

REPORT OF THE DIRECTORS AND
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008
FOR
CASPIAN HOLDINGS Plc

CASPIAN HOLDINGS Plc
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FOR THE YEAR ENDED 31 DECEMBER 2008

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CASPIAN HOLDINGS Plc
COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2008

| | | |
|---------------------------|---|---|
| DIRECTORS: | M G Masterman D Greil M V Garland Dr B Pirola | <i>Executive Chairman</i> <i>Non-Executive Director</i> (resigned November 2008) <i>Non-Executive Director</i> <i>Non-Executive Director</i> (appointed November 2008) |
| SECRETARY: | MSP Secretaries Limited | |
| REGISTRARS: | Share Registrars Limited Suite E, First Floor 9 Lion and Lamb Yard Farnham Surrey GU9 7LL | |
| REGISTERED OFFICE: | 22 Melton Street London, NW1 2BW | |
| REGISTERED NUMBER: | 4782584 (England and Wales) | |
| AUDITORS: | Cook and Partners Limited Chartered Accountants Manufactory House Bell Lane, Hertford Herts, SG14 1BP | |
| NOMINATED ADVISER: | Grant Thornton UK LLP 30 Finsbury Square London, EC2P 2YU | |
| BROKER: | Hoodless Brennan & Partners Plc 40 Marsh Wall, Docklands London, E14 9TP | |
| PRINCIPAL BANKERS: | HSBC PO Box 260 46 The Broadway, Ealing London, W5 5JZ Anglo Irish Bank Corporation Plc 10 Old Jewry London EC2R 8DN | |
| SOLICITORS: | Kerman & Co LLP No 7 Savoy Court Strand London, WC2R 0ER | |

CASPIAN HOLDINGS Plc
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2008

The Directors present their annual report with the financial statements of the Caspian Holdings Plc ("Caspian" or the Company) and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITY

The Group's principal activity during the year under review was that of a holding company, and through its subsidiaries that of oil exploration.

REVIEW OF BUSINESS

The results for the year and the financial position of the group and the company at the year end are as shown in the annexed financial statements.

Detailed reviews of activities, business developments and projects are included within the Chairman's Statement and the review of operations.

DIVIDENDS AND TRANSFERS TO RESERVES

No dividend will be distributed for the year and the retained loss transferred to reserves for the year will be £4,397,146.

CHAIRMAN'S STATEMENT

2008 started as a promising year for Caspian Holdings Plc. Significant positive progress was made on restarting production at Zhengeldy and the Company progressively expanded into the USA through first the Pine Meadows Lease and then the acquisition of 50% of Black Gold of Kentucky and the Irvine oil field.

However by August 2008, the Company's fortunes dramatically reversed. The Kazakhstan Ministry choose to terminate the Zhengeldy sub soil licence and the global financial crisis led to significant falls in oil and other commodity prices and very difficult financing conditions which made it very difficult to quickly progress Black Gold and Pine Meadows.

The Kazak Ministry action against Zhengeldy was the most problematic. The letter to terminate the licence was issued in the same month that the same Ministry formally stated its satisfaction with the Company's progress to restart Zhengeldy production. The Company took the Ministry to court and won the first judgement on 27 November 2008. The first judge found that the Company had met, and exceeded, all of its work program obligations and that the actions of the Minister in terminating the licence were illegal. The Ministry appealed and the court of appeal found in favour of the Ministry. The Appeal Court findings ruling was based Caspian not achieving originally estimated production levels as a result of (in the Appeal Courts' view) not taking timely technical advice from the Ministerial committees. Caspian has until 21 January 2010 to appeal the appeal court judgement.

The loss of Zhengeldy and the global financial crisis made it difficult to expedite development of Pine Meadows in California and Irvine in Kentucky. The Pine Meadows lease will expire on 29 May 2009.

The loss of the Zhengeldy appeal in January 2009 has created serious financial problems for Caspian. The Company has reached an agreement, subject to shareholder approval, to convert its outstanding loan notes and major creditor positions to equity at an issue price of £0.005. If approved this will result in the issue of approximately 230 million shares and the removal of major liabilities from the balance sheet. This action together with equipment sales will allow Caspian to continue to trade. The Company intends to focus on its assets in the United States and other energy and resource development opportunities in the forthcoming year, whilst continuing to look for opportunities to create value from its Kazakhstan Assets.

The 2008 Financials show a loss after taxation of £4,397,146 compared to £1,570,595 in the previous year. As the result of the loss of Zhengeldy Subsoil Contract the value of Taraz LLP has been written down to zero and excluded from the consolidated accounts.

Dietmar Greil retired during the year and moved to California. Dietmar had the lead technical role in the development of Zhengeldy. Mr Greil was replaced by Dr Byron Pirola.

We thank all directors and employees, in particular Mariyam Musrepova, for their support and efforts during the year.

Yours faithfully,
Michael Masterman
Executive Chairman

CASPIAN HOLDINGS Plc
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2008

EVENTS SINCE THE BALANCE SHEET DATE

As detailed in the Chairman's statement, in January 2009, the Zhengeldy subsoil licence contract was terminated. This termination has forced the company to write off its investment in Taraz LLP, as subject to the potential sale of the equipment owned by Taraz LLP, no sums will be realised for this investment.

The Company completed a placement of 7,000,000 new ordinary shares to the Masterman Superannuation Fund at a price of 0.6p raising £42,000 on 14th January 2009. Mr Masterman is a beneficiary and trustee of that fund. Following this transaction, Mr Masterman will have an interest in 39,070,000 shares in the Company, representing 29.7% of the total voting rights.

The Company has reached an agreement, subject to shareholder approval, to convert its outstanding loan notes and major creditor positions to equity at an issue price of £0.005. If approved this will result in the issue of approximately 230 million shares and the removal of major liabilities from the balance sheet.

FINANCIAL RISK, MANAGEMENT OBJECTIVES AND POLICIES

The Group uses various financial instruments. These include cash and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the company's operations.

The existence of these financial instruments exposes the Company to a number of financial risks, which are described in more detail below. The Directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

Price Risk

The Directors, consider that the price of oil is an area of potential risk. This is reviewed on a constant basis by the Board and Senior Management.

Liquidity Risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Credit Risk

The Group's principal financial assets are cash and trade debtors; the principal risk arises therefore from its trade debtors. The impact associated with the trade debtor risk is reduced through a significant management focus on aged debt.

In order to manage credit risk the Directors set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the credit control department on a regular basis in conjunction with debt ageing and collection history.

Currency Risk

The Group principally operates in Euros and US Dollars. It does not currently consider the risk of exposure to be material. As such the directors do not currently consider it necessary to enter into forward exchange contracts. This situation is monitored on a regular basis.

CASPIAN HOLDINGS Plc
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2008

GOING CONCERN

As a result of the loss of the appeal on the Zhengeldy licence on 21 January 2009 and the outstanding loan notes falling due on 11 April 2009, the Company was placed in a position where it was difficult to meet its obligations as they fell due.

The Company has reached an agreement, subject to shareholder approval, to convert its outstanding loan notes and creditor positions to equity at an issue price of £0.005. The Company has also commenced the process to realise proceeds from the sale of Zhengeldy equipment which should provide incoming cashflow.

Based on the Directors expectation that shareholders will support the debt equity swap and reasonable expectations of equipment sale proceeds, the Directors are satisfied that the Group has sufficient resources to continue its operation and to meet its commitments in the foreseeable future. The financial statements have therefore been prepared on the going concern basis.

In the event shareholders do not approve the proposed debt for equity swap the Company will not be able to meet its debt obligations when they fall due and will cease to trade. In the event that equipment sale realisation is delayed or becomes problematic, then the Company would need to raise capital to continue to meet its obligations when they fall due.

The Directors are satisfied that subject to the above, the Group has sufficient resources to continue its operation and to meet its commitments for the foreseeable future. The financial statements have therefore been prepared on the going concern basis.

DIRECTORS

The directors during the year under review were:

| | | |
|---------------|---|---|
| M G Masterman | - | <i>Executive Chairman</i> |
| D Greil | - | <i>Non-Executive Director/New Projects (resigned November 2008)</i> |
| M V Garland | - | <i>Non-Executive Director</i> |
| Dr B Pirola | - | <i>Non-Executive Director (appointed November 2008)</i> |

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Michael Masterman aged 46, Executive Chairman

Michael has a strong track record in establishing and building new resources companies and in raising project finance, having spent 9 years at McKinsey and Company serving major international resources companies principally in the area of strategy and development. In 1996 he joined Anaconda Nickel (now Minara Resources), as Executive Director and Chief Financial Officer. Michael and the rest of the executive team were responsible for transforming Anaconda into a major nickel producer with the (US)\$1 billion Murrin Murrin project in Western Australia over a period of 3 years and growing a small team of 5 to over 400 people. In 2002 he joined Northsun Italia SpA, a leading independent Italian oil and gas company, which is currently bringing into production three gas fields in the Po Valley of Italy. In 2004 Northsun Italia and related companies were listed on the ASX as Po Valley Energy Limited of which he is the Chief Executive Officer and a major shareholder. Michael is a joint founder of the Company.

Michael Garland aged 48, Non-Executive Director

Michael was a Commercial Manager for Tullow Oil Plc and Commercial Director at Star Energy Group Plc before becoming a Director of Caspian Holdings. At Wood Gundy Inc Michael was involved in the early UK Government privatisations and set up the Australian desk to market the bank's products to Australian companies. When Wood Gundy Inc. was acquired by the Canadian Imperial Bank of Commerce he was involved in many aspects of the European and North American Capital Markets but primarily with the marketing of the bank's capital market products to government and semi-government organisations within Europe. Michael is Chief Executive Officer of Dominion Petroleum Limited.

Dr Byron Pirola aged 48, Non-Executive Director

Byron has over 21 years experience in strategic consulting to major Australian and International Companies. He has been a director of Po Valley Energy Limited, a leading European Oil and Gas company for over 6 years and has extensive experience in management, energy and resources, and in corporate governance. Byron is a director of Po Valley Energy Limited and Port Jackson Partners Limited.

Byron replaced Dietmar Griel on the board in November 2008.

CASPIAN HOLDINGS Plc
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2008

BOARD OF DIRECTORS AND SENIOR MANAGEMENT (Cont'd)

Dietmar Greil aged 56, Non Executive Director

Dietmar is a highly experienced reservoir engineer with over 30 years experience in Exploration and Development in the oil industry. He began his career in the oil industry with senior positions at Statoil ASA (Norway), Chevron Texaco Corporation (USA) and Preussag Energie GmbH (Germany). Following Preussag Dietmar worked in the FSU for 15 years and was responsible for drilling over 40 wells, as well as building the Rosscor Int BV equipment supply business. He has extensive experience in the development of oil fields in Russia and other former Soviet republics as well as experience in structuring and managing Joint Ventures. In 1997, Dietmar founded Northsun Italia SpA where he acted as Chief Executive Officer. Under his leadership Northsun was successful in acquiring six medium sized gas fields in Italy, the most successful of the new companies entering Italy following deregulation of the ENI monopoly in 1998. Dietmar was a joint founder of the Company. Dietmar left the board in November 2008 on his retirement.

The beneficial interests of the directors holding office on 31 December 2008 in the issued share capital of the Company were as follows:

| | <u>Ordinary 0.1p Shares</u> <u>31.12.08</u> | <u>Ordinary 0.1p Shares</u> <u>01.01.08</u> |
|---------------|--|--|
| M G Masterman | 32,070,000 | 11,900,000 |
| M V Garland | - | - |
| Dr B Pirola | 9,397,000 | 9,397,000 |

Director's Remuneration

The Company remunerates the Directors at a level commensurate with the size of the Company and the experience of its Directors. The Remuneration Committee has reviewed the Director's remuneration and believes it upholds the objectives of the Company with regard to this issue. The remuneration paid and accrued to the Directors for the year ended 31 December 2008 is detailed below:

| <u>Director</u> | <u>Annual</u> <u>Salary per</u> <u>Contract</u> <u>£</u> | <u>Annual</u> <u>Salary Paid</u> <u>in Year</u> <u>£</u> | <u>Management</u> <u>Service</u> <u>Agreement</u> <u>per</u> <u>Contract</u> <u>£</u> | <u>Management</u> <u>Service</u> <u>Agreement</u> <u>Paid in Year</u> <u>£</u> | <u>Total Paid in</u> <u>Year</u> <u>£</u> | <u>Total</u> <u>Accrued in</u> <u>Year</u> <u>£</u> |
|-----------------|---|---|--|--|---|--|
| M G Masterman | 24,000 | - | 118,622 | - | - | 142,622 |
| M V Garland | 24,000 | - | - | - | - | 24,000 |

The remuneration of M G Masterman and M V Garland is in accordance with agreements effective from 4th November 2004.

Directors Service Contracts

All Directors' contracts run until 25 October 2008 or until the next Annual General Meeting ("AGM") of the Company where all Directors are required to resign by rotation. There is a 3 month notice period for all Directors. Upon re-election at the AGM, a Director's contract automatically renews for a further 12 months period.

Directors interests

The Director's who held office at the end of the financial year 31 December 2008, had the following interest in the ordinary shares of the Company according to the register of Director's interests.

| <u>Director</u> | <u>Shares held at 31st</u> <u>December 2008</u> |
|-----------------|---|
| M G Masterman | 32,070,000 |
| M V Garland | - |
| Dr B Pirola | 9,397,000 |

CASPIAN HOLDINGS Plc
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2008

BOARD OF DIRECTORS AND SENIOR MANAGEMENT (Cont'd)

The Directors have interests in the following stock options.

| <u>Stock Options Held</u> | <u>Option Exercise Price</u> | <u>Expiry Date</u> |
|----------------------------|------------------------------|--------------------|
| <u>M. Masterman</u> | | |
| 5,000,000 | £0.04 | 31 December 2010 |
| 1,250,000 | £0.03 | 31 December 2010 |
| <u>B. Pirola</u> | | |
| 2,500,000 | £0.04 | 31 December 2010 |
| 1,250,000 | £0.03 | 31 December 2010 |

SUBSTANTIAL SHAREHOLDERS

As at 11th May 2009 the following interests of 3% or more were held in the company's issued share capital

| <u>Shareholders</u> | <u>Shares</u> | <u>Percent</u> |
|--|---------------|----------------|
| M Masterman | 32,070,000 | 25.7 |
| Beronia Investments Pty Limited/Beronia FS Pty Limited | 9,397,000 | 7.5 |
| Laurie Macri | 8,597,000 | 6.9 |
| Acri Pty Limited | 5,350,000 | 4.3 |
| Rulegale Nominees Limited | 4,290,000 | 3.4 |

CORPORATE GOVERNANCE

The Company is continually developing appropriate corporate governance procedures relevant to the size and stage of development of the Company. The following description of corporate governance procedures reflects the Company's present policies in this area.

CODE OF PRACTICE

The Listing Rules of the Financial Services Authority incorporate the Combined Code, which sets out the principles of good governance, and the Code of Best Practice for listed companies. Whilst the Company is not required to comply with the Combined Code, the Company's corporate governance procedures take due regard of the principles of good governance set out in the Combined Code in relation to the size and the stage of development of the Company.

THE BOARD OF DIRECTORS

The Board of Directors is currently composed of three members; one Executive Director and two Non-Executive Directors including the Chairman, Michael Masterman (Executive Director), has a wealth of minerals exploration and development experience; the Non-Executive Directors similarly have a wealth of experience either in the minerals industry or in finance and corporate development.

The structure of the Board ensures that no one individual or group dominates the decision-making process.

BOARD MEETINGS

The Board ordinarily meets on a monthly basis, providing effective leadership and overall management of the Group's affairs through the schedule of matters reserved for its decision. This includes the approval of the Company's forecast and budget, major capital expenditure, risk management policies and the approval of the financial statements. Formal agendas, papers and reports are sent to the Directors in a timely manner, prior to Board meetings. The Board delegates certain of its responsibilities to the Board committees which have clearly defined terms of reference, which is listed below.

All Directors have access to the advice and services of the Company's solicitors and the Company Secretary who is responsible for ensuring that all Board procedures are followed. Any Director may take independent professional advice at the Company's expense in the furtherance of his duties.

CASPIAN HOLDINGS Plc
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2008

RETIREMENT BY ROTATION

One third of the board of directors retires at every AGM of the Company and is automatically put forward for re-election, unless otherwise voted upon by shareholders.

THE AUDIT COMMITTEE

The Audit Committee, which intends to meet no less than twice a year and considers the Group's financial reporting (including accounting policies) and internal financial controls, is chaired by Michael Garland, Non-Executive Director. The Audit Committee will be responsible for ensuring that the financial performance of the Group is properly monitored and reported on. The Committee intends to receive reports from management and the external auditors as required.

THE REMUNERATION COMMITTEE

The Remuneration Committee, comprising the non-executive directors and chaired by Byron Pirola, Non-Executive Director, meets at least once a year and is responsible for making recommendations to the Board of Directors, on senior executives remuneration. Non-executive Directors' remuneration and conditions of engagement are considered and agreed by the Board. Financial packages for Executive Directors are established by reference to prevailing market conditions and performance of each executive director.

INTERNAL CONTROLS

The Directors acknowledge their responsibility for the Company's system of internal controls and for reviewing their effectiveness. These internal controls are designed to safeguard the assets of the Company and to ensure the reliability of financial information for external publication. Since the Company was formed, the Directors are satisfied that, given the current size and activities of the Company, adequate internal controls have been established. Whilst they are aware that no system can provide absolute assurance against material misstatement or loss, in light of increased activity and further development of the Company, continuing reviews of internal controls will be undertaken to ensure that they are adequate and effective.

ENVIRONMENTAL RESPONSIBILITY

The Company recognises its role as a mining and exploration company and is aware of the potential impact that its subsidiary company may have on the environment. The Company ensures that its subsidiary company complies with the local regulatory requirements with regard to the environment.

RELATIONS WITH SHAREHOLDERS

The Board attaches great importance to maintaining good relationships with its shareholders. Extensive information about the Company's activities is included in the Annual Report and accounts and the Interim report and future interim reports which will be sent to all shareholders. Market sensitive information is regularly released to all shareholders concurrently in accordance with stock exchange rules. The AGM will provide an opportunity for all shareholders to communicate with and to question the Board on any aspect of the Group's activities. The Company maintains a corporate website www.caspianoil.co.uk where information on the Company is regularly updated and all announcements are posted. The Company welcomes communication from both its private and institutional shareholders.

SUPPLIER PAYMENT POLICY

It is the Company's policy to settle the terms of payment with suppliers when agreeing terms of the transaction, to ensure that suppliers are aware of these terms and to abide by them.

The Notice of the Company's AGM will be distributed to shareholders together with the Annual Report. Full details of the Resolutions proposed at that meeting can be found in the Notice.

CASPIAN HOLDINGS Plc
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2008

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The Directors are responsible for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted for use in the European Union.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group, and the Company, and of the profit or loss of the Group and the Company for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. The Directors are also responsible for safeguarding the assets of the Group and the Company and hence for taking steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Caspian Holdings Plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the Directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

The auditors, Cook and Partners, will be proposed for re-appointment in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD:

.....

M G Masterman – *Executive Chairman*

Dated: 22 May 2009

REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF
CASPIAN HOLDINGS Plc

We have audited the Group and Company financial statements of Caspian Holdings Plc for the year ended 31 December 2008 on pages 11 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described on page 8 the Company's Directors are responsible for the preparation of financial statements in accordance with applicable law and International Financial Reporting Standards as adopted for use in the European Union.

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

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

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Opinion

In our opinion the group and company financial statements:

- give a true and fair view, in accordance with International Financial Reporting Standards as adopted for use in the European Union, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Report of the Directors is consistent with the financial statements.

In forming our opinion on the financial statements which is not qualified, we have considered the adequacy of the disclosure made in Note 1 to the financial statements concerning the company's, ability to continue as a going concern. The Group incurred a net loss of £4,397,146 during the year ended 31st December 2008, and at that date the Group's current liabilities exceeded its total assets by £993,973. These conditions, along with the other matters explained in Note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's, ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Cook & Partners Limited
Chartered Accountants and Registered Auditors
Manufactory House
Bell Lane Hertford, Hertfordshire
SG14 1BP

Date: 22 May 2009

REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS
OF CASPIAN HOLDINGS Plc CONTINUED

Note:

The maintenance and integrity of the Caspian Holdings Plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

CASPIAN HOLDINGS Plc
GROUP INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

| | <u>Notes</u> | <u>2008</u> | <u>2007</u> |
|---|--------------|---------------------|---------------------|
| REVENUE | 2 | 48,870 | 820,798 |
| Cost of sales | | <u>(110,093)</u> | <u>(1,000,222)</u> |
| GROSS PROFIT/(LOSS) | | (61,223) | (179,424) |
| Administrative expenses | 4 | <u>(4,261,265)</u> | <u>(1,708,922)</u> |
| OPERATING LOSS | | (4,322,488) | (1,888,346) |
| Exchange gains/(losses) in year | | - | 354,858 |
| Provisions created in period | | - | 5,104 |
| Finance income | 5 | - | 16,689 |
| Finance costs | 5 | <u>(74,658)</u> | <u>(58,900)</u> |
| LOSS BEFORE TAX | 6 | (4,397,146) | (1,570,595) |
| Tax | 7 | <u>-</u> | <u>-</u> |
| RETAINED LOSS FOR THE FINANCIAL YEAR | 21 | <u>£(4,397,146)</u> | <u>£(1,570,595)</u> |
| Basic and diluted loss per share | 9 | 2.52p | 1.60p |

CASPIAN HOLDINGS Plc
GROUP BALANCE SHEET
31 DECEMBER 2008

| | <u>Notes</u> | <u>2008</u> | <u>2007</u> |
|---------------------------------------|---------------------|--------------------|--------------------|
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Investments | 10 | 278,242 | - |
| Intangible assets | 11 | - | 195,138 |
| Property, plant and equipment | 12 | - | <u>3,209,092</u> |
| | | <u>278,242</u> | <u>3,404,230</u> |
| CURRENT ASSETS | | | |
| Inventories | 13 | - | 197,021 |
| Trade and other receivables | 14 | 23,598 | 560,265 |
| Cash and cash equivalents | 15 | <u>36,918</u> | <u>83,254</u> |
| | | <u>60,516</u> | <u>840,540</u> |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 16 | 532,762 | 441,594 |
| Financial liabilities – borrowings | | | |
| Interest bearing loans and borrowings | 17 | 799,969 | 76,983 |
| Provisions | 18 | - | <u>61,439</u> |
| | | <u>1,332,731</u> | <u>580,016</u> |
| NET CURRENT LIABILITIES/ASSETS | | <u>(1,272,215)</u> | <u>260,524</u> |
| NON CURRENT LIABILITIES | | | |
| Trade and other payables | 16 | - | 93,913 |
| Financial liabilities - borrowings | | | |
| Interest bearing loans and borrowings | 17 | - | <u>699,976</u> |
| | | - | <u>793,889</u> |
| NET LIABILITIES/ASSETS | | <u>£(993,973)</u> | <u>£2,870,865</u> |
| SHAREHOLDERS EQUITY | | | |
| Called up share capital | 19 | 124,649 | 98,699 |
| Share premium account | 20 | 9,983,895 | 9,474,645 |
| Revaluation reserve | 20 | - | 26,334 |
| Translation reserve | 20 | - | 29,700 |
| Profit and loss account | 20 | (11,102,517) | (6,705,371) |
| Minority Interest | 21 | - | <u>(53,142)</u> |
| | | <u>£(993,973)</u> | <u>£2,870,865</u> |

ON BEHALF OF THE BOARD:

M G Masterman – *Executive Chairman*

Approved by the Board on 22 May 2009

CASPIAN HOLDINGS Plc
COMPANY BALANCE SHEET
31 DECEMBER 2008

| | <u>Notes</u> | <u>2008</u> | <u>2007</u> |
|---------------------------------------|--------------|-------------------|------------------|
| ASSETS | | | |
| NON CURRENT ASSETS | | | |
| Investments | 10 | _____ - | _____ 4,800 |
| CURRENT ASSETS | | | |
| Trade and other receivables | 14 | 301,840 | 5,232,665 |
| Cash and cash equivalents | 15 | _____ 36,918 | _____ 54,834 |
| | | _____ 338,758 | _____ 5,287,499 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 16 | 532,762 | 265,287 |
| Financial liabilities – borrowings | 17 | _____ 799,969 | _____ - |
| | | _____ 1,332,731 | _____ 265,287 |
| NET CURRENT LIABILITIES/ASSETS | | _____ (993,973) | _____ 5,022,212 |
| NON CURRENT LIABILITIES | | | |
| Financial liabilities - borrowings | | | |
| Interest bearing loans and borrowings | 17 | _____ - | _____ 699,976 |
| | | _____ - | _____ 699,976 |
| NET LIABILITIES/ASSETS | | _____ £(993,973) | _____ £4,327,036 |
| Called up share capital | 19 | 124,649 | 98,699 |
| Share premium account | 20 | 9,983,895 | 9,474,645 |
| Profit and loss account | 20 | (11,102,517) | (5,246,308) |
| TOTAL EQUITY | | _____ £(993,973) | _____ £4,327,036 |

ON BEHALF OF THE BOARD:

M G Masterman – *Executive Chairman*

Approved by the Board on 22 May 2009

CASPIAN HOLDINGS Plc
GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

| | Notes | <u>2008</u> | <u>2007</u> |
|---|-------|-------------------|------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 1 | (251,646) | (393,769) |
| Finance cost | | <u>(74,658)</u> | <u>(58,900)</u> |
| Net cash from operating activities | | <u>(326,304)</u> | <u>(452,669)</u> |
| Cash flows from investing activities | | | |
| Purchase of intangible fixed assets | | - | (241,451) |
| Purchase of tangible fixed assets | | - | (220,373) |
| Finance income | | <u>-</u> | <u>16,689</u> |
| Net cash from investing activities | | <u>-</u> | <u>(445,135)</u> |
| Cash flows from financing activities | | | |
| Share issue | | 535,200 | - |
| Net Loans | | 23,010 | 776,959 |
| Repayment of financial liabilities – borrowings | | - | - |
| Interest bearing loans and borrowings | | <u>-</u> | <u>(1,753)</u> |
| Net cash from financing activities | | <u>558,210</u> | <u>775,206</u> |
| Cash Flow from Acquisitions and Disposals | | | |
| Acquisition of associates and subsidiary | | (278,242) | (4,800) |
| New Assets acquired with subsidiary | | <u>-</u> | <u>10,000</u> |
| | | <u>£(278,242)</u> | <u>£5,200</u> |
| (Decrease)/Increase in cash and cash equivalents | | (46,336) | (117,398) |
| Cash and cash equivalents at beginning of year | 2 | <u>83,254</u> | <u>200,652</u> |
| Cash and cash equivalents at end of year | 2 | <u>£36,918</u> | <u>£83,254</u> |

CASPIAN HOLDINGS Plc
NOTES TO THE GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

1. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

| | <u>2008</u> | <u>2007</u> |
|---|-------------------|-------------------|
| Operating loss | (4,322,488) | (1,888,346) |
| Exchange gains/(losses) in period | - | 354,858 |
| Provisions in Year | - | 5,104 |
| Translation adjustments | - | (152,281) |
| Translation adjustments relating to fixed assets | - | (207,370) |
| Movement on Reserves and minority interest | (2,892) | - |
| Depreciation charges | - | 990,161 |
| Impairment losses | 3,404,230 | 326,998 |
| Decrease in inventories | 197,021 | 99,247 |
| Decrease in trade and other receivables | 536,667 | 207,625 |
| (Decrease) in trade and other payables | (2,745) | (83,018) |
| (Decrease)/increase in other provisions | <u>(61,439)</u> | <u>(46,747)</u> |
| Net cash outflow from operating activities | <u>£(251,646)</u> | <u>£(393,769)</u> |

2. CASH AND CASH EQUIVALENTS

The amounts disclosed on the cash flow in respect of cash and cash equivalents are in respect of these balance sheet amounts.

Year ended 31 December 2007

| | <u>31.12.07</u> | <u>01.01.07</u> |
|---------------------------|-----------------|-----------------|
| Cash and cash equivalents | <u>£83,254</u> | <u>£200,652</u> |

Year ended 31 December 2008

| | <u>31.12.08</u> | <u>01.01.08</u> |
|---------------------------|-----------------|-----------------|
| Cash and cash equivalents | <u>£36,918</u> | <u>£83,254</u> |

CASPIAN HOLDINGS Plc
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

1. ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as adopted by the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

Basis of consolidation

Due to the termination of the Zhengeldy sub soil drilling contract, this has caused a severe long term (and potentially permanent) restriction in the ability of the parent company to exercise control over the assets or management of Taraz LLP. Consequently, the financial statements of Taraz LLP have not been consolidated into the Group financial statements at 31st December 2008. The consolidated financial statement do include the results of Taraz LLP up to 30th June 2008, after which the company did not trade.

The company's subsidiary Enx Limited ceased to trade on 30th June 2008. On the basis that the amounts involved are immaterial, the financial statements of Enx Limited to 31st December have not been consolidated into the Group's financial statements.

Going Concern

As a result of the loss of the appeal on the Zhengeldy licence on 21 January 2009 and the outstanding loan notes falling due on 11 April 2009, the Company was placed in a position where it was difficult to meet its obligations as they fell due.

The Company has reached an agreement, subject to shareholder approval, to convert its outstanding loan notes and creditor positions to equity at an issue price of £0.005. The Company has also commenced the process to realise proceeds from the sale of Zhengeldy equipment which should provide incoming cashflow.

Based on the Directors expectation that shareholders will support the debt equity swap and reasonable expectations of equipment sale proceeds, the Directors are satisfied that the Group has sufficient resources to continue its operation and to meet its commitments in the foreseeable future. The financial statements have therefore been prepared on the going concern basis.

In the event shareholders do not approve the proposed debt for equity swap the Company will not be able to meet its debt obligations when they fall due and will cease to trade. In the event that equipment sale realisation is delayed or becomes problematic, then the Company would need to raise capital to continue to meet its obligations when they fall due.

Directors are satisfied that the Group has sufficient resources to continue its operation and to meet its commitments for the foreseeable future. The financial statements have therefore been prepared on the going concern basis.

Goodwill

Goodwill arising on consolidation, which represents the excess of the purchase price over the fair value of net assets acquired, is shown in the balance sheet as an asset and will be subject to an annual impairment review in accordance with IFRS 3, IAS 36 and IAS 38.

Intangible assets

All intangible assets are subject to annual impairment and fair value review.

Amortisation is calculated and provided in order to write off each asset over its estimated useful economic life, such amortisation to commence when the asset concerned is initially used within the business.

| | |
|----------|--------------|
| Royalty | 3 – 20 years |
| Software | 3 – 20 years |

CASPIAN HOLDINGS Plc
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

1. ACCOUNTING POLICIES (cont'd)

Royalty

Royalty costs represent payments to the Republic of Kazakhstan, which are paid quarterly until 25 January 2020.

The associated liability is shown within current and non current trade and other payables and has been discounted at the rate of 9%.

Exploration and evaluation costs

The Group has adopted IFRS 6 “Exploration for and evaluation of mineral resources”.

The Group follows the successful efforts method of accounting for exploration and evaluation costs. All licence, acquisition, exploration and evaluation costs are initially capitalised as intangible fixed assets in cost centres by field pending determination of the commerciality of the relevant field. Directly attributable costs not specific to any particular licence or prospect are expensed as incurred.

An exploration and evaluation asset is assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such triggering events are defined in IFRS 6 and include the point at which a determination is made as to whether commercial reserves exist.

If prospects are deemed to be impaired (“unsuccessful”) on completion of evaluation, the associated costs are charged to the income statement. If the field is determined to be commercially viable, the attributable costs are transferred to property, plant and equipment in single field cost centres. These costs are then depreciated on a unit of production basis.

Property, plant and equipment

All fixed assets are subject to annual impairment and fair value review.

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life or, if held under finance lease, over the lease term, whichever is the shorter.

| | |
|-------------------------------|--------------|
| Bore holes | 10 years |
| Motor vehicles | 5 – 10 years |
| Plant and equipment | 3 – 10 years |
| Furniture and other equipment | 3 – 10 years |

Deferred Tax

The tax charge is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, in the future. In particular:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

CASPIAN HOLDINGS Plc
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

1. ACCOUNTING POLICIES (cont'd)

Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate. All differences are taken to the income statement.

Hire purchase and leasing commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the income statement over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital payments outstanding.

Rentals payable under operating leases are charged in the income statement on a straight-line basis over the lease term.

2. REVENUE

Revenue represents income derived from the extraction and sale of oil by the company's subsidiary undertaking Taraz LLP.

3. EMPLOYEES AND DIRECTORS

| | <u>2008</u> | <u>2007</u> |
|-----------------------|-----------------|-----------------|
| Wages and salaries | 192,180 | 516,696 |
| Social security costs | - | 57,388 |
| | <u>£192,180</u> | <u>£574,034</u> |

The average monthly number of employees during the year was as follows:

| | <u>2008</u> | <u>2007</u> |
|------------------------------------|-------------|-------------|
| Management & administration | 4 | 13 |
| Production, technical & operations | - | 13 |
| | <u>4</u> | <u>26</u> |

Of these employees, all the Production, Technical and Operations Staff are employed in Kazakhstan.

| | <u>2008</u> | <u>2007</u> |
|-----------------------|-----------------|-----------------|
| Directors' Emoluments | <u>£166,622</u> | <u>£289,324</u> |

Directors' Emoluments are as follows:

| | <u>2008</u> | <u>2007</u> |
|-------------|-------------|---------------|
| | £ | £ |
| D Griel | - | 127,647 |
| M Masterman | 142,622 | 112,065 |
| M Garland | 24,000 | 24,000 |
| A Robinson | - | 25,612 |
| | <u>-</u> | <u>25,612</u> |

CASPIAN HOLDINGS Plc
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

4. EXCEPTIONAL ITEMS

Due to termination of Taraz LLP's drilling licence by the Kazakhstan Government, confirmed in January 2009, the company's investment in Taraz LLP has been written off. This write off includes the loan from Caspian Holdings PLC to Taraz LLP. There are ongoing negotiations with the Kazakhstan Government regarding the realisation of the Plant and Equipment utilised in the drilling at the Zhengeldy field which will result in a repayment to the company. The secured value of this equipment is US\$700,000, but this may not be recoverable due to the economic circumstances in Kazakhstan. No provision has been made in these accounts for the recovery of this sum on the grounds of prudence.

5. NET FINANCE INCOME

| | <u>2008</u> | <u>2007</u> |
|----------------------------|------------------|------------------|
| Finance income: | | |
| Bank interest received | <u>£-</u> | <u>£16,689</u> |
| Finance costs: | | |
| Other interest | - | 8,280 |
| Interest on Loans | 74,658 | 50,620 |
| Hire purchase | <u>-</u> | <u>-</u> |
| | <u>£74,658</u> | <u>£58,900</u> |
| Net finance income/(costs) | <u>£(74,658)</u> | <u>£(42,211)</u> |

6. LOSS BEFORE TAX

| | <u>2008</u> | <u>2007</u> |
|--|---------------|---------------|
| | <u>£</u> | <u>£</u> |
| The loss before tax is stated after charging : | | |
| Cost of inventories recognised as expense | - | 1,000,222 |
| Depreciation – owned assets | - | 1,277,656 |
| Depreciation – assets held under finance leases and hire purchase contracts | - | - |
| Impairment of tangible assets | 3,209,094 | - |
| Auditors remuneration | <u>18,000</u> | <u>16,722</u> |

CASPIAN HOLDINGS Plc
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

7. TAXATION

Analysis of the tax charge

No liability to corporation tax arose on ordinary activities for the year ended 31 December 2008 nor for the year ended 31 December 2007.

The difference between the effective provision for tax and the statutory tax provision at the statutory rate is reconciled as follows:

| | <u>2008</u> | <u>2007</u> |
|--|---------------------|---------------------|
| Loss on ordinary activities before tax | <u>£(4,397,146)</u> | <u>£(1,570,595)</u> |
| Corporation Tax at 30% | (1,313,144) | (471,179) |
| Permanent differences: Non-deductible income | - | (312,101) |
| Adjustment prior year | - | - |
| Exchange difference | - | 58,941 |
| Timing differences: losses brought forward | (1,578,742) | (854,403) |
| tax losses carried forward | <u>2,897,886</u> | <u>1,578,742</u> |
| Current tax on ordinary activities | - | - |
| Deferred tax | <u>-</u> | <u>-</u> |
| | <u>-</u> | <u>-</u> |

As at 31 December 2008, the Group had unknown unrecognised tax losses arising in Kazakhstan due to the non consolidation of Taraz LLP (2007 £3,045,299) and United Kingdom of £8,073,379 (2007 £2,217,176) that are available indefinitely for offset against future taxable profits of those companies in which the losses arose, subject to the conditions of deductibility under the relevant legislation.

Deferred tax assets have not been recognised in respect of these losses. These assets will be recognised should it become, more likely than not that, taxable profits or timing differences against which they may be deducted, arise.

8. LOSS OF THE PARENT UNDERTAKING

The parent undertaking's loss for the financial year before and after taxation amounted to £5,856,203 (2007 £3,828,722).

CASPIAN HOLDINGS Plc
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

9. EARNINGS PER SHARE

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

Diluted earnings per share is calculated using the weighed average number of shares adjusted to assume the conversion of all dilutive potential ordinary shares.

| | <u>Earnings</u> <u>£</u> | <u>2008</u> <u>Weighted</u> <u>average</u> <u>number of</u> <u>shares</u> | <u>Per share</u> <u>amount</u> <u>pence</u> |
|--|-----------------------------|---|---|
| Basic EPS | | | |
| Earnings attributable to ordinary shareholders | (4,397,146) | 110,919,830 | 2.52p |
| Effect of dilutive securities | - | - | - |
| Diluted EPS | | | |
| Adjusted earnings | <u>(4,397,146)</u> | <u>110,919,830</u> | <u>2.52p</u> |

| | <u>Earnings</u> <u>£</u> | <u>2007</u> <u>Weighted</u> <u>average</u> <u>number of</u> <u>shares</u> | <u>Per share</u> <u>amount</u> <u>Pence</u> |
|--|-----------------------------|---|---|
| Basic EPS | | | |
| Earnings attributable to ordinary shareholders | (1,570,595) | 98,698,685 | 1.60p |
| Effect of dilutive securities | - | - | - |
| Diluted EPS | | | |
| Adjusted earnings | <u>(1,570,595)</u> | <u>98,698,685</u> | <u>1.60p</u> |

CASPIAN HOLDINGS Plc
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

10. FIXED ASSET INVESTMENTS

Held by parent undertaking:

The Company holds more than 10% of the equity of the following companies:

| <u>Name of Company</u> | <u>Country of Registration</u> | <u>Proportion Held</u> | <u>Nature of Business</u> |
|------------------------|--------------------------------|------------------------|---------------------------|
| Taraz LLP | Kazakhstan | 100% | Oil Exploration |
| Enx Limited | England & Wales | 48% | Oil Exploration |
| Caspian USA Inc | United States of America | 100% | Oil Exploration |

The Company holds more than 10% of the equity of the following companies:

| <u>Name of Company</u> | <u>Country of Registration</u> | <u>Proportion Held</u> | <u>Nature of Business</u> |
|----------------------------|--------------------------------|------------------------|---------------------------|
| Black Gold of Kentucky Inc | United States of America | 50% | Oil Exploration |

The above named company is deemed to be an associated undertaking of Caspian USA Inc.

| <u>Group</u> | <u>Company Subsidiaries</u> | <u>Group Associates</u> | <u>Total</u> |
|-----------------------------------|-----------------------------|-------------------------|--------------------|
| COST | | | |
| At 1 January 2008 | 1,149,946 | - | 1,149,946 |
| Addition | - | 278,242 | 278,242 |
| Permanent Diminution in value | <u>(1,149,946)</u> | <u>-</u> | <u>(1,149,946)</u> |
| At 31 st December 2008 | <u>£-</u> | <u>£278,242</u> | <u>£278,242</u> |
| AMORTISATION | | | |
| At 1 st January 2008 | 1,145,146 | - | 1,145,146 |
| Provision in Year | 4,800 | - | 4,800 |
| Permanent Diminution in value | <u>(1,149,946)</u> | <u>-</u> | <u>(1,149,946)</u> |
| At 31 st December 2008 | <u>£-</u> | <u>£-</u> | <u>£-</u> |
| NET BOOK VALUE | | | |
| 31 st December 2007 | <u>£4,800</u> | <u>£-</u> | <u>£4,800</u> |
| 31 st December 2008 | <u>£-</u> | <u>£278,242</u> | <u>£278,242</u> |

Due to the permanent cessation of trade of both Taraz LLP and Enx Limited, both investments have been written off.

The Group's investment in its associate is represented by:

Share of net assets

| | |
|-------------------------|-----------------|
| Share of fixed assets | 139,121 |
| Share of current assets | <u>139,121</u> |
| | <u>£278,242</u> |

The associate undertaking, Black Gold of Kentucky Inc, has yet to commence trading.

CASPIAN HOLDINGS Plc
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

11. INTANGIBLE FIXED ASSETS

| <u>Group</u> | <u>Royalty</u> | <u>Software</u> | <u>Exploration and evaluation Costs</u> | <u>Total</u> |
|--|------------------|-----------------|---|--------------------|
| COST | | | | |
| At 1 January 2008 | 163,738 | 17,090 | 1,393,540 | 1,574,368 |
| Adjustments in fair values of fixed assets | <u>(163,738)</u> | <u>(17,090)</u> | <u>(1,393,540)</u> | <u>(1,574,368)</u> |
| At 31 December 2008 | - | - | - | - |
| DEPRECIATION | | | | |
| At 1 January 2008 | 78,054 | 1,848 | 1,299,331 | 1,379,232 |
| Adjustments in fair values of fixed assets | <u>(78,054)</u> | <u>(1,848)</u> | <u>(1,299,331)</u> | <u>(1,379,232)</u> |
| At 31 December 2008 | - | - | - | - |
| NET BOOK VALUE | | | | |
| At 31 December 2008 | <u>£-</u> | <u>£-</u> | <u>£-</u> | <u>£-</u> |
| At 31 December 2007 | <u>£85,684</u> | <u>£15,244</u> | <u>£94,209</u> | <u>£195,136</u> |

12. PROPERTY, PLANT AND EQUIPMENT

| <u>Group</u> | <u>Bore Holes</u> | <u>Motor Vehicles</u> | <u>Plant and Equipment</u> | <u>Furniture & Other Equipment</u> | <u>Total</u> |
|--|-----------------------|---------------------------|--------------------------------|--|--------------------|
| COST | | | | | |
| At 1 January 2008 | 4,063,063 | 16,929 | 435,282 | 45,201 | 4,560,475 |
| Adjustments in fair values of fixed assets | <u>(4,063,063)</u> | <u>(16,929)</u> | <u>(435,282)</u> | <u>(45,201)</u> | <u>(4,560,475)</u> |
| At 31 December 2008 | - | - | - | - | - |
| DEPRECIATION | | | | | |
| At 1 January 2008 | 1,229,743 | 4,039 | 99,504 | 18,095 | 1,351,381 |
| Impairment Losses | <u>(1,229,743)</u> | <u>(4,039)</u> | <u>(99,504)</u> | <u>(18,095)</u> | <u>(1,351,381)</u> |
| At 31 December 2008 | - | - | - | - | - |
| NET BOOK VALUE | | | | | |
| At 31 December 2008 | <u>£-</u> | <u>£-</u> | <u>£-</u> | <u>£-</u> | <u>£-</u> |
| At 31 December 2007 | <u>£2,833,320</u> | <u>£12,889</u> | <u>£335,778</u> | <u>£27,107</u> | <u>£3,209,094</u> |

CASPIAN HOLDINGS Plc
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

12. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Property, plant and equipment, included in the above, which are held under hire purchase contracts or finance leases are as follows:

| <u>Group</u> | <u>Motor Vehicles</u> |
|--|---------------------------|
| COST | |
| At 1 January 2008 | 6,999 |
| Adjustments in fair values of fixed assets | <u>(6,999)</u> |
| At 31 December 2008 | <u> -</u> |
| DEPRECIATION | |
| At 1 January 2008 | 1,815 |
| Adjustments in fair values of fixed assets | <u>(1,815)</u> |
| At 31 December 2008 | <u> -</u> |
| NET BOOK VALUE | |
| At 31 December 2007 | <u>£5,184</u> |
| At 31 December 2008 | <u> £-</u> |

13. INVENTORIES

| | <u>Group</u> | | <u>Company</u> | |
|-------|--------------|-----------------|----------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Stock | <u>£-</u> | <u>£197,021</u> | <u>£-</u> | <u>£-</u> |

CASPIAN HOLDINGS Plc
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

14. TRADE AND OTHER RECEIVABLES

| | <u>Group</u> | | <u>Company</u> | |
|--|----------------|-----------------|-----------------|-------------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Current: | | | | |
| Trade Debtors | - | 61,638 | - | - |
| Amounts due from subsidiary undertakings | - | - | 278,242 | 5,218,307 |
| Other debtors | 3,858 | 485,554 | 3,858 | 1,286 |
| Prepayments and accrued income | <u>19,740</u> | <u>13,073</u> | <u>19,740</u> | <u>13,072</u> |
| | <u>£23,598</u> | <u>£560,265</u> | <u>£301,840</u> | <u>£5,232,665</u> |

15. CASH AND CASH EQUIVALENTS

| | <u>Group</u> | | <u>Company</u> | |
|---------------|----------------|----------------|----------------|----------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Cash in hand | 1,000 | 1,017 | 1,000 | 1,000 |
| Bank accounts | <u>35,918</u> | <u>82,237</u> | <u>35,918</u> | <u>53,834</u> |
| | <u>£36,918</u> | <u>£83,254</u> | <u>£36,918</u> | <u>£54,834</u> |

16. TRADE AND OTHER PAYABLES

| | <u>Group</u> | | <u>Company</u> | |
|---------------------------------|-----------------|------------------|-----------------|-----------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Current: | | | | |
| Trade creditors | 225,881 | 256,939 | 225,881 | 199,763 |
| Royalty lease payments | - | 43,542 | - | - |
| Social security and other taxes | - | 26,245 | - | - |
| Other creditors and accruals | <u>306,881</u> | <u>14,868</u> | <u>306,881</u> | <u>65,524</u> |
| | <u>£532,762</u> | <u>£ 441,594</u> | <u>£532,762</u> | <u>£265,287</u> |
| Non Current: | | | | |
| Royalty lease payments | <u>£-</u> | <u>£93,913</u> | <u>£-</u> | <u>£-</u> |

17. FINANCIAL LIABILITIES – BORROWINGS

| | <u>Group</u> | | <u>Company</u> | |
|---------------------|-----------------|-----------------|-----------------|-----------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Current | | | | |
| Loans | <u>£799,969</u> | <u>£76,983</u> | <u>£799,969</u> | <u>£ -</u> |
| Non Current: | | | | |
| Loans | <u>£-</u> | <u>£699,976</u> | <u>£-</u> | <u>£699,976</u> |

| | <u>1 Year or less</u> | <u>1-5 Years</u> | <u>After 5 Years</u> |
|--|-----------------------|------------------|----------------------|
| Terms and debt repayment schedule | | | |
| Loans | <u>£7 99,969</u> | <u>£-</u> | <u>£ -</u> |

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18. PROVISIONS

| | <u>Group</u> | | <u>Company</u> | |
|-------------------------------------|-----------------|-----------------|----------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| At 1 January 2008 | 61,439 | 108,186 | - | - |
| Created in year | - | - | - | - |
| Movement in year | <u>(61,439)</u> | <u>(46,747)</u> | <u>-</u> | <u>-</u> |
| At 31 December 2008 | <u>£-</u> | <u>£61,439</u> | <u>£-</u> | <u>£-</u> |
| Represented by: | | | | |
| Current consequences of liquidation | - | 32,052 | - | - |
| Professional training | - | 8,796 | - | - |
| Holiday Provision | - | 4,597 | - | - |
| Deferred Expenses | <u>-</u> | <u>15,994</u> | <u>-</u> | <u>-</u> |
| | <u>£-</u> | <u>£61,439</u> | <u>£-</u> | <u>£-</u> |

19. SHARE CAPITAL

| <u>Authorised</u> | <u>2008</u> | <u>2007</u> |
|--|----------------|----------------|
| 250,000,000 Ordinary shares of 0.1p each | <u>150,000</u> | <u>150,000</u> |
| <u>Allotted, issued and fully paid</u> | | |
| 124,648,685 (2007 98,698,685) Ordinary shares of 0.1p each | <u>124,649</u> | <u>98,699</u> |

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20. RESERVES AND RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| <u>Group</u> | <u>Share Capital</u> | <u>Revaluation Reserve</u> | <u>Translation Reserve</u> | <u>Share Premium</u> | <u>Profit and Loss Account</u> | <u>Total Shareholders Fund</u> |
|--|---------------------------------|---------------------------------------|---------------------------------------|---------------------------------|---|---|
| Loss for the financial year | - | - | - | - | (4,397,146) | (4,397,146) |
| Adjustment in fair values of fixed assets | - | (26,334) | (29,700) | - | - | (56,034) |
| Capital Subscriptions | <u>25,950</u> | <u>-</u> | <u>-</u> | <u>509,250</u> | <u>-</u> | <u>535,200</u> |
| Net reductions to shareholders' funds | <u>£25,950</u> | <u>£(26,334)</u> | <u>£(29,700)</u> | <u>£509,250</u> | <u>£(4,397,146)</u> | <u>£(3,917,980)</u> |
| Opening shareholders' funds | <u>£98,699</u> | <u>£26,334</u> | <u>£29,700</u> | <u>£9,474,645</u> | <u>£(6,705,371)</u> | <u>£2,924,007</u> |
| Closing shareholders' funds | <u>£124,649</u> | <u>£-</u> | <u>£-</u> | <u>£9,983,895</u> | <u>£(11,102,517)</u> | <u>£(993,973)</u> |
| <u>Company</u> | | | | | | |
| Loss for the financial year | - | - | - | - | (5,856,209) | (5,856,209) |
| Capital Subscriptions | <u>25,950</u> | <u>-</u> | <u>-</u> | <u>509,250</u> | <u>-</u> | <u>535,200</u> |
| Net reductions to shareholders' funds | <u>£25,950</u> | <u>£-</u> | <u>£-</u> | <u>£509,250</u> | <u>£(5,856,209)</u> | <u>£(5,321,009)</u> |
| Opening shareholders' funds | <u>£98,699</u> | <u>£-</u> | <u>£-</u> | <u>£9,474,645</u> | <u>£(5,246,308)</u> | <u>£4,327,036</u> |
| Closing shareholders' funds | <u>£124,649</u> | <u>£-</u> | <u>£-</u> | <u>£9,983,895</u> | <u>£(11,102,517)</u> | <u>£(993,973)</u> |

21. MINORITY INTEREST

| | |
|--|---------------|
| At 1 st January 2008 | (53,142) |
| Adjustment due to cessation of ENX Limited | <u>53,142</u> |
| At 31 December 2008 | <u>£-</u> |

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22. EVENTS SINCE THE BALANCE SHEET DATE

As detailed in the Chairman's statement, in January 2009, the Zhengeldy subsoil licence contract was terminated. This termination has been forced the company to write off its investment in Taraz LLP, as subject to the potential sale of the equipment owned by that company, no sums will be realised..

The company completed a placement of 7,000,000 new ordinary shares to the Masterman Superannuation Fund at a price of 0.6p raising £42,000 on 14th January 2009. Mr M Masterman is a beneficiary and trustee of that fund. Following this transaction, Mr Masterman will have an interest in 39,070,000 shares in the company, representing 29.7% of the total voting rights.

23. RELATED PARTY TRANSACTIONS

During the year Masterman Investments Pty (a company owned and controlled by Michael Masterman) lent the company £50,000 and received, 1,250,000 options at an exercise price of 3p expiring on 31st December 2010.