. 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 2011

	Notes	Consolidated 2011 $	2010 $
Revenue from ordinary activities	2	**279,239**	4,564,834
Cost of sales and services	2	**(80,758)**	(4,625,619)
Gross Profit / (Loss)		**198,481**	(60,785)
Other income	3	**330,876**	380,793
		529,357	320,008
Depreciation expense	4	**(99,857)**	(122,982)
Employee, directors and consultants costs		**(1,462,906)**	(1,942,348)
Write-down of mineral interest acquisition and exploration expenditure	16	**(1,613,250)**	(11,912,259)
Other expenses from ordinary activities	4	**(999,729)**	(1,016,285)
Loss before income tax benefit		**(3,646,385)**	(14,673,866)
Income tax benefit relating to ordinary activities	6	**-**	-
Loss after tax benefit		**(3,646,385)**	(14,673,866)
Other comprehensive Income			
Exchange differences on translation of foreign operations		**(1,234,633)**	(2,578,839)
Net change in fair value of available-for-sale financial assets		**(908,169)**	2,453,486
Reclassification to profit on disposal of available-for-sale financial assets		**1,732,408**	546,126
Income tax relating to components of other income		**-**	-
Total comprehensive loss for the year		**(4,056,779)**	(14,253,093)
Loss attributable to:			
Owners of the Parent		**(3,656,276)**	(14,501,622)
Non-controlling Interests		**9,891**	(172,244)
		(3,646,385)	(14,673,866)
Comprehensive loss attributable to:			
Owners of the Parent		**(4,121,724)**	(14,136,040)
Non-controlling Interests		**64,945**	(117,053)
		(4,056,779)	(14,253,093)
Basic loss per share	7	**(0.27) cents**	(1.16) cents

The above statement should be read in conjunction with the accompanying notes.

Caspian Oil & Gas Limited
Statement of Financial Position
As at 30 June 2011

	Notes	Consolidated 2011 $	2010 $
Current Assets			
Cash and cash equivalents	9	**1,852,503**	3,216,256
Receivables	10	**73,155**	133,831
Inventories	11	**2,354,320**	2,762,653
Other	12	**200,024**	239,817
Total Current Assets		**4,480,002**	6,352,557
Non-Current Assets			
Receivables	10	**203,509**	270,610
Available-for-sale investments	14	**2,950,738**	4,003,783
Property, plant and equipment	15	**1,567,605**	3,049,561
Mineral interest acquisition, exploration and development expenditure	16	**1,822,641**	1,194,480
Other	12	**64,254**	211,158
Total Non-Current Assets		**6,608,747**	8,729,592
Total Assets		**11,088,749**	15,082,149
Current Liabilities			
Payables	17	**494,199**	432,400
Total Current Liabilities		**494,199**	432,400
Total Liabilities		**494,199**	432,400
Net Assets		**10,594,550**	14,649,749
Equity			
Issued capital	18	**99,362,502**	99,362,502
Reserves	18	**192,445**	2,388,721
Accumulated losses		**(88,908,289)**	(86,984,421)
Parent entity interest		**10,646,658**	14,766,802
Non-controlling interests		**(52,108)**	(117,053)
Total Equity		**10,594,550**	14,649,749

The above statement should be read in conjunction with the accompanying notes.

Consolidated

	Issued Capital	Accumulated Losses	Reserves	Non-controlling Interest	Total Equity
	$	$	$	$	$
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	-	546,126	2,453,486	-	2,999,612
Total comprehensive loss for the year	-	(13,955,496)	(180,544)	(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**	**(86,984,421)**	**2,388,721**	**(117,053)**	**14,649,749**
Balance at 1 July 2010	**99,362,502**	**(86,984,421)**	**2,388,721**	**(117,053)**	**14,649,749**
Loss attributable to members of the parent entity	-	(3,656,276)	-	9,891	(3,646,385)
Currency translation differences	-	-	(1,289,687)	55,054	(1,234,633)
Revaluation of available-for-sale financial assets	-	1,732,408	(908,169)	-	824,239
Total comprehensive loss for the year	-	(1,923,868)	(2,197,856)	64,945	(4,056,779)
Fair value of options issued	-	-	1,580	-	1,580
Balance at 30 June 2011	**99,362,502**	**(88,908,289)**	**192,445**	**(52,108)**	**10,594,550**

The above statement should be read in conjunction with the accompanying notes.

	Notes	Consolidated 2011 $	2010 $
Cash Flows from Operating Activities			
Cash receipts in the course of operations		**290,265**	5,510,881
Cash payments in the course of operations		**(1,290,683)**	(5,119,972)
Interest received		**62,141**	57,842
Net Cash provided by / (used) in Operating Activities	23(a)	**(938,277)**	448,751
Cash Flows from Investing Activities			
Payments for exploration and development expenditure		**(2,302,109)**	(2,781,700)
Loans (to) / repaid by other entities		**47,565**	53,048
Payments for property, plant and equipment		**(72,052)**	(60,118)
Proceeds on disposal of property, plant and equipment		**33,268**	24,408
Proceeds on disposal of investments		**2,139,913**	807,439
Net Cash used in Investing Activities		**(153,415)**	(1,956,923)
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		**(1,091,692)**	1,585,731
Cash at the beginning of the financial year		**3,216,256**	1,510,196
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		**(272,061)**	120,329
Cash at the end of the Financial Year	9	**1,852,503**	3,216,256

The above statement should be read in conjunction with the accompanying notes.

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 accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated. The financial statements are for the consolidated entity consisting of Caspian Oil & Gas Limited and its subsidiaries.

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 entity's principal activities are oil exploration.

Adoption of new and revised standards

Changes in accounting policies on initial application of Accounting Standards

In the year ended 30 June 2011, 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.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

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 2011. 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 29 September 2011.

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation - continued

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 New Cedis (GHS)
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 Statement of Financial Position 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.

	Consolidated	
	2011	2010
	$	$

2. REVENUE FROM ORDINARY ACTIVITIES

	2011 $	2010 $
Revenues from operating activities		
Revenue from oil production	**228,584**	93,146
Costs from oil production	**(65,654)**	(34,278)
	162,930	58,868
Rendering of services revenue	**46,023**	4,125,843
Costs of services rendered	**(10,707)**	(4,308,826)
	35,316	(182,983)
Sales of consumables	**4,632**	345,845
Costs of consumables	**(4,397)**	(282,515)
	235	63,330
Gross profit / (Loss)	**198,481**	(60,785)

3. OTHER REVENUE

	2011 $	2010 $
Interest – other parties	**60,055**	59,885
	60,055	59,885
Net gain on disposal of property, plant and equipment	**8,192**	8,973
Net gain on disposal of available-for-sale investments	**262,629**	214,189
Foreign exchange gains	**-**	97,746
	270,821	320,908
	330,876	380,793

4. LOSS FROM ORDINARY ACTIVITIES

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

(a) Expenses

	2011 $	2010 $
Depreciation of plant and equipment	**99,857**	122,982
Share based payments to consultants, directors and employees	**1,580**	161,040
Mineral interest acquisition, exploration and development expenditure written-off	**1,613,250**	11,912,259
Movement in provision for employee entitlements	**(3,727)**	27,626
Other expenses include:		
West African administrative and overhead costs	**7,452**	1,542
Travel and accommodation	**60,061**	148,777
ASIC and ASX fees	**27,796**	31,714

	Consolidated 2011 $	2010 $
5. AUDITORS' REMUNERATION		
Audit services:		
- Auditors of the company-HLB Mann Judd	**40,950**	41,500
- Other auditors	**10,700**	14,394
	51,650	55,894

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:

	2011 $	2010 $
Loss from ordinary activities	**3,646,385**	14,673,866
Prima facie income tax benefit @ 30%	**1,093,916**	4,402,160
Tax effect of temporary differences:		
Options issued to employees and consultants	**(474)**	(48,312)
Profit on sale of investments against capital losses	**78,789**	64,257
Capitalised exploration costs (net recouped)	**228,118**	(2,838,603)
Share issue costs amortised	**85,842**	94,235
Other non-deductible items	**(2,022)**	(18,935)
Income tax benefit adjusted for temporary differences	**1,484,169**	1,655,302
Deferred tax asset not brought to account	**(1,484,169)**	(1,655,302)
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.

	2011 $	2010 $
Australian tax losses	**2,904,689**	2,591,805
Foreign tax losses	**10,108,383**	9,337,935
Australian capital losses	**6,924,018**	7,522,675

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.

(c) **Deferred tax liabilities**

The potential deferred tax liability arising from capitalised exploration expenditure has not been recognised as a liability. This would reduce the potential deferred tax asset noted at (b) above

	2011 $	2010 $
Deferred exploration and evaluation expenditure	**546,792**	358,344

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.

7. LOSS PER SHARE

	Consolidated	
	2011	2010
	cents	cents
Basic loss per share	**(0.27)**	(1.16)
	2011	2010
	$	$
Loss used in calculation of earnings per share	**(3,656,276)**	(14,501,622)
	2011	2010
	No.	No.
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**1,331,500,513**	1,265,226,285

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 industry, mineral exploration industry and investing activities within the geographical segments, Australia, Africa and the Kyrgyz Republic.

8. SEGMENT INFORMATION - continued

	Investing		Mineral Exploration		Oil Exploration and Contract Drilling		Eliminations		Consolidated	
	2011 $	**2010 $**	**2011 $**	**2010 $**	**2011 $**	**2010 $**	**2011 $**	**2010 $**	**2011 $**	**2010 $**
Business segments (Primary Segment)										
Revenue										
Revenue from external customers	**-**	-	**-**	-	**198,481**	4,564,834	**-**	-	**198,481**	4,564,834
Other external revenue	**322,684**	371,820	**-**	-	**8,192**	8,973	**-**	-	**330,876**	380,793
Intersegment revenue	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total segment revenue	**322,684**	371,820	**-**	-	**206,673**	4,573,807		-	**529,357**	4,945,627
Results										
Operating loss before income tax	**(1,065,880)**	(1,076,547)	**(8,976)**	30,201	**(2,571,529)**	(13,627,520)		-	**(3,646,385)**	(14,673,866)
Income tax benefit									**-**	-
Net loss									**(3,646,385)**	(14,673,866)
Assets										
Segment assets	**4,607,181**	7,170,665	**16,625**	13,630	**6,464,943**	7,897,854	**-**	-	**11,088,749**	15,082,149
Non-current assets acquired	**1,900**	512	**-**	-	**2,188,788**	2,509,856	**-**	-	**2,190,688**	2,510,368
Liabilities										
Segment liabilities	**213,489**	212,186	**71,880**	91,784	**208,830**	128,430	**-**	-	**494,199**	432,400
Other segment information										
Depreciation	**3,841**	7,273	**-**	49	**96,016**	115,660	**-**	-	**99,857**	122,982
Non-cash expenses other than depreciation	**326,323**	103,519	**1,538**	657	**1,629,750**	11,900,317		-	**1,957,611**	12,004,493

	Consolidated 2011 $	Consolidated 2010 $
9. CASH AND CASH EQUIVALENTS		
Cash assets	**1,315,817**	2,390,540
Deposits at call	**536,686**	825,716
	1,852,503	3,216,256

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

10. RECEIVABLES

Current		
Sundry debtors	**73,155**	133,831
	73,155	133,831
Non-current		
Loans to outside parties	**203,509**	270,610
	203,509	270,610

Terms and conditions relating to the above financial instruments:

- Trade and sundry debtors are non-interest bearing and generally on 30 day terms.
- $203,509 is a loan made in connection with drilling of wells on the Company's projects, with no fixed repayment terms, nil interest and an unsecured basis.

11. INVENTORIES

Raw materials and stores – at cost	**2,354,320**	2,762,653

12. OTHER

Current		
Prepayments	**200,024**	239,817
Non-current		
VAT withheld	**64,254**	211,158

- 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 2011	Group Interest 2010
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
Caspkaz Pty Ltd	(b)	Australia	**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.
(b) Caspkaz Pty Ltd was incorporated on 17 January 2011

14. AVAILABLE-FOR-SALE INVESTMENTS

	Notes	Consolidated 2011 $	Consolidated 2010 $
At fair value:			
Listed shares		**2,950,738**	4,003,783
		2,950,738	4,003,783

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 27 September 2011 is approximately $3 million (after accounting for the disposal of a small number of listed securities since the reporting date).

	Consolidated 2011 $	2010 $
15. PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment - at cost	**6,837,029**	7,947,163
Accumulated depreciation	**(3,456,732)**	(3,084,910)
Accumulated impairment expense	**(1,812,692)**	(1,812,692)
Total property, plant and equipment net book value	**1,567,605**	3,049,561
Reconciliation:		
Carrying amount at the beginning of the year	**3,049,561**	4,760,389
Additions	**72,052**	60,118
Disposals	**(79,323)**	(15,435)
Depreciation	**(99,857)**	(122,982)
Depreciation capitalised to exploration	**(899,901)**	(1,065,013)
Assets transferred to inventory	**-**	(1,140)
Foreign currency translation difference movement	**(474,927)**	(566,376)
Carrying amount at the end of the year	**1,567,605**	3,049,561

16. MINERAL INTEREST ACQUISITION, EXPLORATION AND DEVELOPMENT EXPENDITURE

Balance at the beginning of the year	**1,194,480**	11,536,374
Expenditure incurred during the year	**2,373,648**	2,450,249
Write off of exploration expenditure	**(1,613,250)**	(11,912,259)
Foreign currency translation difference movement	**(132,237)**	(879,884)
Carried forward	**1,822,641**	1,194,480

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

Trade creditors and accruals	**302,445**	236,918
Employee benefits	**191,754**	195,482
	494,199	432,400

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.

	Consolidated 2011 $	Consolidated 2010 $

18. ISSUED CAPITAL AND RESERVES

Share capital

	2011 $	2010 $
1,331,500,513 (2010: 1,331,500,513) ordinary shares, fully paid	**99,362,502**	99,362,502
	99,362,502	99,362,502

a) Ordinary shares

Movements in Ordinary Shares (last two years):	Consolidated 2011 Number	Consolidated 2010 Number	Consolidated 2011 $	Consolidated 2010 $
Balance at 1 July	**1,331,500,513**	1,111,739,580	**99,362,502**	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**	1,331,500,513	**99,362,502**	99,362,502

(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 2010	Options Issued 2010/11	Options Exercised/ Cancelled/ Expired 2010/11	Closing Balance 30 June 2011
			Number	*Number*	*Number*	*Number*
On or before 31 Dec 2010		$0.10	850,000	-	(850,000)	-
On or before 31 Dec 2011		$0.10	1,300,000	-	(400,000)	900,000
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	8,100,000	-	(8,100,000)	-
On or before 31 Oct 2013	(i)	$0.03	6,100,000	400,000	(1,500,000)	5,000,000
			20,350,000	400,000	(14,850,000)	5,900,000

(i) 400,000 unlisted options were issued to an employee as part of his remuneration package for the financial year ending 30 June 2011.

(ii) 14,850,000 options lapsed during the year ended 30 June 2011.

(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 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	-	-	2,453,486	-	2,453,486
Currency translation differences	-	-	-	(2,634,030)	(2,634,030)
Balance at 30 June 2010	589,000	2,507,895	4,351,219	(5,059,393)	2,388,721
Balance at 1 July 2010	589,000	2,507,895	4,351,219	(5,059,393)	2,388,721
Fair value of options issued	-	1,580	-	-	1,580
Revaluation of available for sale financial assets	-	-	(908,169)	-	(908,169)
Currency translation differences	-	-	-	(1,289,687)	(1,289,687)
Balance at 30 June 2011	589,000	2,509,475	3,443,050	(6,349,080)	192,445

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
	2011	**2011**	**2010**	**2010**
Outstanding at the beginning of the period	**$0.053**	**20,350,000**	$0.085	57,200,039
Forfeited / Expired during the period	**$0.057**	**(14,850,000)**	$0.085	(42,950,039)
Exercised during the period	**-**	**-**	-	-
Granted during the period	**$0.03**	**400,000**	$0.03	6,100,000
Outstanding at the end of the period	**$0.041**	**5,900,000**	$0.053	20,350,000
Exercisable at the end of the period		**5,900,000**		20,350,000

The outstanding balance as at 30 June 2011 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 2010 and 30 June 2011:

	2011	**2010**
Volatility (%) - range	**119%**	106%
Risk-free interest rate (%) - range	**4.75%**	4.5%
Expected life of option (years)	**3 years**	3.5 years
Exercise price (cents)	**3 cents**	3 cents
Weighted average share price at grant date (cents)	**0.8**	0.9

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	
	2011	**2010**
	$	**$**
Cash	**1,852,503**	3,216,256
Receivables	**276,663**	404,441
Available-for-sale investments	**2,950,738**	4,003,783
Other-Non-current VAT receivable	**64,254**	211,158
Total Assets	**5,144,158**	7,835,638
Payables	**302,443**	236,918
Total Liabilities	**302,443**	236,918

(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.

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 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 2011			
Non-interest bearing	230,563	-	71,880
30 June 2010			
Non-interest bearing	145,134	-	91,784

(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 2011		30 June 2010	
	Assets	**Liabilities**	Assets	Liabilities
	$	**$**	$	$
United States Dollar	**1,253,414**	**-**	2,071,803	-
Kyrgyz Som	**522,479**	**149,090**	393,826	144,480
Ghana Cedi	**15,474**	**71,880**	12,145	91,784
	1,791,367	**220,970**	2,477,774	236,264

The following significant exchange rates applied during the year:

	Average rate		**Balance date spot rate**	
	2011	2010	**2011**	2010
	$	$	**$**	$
United States Dollar	**0.99**	0.88	**1.059**	0.86
Kyrgyz Som	**46.30**	39.29	**47.93**	39.76
Ghana Cedi	**1.48**	1.29	**1.61**	1.25

(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 2010.

		Consolidated	
		2011	**2010**
		$	**$**
(Profit) or loss	(i)	**(93,764)**	(188,346)
Equity	(ii)	**(149,451)**	(203,774)

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

	Consolidated Carrying Amount	
	2011	**2010**
	$	**$**
Variable rate Instruments at call		
Financial assets	**1,642,511**	2,595,049
Financial liabilities	**-**	-
	1,642,511	2,595,049

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 2010.

	Profit or (Loss)		Equity	
	100bp increase	**100bp decrease**	**100bp increase**	**100bp decrease**
Consolidated	**$**	**$**	**$**	**$**
30 June 2011				
Variable rate instruments	16,425	(16,425)	16,425	(16,425)
Cash flow sensitivity (net)	16,425	(16,425)	16,425	(16,425)
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)

(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 2011 and 30 June 2010.

Consolidated	**Level 1**	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
30 June 2011				
Assets				
Available-for-sale financial assets	2,950,738	-	-	2,950,738
	2,950,738	-	-	2,950,738

20. FINANCIAL INSTRUMENTS - continued

Consolidated	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
30 June 2010				
Assets				
Available-for-sale financial assets	4,003,783	-	-	4,003,783
	4,003,783	-	-	4,003,783

(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	
	2011	2010
	$	$
Within one year	**1,984,304**	3,260,742
One year or later and not later than five years	**4,709,788**	1,529,960
Later than five years	-	-
	6,694,092	4,790,702

(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	
	2011	2010
	$	$
Within one year	**125,000**	125,000
One year or later and not later than five years	**-**	-
Later than five years	**-**	-
	125,000	125,000

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. RECONCILIATION TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of the loss from ordinary activities to net cash used in operating activities

	Consolidated 2011 $	Consolidated 2010 $
Loss from ordinary activities after income tax	**(3,646,385)**	(14,673,866)
Add back non-cash items:		
Depreciation	**99,857**	122,982
(Profit)/loss on sale of plant and equipment	**(8,192)**	(8,973)
(Profit)/loss on sale of investments	**(262,629)**	(214,189)
Employee and consultants' options	**1,580**	161,040
Exploration expenditure write-off	**1,613,250**	11,912,259
Employee benefits provision	**(3,727)**	27,626
Foreign currency (gain)/loss	**339,054**	(97,746)
Change in assets and liabilities:		
(Increase)/decrease in receivables	**160,015**	1,658,676
(Increase)/decrease in inventories	**438,860**	1,857,310
(Increase)/decrease in other assets	**39,793**	19,779
(Decrease)/increase in payables	**290,247**	(316,147)
Net cash provided by / (used in) operating activities	**(938,277)**	448,751

(b) Non-cash financing and investing activities

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

	Consolidated	
	2011	**2010**
	$	**$**

24. EMPLOYEE BENEFITS

The aggregate employee benefit liability is comprised of:

	2011 $	**2010 $**
Annual leave accrual and long service leave provision – current	**191,754**	195,482

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 – resigned 31 August 2010
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	
	2011	**2010**
	$	**$**
Short-term employee benefits	**450,858**	438,725
Post-employment benefits	**33,317**	31,998
Share-based payments	**-**	11,230
	484,175	481,953

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 2011 $	Consolidated 2010 $
(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.	**103,940**	119,708
(ii) Rent paid or payable to Ledgar Road Partnership, an entity in which Mr Gillard and Mr Carson both have a beneficial interest.	**1,743**	3,262
(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
Balances due to Directors and Director Related Entities at year end		
- included in trade creditors and accruals	**9,972**	35,977

<u>Shareholdings</u>
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 2011	**Balance at 1 July 2010**	**Received as Remuneration**	**Options Exercised**	**Other Movements(a)**	**Balance at 30 June 2011**
Parent entity directors					
Reginald Gillard	1,749,428	-	-	-	N/A
Colin Carson	14,188,484	-	-	-	14,188,484
Graeme Parsons	1,600,000	-	-	-	1,600,000
Jürg Walker	82,978,610	-	-	-	82,978,610
Michael Sandy	3,500,000	-	-	-	3,500,000
Senior manager					
Susmit Shah	1,000,000	-	-	-	1,000,000

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

<u>(a) Other Movements</u>

Shares purchased or sold during the financial year.

25. DIRECTOR AND EXECUTIVE DISCLOSURES - continued

Option holdings
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 2011	Balance at 1 July 2010	Received as Remuneration	Options Exercised / (Expired)	Other Movements	Balance at 30 June 2011	Vested and exercisable at year end
Parent entity directors						
Reginald Gillard	-	-	-	-	-	-
Colin Carson	-		-	-	-	-
Graeme Parsons	4,000,000	-	(4,000,000)	-	-	-
Jürg Walker	-	-	-	-	-	-
Michael Sandy	-	-	-	-	-	-
Senior manager						
Susmit Shah	1,000,000	-	(600,000)	-	400,000	400,000

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

Other transactions with directors

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 2011 $	30 June 2010 $
ASSETS		
Current assets	**1,651,979**	3,160,477
Non current assets	**5,828,008**	11,701,454
TOTAL ASSETS	**7,479,987**	14,861,931
LIABILITIES		
Current liabilities	**213,489**	212,186
TOTAL LIABILITIES	**213,489**	212,186
EQUITY		
Contributed equity	**99,362,502**	99,362,502
Accumulated losses	**(100,185,566)**	(91,976,500)
Equity based compensation reserve	**2,509,475**	2,507,895
Financial assets reserve	**4,991,087**	4,166,848
Option premium reserve	**589,000**	589,000
TOTAL EQUITY	**7,266,498**	14,649,745

b) Financial performance

	Year Ended 30 June 2011 $	Year Ended 30 June 2010 $
Net Loss for the year	**(8,209,066)**	(17,257,418)
Other comprehensive income / (loss)	**825,819**	3,004,321
Total comprehensive income / (loss)	**(7,383,247)**	(14,253,097)

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

Caspian Oil & Gas Limited has not entered into deeds of cross guarantee with its subsidiary companies.

d) Contingent liabilities of the parent entity

Caspian Oil & Gas Limited has no contingent liabilities as at 30 June 2011. For details on commitments, see Note 21.

28. EVENTS OCCURRING AFTER THE BALANCE DATE

There are no matters or circumstances that have arisen since 30 June 2011 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 2011 and of its performance for the year then ended; and

      ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations), Corporations Regulations 2001, professional reporting requirements and other mandatory requirements; 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 2011.

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

G Parsons
Executive Director and Chief Executive Officer

Dated at Perth, 29 September 2011

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 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial report complies 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. Those 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 opinion.

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

HLB Mann Judd

Accountants | Business and Financial Advisers

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Caspian Oil & Gas Limited for the financial year ended 30 June 2011 included on Caspian Oil & Gas Limited's website. The company's directors are responsible for the integrity of the Caspian Oil & Gas Limited website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and remuneration report identified in this report. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial report.

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 2011 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. 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 2011 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

M R W OHM
Partner

Perth, Western Australia
29 September 2011