CASPIAN OIL & GAS LIMITED

ABN 44 065 212 679

Annual Financial Report
2012

Caspian Oil & Gas Limited
Corporate Directory

Directors	Norman Seckold	Non-Executive Chairman
	Edward Leschke	Managing Director
	Colin John Carson	Executive Director*
	Michael John Sandy	Non-Executive Director
	Jürg Walker	Non-Executive Director
Company Secretaries	Susmit Mohanlal Shah	
	Colin John Carson	
Chief Executive Officer	Edward Leschke	
Registered and Administrative Office	Level 1, Suite 5 The Business Centre 55 Salvado Road Subiaco Western Australia 6008	
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	Facsimile:	(61 8) 9380 6761
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	Web site:	www.caspianogl.com
Operations Office	Level 2, 66 Hunter Street Sydney, NSW 2000 Australia	
	Telephone:	(61 2) 9300 3366
	Facsimile:	(61 2) 9221 6333
Share Registry	Advanced Share Registry Limited 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)	

* With effect from 1 October 2012, Mr Carson will cease executive responsibilities but remain as a non-executive director

Overview

The difficult political conditions in the Kyrgyz Republic, lack of success in the field and licence tenure issues all contributed to a Board reassessment of the Kyrgyz oil interests and a wind-down of those activities. In late September 2012, Caspian's two oil licence owning subsidiaries were sold for a total of US$800,000 cash.

The Mansounia gold project in Guinea has progressed under joint venture partner Burey Gold, with a resource upgrade completed and scoping study commenced.

The value of Caspian's West African gold royalty interests were enhanced by the favourable gold price and the grant of an exploitation permit to Perseus Mining Limited for the Sissingué Gold Project on the Tengrela Project in Côte d'Ivoire.

In July 2012 Caspian entered into an agreement to acquire all of the capital of Equus Resources Ltd, making the Naltagua copper project in Chile its new focus. Naltagua represents a significant exploration opportunity over a historic mining district in Chile's coastal range.

Kyrgyz oil projects

With the majority of the Kyrgyz oil and gas exploration permits set to expire without prospect of renewal, Caspian sold its oil licence owning subsidiaries for a total of US$800,000 in late September 2012.

The sale of the oil interests followed extensive but unsuccessful farm-out efforts which were hampered by the inability to extend the tenure of the exploration permits. Flow rates and revenue from the production licences had continued to decline, making a shutdown or disposal of the Kyrgyz operations inevitable.

The West Mailisu #2 well, which Caspian spudded in June 2011, was pump tested in December. Some $10m^3$ of completion fluid and 3.2 m^3 (~20bbls) of oil was recovered before the pump ran dry. Subsequent measurement of the fluid level in the hole confirmed that there was little further influx into the wellbore from the formation, indicating that the formation is either tight and/or damaged.

The Mailisu III #6 well was put into production in late May 2012, following the removal of stuck perforation guns. After an initial flush production, the well produced at around 10 barrels of oil per day.

Romanian oil interest

Caspian finalised the sale of its 20% interest in the Parta block application in Romania in January 2012 for $429,000 which represented a recovery of costs.

Naltagua Copper Project, Chile

Since the end of financial year, Caspian has acquired the Naltagua Copper Project in Chile by purchasing un-listed Australian company, Equus Resources Limited.

Shareholders approved the acquisition at a General Meeting held on Friday, 31 August 2012.

The Naltagua Copper Project (Naltagua) is located 80km south-west of Santiago and 75km east of the port city of San Antonio.

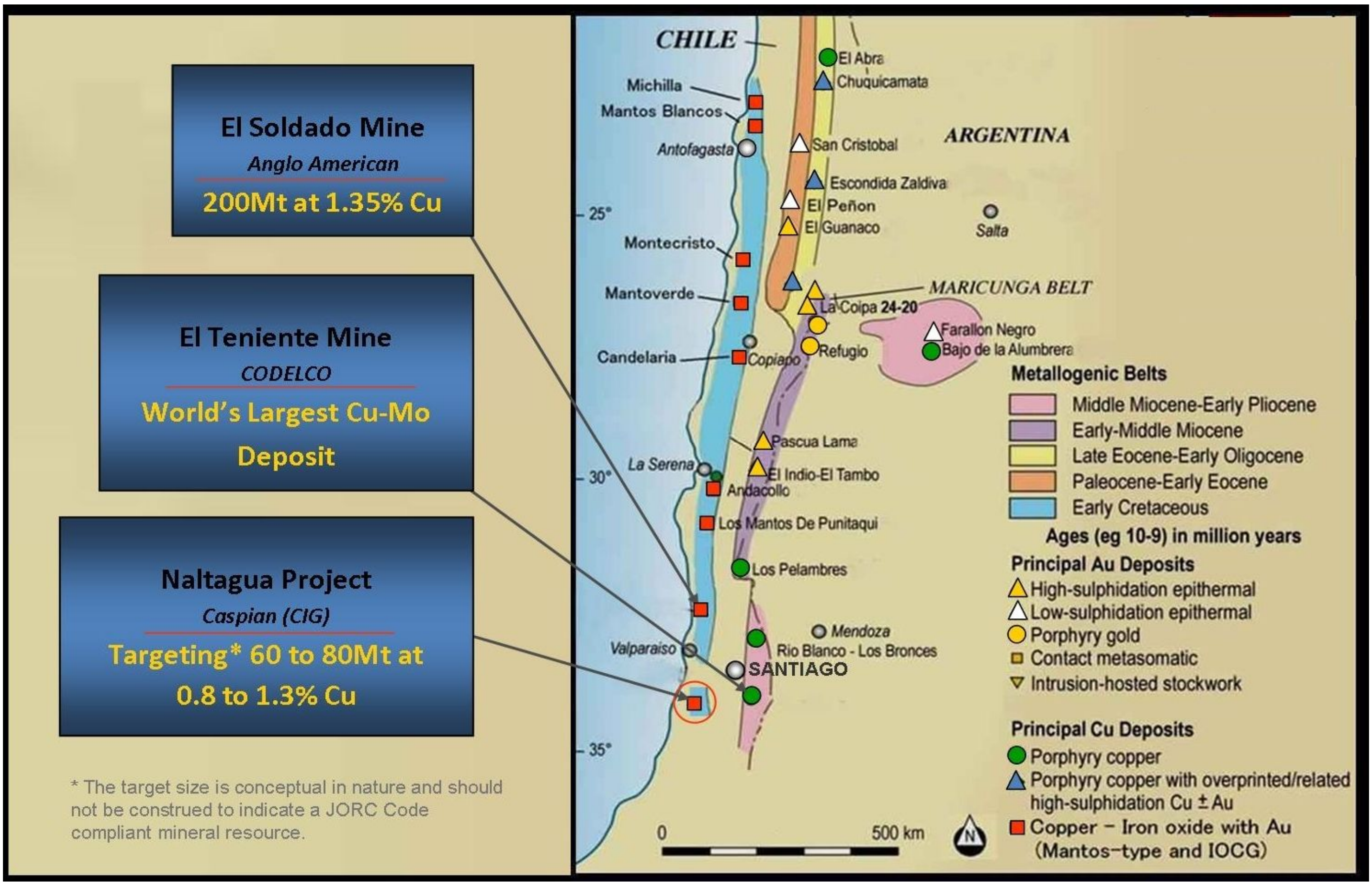


Figure 1: Metallogenic Belts of northern Chile and location of the Naltagua Copper Project.

Caspian has the option to acquire 100% of a contiguous group of 14 mining licences covering an area of 18.05 km^2 and 75% of the known extent of the large (4km by 2km) Naltagua copper system. Under the terms of the option agreement, Caspian has the right (but not the obligation) to acquire the mining licences on an outright basis by making payments of US$100,000 in September 2012 and September 2013, with a final payment of US$4.3 million in September 2014 to the licence holder.

On commencement of commercial production at Naltagua, a 1% net smelter royalty is payable to the licence holder subject to a maximum payment of US$5 million.

Historical Mining (1905 – 1945)
Rich deposits of oxide and sulphide copper ore were systematically exploited by French company Societe des Mines Cuivre of Naltahua, which mined 15 discrete bodies at an average head-grade of approximately 4% copper. A network of tramways delivered the ore from the mountain to a smelter located in the nearby valley for processing.

Exploration (2000 to 2009)
Noranda and Freeport inspected the area and, based on limited mapping and rock-chip sampling, formed the view that the copper resource potential of the black shale-hosted copper deposits was limited to approximately 25mt of copper ore. Noranda drilled a single exploration hole into a mineralised volcanic breccia and despite achieving 32m at 0.5% Cu from surface, elected to relinquish its option. Other than this single hole, no other exploration drilling is known to have been completed at Naltagua.

Equus Exploration (August 2011 – July 2012)

In contrast to previous investigators, Equus has been targeting the prospective primary feeder zones to the copper system i.e. the hydrothermal breccia pipes, the sheets of volcanic breccia and the tectonically disrupted intermediate (andesite, latite) and felsic volcanics (rhyodacite). More than 1,000m of underground workings (adits) have been systematically channel-sampled, several areas of hydrothermal alteration mapped and rock-chip sampled, six trial lines of Induced Polarisation (IP) geophysics completed, and a 30kg metallurgical sample processed. Drill pads have been cleared and the IP coverage is being expanded to define new targets.

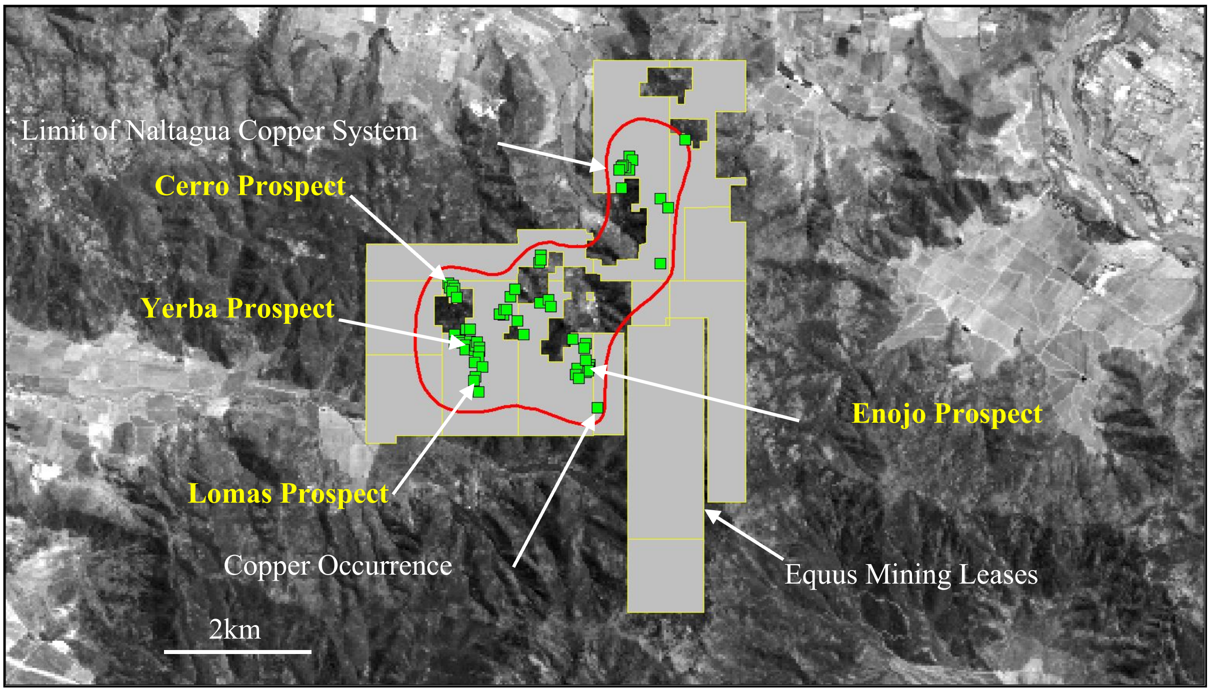


Figure 2: Naltagua Copper System and Equus Mining Leases

Geology

Naltagua is a manto-type copper-silver deposit hosted by marine volcanic rocks of Lower Cretaceous age (118 to 97 million years old). The copper is interpreted to have been scavenged from intra-formational volcanic and sedimentary rocks by relatively low-temperature metamorphic hydrothermal fluids generated during diagenesis (burial) and expelled along permeable coarse grained lithologies and channelled into favourable trap-sites where the metals were deposited and concentrated.

Mineralisation and Preliminary Metallurgical Testwork

A 30kg metallurgical sample was collected from the Yerba mine dump and despatched to ALS Ammtec in Sydney for preliminary qualitative testwork. A simple flotation test produced a high-grade (41% Cu, 463g/t Ag), premium-quality sulphide concentrate containing no penalty elements.

Advanced Targets

There are currently 10 named exploration prospects at Naltagua at various stages of assessment and three are summarised below to illustrate the range of resource assessment opportunities.

Yerba Prospect: Equus has mapped and channel-sampled 541m of underground workings and taken numerous surface samples to delineate a zone of disseminated bornite mineralisation in volcanics. The weighted average grade of this relatively small part of the mineralised system with dimensions 50m wide by 150m long and open along-strike and down-plunge is 1.1% Cu and 9.9g/t Ag. The down-plunge component has been mapped using IP to the effective limit of this geophysical method (~250m).

Cerro Prospect: Ubiquitous malachite (green secondary copper mineral) after bornite (primary copper sulphide) is variably exposed in a relatively flat-lying sheet of altered andesite on the main Naltagua ridge. 24 samples of outcropping volcanic breccia collected along a ridge top traverse over a distance of 242m returned a composite grade of 1.6% Cu and 23g/t Ag.

Lomas Prospect: Ground follow-up of a coherent, broad 260m Induced Polarization (IP) chargeability anomaly led to the discovery of a previously unknown copper working (adit) at the exact point where the source of the anomaly had been predicted to crop-out at surface.

This anecdotal evidence gives Caspian considerable confidence that IP at Naltagua will prove to be a critical and relatively low-cost 'mapper' of potential ore systems. The IP survey is currently being expanded.

Strategy, Methodology and Technology
Discussions have already been initiated with other mining lease holders in the project area to investigate opportunities for collaboration during exploration, mining and/or ore processing.

Geological mapping, rock geochemistry and drilling are proven and effective methods that will be employed to define and evaluate resource targets at Naltagua.

Induced Polarisation (IP) geophysics provides an effective filter through which to discriminate sulphide hot-spots within the broad area of secondary copper mineralisation that defines the Naltagua copper system.

Advanced metallurgical testwork will be conducted to continue to optimise metal recoveries and draw market attention to the premium sulphide product.

Resource definition drilling is scheduled to commence once regulatory approvals have been received. Unlike many areas in Chile, work at Naltagua may continue all-year-round due to the low altitude, all-weather roads and close proximity to services.

Other Assets

Caspian retains a number of mainly African minerals related assets. These assets include shares in listed gold producers and explorers, royalty interests and gold and diamond projects in Ghana, Ivory Coast, Guinea and the Democratic Republic of Congo (DRC).

At 30 June 2012 the market value of Caspian's listed minerals company shares was $1.44 million.

Caspian subsidiary, Leo Shield Exploration Ghana Ltd owns the Osenase, Pramkese and Asamankese exploration licences in Ghana, which are prospective for alluvial and hard rock diamonds and gold. It also owns a minor interest in the Kwatechi gold exploration joint venture and a 0.5% net smelter royalty over the undeveloped Grumesa gold project. Discussions are underway for the sale of a majority interest in Leo Shield Exploration Ghana Ltd.

Caspian also holds a 0.5% royalty on production from Perseus Mining Ltd's Tengrela Gold Project in Côte d'Ivoire which is moving towards possible development over the next two years and is expected to provide an initial cash flow of around US$1.3m per year from 2014 if current gold prices are maintained.

Burey Gold Ltd is farming into Caspian's Mansounia gold project in Guinea. A resource upgrade was released in June at the Company's Mansounia Gold Project, representing a 56% increase on the previous resource to 1,294,000 ounces of gold, using a 0.4g/t gold cut-off. Burey is undertaking a scoping study to determine the viability of a mining operation at Mansounia.

Caspian also has a joint venture on two diamond exploration licences at Tshikapa in the Democratic Republic of Congo which has funded by its joint venture partner, Delrand Resources Limited. Very limited work has been undertaken on these prospects in recent times.

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 was a Director and remains a 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.

The information in this report that relates to the Naltagua Copper Project has been compiled by Mr Robert Perring who is a Member of the Australian Institute of Geoscientists. Mr Perring is a consultant to the Company and has sufficient experience relevant to the style of mineralisation under consideration to qualify as a Competent Person as defined in the 2004 Edition of the 'Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Perring consents to the inclusion in this report of the matters based on information in the form and context in which it appears.

Mineral Resources information referred to at the Mansounia Project above has been obtained from public records of Burey Gold Limited, the operator of the project.

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" or the "Group"), for the year ended 30 June 2012 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.

Norman Alfred Seckold BEcon - Non-Executive Chairman
(Appointed 5 September 2012)

Norman Seckold graduated with a Bachelor of Economics degree from the University of Sydney in 1970. He has spent more than 30 years in the full time management of natural resource companies, both in Australia and overseas, including the role of Chairman for a number of publicly listed companies including;

- Moruya Gold Mines (1983) N.L., which acquired the Golden Reward heap leach gold deposit in South Dakota, USA
- Pangea Resources Limited, which acquired and developed the Pauper's Dream gold mine in Montana, USA
- Timberline Minerals, Inc. which acquired and completed a feasibility study for the development of the MacArthur copper deposit in Nevada, USA
- Perseverance Corporation Limited, which discovered and developed the Nagambie gold mine in Victoria
- Valdora Minerals N.L., which developed the Rustler's Roost gold mine in the Northern Territory and the Ballarat East Gold Mine in Victoria
- Viking Gold Corporation, which discovered a high grade gold deposit in northern Sweden and Mogul Mining N.L., which drilled out the Magistral and Ocampo gold deposits in Mexico
- Bolnisi Gold N.L. which discovered and is currently operating the Palmarejo and Guadalupe gold and silver deposits in Mexico
- Chairman of Cockatoo Coal Limited, an Australian coal mining, exploration and project development company.

During the past three years he has also served as a director of the following listed companies:

Augur Resources Ltd *
Cerro Resources N.L *
Planet Gas Limited *
Cockatoo Coal Limited appointed 28 January 2005, resigned 24 April 2012.

Edward Jan Leschke BAppScAppGeo – Managing Director and Chief Executive Officer
(Appointed 5 September 2012)

Mr. Leschke graduated with a Bachelor of Applied Science – Applied Geology degree from the Queensland University of Technology. During a 22 year professional career Mr Leschke initially worked as a mine geologist at the Elura zinc-lead-silver mine in central New South Wales as well as holding geological positions in a number of locations such as the Central Queensland coal fields, South Australia and Papua New Guinea.

Mr Leschke made the transition to the financial sector specialising in mining investment, analysis and corporate finance and has worked for a number of financial institutions including BZW Stockbroking, Aberdeen Asset Management and Shaw Stockbroking. Mr Leschke has been responsible for the inception of Equus Resources Ltd and the two wholly owned subsidiaries in the Republic of Chile.

He has not served as a director of any other listed company during the past three years.

Colin John Carson CPA FCIS FCIM - Executive Director 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. He ceased to serve as Executive Chairman on 10 September 2012 and, with effect from 1 October 2012, he will assume a non-executive director role. During the past three years he has also served as a director of the following listed companies:

Perseus Mining Limited *
Manas Resources Limited *

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 *

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.

Graeme Leslie Parsons BSc – Executive Director and Chief Executive Officer
(Appointed 18 October 2006, resigned 5 September 2012)

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.

Avraham Ben-Natan - Non-Executive Director
(Appointed 30 November 2011, resigned 5 September 2012)

Mr Ben-Natan is an experienced businessman and investor who resides in the Kyrgyz Republic. He has not served as a director of any other listed company during the past three years.

*** 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.

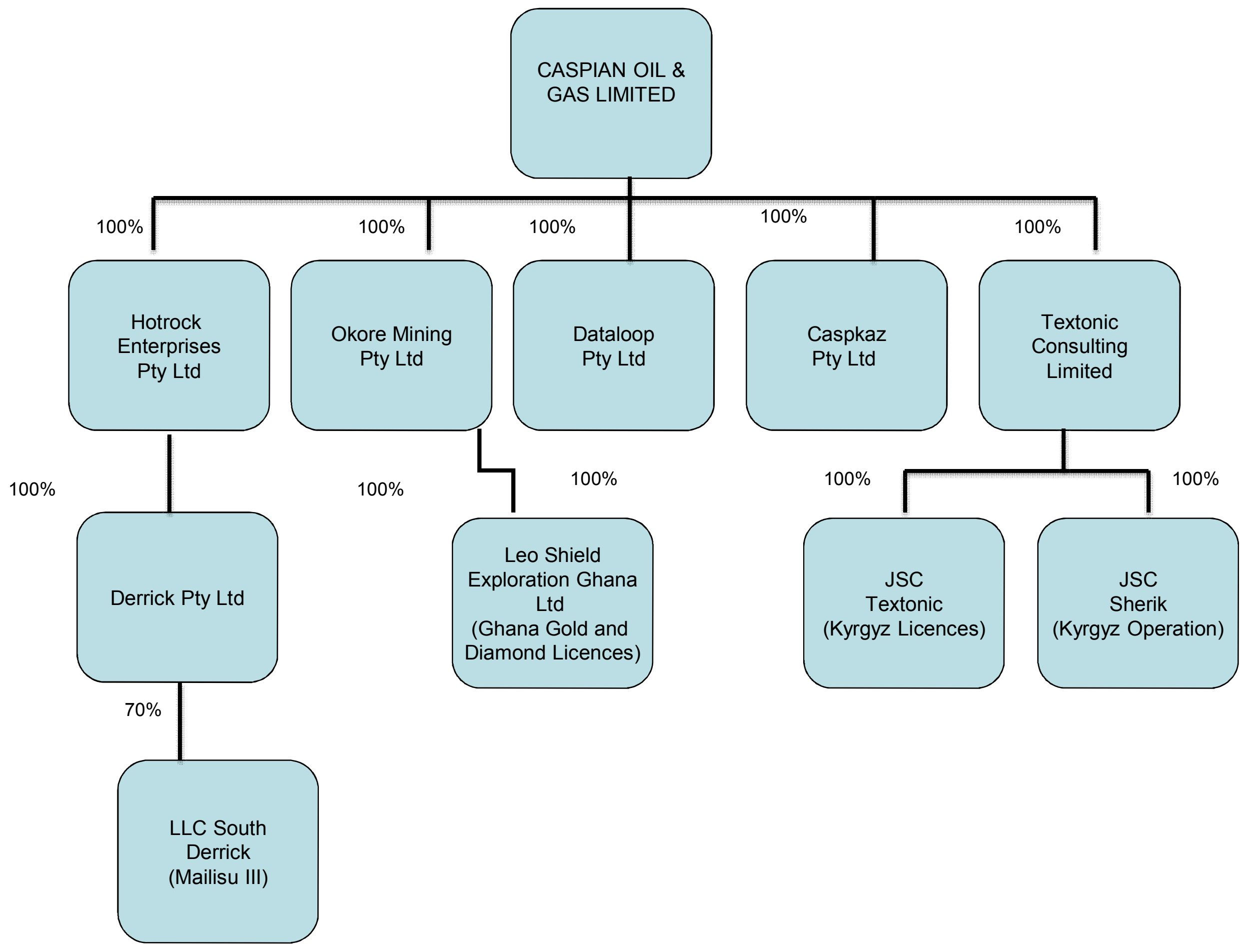
Colin John Carson
(Appointed 20 June 1994)
For details relating to Colin Carson, please refer to the details on Directors above.

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 2012



* Non-operating subsidiary

The companies referred to above comprise the "Consolidated Entity" for the purposes of the Financial Statements included in this report. However, since the reporting date, a number of changes have been made to the composition of the Consolidated Entity. On or around 5 September 2012, Equus Resources Limited (the holder of the Naltagua copper project) became a wholly owned subsidiary of the Company. On 26 September 2012, the Company's ownership interests in JSC Textonic, LLC South Derrick and Caspkaz Pty Ltd were disposed. These additions and disposals from the Consolidated Entity are not reflected in the Financial Statements included in this report, except by way of notes in the financial statements.

PRINCIPAL ACTIVITIES

The principal activities of the Group 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 2012 was $3,573,858 (2011: $3,646,385). 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 0.26 cents (2011: 0.27 cents).

REVIEW OF OPERATIONS

A review of operations of the Consolidated Entity during the year ended 30 June 2012 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 $5.78 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

Following shareholder approval on 31 August 2012, the acquisition of Equus Resources Limited was completed on 5 September 2012. Equus Resources Limited owns 100% of the Naltagua copper project through wholly owned Chilean subsidiaries. Details, including the consideration paid for this acquisition, are disclosed in Note 28 to the financial statements. On 26 September 2012, the Consolidated Entity's ownership interests in subsidiaries, JSC Textonic, LLC South Derrick and Caspkaz Pty Ltd were disposed and details are disclosed in Note 28 to the financial statements.

The shareholders' meeting on 31 August 2012 also approved a consolidation of the Company's share capital on a 1 for 10 basis, which became effective as at the close of business on that day.

LIKELY DEVELOPMENTS

As a consequence of the events referred to in the preceding paragraph, the Group will focus on its diverse mineral interests during the course of the 2012/2013 financial year but with a particular focus on the newly acquired Naltagua copper project in Chile. The Directors are unable to comment on the likely results from the Group's planned exploration activities due to the speculative nature of such activities.

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 2012 are:

	Directors' meetings held during period of office	**Directors' meetings attended**
C J Carson	7	7
G Parsons	7	7
J Walker	7	7
M J Sandy	7	7
A Ben-Natan	3	3

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
N Seckold*	30,377,420	-
E Leschke*	34,619,471	-
C J Carson*	2,717,269	-
J Walker*	8,297,861	-
M J Sandy*	350,000	-

* The relevant interests of Messrs Carson, Walker and Sandy disclosed above are following the 1 for 10 capital consolidation that became effective on 31 August 2012. Messrs Seckold's and Leschke's relevant interests as disclosed above arose as a consequence of the acquisition of their shareholdings in Equus Resources Limited, which settled on 5 September 2012 (after the 1 for 10 capital consolidation had already become effective).

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 Directors do not hold any options over unissued shares at the date of this report nor did they hold any at the reporting date.

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.

SHARE OPTIONS

As at the date of this report, there are 460,000 options to subscribe for unissued ordinary shares in the Company, comprising:

	Number	Exercise Price (cents)	Expiry Date
Unlisted Options *	460,000	30	31 October 2013

* The Unlisted Options were consolidated on the basis of one (1) Option for every ten (10) Options held.

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.

There were no options issued during the year and no options were issued after 30 June 2012 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 key management personnel (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 Michael Sandy
Mr Jürg Walker
Mr Avraham Ben-Natan (appointed 30 November 2011 and resigned 5 September 2012)
Mr Norman Seckold (appointed 5 September 2012)

Executive Directors
Mr Graeme Parsons (resigned 5 September 2012)
Mr Colin Carson
Mr Edward Leschke (appointed 5 September 2012)

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 Shah is a director and has a beneficial interest.

Mr Parsons resigned as CEO on 5 September 2012 and was replaced by Mr Leschke. Other than this change, there have been no changes of key management personnel after reporting date and until 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.

REMUNERATION REPORT – (audited) - continued

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.

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 ended 30 June 2012 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; and
- 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.

REMUNERATION REPORT (audited) - continued

The fixed remuneration component of the Executive Directors for the year ended 30 June 2012 is detailed in Table 1 of this report.

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 ended 30 June 2012 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 (CEO) 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. By mutual agreement, Mr Parsons service agreement as CEO was terminated in mid July 2012 with an effective termination date in mid-January 2013 as Mr Parsons will continue to provide services until then. No termination benefits were payable on his resignation as CEO, however he will continue to be remunerated under the terms of his agreement until the effective date of his termination. Mr Parsons resigned as a director of the Company on 5 September 2012.

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 Shah has a beneficial interest. Remuneration for Mr Shah's time as well as office space, accounting, and administrative services provided by CCPL throughout the year is included in Note 25.

REMUNERATION REPORT (audited) - continued

Table 1 Key management personnel remuneration for the year ended 30 June 2012

	Short-term employee benefits		Post Employment	Equity	
	Director's Salary / Fees	**Bonuses (A)**	**Super-annuation**	**Value of Options**	**Total**
	$	**$**	**$**	**$**	**$**
Directors :					
Colin Carson					
2012	**124,000**	**-**	**12,000**	**-**	**136,000**
2011	124,000	-	12,000	-	136,000
Graeme Parsons					
2012	**229,358**	**-**	**20,642**	**-**	**250,000**
2011	229,358	30,000	20,642	-	280,000
Jürg Walker					
2012	**30,000**	**-**	**-**	**-**	**30,000**
2011	30,000	-	-	-	30,000
Michael John Sandy					
2012	**30,000**	**-**	**-**	**-**	**30,000**
2011	30,000	-	-	-	30,000
Avraham Ben-Natan appointed 30 November 2011					
2012	**17,500**	**-**	**-**	**-**	**17,500**
2011	-	-	-	-	-
Reginald Gillard – resigned 31 August 2010					
2012	**-**	**-**	**-**	**-**	**-**
2011	7,500	-	675	-	8,175
Total, all directors					
2012	**430,858**	**-**	**32,642**	**-**	**463,500**
2011	420,858	30,000	33,317	-	484,175
Senior Managers:					
Susmit Shah (B)					
2012	**-**	**-**	**-**	**-**	**-**
2011	-	-	-	-	-
Total, senior managers					
2012	**-**	**-**	**-**	**-**	**-**
2011	-	-	-	-	-

(A) Following a performance review conducted by the Board in 2011, it was resolved that Mr Parsons would be paid a cash bonus in recognition of his contribution to the Group.
(B) Mr Shah's services were charged through Corporate Consultants Pty Ltd, a company in which Mr Shah is a director and has a beneficial interest (refer Note 25).

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. The Directors have considered compliance with the National Greenhouse and Energy Reporting Act 2007 which requires entities to report annual greenhouse gas emissions and energy use. For the measurement period 1 July 2011 to 30 June 2012 the Directors have assessed that there were no current reporting requirements.

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.

Colin Carson

Colin Carson
Director
Perth, 28 September 2012

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 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

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

Perth, Western Australia
28 September 2012

M R W OHM
Partner, HLB Mann Judd

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Caspian Oil & Gas Limited
Statement of Comprehensive Income
For the Year Ended 30 June 2012

	Notes	Consolidated 2012 $	2011 $
Revenue from ordinary activities	2	**268,808**	279,239
Cost of sales and services	2	**(89,441)**	(80,758)
Gross profit / (loss)		**179,367**	198,481
Other income	3	**2,338,239**	330,876
		2,517,606	529,357
Depreciation expense	4	**(90,301)**	(99,857)
Employee, directors and consultants costs		**(1,227,436)**	(1,462,906)
Write-down of mineral interest acquisition and exploration expenditure	16	**(3,436,919)**	(1,613,250)
Inventory obsolescence	4	**(605,138)**	-
Other expenses from ordinary activities	4	**(731,670)**	(999,729)
Loss before income tax benefit		**(3,573,858)**	(3,646,385)
Income tax benefit relating to ordinary activities	6	**-**	-
Loss after tax benefit		**(3,573,858)**	(3,646,385)
Other comprehensive income			
Exchange differences on translation of foreign operations		**(25,010)**	(1,234,633)
Net change in fair value of available-for-sale financial assets		**(184,858)**	(908,169)
Reclassification to profit on disposal of available-for-sale financial assets		**(2,001,372)**	1,732,408
Income tax relating to components of other income		**-**	-
Total comprehensive loss for the year		**(5,785,098)**	(4,056,779)
Loss attributable to:			
Owners of the Parent		**(3,519,829)**	(3,656,276)
Non-controlling Interests		**(54,029)**	9,891
		(3,573,858)	(3,646,385)
Comprehensive loss attributable to:			
Owners of the Parent		**(5,738,537)**	(4,121,724)
Non-controlling Interests		**(46,561)**	64,945
		(5,785,098)	(4,056,779)
Basic loss per share	7	**(0.26) cents**	(0.27) 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 2012

	Notes	Consolidated 2012 $	2011 $
Current Assets			
Cash and cash equivalents	9	**607,112**	1,852,503
Receivables	10	**43,538**	73,155
Inventories	11	**1,546,628**	2,354,320
Other	12	**166,279**	200,024
Total Current Assets		**2,363,557**	4,480,002
Non-Current Assets			
Receivables	10	**119,090**	203,509
Available-for-sale investments	14	**1,439,318**	2,950,738
Property, plant and equipment	15	**685,183**	1,567,605
Mineral interest acquisition, exploration and development expenditure	16	**513,264**	1,822,641
Other	12	**-**	64,254
Total Non-Current Assets		**2,756,855**	6,608,747
Total Assets		**5,120,412**	11,088,749
Current Liabilities			
Payables	17	**310,960**	494,199
Total Current Liabilities		**310,960**	494,199
Total Liabilities		**310,960**	494,199
Net Assets		**4,809,452**	10,594,550
Equity			
Issued capital	18	**99,362,502**	99,362,502
Reserves	18	**(2,026,263)**	192,445
Accumulated losses		**(92,428,118)**	(88,908,289)
Parent entity interest		**4,908,121**	10,646,658
Non-controlling interests		**(98,669)**	(52,108)
Total Equity		**4,809,452**	10,594,550

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 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)
Net movement 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**
Balance at 1 July 2011	**99,362,502**	**(88,908,289)**	**192,445**	**(52,108)**	**10,594,550**
Loss attributable to members of the parent entity	-	(3,519,829)	-	(54,029)	(3,573,828)
Currency translation differences	-	-	(32,478)	7,468	(25,010)
Net movement of available-for-sale financial assets	-	-	(2,186,230)	-	(2,186,230)
Total comprehensive loss for the year	-	(3,519,829)	(2,218,708)	(46,561)	(5,785,098)
Fair value of options issued	-	-	-	-	-
Balance at 30 June 2012	**99,362,502**	**(92,428,118)**	**(2,026,263)**	**(98,669)**	**4,809,452**

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

	Notes	Consolidated 2012 $	2011 $
Cash Flows from Operating Activities			
Cash receipts in the course of operations		**249,220**	290,265
Cash payments in the course of operations		**(1,967,216)**	(1,290,683)
Interest received		**15,016**	62,141
Net Cash provided by / (used) in Operating Activities	23(a)	**(1,702,980)**	(938,277)
Cash Flows from Investing Activities			
Payments for exploration and development expenditure		**(1,647,386)**	(2,302,109)
Proceeds on disposal of exploration assets		**428,859**	-
Loans (to) / repaid by other entities		**136,333**	47,565
Payments for property, plant and equipment		**(113,382)**	(72,052)
Proceeds on disposal of property, plant and equipment		**104,398**	33,268
Payments for investments		**(20,000)**	-
Proceeds on disposal of investments		**1,587,705**	2,139,913
Net Cash provided by / (used in) Investing Activities		**476,527**	(153,415)
Cash Flows from Financing Activities			
Proceeds from share issues		**-**	-
Share issue expenses		**-**	-
Net Cash provided by Financing Activities		**-**	-
Net Increase / (Decrease) in Cash Held		**(1,226,453)**	(1,091,692)
Cash at the beginning of the financial year		**1,852,503**	3,216,256
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		**(18,938)**	(272,061)
Cash at the end of the Financial Year	9	**607,112**	1,852,503

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 "Group").

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.

Caspian Oil & Gas Limited (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 and mineral exploration.

Going Concern

The financial report had been prepared on the going concern basis, which contemplates the continuity of normal business activity and the commercial realisation of the Group's assets and the settlement of liabilities in the normal course of business.

The Group has incurred a loss for the year after tax of $3,573,858 (2011: $3,646,385) and experienced net operating and investing cash outflows of $1,226,453 (2011: $1,091,692). As at 30 June 2012, the Group has net current assets of $2,052,597 which includes $607,112 in cash and cash equivalents.

The Directors believe that it is appropriate to prepare the financial statements on a going concern basis for the following reasons:

(i) At 30 June 2012, the Company had "Available-for-sale investments" comprising listed securities at a market value of $1.4 million. These are readily saleable assets, the market price of which, at the date of this report, is comparable to the market price at balance date;
(ii) Subsequent to year-end the Group disposed of two of its oil licence owning subsidiaries (refer Note 28). This disposal not only resulted in the receipt of proceeds of US$800,000 cash, but, equally importantly, resulted in a cessation of the cash outflows associated with the funding of the working capital of these entities; and
(iii) The Company believes that it has the capacity to raise new equity capital, particularly in light of the post year-end acquisition of a highly prospective copper project in Chile.

The Directors have reviewed the Company's and Group's overall position and outlook in respect of the matters identified above and are of the opinion that the use of the going concern basis is appropriate in the circumstances.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Statement of compliance

The financial report was authorised for issue on 28 September 2012.

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation - continued

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 through the Statement of Comprehensive Income. The Directors' decision is made after considering the likelihood of finding commercially viable reserves.

Share-based payment transactions

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

Revenue

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

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

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

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

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

Cash and cash equivalents

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

Receivables

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Receivables - continued

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.

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 resulting exchange differences in the consolidated financial report are taken to profit or loss 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. The directors have written off the amount previously carried forward during the year ended 30 June 2012 as it is unlikely that sufficient production revenues will be generated in the future.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Investments and other financial assets - continued

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment - continued

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 profit or loss.

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Impairment testing - continued

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Share-based payment transactions - continued

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.

Equity settled transactions - continued

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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	
	2012	2011
	$	$

2. REVENUE FROM ORDINARY ACTIVITIES

	2012 $	2011 $
Revenues from operating activities		
Revenue from oil production	**182,154**	228,584
Costs from oil production	**(83,648)**	(65,654)
	98,506	162,930
Rendering of services revenue	**86,654**	46,023
Costs of services rendered	**(5,793)**	(10,707)
	80,861	35,316
Sales of consumables	**-**	4,632
Costs of consumables	**-**	(4,397)
	-	235
Gross profit / (Loss)	**179,367**	198,481

3. OTHER REVENUE

	2012 $	2011 $
Interest – other parties	**15,016**	60,055
	15,016	60,055
Net gain on disposal of property, plant and equipment	**60,146**	8,192
Net gain on disposal of available-for-sale investments	**2,263,077**	262,629
	2,323,223	270,821
	2,338,239	330,876

4. LOSS FROM ORDINARY ACTIVITIES

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

(a) Expenses

	2012 $	2011 $
Depreciation of plant and equipment	**90,301**	99,857
Share based payments to consultants, directors and employees	**-**	1,580
Mineral interest acquisition, exploration and development expenditure written-off	**3,436,919**	1,613,250
Inventory obsolescence	**605,138**	-
VAT written off	**80,781**	-
Movement in provision for employee entitlements	**1,250**	(3,727)
Other expenses include:		
West African administrative and overhead costs	**7,746**	7,452
Travel and accommodation	**60,904**	60,061
ASIC and ASX fees	**27,370**	27,796

	Consolidated	
	2012	2011
	$	$

5. AUDITORS' REMUNERATION

Audit services:

- Auditors of the company-HLB Mann Judd	**41,220**	40,950
- Other auditors	**15,170**	10,700
	56,390	51,650

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:

Loss from ordinary activities	**3,573,858**	3,646,385
Prima facie income tax benefit @ 30%	**1,072,157**	1,093,916
Tax effect of temporary differences:		
Options issued to employees and consultants	**-**	(474)
Profit on sale of investments against capital losses	**678,923**	78,789
Capitalised exploration costs (net recouped)	**(225,396)**	228,118
Share issue costs amortised	**53,905**	85,842
Other non-deductible items	**(8,599)**	(2,022)
Income tax benefit adjusted for temporary differences	**1,570,990**	1,484,169
Deferred tax asset not brought to account	**(1,570,990)**	(1,484,169)
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.

Australian tax losses	**3,180,530**	2,904,689
Foreign tax losses	**5,463,064**	10,108,383
Australian capital losses	**6,465,439**	6,924,018

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

Deferred exploration and evaluation expenditure	**153,979**	546,792

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	
	2012 **cents**	2011 cents
Basic loss per share	**(0.26)**	(0.27)
	2012 **$**	2011 $
Loss used in calculation of earnings per share	**(3,519,829)**	(3,656,276)
	2012 **No.**	2011 No.
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**1,331,500,513**	1,331,500,513

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		Consolidated	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Business segments (Primary Segment)								
Revenue								
Gross profit from external customers	**-**	-	**-**	-	**179,367**	198,481	**179,367**	198,481
Other external revenue	**2,278,093**	322,684	**-**	-	**60,146**	8,192	**2,338,239**	330,876
Intersegment revenue	**-**	-	**-**	-	**-**	-	**-**	-
Total segment revenue	**2,278,093**	322,684	**-**	-	**239,513**	206,673	**2,517,606**	529,357
Results								
Operating gain / (loss) before income tax	**1,179,798**	(1,065,880)	**(45,160)**	(8,976)	**(4,708,496)**	(2,571,529)	**(3,573,858)**	(3,646,385)
Income tax benefit							**-**	-
Net loss							**(3,573,858)**	(3,646,385)
Assets								
Segment assets	**2,012,567**	4,607,181	**17,339**	16,625	**3,090,506**	6,464,943	**5,120,412**	11,088,749
Non-current assets acquired	**7,514**	1,900	**38,110**	-	**2,753,357**	2,188,788	**2,798,981**	2,190,688
Liabilities								
Segment liabilities	**182,056**	213,489	**22,731**	71,880	**106,173**	208,830	**310,960**	494,199
Other segment information								
Depreciation	**2,720**	3,841	**-**	-	**87,581**	96,016	**90,301**	99,857
Non-cash expenses other than depreciation	**120,236**	326,323	**46,677**	1,538	**4,067,667**	1,629,750	**4,234,580**	1,957,611

	Consolidated 2012 $	2011 $

9. CASH AND CASH EQUIVALENTS

Cash assets	**607,112**	1,315,817
Deposits at call	**-**	536,686
	607,112	1,852,503

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

10. RECEIVABLES

Current

Sundry debtors	**43,538**	73,155
	43,538	73,155

Non-current

Loans to outside parties	**119,090**	203,509
	119,090	203,509

Terms and conditions relating to the above financial instruments:

- Trade and sundry debtors are non-interest bearing and generally on 30 day terms.
- $119,090 is a loan made in connection with drilling of wells on the Company's projects, with no fixed repayment terms, nil interest and unsecured.

11. INVENTORIES

Raw materials and stores – at cost	**2,151,766**	2,354,320
Provision for obsolescence	**(605,138)**	-
	1,546,628	2,354,320

- The Directors have recognised a provision during the year due to inventory items not used during drilling and therefore some of the items deemed to be obsolete.

12. OTHER

Current

Prepayments	**166,279**	200,024

Non-current

VAT withheld	**-**	64,254

- VAT has been withheld in the Kyrgyz Republic and is only refundable when the Kyrgyz companies generate sufficient revenues. For that reason the amounts were classified as non-current and then written off in the current year as recoverability is uncertain.

13. SUBSIDIARIES

Name of subsidiary	Notes	Place of Incorporation	Group Interest 2012	2011
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		Australia	**100**	100
(i) Subsidiaries of Textonic Consulting Limited				
JSC Textonic	(a)	Kyrgyz Republic	**100**	100
JSC Sherik	(a)	Kyrgyz Republic	**100**	100
(ii) Subsidiary of Hotrock Enterprises Pty Ltd				
Derrick Pty Ltd (iii)		Australia	**100**	100
(iii) Subsidiary of Derrick Pty Ltd				
LLC South Derrick	(a)	Kyrgyz Republic	**70**	70

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

14. AVAILABLE-FOR-SALE INVESTMENTS

	Notes	Consolidated 2012 $	2011 $
At fair value:			
Listed shares		**1,439,318**	2,950,738

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 2012 is approximately $1 million (after accounting for the disposal of a small number of listed securities since the reporting date).

15. PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2012 $	Consolidated 2011 $
Plant and equipment - at cost	**6,779,805**	6,837,029
Accumulated depreciation	**(4,281,930)**	(3,456,732)
Accumulated impairment expense	**(1,812,692)**	(1,812,692)
Total property, plant and equipment net book value	**685,183**	1,567,605

Reconciliation:

	2012 $	2011 $
Carrying amount at the beginning of the year	**1,567,605**	3,049,561
Additions	**113,382**	72,052
Disposals	**(44,252)**	(79,323)
Depreciation	**(90,301)**	(99,857)
Depreciation capitalised to exploration	**(863,985)**	(899,901)
Foreign currency translation movement	**2,734**	(474,927)
Carrying amount at the end of the year	**685,183**	1,567,605

16. MINERAL INTEREST ACQUISITION, EXPLORATION AND DEVELOPMENT EXPENDITURE

	2012 $	2011 $
Balance at the beginning of the year	**1,822,641**	1,194,480
Expenditure incurred during the year	**1,821,614**	1,473,747
Depreciation capitalised to exploration	**863,985**	899,901
Write off of exploration expenditure	**(3,436,919)**	(1,613,250)
Sale of Romanian oil interest	**(531,792)**	-
Foreign currency translation movement	**(26,265)**	(132,237)
Carried forward	**513,264**	1,822,641

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

	2012 $	2011 $
Trade creditors and accruals	**120,457**	302,445
Employee benefits	**190,503**	191,754
	310,960	494,199

Terms and conditions relating to the above financial instruments:

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

	Consolidated	
	2012	**2011**
	$	**$**

18. ISSUED CAPITAL AND RESERVES

Share capital

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

a) Ordinary shares

	Consolidated		Consolidated	
	2012	**2011**	**2012**	**2011**
Movements in Ordinary Shares (last two years):	**Number**	Number	**$**	$
Balance at 1 July	**1,331,500,513**	1,331,500,513	**99,362,502**	99,362,502
Balance at 30 June	**1,331,500,513**	1,331,500,513	**99,362,502**	99,362,502

As a consequence of a 1 for 10 capital consolidation approved by shareholders on 31 August 2012, the number of shares on issue at that date was reduced from 1,331,500,513 to 133,149,810 (after allowing for rounding down of fractions).

(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 2011	Options Issued 2011/12	Options Exercised/ Cancelled/ Expired 2011/12	Closing Balance 30 June 2012
			Number	*Number*	*Number*	*Number*
On or before 31 Dec 2011		$0.10	900,000	-	(900,000)	-
On or before 31 Oct 2013		$0.03	5,000,000	-	(400,000)	4,600,000
			5,900,000	-	(1,300,000)	4,600,000

(i) 1,300,000 options lapsed during the year ended 30 June 2012. As a consequence of a 1 for 10 capital consolidation approved by shareholders on 31 August 2012, the number of options on issue at that date was reduced from 4,600,000 to 460,000 and the exercise price was revised from $0.03 to $0.30.

(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 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	-	-	(645,900)	-	(645,900)
Transfer of gains on disposal of available-for-sale financial assets	-	-	(262,269)	-	(262,269)
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
Balance at 1 July 2011	589,000	2,509,475	3,443,050	(6,349,080)	192,445
Revaluation of available for sale financial assets	-	-	(184,858)	-	(184,858)
Transfer of gains on disposal of available-for-sale financial assets	-	-	(2,001,372)	-	(2,001,372)
Currency translation differences	-	-	-	(32,478)	(32,478)
Balance at 30 June 2012	589,000	2,509,475	1,256,820	(6,381,558)	(2,026,263)

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**
	2012	**2012**	**2011**	**2011**
Outstanding at the beginning of the period	**$0.041**	**5,900,000**	$0.053	20,350,000
Forfeited / Expired during the period	**$0.078**	**(1,300,000)**	$0.057	(14,850,000)
Exercised during the period	**-**	**-**	-	-
Granted during the period	**-**	**-**	$0.03	400,000
Outstanding at the end of the period	**$0.03**	**4,600,000**	$0.041	5,900,000
Exercisable at the end of the period		**4,600,000**		5,900,000

The outstanding balance as at 30 June 2012 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 2011 and 30 June 2012:

	2012	**2011**
Volatility (%) - range	**-**	119%
Risk-free interest rate (%) - range	**-**	4.75%
Expected life of option (years)	**-**	3 years
Exercise price (cents)	**-**	3 cents
Weighted average share price at grant date (cents)	**-**	0.8

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	
	2012	**2011**
	$	**$**
Cash	**607,112**	1,852,503
Receivables	**162,628**	276,663
Available-for-sale investments	**1,439,318**	2,950,738
Other-Non-current VAT receivable	**-**	64,254
Total Assets	**2,209,058**	5,144,158
Payables	**120,457**	302,443
Total Liabilities	**120,457**	302,443

(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. At the balance date there were no significant concentrations of credit risk.

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

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 2012			
Non-interest bearing	97,726	-	22,731
30 June 2011			
Non-interest bearing	230,563	-	71,880

(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 2012		30 June 2011	
	Assets	**Liabilities**	Assets	Liabilities
	$	**$**	$	$
United States Dollar	**516,182**	**-**	1,253,414	-
Kyrgyz Som	**229,018**	**52,382**	522,479	149,090
Ghana Cedi	**16,402**	**22,731**	15,474	71,880
	761,602	**75,113**	1,791,367	220,970

The following significant exchange rates applied during the year:

	Average rate		**Balance date spot rate**	
	2012	2011	**2012**	2011
	$	$	**$**	$
United States Dollar	**1.033**	0.99	**1.016**	1.059
Kyrgyz Som	**47.69**	46.30	**48.03**	47.93
Ghana Cedi	**1.75**	1.48	**1.98**	1.61

(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 2011.

		Consolidated	
		2012	**2011**
		$	**$**
(Profit) or loss	(i)	**(43,698)**	(93,764)
Equity	(ii)	**(50,891)**	(149,451)

(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 Group's interest-bearing financial instruments is as follows:

	Consolidated Carrying Amount	
	2012	**2011**
	$	**$**
Variable rate instruments at call		
Financial assets	**566,347**	1,642,511
Financial liabilities	**-**	-
	566,347	1,642,511

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

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 2011.

	Profit or (Loss)		Equity	
	100bp increase	**100bp decrease**	**100bp increase**	**100bp decrease**
Consolidated	**$**	**$**	**$**	**$**
30 June 2012				
Variable rate instruments	5,663	(5,663)	5,663	(5,663)
Cash flow sensitivity (net)	5,663	(5,663)	5,663	(5,663)
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)

(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 2012 and 30 June 2011.

Consolidated	**Level 1**	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
30 June 2012				
Assets				
Available-for-sale financial assets	1,439,318	-	-	1,439,318
	1,439,318	-	-	1,439,318

20. FINANCIAL INSTRUMENTS - continued

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

(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 six 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

As a consequence of the post year-end disposal of the two Kyrgyz subsidiaries that held oil permits, the Group does not have any minimum expenditure commitments in relation to its mineral interests at the date of this report. The Group's mineral interests in West Africa and the Democratic Republic of Congo are subject to farm-in and joint venture agreements, under the terms of which the farm-in partners are responsible for the annual rates and rents relating to those properties. Since the year end, the Group has acquired an interest in the Naltagua Copper Project in Chile. This project comprises mining licences and, other than nominal annual rates, there are no minimum expenditure commitments. However, under the terms of the agreement which give the Group the right (but not the obligation) to acquire the Naltagua Copper Project on an outright basis, an amount of US$100,000 is payable to the mining lease holder in September 2012 and in September 2013. A final payment of US$4.3 million is required to be paid in September 2014 to complete the acquisition.

(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 2012 $	Consolidated 2011 $
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

Mr Parsons provided a notice of resignation as the Company's Chief Executive Officer in mid July 2012 but will continue to provide services until the effective date of his termination in mid January 2013.

22. CONTINGENT LIABILITIES

The Company has in the past been subject to contingent liabilities, which would crystallise upon the satisfaction of certain commercial oil production criteria being met at the Company's Kyrgyz oil properties. As a consequence of the post year-end disposal of the Kyrgyz subsidiaries (refer note 28 for further detail), these contingent liabilities have been extinguished.

23. RECONCILIATION TO THE STATEMENT OF CASH FLOWS

	Consolidated	
	2012	**2011**
	$	**$**
(a) Reconciliation of the loss from ordinary activities to net cash used in operating activities		
Loss from ordinary activities after income tax	**(3,573,858)**	(3,646,385)
Add back non-cash items:		
Depreciation	**90,301**	99,857
(Profit)/loss on sale of plant and equipment	**(60,146)**	(8,192)
(Profit)/loss on sale of investments	**(2,263,077)**	(262,629)
Investment impaired	**20,000**	-
Employee and consultants' options	**-**	1,580
Exploration expenditure write-off	**3,436,919**	1,613,250
Employee benefits provision	**(1,251)**	(3,727)
Foreign currency (gain)/loss	**112,992**	339,054
Inventory obsolescence	**605,138**	-
Change in assets and liabilities:		
(Increase)/decrease in receivables	**44,666**	160,015
(Increase)/decrease in inventories	**-**	438,860
(Increase)/decrease in other assets	**33,745**	39,793
(Decrease)/increase in payables	**(148,409)**	290,247
Net cash provided by / (used in) operating activities	**(1,702,980)**	(938,277)

(b) Non-cash financing and investing activities

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

	Consolidated	
	2012	**2011**
	$	**$**

24. EMPLOYEE BENEFITS

The aggregate employee benefit liability is comprised of:

	2012 $	2011 $
Annual leave accrual and long service leave provision – current	**190,503**	191,754

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 Jürg Walker
Mr Michael Sandy
Mr Avraham Ben-Natan (appointed 30 November 2011)

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 Shah is a director and has a beneficial interest.

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

	Consolidated	
	2012	**2011**
	$	**$**
Short-term employee benefits	**430,858**	450,858
Post-employment benefits	**32,642**	33,317
	463,500	484,175

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 2012 $	2011 $
(i)	Accounting, secretarial and corporate service fees paid or payable to Corporate Consultants Pty Ltd, a company in which the company secretary, Mr Susmit Shah, is a director and has a beneficial interest.	**116,172**	103,940
(ii)	Rent paid or payable to Ledgar Road Partnership, an entity in which Mr Carson has a beneficial interest.	**1,436**	1,743

Balances due to Directors and Director Related Entities at year end

	2012	2011
- included in trade creditors and accruals	**7,797**	9,972

Shareholdings
The numbers of shares in the Company held during the financial year by directors, including shares held by entities they control, are set out below. The shareholding numbers disclosed below are prior to the 1 for 10 capital consolidation that became effective as at close of business on 31 August 2012.

30 June 2012	**Balance at 1 July 2011**	**Received as Remuneration**	**Options Exercised**	**Other Movements(a)**	**Balance at 30 June 2012**
Parent entity directors					
Colin Carson	14,188,484	-	-	12,984,203	27,172,687
Graeme Parsons	1,600,000	-	-	-	1,600,000
Jürg Walker	82,978,610	-	-	-	82,978,610
Michael Sandy	3,500,000	-	-	-	3,500,000
Avraham Ben-Natan	N/A	-	-	-	50,000,000
Senior manager					
Susmit Shah	1,000,000	-	-	-	1,000,000

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

(a) Other Movements

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. The optionholding numbers disclosed below are prior to the 1 for 10 capital consolidation that became effective as at close of business on 31 August 2012.

30 June 2012	Balance at 1 July 2011	Received as Remuneration	Options Exercised / (Expired)	Other Movements	Balance at 30 June 2012	Vested and exercisable at year end
Parent entity directors						
Colin Carson	-		-	-	-	-
Graeme Parsons	-	-	-	-	-	-
Jürg Walker	-	-	-	-	-	-
Michael Sandy	-	-	-	-	-	-
Avraham Ben-Natan	N/A	-	-	-	-	-
Senior manager						
Susmit Shah	400,000	-	-	-	400,000	400,000

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

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 existing 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 2012 $	30 June 2011 $
ASSETS		
Current assets	**571,506**	1,651,979
Non-current assets	**4,420,002**	5,828,008
TOTAL ASSETS	**4,991,508**	7,479,987
LIABILITIES		
Current liabilities	**182,056**	213,489
TOTAL LIABILITIES	**182,056**	213,489
EQUITY		
Contributed equity	**99,362,502**	99,362,502
Accumulated losses	**(98,908,345)**	(97,907,034)
Equity based compensation reserve	**2,509,475**	2,509,475
Financial assets reserve	**1,256,820**	2,712,555
Option premium reserve	**589,000**	589,000
TOTAL EQUITY	**4,809,452**	7,266,498

b) Financial performance

	Year Ended 30 June 2012 $	Year Ended 30 June 2011 $
Net Loss for the year	**(1,001,311)**	(8,209,066)
Other comprehensive income / (loss)	**(1,455,733)**	825,819
Total comprehensive income / (loss)	**(2,457,044)**	(7,383,247)

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 2012. 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 2012 that have or may significantly affect the operations, results, or state of affairs of the Consolidated Entity in future financial years other than the following:

(i) In July 2012 the Company advised it had entered into a heads of agreement with Equus Resources Limited ("Equus"), under which it was proposed that Caspian would acquire the Naltagua Copper Project in Chile by purchasing the entire share capital of Equus. The Equus acquisition provides the Company with an opportunity to expand its mineral resource interests to include a highly prospective copper project in a country which has a long established mining tradition and which is presently the world's largest producer of copper.

As a consequence of approvals granted at a shareholders meeting on 31 August 2012, the following events have taken place:

- A consolidation of the number of shares on issue on the basis of one (1) fully paid ordinary share for every ten (10) fully paid ordinary shares held ("Capital Consolidation"). Consequently, the number of options on issue was consolidated on the basis of one (1) option for every ten (10) options held and the exercise price of such options increased by a factor of 10. This capital consolidation became effective as at the close of business on 31 August 2012.

- the issue of 108,940,951 shares on 5 September 2012 for the acquisition of the entire share capital of Equus.

- the appointment of Mr Edward J Leschke and Mr Norman A Seckold to the Caspian Board on 5 September 2012.

(ii) On 13 September 2012, the Company completed a placement of 4,570,914 ordinary shares to raise $251,400.

(iii) On 26 September 2012, the Company disposed of its two subsidiary companies, CJSC Textonic and South Derrick LLC, which held its Kyrgyz oil licences for a total of US$800,000 cash. At the same time, Caspkaz Pty Ltd, a wholly owned subsidiary with no assets was disposed of for a nominal amount of $20,000.

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 2012 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 2012.

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

Colin Carson
Director

Dated at Perth, 28 September 2012

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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 consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated 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 entity'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 entity'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.

Independence

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

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
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HLB Mann Judd

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Matters relating to the electronic presentation of the audited financial report and remuneration 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 2012 published in the annual report and included on the company's website. The company's directors are responsible for the integrity of the company's 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. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report and remuneration report. If users of the financial report and remuneration 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 and remuneration report.

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 2012 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 2012. 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 2012 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
28 September 2012