CASPIAN OIL & GAS LIMITED

(Formerly Afminex Limited)

ABN 44 065 212 679

Annual Report 2005

Directors	Reginald Norman Gillard	Non-Executive Chairman
	Colin John Carson	Executive Director
	Jürg Walker	Non-Executive Director
	Alexander Becker	Executive Director
	Michael John Sandy	Executive Director
Company Secretaries	Susmit Mohanlal Shah	
	Colin John Carson	
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Stock Exchange Listings	Australian Stock Exchange Limited	(Code – CIG)
	Berlin and Frankfurt Stock Exchanges (Third Market Segment)	

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OVERVIEW

During the 2004/5 year Caspian made significant progress towards becoming a dedicated and focused oil and gas company. This involved:

- Increasing its stake in the Kyrgyz Republic oil projects from 50% to 100% in October 2004 by acquiring the balance of equity in Textonic Consulting Ltd.
- A change of name from Afminex Limited in November 2004 to reflect the new business and regional focus.
- A successful application for two new licences in the Ashvaz-Mailisu area to bring the total number of licences to 10, covering 16,500sq km.
- A farmout effort aimed at introducing a major industry player to operate the licences and progress exploration and development activities on them. This was successfully achieved with Santos International Operations Pty Ltd ("Santos"), a wholly owned subsidiary of Santos Limited (Australia's second largest oil and gas company) agreeing to carry Caspian, with a 20% equity, through a work program involving up to US$28 million of expenditure.
- Increasing the oil expertise in the Company through the hiring of two ex Novus petroleum geologists, Michael Sandy (consultant) and Andrei Sinelnikov (now operations manager in the Kyrgyz Republic). Mr Sandy also joined the Caspian board in September 2005.
- The floatation of Perseus Mining Limited, which was established to acquire Caspian's two most prospective West African gold projects and a number of Kyrgyz gold interests. Perseus listed on 22 September 2004 after raising approximately $3.7 million. It has enjoyed exploration success on a number of projects.
- Progressing the sale or farmout of the remaining mineral interests and equipment.

Kyrgyz Republic – within a prolific oil pathway

Santos farmin

In September 2005 Santos International Operations Pty Ltd ("Santos"), a wholly owned subsidiary of Santos Limited, a major Australian oil and gas exploration and production company:

- farmed into Caspian's oil projects in the Kyrgyz Republic;
- subscribed for 100 million fully paid ordinary shares at an issue price of three cents per share, raising $3 million; and
- subscribed for an additional 40 million fully paid shares at an issue price of five cents per share, raising an additional $2 million and taking its equity in Caspian to 17.68%.

The farmin agreement provides for Santos to:

- sole fund, manage and operate staged work programs up to the value of US$28 million over all of the licences to earn an 80% interest in those projects over a period of approximately four years; and
- pay a cash consideration of US$1 million for the purchase of the technical database relating to the Kyrgyz operations.

Farm-in Arrangements

There are two separate facets of the proposed joint venture arrangement between Santos and Caspian – a farmin to all of the licences, focusing on the deeper potential, and a farmin to the shallow potential of some of the northern Fergana licences, subject to a review of those projects.

Santos can incur staged expenditure of US$24 million as indicated below to earn an 80% interest in all of the licences, excluding the shallow production potential down to 1,000m depth on the northern Fergana licences of Charvak, Ashvaz, East Mailisu and West Mailisu.

- Minimum expenditure of US$3 million by 31 December 2006 on, amongst other things, field work and data review, including the planning of a targeted 2D seismic program (Phase 1);
- Minimum expenditure of US$6 million by 30 June 2008 on 2D seismic and/or drilling of one or more wells (Phase 2); and
- Minimum expenditure of US$15 million by 30 June 2009 on drilling programs (Phase 3).

At its sole discretion Santos may withdraw from the farm-in at the end of Phase 1 or end of Phase 2. If Santos elects to withdraw before completing the US$24 million in expenditure it does not retain any equity in the oil projects.

Santos will complete a feasibility study and determine whether it will participate in the development of the shallow northern prospects by 31 January 2006. If it decides to proceed with the development, Santos must sole fund expenditure of US$2 million by 31 December 2006 and a further US$2 million by 30 June 2008 to earn its 80% equity. If Santos elects not to proceed, Caspian may develop these shallow structures on its own or farm them out to another operator.

Since the end of the financial year, Caspian has settled all outstanding liabilities owing on the acquisition of the oil projects.

Oil seeps at Charvak

An exposed anticline at Ashvaz highlights the potential for deeper Jurassic target

OPERATIONAL ACTIVITIES

Kyrgyz Oil and Gas

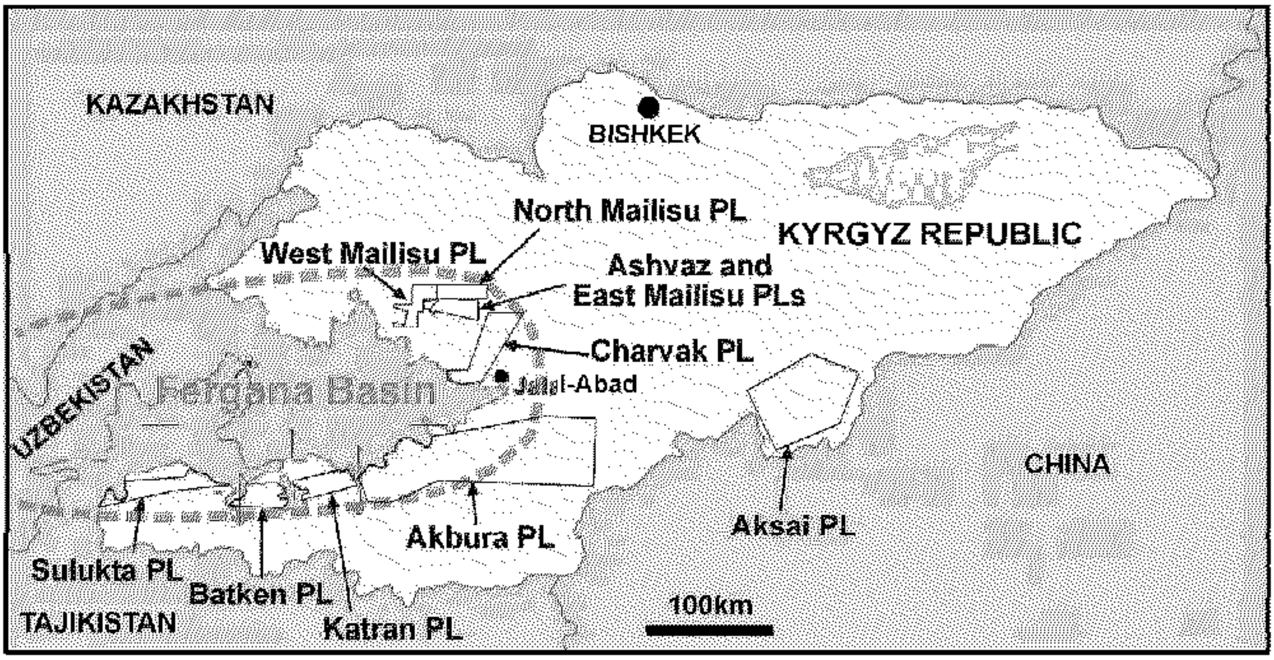
Award of new licences

In April 2005 the Ashvaz/East Mailisu project was expanded by the acquisition of two adjoining oil exploration licences covering approximately 600 sq km in area, taking Caspian's oil acreage in the Kyrgyz Republic to approximately 16,500 sq km.

The West Mailisu and North Mailisu licences were acquired after a review of data on the Ashvaz/East Mailisu project identified the potential for major structures to extend into the newly acquired ground.

The West Mailisu licence incorporates three new targets while the North Mailisu licence was acquired to give full coverage of a large structure straddling the East Mailisu licence border.

There is enough well and seismic data over the West Mailisu licence project to compile a detailed structural map of the area as a prerequisite to drilling the various targets. The East/North Mailisu target will require seismic to confirm the existence of the structure beneath overthrust Paleozoic rocks.



Licences in the Kyrgyz Republic

Acquisition of Soviet era data.

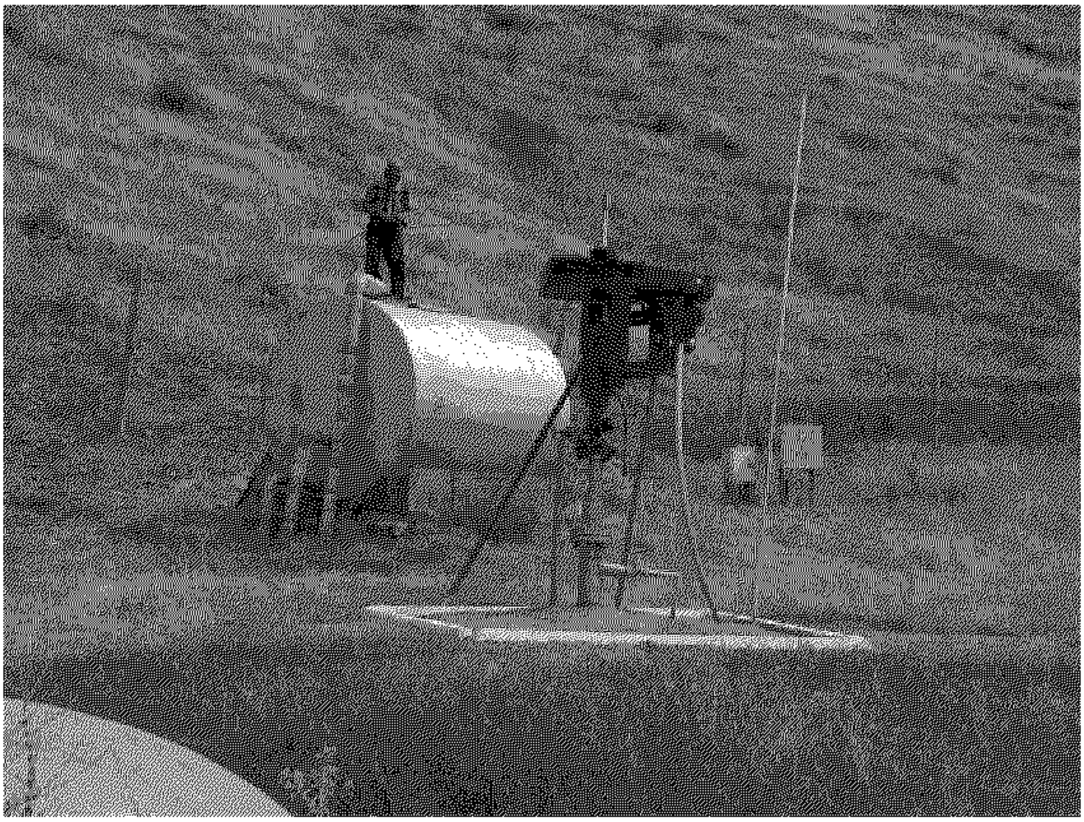
Data acquisition is an ongoing project and Caspian recently discovered the existence of a considerable amount of existing Soviet era seismic, especially over the Charvak and Sulutka licences. The quality of that data is yet to be determined but if it proves to be useful it could save the Santos/Caspian joint venture the time and cost of acquiring new seismic over those areas.

Field activities

Geological mapping programs by Caspian geologists identified a 4 way dipping anticline (Laglan) in the Ak Bura licence.

Three Santos teams commenced work on the projects in September 2005, with two geological teams assessing the deeper prospects and one team conducting a review of the production potential from shallow structures on the northern Fergana licences.

Test production of a few barrels per day is continuing from very shallow wells at Charvak, with oil sold at the near-by Jalal Abad refinery operated by Petrofac.



Production facilities at Charvak

Analogue field analysis.

A review of existing fields in the basin was conducted to assist identifying large deep targets in Caspian's acreage. Of particular interest is the Mingbulak oil field located in the central, deeper part of the Fergana Basin in Uzbekistan, which exemplifies the potential for very large deep structures in the Fergana basin, located in the middle of the basin in Uzbekistan at ~5,000m depth. Drilled in 1992-3, the first 4 wells generated strong oil flows (up to 16,000 bbl/d) but unfortunately the fifth well blew out and unloaded over one million barrels of oil. With modern western style drilling this sort of environmental disaster can be avoided in the future, but this does illustrate the considerable potential for oil in the deeper section. The Caspian acreage in Kyrgyz Republic is on the fringes of the basin and therefore large structures can be expected to be located at shallower depths than at Mingbulak.

Oil seeping from limestone reservoir rock at Ashvaz where the river action erodes the natural bitumen seal

Information on the Kyrgyz Republic

The Kyrgyz Republic is a democratic country with a presidential system of government. Presidential elections in August 2005 were well supported by voters and endorsed by the international community.

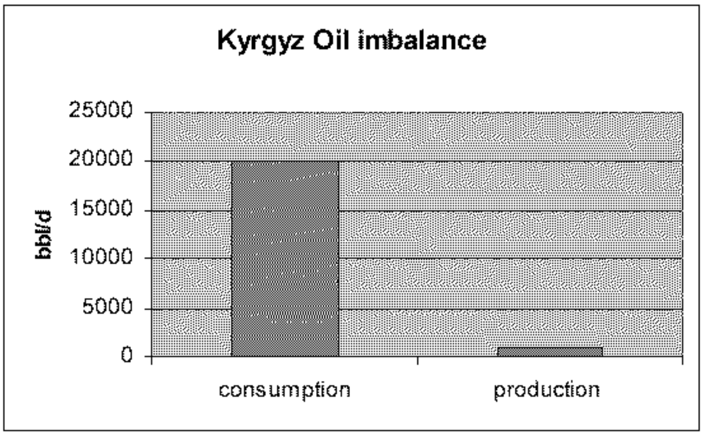
There is a long history of encouragement to foreign investment (especially in the mining industry) and one of the most favourable fiscal regimes in the world, with total tax take for petroleum projects of approximately 35%, including a company tax rate of 20%. Foreign investors are given strong protection under Kyrgyz laws.

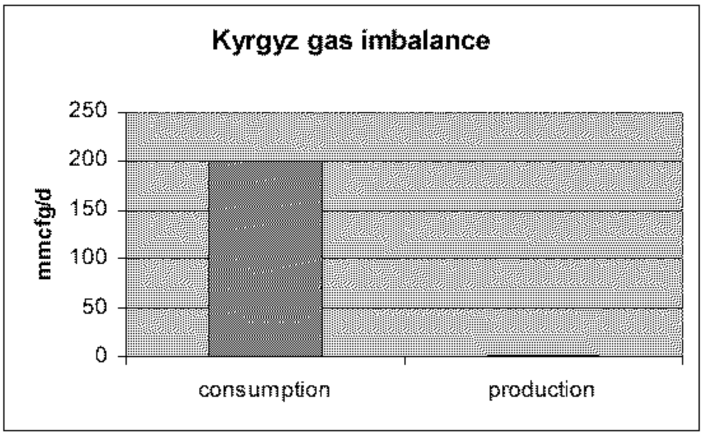
The Kyrgyz Republic is a member of the World Trade Organization. It has a free market economy and stable currency with a floating exchange rate. Investors are free to transfer funds to and from the country and repatriate profits.

Oil can be sold to the Jalal Abad refinery, adjacent to the Charvak licence, or exported by rail to China or the Black Sea. Bordering on China, the Kyrgyz Republic is well positioned to feed that country's ravenous energy demands.

Production rates have dropped substantially following the break-up of the Soviet Union, to the extent that most oil used in the Kyrgyz Republic is imported.

Information on the Kyrgyz Republic – continued





MINERAL PROJECTS

With Caspian's focus on its Kyrgyz Republic oil projects, its minerals assets have been rationalized during the year and this process is continuing.

Caspian's two major gold projects in West Africa and a number of Kyrgyz gold projects were spun off into Perseus Mining Limited in September 2004. Caspian retained a 39% equity in Perseus at the time of listing, after Perseus raised just over $3.7 million. Perseus has a number of high potential gold projects in major gold provinces and has recorded some excellent exploration results during the year. This has translated into interest from both investors and major gold producers. Caspian's stake in Perseus is escrowed until September 2006. Its market value was around $5.1 million in late September 2005.

Perseus purchased the interest of a minority contributing party and farmed into Caspian's position in the Kwatechi Joint Venture in Ghana. Caspian retains a 7% interest carried to feasibility in the project and can elect to convert that interest to a 1.25% net smelter royalty. Perseus reported some high grade trench intersections in an interesting structural setting in July 2005.

Caspian's farm-in partner, Gold Fields has continued exploration on the Mansounia gold project in Guinea, achieving encouraging drilling results from a target at least 5km long by approximately 1km wide that is open along strike and trends into an area that has been subject to intensive artisanal mining over a number of years. Drilling has confirmed the existence of a 300m wide by at least 1km long mineralised zone grading in the range of 0.5g/t to 1.5g/t Au. Further south of this zone, gold mineralisation intercepted is narrower but higher in grade. Results received to date from drilling include 76m @1.28g/t, 74m @ 1.24g/t and 51m @ 1.02g/t, 17m @ 2.84g/t, 14m @ 2.72g/t Au, 6m @ 1.83g/t Au. Most holes were mineralised over their entire length.

Caspian is carried on this project until Gold Fields has spent US$1.5 million.

Documentation of a farmout of Caspian's Congo diamond leases is at an advanced stage and interest has been expressed in its Ghanaian diamond projects.

Efforts to dispose of Caspian's remaining minor gold interest and a gold heap leach plant located in Ghana are continuing.

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Your directors present their report together with the financial report of Caspian Oil & Gas Limited ("the Company") and its controlled entities, (collectively referred to as the "consolidated entity"), for the year ended 30 June 2005 and the auditor's report thereon.

DIRECTORS

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

Reginald Norman Gillard BA FCPA FAICD JP - Non-Executive Chairman
(Appointed 6 July 1994)

After practising as an accountant for over 31 years, during which time he formed and developed a number of service related businesses, Reg Gillard now focuses on corporate management, corporate governance and the evaluation and acquisition of resource projects. Mr Gillard also serves on the audit committee of the Company. During the past three years he has also served as a director of the following listed companies:

Moto Goldmines Limited*	
Aspen Group Limited *	
Lafayette Mining Limited *	
Perseus Mining Limited *	from 24 October 2003
Pioneer Nickel Limited *	from 16 March 2005
AdultShop.com Limited	ceased 12 September 2002
Global Doctor Limited	ceased 24 January 2003
Wentworth Mutual Limited	ceased 19 February 2004

Nana Prah Agyensaim VI - Non-Executive Joint Chairman
(Appointed 27 March 2002 and resigned 23 September 2005)

Nana Prah Agyensaim VI is the King of Assin Kushea in the Central Region of Ghana, a Barrister-at-Law/Solicitor of The Supreme Court of Ghana, a member of The Council of State in Ghana, a Presidential adviser, a director of a number of substantial Ghanaian companies and public authorities, Chairman of the Tema Development Corporation (Tema being the most industrialised city in Ghana) and a successful businessman. Prior to his resignation, Mr Prah chaired the Company's audit committee. During the past three years he has not served as a director of any Australian listed companies.

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 the operations of the Company, joint venture negotiations and corporate and legal matters. Mr Carson also serves on the audit committee of the Company. During the past three years he has also served as a director of the following listed company:

Perseus Mining Limited *	from 24 October 2003

DIRECTORS - continued

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

Lafayette Mining Limited	ceased 1 October 2003
UXC Limited	ceased 27 November 2003
Union Resources Limited	ceased 18 May 2005

Dr Alexander Becker PhD (Geology) - Executive Director
(Appointed 18 February 2004)

Dr Becker has a PhD in structural geology and tectonophysics. He has over 20 years experience in petroleum and gold exploration, tectonics, stratigraphy and regional geology in Central Asia, particularly the Kyrgyz Republic. He has an intimate knowledge of the country's geology, mining rules and regulations and has high level contacts with Government bureaucrats. Dr Becker is in charge of the exploration and development work being undertaken on various oil projects by the Company's subsidiary, JSC Textonic, in the Kyrgyz Republic. During the past three years he has also served as a director of the following listed company:

Perseus Mining Limited *	from 20 May 2004

Michael John Sandy BSc (Hons) - Executive Director
(Appointed 23 September 2004)

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

Pan Pacific Petroleum NL *	from 8 September 2004

Mark Andrew Calderwood resigned as an executive director in charge of mineral exploration on 8 July 2004, following the Caspian Group's spin off of gold assets into Perseus Mining Ltd, where he now serves as a director and chief executive officer.

* denotes current directorship

COMPANY SECRETARIES

Susmit Mohanlal Shah
(Appointed 30 April 2003)

Susmit Shah is a Chartered Accountant with over 20 years experience. Over the last 12 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)

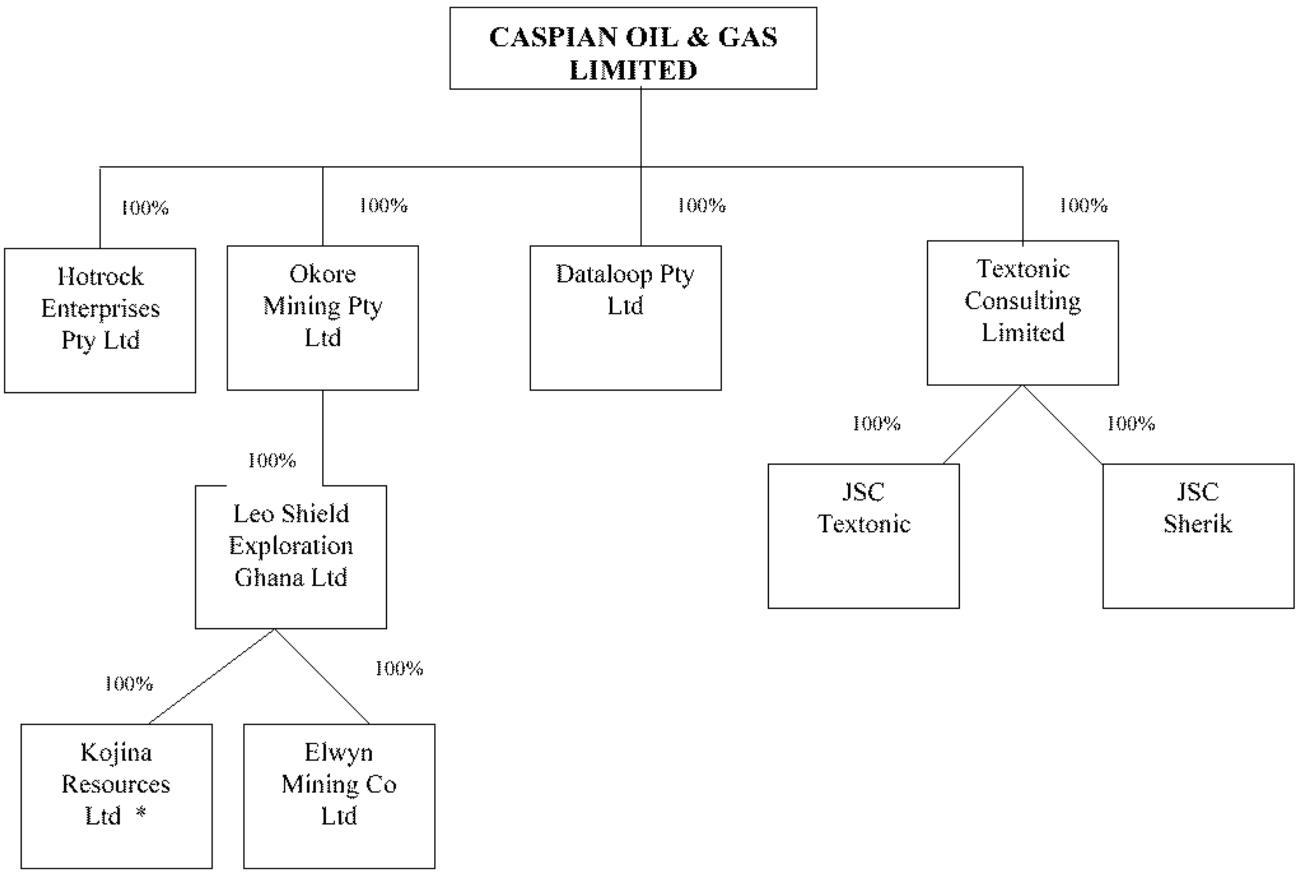
For details relating to Colin Carson, please refer to the details on Directors above.

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 group's corporate structure. Perseus Mining Ltd ceased to be a subsidiary in September 2004, following its initial offer of securities to the public, and thus it is not represented in the following illustration of the group structure at year end.

CASPIAN OIL & GAS LIMITED – GROUP STRUCTURE AT 30 JUNE 2005



* Non-operating subsidiary

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity during the course of the financial year was continued investment in the oil sector leading to ownership of 100% of the oil projects in the Kyrgyz Republic in Central Asia. During the year, the Company continued the divestment of a direct interest in mineral projects, with the former subsidiary, Perseus Mining Ltd completing its initial public offer of securities and listing on the Australian Stock Exchange.

RESULTS AND DIVIDENDS

The consolidated loss after tax for the year ended 30 June 2005 was $699,897 (2004: $1,826,678). 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 0.1 cents (2004: 0.5 cents).

REVIEW OF OPERATIONS

A review of operations of the consolidated entity during the year ended 30 June 2005 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:

- In September 2004, the Company issued 20,000,000 shares at an issue price of 1.8 cents each, to raise $360,000 in new equity capital for engineering studies on the Kyrgyz oil projects, preparation for joint venturing of those projects, planning for seismic surveys, the continued collation of historic oilfield data and ongoing operating expenses.

- In November 2004, the Company issued 24,000,000 shares at an issue price of 2.3 cents each, to raise $552,000, to institutional clients of Far East Capital Pty Ltd. The funds, after paying the costs of the issue, were used for continued exploration and development work on the Kyrgyz oil projects, preparation for joint venturing of those projects, and ongoing operating expenses.

- In November 2004, the Company issued 20,000,000 shares at an issue price of 4 cents each as part consideration for the acquisition of the remaining 50% of the issued share capital in Textonic Consulting Ltd.

- In January 2005, the Company issued 14,000,000 shares at an issue price of 4 cents each to raise $560,000 in new equity capital for working capital and to fund the oil exploration on the Kyrgyz oil properties

- In February 2005, the Company issued 5,000,000 shares at an issue price of 4 cents each to raise $200,000 in new equity capital for working capital and to fund the oil exploration on the Kyrgyz oil properties.

- In June 2005, the Company issued 48,899,999 shares at an issue price of 2.2 cents each to raise a total of $1,075,800 in new funds. The funds raised were used for payment to the vendors of the Kyrgyz Republic oil interests, ongoing administrative and overhead costs and costs incurred in data collation and preparation for the purposes of negotiating joint venture arrangements with respect to some or all of the Kyrgyz oil interests. The Company also issued 2,000,000 options to subscribe for ordinary shares at an exercise price of 5 cents each during the period from 1 September 2005 to 31 March 2008 to Mr Andrei Sinelnikov, the Company's General Manager – Petroleum as part of his remuneration package.

EVENTS SUBSEQUENT TO BALANCE DATE

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

- In August 2005, the Company entered into an agreement with Santos International Operations Pty Ltd ("Santos"), a wholly owned subsidiary of Santos Limited, a major Australian oil and gas exploration and production company to:

  - farm out and joint venture its oil projects in the Kyrgyz Republic. Santos is required to incur expenditure of US$28 million on the oil projects in order to earn an 80% interest in the oil projects; and

  - issue 100 million fully paid ordinary shares at an issue price of 3 cents per share to raise $3 million and grant an option over an additional 40 million shares.

  On 23 September 2005, the agreement with Santos was completed and Santos subscribed for 100 million shares at 3 cents each and 40 million shares at 5 cents each for total subscription monies of $5 million. Santos will also pay US$1 million for acquisition of Caspian's technical database in relation to the Kyrgyz oil projects and commence sole funding the exploration and development expenditure on the oil projects.

  A condition to the Santos agreement required the Company to settle its outstanding liabilities to the vendors of the Kyrgyz oil projects immediately rather than on the deferred basis previously agreed with the vendor. Consequently, the Company issued 30 million fully paid ordinary shares on 23 September 2005 and made payment of US$2 million in full and final settlement of all liabilities to the vendor of the oil projects on 29 September 2005.

- On 30 August 2005, the Company completed the placement of 58 million shares at an issue price of 5 cents per share for total subscription monies of $2.9 million. The Company also completed the allotment of 20 million options exercisable at 5 cents each as consideration for various corporate and technical services provided to the Company.

The subscription monies referred to above have been used / will be used for settlement of vendor liabilities, feasibility studies for shallow oil production, general working capital and to assist with the identification and assessment of complementary new opportunities in the energy sector.

LIKELY DEVELOPMENTS

Santos, pursuant to the terms of its farmin agreement with Caspian, is conducting a feasibility study into the production of oil from shallow reservoirs and will decide by no later than 31 January 2006 whether it will continue to develop those reservoirs under the joint venture. At the same time, Santos is developing a planned exploration approach for the deeper targets, including field work, data review and planning of a targeted 2D seismic program.

The Company will investigate opportunities to acquire complementary or strategic oil acreage and will continue its efforts to farm out or sell its non-core minerals assets.

Further commentary on activities over the forthcoming period is provided in the "Review of Operations".

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 2005 are:

	Directors' meetings held during period of office	Directors' meetings attended	Audit Committee meetings held during period of office	Audit Committee meetings attended
R N Gillard	6	6	1	1
N Prah Agyensaim VI	6	5	1	-
C J Carson	6	6	1	1
J Walker	6	4	-	-
A Becker	6	5	-	-

The audit committee consisted of Nana Prah Agyensaim VI (Chairman), R N Gillard and C J Carson.

DIRECTORS' INTERESTS

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

	Fully Paid Ordinary Shares	Options Over Ordinary Shares
R N Gillard	1,749,428	1,000,000
C J Carson	27,111,247	-
J Walker	89,978,610	500,000
A Becker	-	-
M J Sandy	1,000,000	5,000,000

SHARE OPTIONS

As at the date of this report, there are 35,400,000 options to subscribe for unissued ordinary shares in the Company, comprising:

	Number	Exercise Price (cents)	Expiry Date
Unlisted Options:	6,400,000	10	30 December 2005
	3,000,000	4 or 5	31 December 2005 or 31 December 2006
	2,000,000	5	31 December 2007
	4,000,000	5	31 March 2008
	20,000,000	5	30 November 2007

SHARE OPTIONS – continued

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

Options issued during the year are as follows:

- 3,000,000 unlisted options were issued to Far East Capital Ltd for capital raising and corporate promotion services.
- 4,000,000 unlisted options were issued to M J Sandy & Associates Pty Ltd, a consultant engaged to assist with joint venture negotiations on the oil projects, strategic development and investor relations.
- 1,500,000 unlisted options were issued to Mr David Bay, the Company's Chief Financial Officer. These options were cancelled during the year ending 30 June 2005 as Mr Bay was no longer employed by the Company.
- 2,000,000 unlisted options were issued to Mr Andrei Sinelnikov, the Company's General Manager, as part of his remuneration package.

Options issued after 30 June 2005 and up to the date of this report are as follows:

- 20,000,000 unlisted options were issued, as part payment of fees to a number of parties who have promoted the Company in the investment community in Australia and overseas.

Further details of these options are provided in Note 18(c) to the financial statements.

No options were exercised to acquire shares in the Company during the financial year or since the year-end.

REMUNERATION REPORT

This report outlays the remuneration arrangements in place for the directors of Caspian Oil & Gas Limited. The consolidated entity has one executive officer as defined under Section 300A of the Corporations Act 2001 (other than executives who are also directors).

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. Where necessary, independent advice on the appropriateness of remuneration packages is obtained.

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 REPORT continued

Remuneration structure

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

Non-executive Director remuneration

Objective

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

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 17 January 1995 when the shareholders approved an aggregate remuneration of $125,000 per year.

Director's 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. The ability to exercise the options is conditional on the holder remaining in the Company's employment. There are no other non-cash benefits available to directors or employees.

The remuneration of the non-executive Directors for the year ending 30 June 2005 is detailed in Table 1 of this report.

Senior Manager and Executive Director remuneration

Objective

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

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

Structure

Remuneration consists of the following key elements:

- Fixed remuneration
- Variable Remuneration

REMUNERATION REPORT continued

Senior Manager and Executive Director remuneration - continued

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. Where necessary independent advice on the appropriateness of remuneration packages is obtained.

The fixed remuneration component of the Executive Directors for the year ending 30 June 2005 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 manager for the year ending 30 June 2005 is detailed in Table 2 of this report.

Employment agreements

Andrei Sinelnikov has entered into an agreement with the Company to be employed as General Manager - Petroleum of the Company. The contract commenced on 1 March 2005 and there is no specific termination date.

The terms of the present contract include:

- Remuneration of $120,000 per annum paid monthly in arrears plus statutory superannuation;
- reasonable accommodation costs outside Australia;
- medical evacuation and insurance cover; and
- either party can terminate the agreement by giving two months written notice.

REMUNERATION REPORT continued

Table 1 Director and executive remuneration for the year ended 30 June 2005

	Primary Director's Salary / Fees	Post Employment Super-annuation	Equity Value of Options (A)	Total
	$	$	$	$
Directors :				
Reginald Gillard				
2005	32,510	2,700	-	35,210
2004	43,442	2,700	5,000	51,142
Nana Prah Agyensaim VI *(resigned 23 September 2005)*				
2005	25,000	-	-	25,000
2004	40,000	-	-	40,000
Colin Carson				
2005	87,619	8,051	-	95,670
2004	126,000	12,000	-	138,000
Mark Calderwood *(resigned 8 July 2004)*				
2005	-	-	-	-
2004	111,000	-	12,500	123,500
Jürg Walker				
2005	20,000	-	-	20,000
2004	25,000	-	2,500	27,500
Alexander Becker				
2005	118,369	-	-	118,369
2004	-	-	-	-
Hans Rudolf Moser *(resigned 23 November 2003)*				
2005	-	-	-	-
2004	7,849	-	2,500	10,349
Total, all specified directors				
2005	283,498	10,751	-	294,249
2004	353,291	14,700	22,500	390,491
Specified Executive:				
Andrei Sinelnikov (A)				
2005	60,800	3,600	9,500	73,900
2004	-	-	-	-

(A) The fair value of options is calculated at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the options allocated to this reporting period.

REMUNERATION REPORT continued

Table 2 Options granted as part of remuneration for the year ended 30 June 2005 (in accordance with the LTI plan)

	Grant date	*Grant Number*	*Vesting date*	*Value per option at grant date*	*% of Remuneration*
Specified Executive					
Andrei Sinelnikov	13 June 2005	2,000,000	1 September 2005	0.475 cents	12.86 %

Based on the Black-Scholes option pricing model (using a risk free rate of 5.5%, a volatility rate of 50% and the option exercise price of 5 cents), each option was notionally valued at 0.64 cents. As the options are not transferable, it was considered appropriate to adjust the notional value by a discount of 25%.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

No indemnities have been given during or since the end of the year for a person who is or has been a Director, officer or an auditor of any entity within the consolidated entity and no insurance premiums have been paid or agreed to be paid for insurance against a current or former officer's or auditor's liability or legal costs.

ENVIRONMENTAL REGULATIONS

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

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of the Company support and have adhered to the principles of corporate governance. The Company's corporate governance statement is provided in this annual report, following the Independent Audit Report.

AUDITORS' 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 attached to and forms part of this Directors' Report.

There have been no non audit services provided during this year.

Signed in accordance with a resolution of Directors.

R N Gillard
Chairman
Perth, 30 September 2005

HLB Mann Judd
Chartered Accountants

Auditors' Independence Declaration

As lead auditor for the audit of the financial report of Caspian Oil & Gas Limited for the year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Perth, Western Australia
30 September 2005

N G NEILL
Partner, HLB Mann Judd

HLB Mann Judd (WA Partnership)
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Email: hlb@mjwa.com.au. Website: http://www.hlb.com.au
Partners: Ian H Barsden, Terry M Blenkinsop, Litsa Christodulou, Wayne M Clark, Lucio Di Giallonardo, Colin D Emmott, Trevor G Hoddy, Norman G Neill, Peter J Speechley

Caspian Oil & Gas Limited
Statements of Financial Performance
For the Year Ended 30 June 2005

	Notes	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Revenue from ordinary activities	2	**2,035,245**	570,568	**31,623**	432,337
Borrowing Expenses	3	**(84,444)**	-	**(84,444)**	-
Depreciation expense	3	**(316,932)**	(274,827)	**(9,587)**	(5,996)
Decrement in carrying value of plant & equipment	3	**(301,893)**	(266,789)	-	-
Employee, directors and consultants costs		**(1,011,683)**	(603,988)	**(645,772)**	(399,236)
Write-down of exploration expenditure	15	**(156,150)**	(167,274)	-	(20,000)
Reversal / (diminution) in value of investments	3	-	23,283	-	23,283
Reversal / (diminution) in value of loans to and investments in controlled entities	3	-	-	**(1,371,584)**	994,057
Foreign exchange losses	3	-	(7,351)	**(75,586)**	(633,403)
Other expenses from ordinary activities	3	**(655,181)**	(1,043,684)	**(371,501)**	(402,102)
Expenses from ordinary activities		**(2,526,283)**	(2,340,630)	**(2,558,474)**	(443,397)
Share of net losses of associate accounted for using the equity method – Textonic Consulting Limited	13(b)	**(41,213)**	(203,701)	-	-
Share of net losses of associate accounted for using the equity method – Perseus Mining Limited	13(b)	**(212,419)**	-	-	-
Loss from ordinary activities before related income tax expense		**(744,670)**	(1,973,763)	**(2,526,851)**	(11,060)
Income tax (expense)/benefit relating to ordinary activities	5	-	-	-	-
Loss from ordinary activities after related income tax expense		**(744,670)**	(1,973,763)	**(2,526,851)**	(11,060)
Net loss attributable to outside equity interests	21	**44,773**	147,085	-	-
Net loss attributable to members of the parent entity	20	**(699,897)**	(1,826,678)	**(2,526,851)**	(11,060)
Basic earnings/(loss) per share	6	**(0.1) cents**	(0.5) cents		

Caspian Oil & Gas Limited
Statements of Financial Position
As At 30 June 2005

	Notes	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Current Assets					
Cash assets	8	**498,335**	607,774	**461,881**	186,016
Receivables	9	**158,905**	86,652	**17,899**	19,490
Inventories	10	**881**	-	-	-
Other	11	**2,451**	15,419	-	-
Total Current Assets		**660,572**	709,845	**479,780**	205,506
Non-Current Assets					
Receivables	9	-	-	**405,710**	3,871,884
Other financial assets	12	-	5,500	**12,502,594**	4,834,402
Investments accounted for using the equity method	13	**1,820,314**	4,929,363	-	-
Property, plant and equipment	14	**893,684**	1,340,907	**27,631**	8,220
Mineral interest acquisition, exploration and development expenditure	15	**10,176,736**	998,190	**30,503**	16,210
Other	11	**81,696**	-	-	-
Total Non-Current Assets		**12,972,430**	7,273,960	**12,966,438**	8,730,716
Total Assets		**13,633,002**	7,983,805	**13,446,218**	8,936,222
Current Liabilities					
Payables	16	**742,203**	844,816	**629,470**	667,066
Provisions	17	**21,059**	19,354	**19,668**	14,054
Total Current Liabilities		**763,262**	864,170	**649,138**	681,120
Non-Current Liabilities					
Payables	16	**2,517,799**	78,924	**2,445,139**	-
Total Non-Current Liabilities		**2,517,799**	78,924	**2,445,139**	-
Total Liabilities		**3,281,061**	943,094	**3,094,277**	681,120
Net Assets		**10,351,941**	7,040,711	**10,351,941**	8,255,102
Equity					
Contributed equity	18	**70,501,397**	65,877,707	**70,501,397**	65,877,707
Reserves	19	**589,000**	589,000	**589,000**	589,000
Accumulated losses	20	**(60,738,456)**	(60,038,559)	**(60,738,456)**	(58,211,605)
Total Parent Entity Interest		**10,351,941**	6,428,148	**10,351,941**	8,255,102
Outside equity interests	21	-	612,563	-	-
Total Equity		**10,351,941**	7,040,711	**10,351,941**	8,255,102

	Notes	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Cash Flows from Operating Activities					
Cash receipts in the course of operations		**30,234**	165,086	**-**	36,603
Cash payments in the course of operations		**(1,248,454)**	(1,225,410)	**(880,009)**	(574,411)
Interest paid		**(79,628)**	-	**(79,628)**	-
Interest received		**32,703**	16,217	**10,241**	9,602
Net Cash used in Operating Activities	25(a)	**(1,265,145)**	(1,044,107)	**(949,396)**	(528,206)
Cash Flows from Investing Activities					
Payments for exploration and development expenditure		**(132,761)**	(149,304)	**(14,293)**	-
Payments for property, plant and equipment		**(30,466)**	(18,236)	**(28,998)**	(1,500)
Proceeds on disposal of property, plant and equipment		**150,975**	15,384	**-**	-
Acquisition of preference shares in unlisted entity	13(e)	**-**	(470,325)	**-**	-
Acquisition of ordinary shares in unlisted entity		**(1,084,111)**	(214,996)	**(1,084,111)**	(214,996)
Payments for shares and options in listed entities		**-**	(33,708)	**-**	(3,585)
Proceeds on disposal of investments		**21,090**	382,373	**21,090**	247,384
Reimbursement of expenditure by JV Partner		**-**	37,805	**-**	-
Repayments by controlled entities		**-**	-	**146,919**	168,391
Advances to controlled entities		**-**	-	**(431,532)**	(750,309)
Decrease in cash due to deconsolidation of Perseus Mining Ltd		**(402,823)**	-	**-**	-
Increase in cash due to acquisition of Textonic Consulting Ltd		**17,616**	-	**-**	-
Net Cash used in Investing Activities		**(1,460,480)**	(451,007)	**(1,390,925)**	(554,615)
Cash Flows from Financing Activities					
Proceeds from share issues – outside equity interests		**-**	759,648	**-**	-
Proceeds from share issues		**2,747,800**	649,200	**2,747,800**	649,200
Share issue expenses		**(124,830)**	(21,620)	**(124,830)**	(21,620)
Net Cash provided by Financing Activities		**2,622,970**	1,387,228	**2,622,970**	627,580
Net Increase/(Decrease) in Cash Held		**(102,655)**	(107,886)	**282,649**	(455,241)
Cash at the beginning of the financial year		**607,774**	719,161	**186,016**	642,984
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		**(6,784)**	(3,501)	**(6,784)**	(1,727)
Cash at the end of the Financial Year	8	**498,335**	607,774	**461,881**	186,016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Australian Accounting Standards and other authoritative pronouncements of the Accounting Standards Board. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with. The financial report covers the consolidated entity of Caspian Oil & Gas Ltd (the "Company") and controlled entities, and the Company as an individual parent entity. Caspian Oil & Gas is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Principles of Consolidation

The consolidated financial statements are those of the consolidated entity, comprising the parent entity and all entities which the Company controlled from time to time during the year and at balance date.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

The financial reports of controlled entities are prepared for the same reporting year as the Company, using consistent accounting policies.

Foreign Currency

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining the result for the year.

As the foreign controlled entities are dependent on the parent entity, their monetary assets and liabilities are translated into Australian currency at rates of exchange at balance date. Non-monetary assets are translated at historical rates at the time of the transaction and revenues and expenses are translated at the average of rates ruling during the year. Resulting exchange differences are brought to account in determining the profit or loss for the year.

Revenue Recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST). Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue Recognition - continued

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Taxes

Income taxes
Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

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 taxation authority. 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 as applicable.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities that are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash includes:

- cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
- investments in money market instruments which are readily convertible to cash on hand.

Receivables

Trade receivables and other receivables are recorded at amounts due less provision for doubtful debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Acquisition of Assets

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition.

Recoverable Amount of Non-Current Assets Valued on Cost Basis

The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal.

The carrying amounts of non-current assets valued on the cost basis, other than mineral interest acquisition, exploration and development expenditure carried forward, are reviewed annually to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the period in which it occurs.

In assessing recoverable amount of non-current assets, the relevant cash flows have not been discounted to their present value except where specifically stated.

Investments

Investments in associates are carried at the lower of the equity-accounted amount and recoverable amount in the consolidated financial report and the lower of cost and recoverable amount in the Company's financial report.

All other non-current investments are carried at the lower of cost and recoverable amount.

Property, Plant and Equipment

Property, plant and equipment are included at cost and, except for freehold land, are depreciated over their estimated useful lives commencing from the time the asset is held ready for use. Depreciation is provided using the straight line method for all property, plant and equipment. Estimated useful lives of between three and ten years have been used in the calculation of depreciation for plant and equipment.

Mineral Interest Acquisition, Exploration and Development Expenditure

Mineral interest acquisition, exploration and development expenditure is accumulated separately for each area of interest. Such expenditure comprises acquisition costs, direct exploration and development costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific nexus with a particular area of interest.

Revenue received from the sale or disposal of product, materials or services during the exploration and evaluation phase of operations is offset against expenditure in respect of the area of interest or mineral resource concerned.

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Exploration and development expenditure, which does not satisfy the above criteria is written off.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Joint Ventures

Joint venture interests are incorporated in the financial statements by including the consolidated entity'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 accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services. Amounts are unsecured and are usually paid within 30 days of recognition.

Provisions

Provisions are recognised when there is a legal, equitable or constructive obligation to make a future sacrifice of economic benefits as a result of a past event, it is probable that a future sacrifice of economic benefits will be required, and a reliable estimate can be made of the amount of the obligation.

Employee Benefits

Provision is made for the Company's liability for wages and salaries, annual leave and long service leave arising from services rendered by employees to the reporting date. Liabilities so arising and expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates, which are expected to be paid when the liability is settled.

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

The Company has granted options to certain employees. Other than the costs incurred in administering the issue of options, which are expensed as incurred, the value of options granted is not being recognised as an employee benefits expense.

Contributed Equity

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Earnings per Share - continued

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

Segment Reporting

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists.

Segment assets include all assets used by a segment and consist principally of cash, receivables and property, plant and equipment net of accumulated depreciation. Whilst most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of accounts payable, employee entitlements, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

Where segment revenues and expenses include transfers between segments, these are at the same rates which would apply to parties outside the consolidated entity on an arm's length basis. These transfers are eliminated on consolidation.

Implementation of Australian Equivalents of International Financial Reporting Standards ('AIFRS')

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group will issue abstracts corresponding to International Accounting Standards Board (IASB) interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee.

The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the half-year ended 31 December 2005 and the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The consolidated entity's management has analysed the significance of the expected changes and has identified a number of accounting policy changes that will be required. In some cases choice of accounting policies are available, including elective exemptions under Accounting Standard AASB 1 First – time Adoption of Australian Equivalents to International Financial Reporting Standards. Some of these choices are still being analysed to determine the most appropriate accounting policy for the consolidated entity.

The known or reliably estimable impacts on the financial report for the year ended 30 June 2005 had it been prepared using AIFRS are set out below. The expected financial effects of adopting AIFRS are shown for each key area. Although the adjustments disclosed in this note are based on managements' best knowledge of expected standards and interpretations, and current facts and circumstances, these may change due to:

- Amended or additional standards or interpretations may be issued by the AASB and the IASB; and
- Emerging accepted practice in the interpretation and application of AIFRS and Urgent Issues Group ('UIG') Interpretations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Implementation of Australian Equivalents of International Financial Reporting Standards ('AIFRS') - continued

Therefore, until the consolidated entity prepares its full AIFRS financial statements, the possibility cannot be excluded that the major changes shown below may have to be adjusted.

Equity-based compensation benefits

Under AASB 2 Share-based Payment, equity-based compensation to employees will be recognised as an expense in respect of the services received.

The consolidated entity has elected to adopt the exemption under AASB 1 First – time Adoption of Australian Equivalents to International Financial Reporting Standards and has not valued options issued to employees after 7 November 2002 which vested before 1 January 2005. Under AASB 2 Share-based Payment, equity-based compensation to employees that vested after 1 January 2005 will be recognised as an expense in respect of the services received. This will result in a change to the current accounting policy, under which no expense is recognised for equity-based compensation.

Management have estimated an expense of $143,000 will be required to be recognised in the statement of financial performance for the year ended 30 June 2005 with a corresponding credit made to an option reserve in equity for comparative purposes.

Impairment of Assets

Under Accounting Standard AASB 136 'Impairment of Assets', the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change in the Company's current accounting policy, which determines the recoverable amount of an asset on the basis of undiscounted cash flows.

Management do not believe that any assets were impaired on transition or at 30 June 2005.

Income taxes

Currently, the consolidated entity adopts the liability method of tax effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under the Australian equivalent to IAS 12, the consolidated entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

Under AASB 112, carried forward tax losses are recognised to the extent to which it is probable that sufficient future assessable income will be derived against which such losses may be offset. Current accounting policy requires the realisation of sufficient assessable income to be virtually certain.

Management do not believe that there will be any significant impact in terms of the statement of financial position or performance.

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to AIFRS, as not all standards have been analysed as yet, and some decisions have not yet been made where choices of accounting policies are available. For these reasons it is not yet possible to quantify all of the impacts of the transition to AIFRS on the consolidated entity's financial position and reported results.

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
2. REVENUE FROM ORDINARY ACTIVITIES					
Revenues from operating activities					
Rendering of services revenue		**15,430**	137,320	-	57,575
Revenue from oil production		**2,157**	-	-	-
		17,587	137,320	-	57,575
Revenues from outside operating activities					
Interest - other parties		**32,995**	14,529	**10,533**	6,416
Proceeds from sale of plant and equipment		**150,976**	15,384	-	-
Profit from sale of mineral tenements		-	-	-	100,000
Proceeds from sale of listed investments		**21,090**	382,373	**21,090**	247,384
Foreign currency exchange gains	3(b)	**31,910**	-	-	-
Gain due to deconsolidation of Perseus Mining Limited		**1,674,385**	-	-	-
Royalty Income		**106,302**	-	-	-
Other		-	20,962	-	20,962
		2,017,658	433,248	**31,623**	374,762
Total revenue from ordinary activities		**2,035,245**	570,568	**31,623**	432,337

3. LOSS FROM ORDINARY ACTIVITIES

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

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
(a) Expenses					
Interest paid – Textonic Consulting Ltd acquisition		**84,444**	-	**84,444**	-
Depreciation of plant and equipment		**316,932**	274,827	**9,587**	5,996
Decrement in carrying value of plant and equipment		**301,893**	266,789	-	-
Foreign exchange losses	3(b)	-	7,351	**75,586**	633,403
Mineral interest acquisition, exploration and development expenditure written-off		**156,150**	167,274	-	20,000
Diminution/(reversal) in value of investments in other entities		-	(23,283)	-	(23,283)
Diminution/(reversal) in value of loans to and investments in controlled entities		-	-	**1,371,584**	(994,057)
Movement in provision for employee entitlements		**1,705**	473	**5,614**	5,331
Other expenses include:					
West African administrative and overhead costs		**39,806**	367,862	-	-
Auditors' remuneration	4	**37,111**	36,838	**20,250**	19,800
Travel and accommodation		**218,085**	106,038	**182,214**	74,546
Carrying amount of assets sold		**48,752**	222,541	**6,000**	144,325
ASIC and ASX fees		**69,873**	40,427	**53,440**	39,562
Share issue expenses–Perseus Mining Ltd initial public offer		-	84,722	-	-
(b) Losses/(gains)					
Net foreign currency exchange (gains)/losses		**(31,910)**	7,351	**75,586**	633,403
(Profit)/loss on disposal of plant and equipment		**(108,224)**	(13,154)	-	868
(Profit)/loss on sale of investments		**(15,090)**	(162,062)	**(15,090)**	(103,927)

	Consolidated		Company	
	2005	**2004**	**2005**	**2004**
	$	**$**	**$**	**$**
4. AUDITORS' REMUNERATION				
Audit services:				
- Auditors of the company – HLB Mann Judd	**22,125**	19,800	**20,250**	19,800
- Other auditors	**14,986**	12,038	**-**	-
	37,111	31,838	**20,250**	19,800
Other services:				
- Auditors of the company – HLB Mann Judd	**-**	5,000	**-**	-
	37,111	36,838	**20,250**	19,800

5. INCOME TAX EXPENSE

(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:

	Consolidated 2005	Consolidated 2004	Company 2005	Company 2004
Loss from ordinary activities	**744,672**	1,973,763	**2,526,851**	11,060
Prima facie income tax benefit @ 30%	**223,402**	592,129	**758,055**	3,318
Tax effect of permanent differences:				
Equity accounted losses of associate entity – Textonic Consulting	**(12,364)**	(61,110)	**-**	-
Equity accounted losses of associate entity – Perseus Mining Limited	**(63,726)**	-	**-**	-
Provision for non-recovery of loans and write-down in investments in controlled entities	**-**	-	**(411,475)**	278,717
Foreign exchange (losses) not deductible	**-**	(2,206)	**(22,676)**	(190,021)
Foreign exchange gains not assessable	**9,573**	-	**-**	-
Gain due to deconsolidation of Perseus Mining Limited	**502,316**	-	**-**	-
Profit on sale of investments against capital losses	**4,527**	-	**4,527**	67,467
Write-down in value of investments	**-**	6,985	**-**	26,485
Other non-deductible items	**(58,808)**	(185,934)	**(33,358)**	(11,301)
Income tax benefit adjusted for permanent differences	**604,920**	349,864	**295,073**	174,665
Income tax benefit not brought to account	**(604,920)**	(349,864)	**(295,073)**	(174,665)
Income tax attributable to operating losses	**-**	-	**-**	-

(b) The potential future income tax benefits arising from tax losses and timing differences have not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond any reasonable doubt:

	Consolidated 2005	Consolidated 2004	Company 2005	Company 2004
Australian tax losses	**1,160,229**	865,156	**1,160,229**	865,156
Foreign tax losses	**5,857,418**	5,547,571	**-**	-
Australian capital losses	**10,100,200**	10,100,929	**10,100,200**	10,100,929

5. INCOME TAX EXPENSE - continued

The future income tax benefits will only be obtained if the conditions in Note 1 (Income taxes) are satisfied and if:

a) the consolidated entity 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 consolidated entity continues to comply with the conditions for deductibility imposed by the relevant tax legislation;

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

For the purposes of income tax, Caspian Oil & Gas Ltd and its 100% owned Australian subsidiaries intend to form a tax consolidated group. At the date of signing the financial report, Caspian Oil & Gas Ltd has not determined the date of entry into tax consolidation because this decision will be based upon the most favourable outcome in terms of the transitional rules in the tax consolidation legislation. The date of entry will be determined by December 31 2005.

As part of the entry into consolidation, it is anticipated that members of the group will enter into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition, it is anticipated that the agreement will provide for the allocation of income tax liabilities between the entities should the parent entity default on its tax payments obligations.

Tax consolidation is not expected to have a material effect on the group's future income tax benefit.

No adjustments have yet been made to reflect the Company's possible intention to form a consolidated tax group.

6. EARNINGS PER SHARE

	Consolidated	
	2005	**2004**
	cents	**cents**
Basic earnings/(loss) per share	**(0.1)**	(0.5)
	2005	**2004**
	No.	**No.**
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**484,292,092**	399,175,939

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.

7. SEGMENT INFORMATION

The consolidated entity operated principally in three business segments (primary reporting segments) being investing, mineral exploration and oil exploration, and three geographical segments (secondary reporting segments), namely Australia, West Africa and Central Asia. The segment information is prepared in conformity with the accounting policies described in Note 1.

Business Segments (Primary Segment)

The consolidated entity comprises the following main business segments:

Investing	Investing in equities, cash management and corporate management.
Mineral Exploration	Mineral exploration, predominantly for gold in West Africa.
Oil Exploration	Oil exploration in Central Asia.

Geographical Segments (Secondary Segment)

In presenting information on the basis of geographical segments, segment revenue, expenses and assets are based on the geographical location of the operations.

The consolidated entity operates in the following geographical segments:

Australia	Investing activities and corporate management.
West Africa	Mineral exploration activities.
Central Asia	Oil exploration activities.

7. SEGMENT INFORMATION - continued

	Investing		Mineral Exploration		Oil Exploration		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	$	$	$	$	$	$	$	$	$	$
Business segments (Primary Segment)										
Revenue										
Revenue from external customers	-	-	**13,519**	137,320	**4,068**	-	-	-	**17,587**	137,320
Other external revenue	**1,745,599**	417,744	**264,325**	15,504	**7,734**	-	-	-	**2,017,658**	433,248
Intersegment revenue	-	45,000	-	-	-	-	-	(45,000)	-	-
Total segment revenue	**1,745,599**	462,744	**277,844**	152,824	**11,802**	-	-	(45,000)	**2,035,245**	570,568
Results										
Operating loss before income tax	**413,262**	(529,415)	**(873,429)**	(1,240,647)	**(284,503)**	(203,701)	-	-	**(744,670)**	(1,973,763)
Income tax expense									-	-
Net loss									**(744,670)**	(1,973,763)
Assets										
Segment assets	**2,327,729**	548,400	**1,006,824**	2,506,042	**10,298,449**	4,929,363	-	-	**13,633,002**	7,983,805
Non-current assets acquired	**1,849,312**	17,507	**41,493**	150,033	**10,210,739**	1,174,067	-	-	**12,101,544**	1,341,607
Liabilities										
Segment liabilities	**256,670**	166,879	**172,812**	208,168	**2,851,579**	568,047	-	-	**3,281,061**	943,094
Other segment information										
Depreciation	**12,575**	8,698	**290,915**	266,129	**13,441**	-	-	-	**316,932**	274,827
Non-cash expenses other than depreciation	**5,614**	(17,952)	**453,259**	436,557	**875**	-	-	-	**459,748**	418,605
Share of net profit/(loss) of equity accounted investments	-	-	**212,419**	-	**41,213**	203,701	-	-	**253,632**	203,701
Equity accounted investments included in segment assets	**1,820,314**	-	-	-	-	4,929,363	-	-	**1,820,314**	4,929,363

	Australia		West Africa		Central Asia		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	$	$	$	$	$	$	$	$	$	$
Geographical segments (Secondary Segment)										
Segment revenue	**1,745,599**	475,319	**277,844**	140,249	**11,802**	-	-	(45,000)	**2,035,245**	570,568
Segment assets	**2,327,729**	537,243	**1,006,824**	2,388,680	**10,298,449**	5,057,882	-	-	**13,633,002**	7,983,805
Other segment information										
Non-current assets acquired	**1,849,312**	17,507	**41,493**	150,033	**10,210,739**	1,174,067	-	-	**12,101,544**	1,341,607

	Consolidated		Company	
	2005	2004	2005	2004
	$	$	$	$

8. CASH ASSETS

Cash assets	**396,470**	285,487	**360,016**	103,648
Deposits at call	**101,865**	322,287	**101,865**	82,368
	498,335	607,774	**461,881**	186,016

9. RECEIVABLES

Current

Trade debtors	**108,440**	21,549	-	4,317
Sundry debtors	**50,465**	65,103	**17,899**	15,173
	158,905	86,652	**17,899**	19,490

Non-current

Loans to controlled entities	-	-	**16,838,583**	20,363,008
Provision for non-recovery of loans to controlled entities	-	-	**(16,432,873)**	(16,491,124)
	-	-	**405,710**	3,871,884

Terms and conditions relating to the above financial instruments:

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

10. INVENTORIES

Raw materials and stores – at cost	**881**	-	-	-

11. OTHER

Current

Prepayments	**2,451**	15,419	-	-

Non-current

VAT Withheld	**81,696**	-	-	-

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

12. OTHER NON-CURRENT FINANCIAL ASSETS

	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Investments in securities listed on a prescribed stock exchange - at cost (note a)	-	24,045	-	24,045
Provision for diminution	-	(18,545)	-	(18,545)
	-	5,500	-	5,500
Investment in associated entities - ordinary shares at cost	-	-	-	2,805,317
Investment in associated entities listed on a prescribed stock exchange - ordinary shares at cost (note 12 (d))	-	-	**2,032,733**	-
	-	-	**2,032,733**	2,805,317
Investment in controlled entities - unlisted shares at cost (note b)	-	-	**11,719,863**	3,273,587
Provision for diminution	-	-	**(1,250,002)**	(1,250,002)
	-	-	**10,469,861**	2,023,585
	-	5,500	**12,502,594**	4,834,402
(a) Aggregate quoted market value at balance date of investments listed on a prescribed stock exchange:	-	5,500	**3,609,196**	5,500

(b) Particulars in relation to controlled entities

Name of controlled entity	Notes	Place of Incorporation	Consolidated Entity Interest 2005 %	Consolidated Entity Interest 2004 %
Parent Entity				
Caspian Oil & Gas Limited		Australia		
Controlled entities				
Dataloop Pty Ltd		Australia	**100**	100
Hotrock Enterprises Pty Ltd		Australia	**100**	100
Okore Mining Pty Ltd		Australia	**100**	100
Leo Shield Exploration Ghana Ltd (i)	(a)	Ghana	**100**	100
Textonic Consulting Limited	(a)	Canada	**100**	50
(i) Controlled entities of Leo Shield Exploration Ghana Ltd				
Elwyn Mining Company Ltd	(a)	Ghana	**100**	100
Kojina Resources Ltd	(a)	Ghana	**100**	100
(ii) Controlled entities of Textonic Consulting Limited				
JSC Textonic	(a)	Kyrgyz Republic	**100**	50
JSC Sherik	(a)	Kyrgyz Republic	**100**	50

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

(c) Controlled entity acquired

In October 2004, the Company increased its interest in the share capital of Textonic Consulting Ltd from 50% to 100%. Consequently from that time, Textonic ceased to be accounted for as an associate and has become part of the consolidated entity. Please refer to Note 25 (b) for details of the acquisition.

12. OTHER NON-CURRENT FINANCIAL ASSETS - continued

(d) Loss of control of subsidiary

In October 2003, Perseus Mining Limited was incorporated as a 100% subsidiary of Caspian Oil & Gas Limited. During the period to 30 June 2004, Perseus raised a further $759,648 as equity capital from third parties. Consequently, Caspian Oil & Gas's shareholding in Perseus was reduced to 58% at 30 June 2004. Through the successful completion of Perseus's initial public offer of securities in September 2004, the Company's shareholding reduced to 39 % at 30 June 2005 and it ceased to be accounted for as a controlled entity of the Company from September 2004 onwards.

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Investment in Perseus Mining Limited – ordinary shares	**1,820,314**	-	-	-
Investment in unlisted entity – ordinary shares	-	2,590,280	-	-
Investment in unlisted entity – preference shares	-	2,339,083	-	-
Total equity accounted investment	**1,820,314**	4,929,363	-	-

Name of associated entity	Type of Equity	Ownership Interest 2005	Ownership Interest 2004	Balance Date
Perseus Mining Limited	Ordinary shares	**39%**	N/A	30 June 2005
Textonic Consulting Limited	Ordinary shares	**N/A**	50%	30 June 2005
Textonic Consulting Limited	Preference shares	**N/A**	50%	30 June 2005

(a) Principal activities of associated companies

(i) Perseus Mining Limited is a listed Australian company involved in mineral exploration, principally gold, in West Africa and the Kyrgyz Republic.

(ii) Textonic Consulting Limited is a Canadian holding company, whose wholly owned Kyrgyz subsidiary, JSC Textonic, owns ten oil projects covering over 16,500 sq km of permit areas located mainly around the established Fergana Basin oil province.

	Consolidated Entity 2005 $	Consolidated Entity 2004 $
(b) Carrying amount of investment in associate – Perseus Mining Limited		
Balance at the beginning of the financial year	-	-
Balance transferred on loss of control of subsidiary	**2,023,585**	-
Further acquisition costs recognised	**9,648**	-
Written down value of shares disposed	**(500)**	-
Share of associate's net loss for the relevant period	**(212,419)**	-
Carrying amount of investment in associate	**1,820,314**	-
(c) Accumulated losses attributable to associate - Perseus Mining Limited		
Balance at the beginning of the financial year	-	-
Share of associate's net loss	**(212,419)**	-
Balance at the end of the financial year	**(212,419)**	-

13. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD – continued

		Consolidated Entity	
		2005	2004
		$	$
(d)	*Share of associate's assets and liabilities – Perseus Mining Limited*		
	Current assets	**777,007**	-
	Non-current assets	**1,397,706**	-
	Current liabilities	**(172,094)**	-
	Net assets	**2,002,619**	-

		Consolidated Entity	
		2005	2004
		$	$
(e)	*Carrying amount of investment in associate – Textonic Consulting Limited*		
	Balance at the beginning of the financial year	**4,929,363**	3,958,997
	Acquisition of ordinary shares in associate (note 23(b)) – at cost	**-**	703,742
	Acquisition of preference shares in associate – at cost	**-**	470,325
	Share of associate's net loss for the relevant period	**(41,213)**	(203,701)
	Equity accounted value transferred	**(4,888,150)**	-
	Carrying amount of investment in associate	**-**	4,929,363
(f)	*Accumulated losses attributable to associate – Textonic Consulting Limited*		
	Balance at the beginning of the financial year	**(215,037)**	(11,336)
	Share of associate's net loss	**(41,213)**	(203,701)
	Equity accounted losses transferred (note 25(b))	**256,250**	-
	Balance at the end of the financial year	**-**	(215,037)
(g)	*Share of associate's assets and liabilities – Textonic Consulting Limited*		
	Current assets	**N/A**	76,858
	Non-current assets, inclusive of oil properties – at fair value	**N/A**	4,880,388
	Current liabilities	**N/A**	(27,883)
	Net assets	**N/A**	4,929,363

In October 2004, the Company increased its interest in the share capital of Textonic Consulting Ltd from 50% to 100%. Consequently from that time, Textonic ceased to be accounted for as an associate and has become part of the consolidated entity. Please refer to Note 25 (b) for details of the acquisition.

14. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Company	
	2005	**2004**	**2005**	**2004**
	$	**$**	**$**	**$**
Plant and equipment – at cost	**3,308,886**	3,321,310	**63,408**	34,411
Accumulated depreciation	**(1,847,395)**	(1,713,614)	**(35,777)**	(26,191)
Decrement in carrying value	**(567,807)**	(266,789)	-	-
Total property, plant and equipment net book value	**893,684**	1,340,907	**27,631**	8,220

Reconciliation:

Carrying amount at the beginning of the year	**1,340,907**	1,866,518	**8,220**	13,584
Additions	**30,466**	18,236	**28,998**	1,500
Additions recognised upon consolidation of Textonic Consulting Ltd	**219,597**	-	-	-
Disposals	**(42,751)**	(2,231)	-	(868)
Reduction due to deconsolidation of Perseus Mining Ltd	**(10,316)**	-	-	-
Depreciation	**(316,932)**	(274,827)	**(9,587)**	(5,996)
Depreciation capitalised to Exploration	**(25,394)**	-	-	-
Decrement in carrying value	**(301,893)**	(266,789)	-	-
Carrying amount at the end of the year	**893,684**	1,340,907	**27,631**	8,220

15. MINERAL INTEREST ACQUISITION, EXPLORATION AND DEVELOPMENT EXPENDITURE

Balance at the beginning of the year	**998,190**	1,086,817	**16,210**	69,062
Purchase price of oil projects recognised upon consolidation of Textonic Consulting Ltd	**9,898,406**	-	-	-
Expenditure incurred during the year	**132,761**	149,304	**14,293**	-
Write off of exploration expenditure	**(156,150)**	(167,274)	-	(20,000)
Reduction in deferred exploration expenditure due to deconsolidation of Perseus Mining Limited	**(696,471)**	-	-	-
Reimbursement of expenditure	-	(70,657)	-	(32,852)
Carried forward	**10,176,736**	998,190	**30,503**	16,210

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.

	Consolidated		Company	
	2005	2004	2005	2004
	$	$	$	$
16. PAYABLES				
Current				
Trade creditors and accruals	**349,735**	276,769	**237,002**	99,019
Amount due for acquisition of initial 50% interest in Textonic Consulting Ltd	**66,449**	568,047	**66,449**	568,047
Amount due for acquisition of remaining 50% interest in Textonic Consulting Ltd	**326,019**	-	**326,019**	-
	742,203	844,816	**629,470**	667,066
Non-current				
Payable – St Jude Resources Limited	**72,660**	78,924	-	-
Amount due for acquisition of remaining 50% interest in Textonic Consulting Ltd	**2,445,139**	-	**2,445,139**	-
	2,517,799	78,924	**2,445,139**	-

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.
- The amount due for the acquisition of the initial 50% interest in Textonic Consulting Ltd is non-interest bearing and payable only on the occurrence of certain specified events, including the raising of new equity capital by the Company. The liability is denominated and payable in US dollars (US $50,604).
- The amount due for the acquisition of the remaining 50% interest in Textonic Consulting Ltd is non-interest bearing and payable on deferred terms up to October 2007. The liability is denominated and payable in US dollars and the gross amount payable at 30 June 2005 was US$ 2.55 million, which has been stated at a net present value of US$2,110,345 (AUD$2,771,158) in these financial statements.
- The amount owing to St Jude will be repayable upon the successful sale of the Ghana heap leach plant to another party.

	Consolidated		Company	
	2005	2004	2005	2004
17. PROVISIONS				
Current				
Employee benefits (note 26)	**21,059**	19,354	**19,668**	14,054

18. CONTRIBUTED EQUITY

Share capital

	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
563,701,132 (2004: 431,801,133) ordinary shares, fully paid	**69,301,397**	65,877,707	**69,301,397**	65,877,707
Unallotted shares (Note 18 (b))	**1,200,000**	-	**1,200,000**	-
	70,501,397	65,877,707	**70,501,397**	65,877,707

a) Ordinary shares

Movements in Ordinary Shares:

	Number	Number	**$**	$
Balance at the beginning of the year	**431,801,133**	332,924,538	**65,877,707**	63,231,829
Vendor consideration for the acquisition of the initial 50% interest in Textonic Consulting Ltd at an issue price of 3 cents per share	-	67,276,595	-	2,018,298
Share placement at issue price of 2.5 cents on 29 October 2003	-	14,000,000	-	350,000
Share placement at issue price of 1.7 cents on 16 June 2004	-	17,600,000	-	299,200
Share placement at issue price of 1.8 cents on 6 September 2004	**20,000,000**	-	**360,000**	-
Share placement at issue price of 2.3 cents on 30 November 2004	**24,000,000**	-	**552,000**	-
Shares issued at 4 cents each as part consideration for acquisition of Textonic Consulting on 30 November 2004	**20,000,000**	-	**800,000**	-
Share placement at issue price of 4 cents on 24 January 2005	**14,000,000**	-	**560,000**	-
Share placement at issue price of 4 cents on 24 January 2005	**5,000,000**	-	**200,000**	-
Share placement at issue price of 2.2 cents on 13 June 2005	**48,899,999**	-	**1,075,800**	-
Transaction costs arising from issue for cash	-	-	**(124,110)**	**(21,620)**
Balance at the end of the year	**563,701,132**	431,801,133	**69,301,397**	65,877,707

	Consolidated		Company	
	2005	2004	2005	2004
	$	$	$	$
18. CONTRIBUTED EQUITY - continued				
(b) Unallotted shares				
30,000,000 ordinary shares - refer note below	**1,200,000**	-	**1,200,000**	-

Note

In October 2004, the Company entered into an agreement to acquire the remaining 50% of the issued share capital in Textonic Consulting Ltd. Part of the purchase consideration was the issue of 50 million ordinary shares in the capital of the Company. The agreement required 20 million shares to be issued at the outset, which was completed and recorded as part of the acquisition costs at 4 cents per share. A further 15 million shares were required to be issued in October 2006 and the final 15 million shares in October 2007. The 30 million unallotted shares have also been recorded in these accounts as part of the acquisition costs at a price of 4 cents per share. Subsequent to year end, the full 30 million shares were issued in September 2005 – refer to Note 29.

(c) ***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 2004	Options Issued 2004/05	Options Exercised/ Cancelled/ Expired 2004/05	Closing Balance 30 June 2005
			Number	*Number*	*Number*	*Number*
On or before 31 May 2005		$0.10	88,606,950	-	(88,606,950)	-
On or before 30 Dec 2005		$0.10	6,400,000	-	-	6,400,000
1 Jan 2005 to 31 Dec 2007		$0.10	1,000,000	-	(1,000,000)	-
1 Jun 2005 to 31 Mar 2008		$0.10	1,000,000	-	(1,000,000)	-
On or before 31 Dec 2006	(i)	$0.04 or $0.05	-	3,000,000	-	3,000,000
1 Jun 2005 to 31 Dec 2007	(ii)	$0.05	-	2,000,000	-	2,000,000
1 Sep 2005 to 31 Mar 2008	(ii)	$0.05	-	5,500,000	(1,500,000)	4,000,000
			97,006,950	10,500,000	(92,106,950)	15,400,000

(i) 3,000,000 unlisted options to subscribe for ordinary shares were issued to Far East Capital Ltd for capital raising and corporate promotion services. For each two options exercised, a further option will be issued, exercisable at 5 cents on or before 31 December 2008 or at 7 cents from 1 January 2009 to 31 December 2009.

(ii) 4,000,000 unlisted options to subscribe for ordinary shares were issued to M J Sandy & Associates Pty Ltd, a consultant engaged to assist with joint venture negotiations on the oil projects, strategic development and investor relations. 1,500,000 unlisted options to subscribe for ordinary shares were issued to Mr David Bay, the Company's Chief Financial Officer. These options were cancelled during the year ending 30 June 2005 as Mr Bay was no longer employed by the Company. 2,000,000 unlisted options to subscribe for ordinary shares were issued to Mr Andrei Sinelnikov, the Company's General Manager – Petroleum as part of his remuneration package.

(d) ***Terms and conditions of contributed equity***

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.

19. RESERVES

	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Option premium reserve	**589,000**	589,000	**589,000**	589,000
Movements during the year				
Option premium reserve				
Balance at the beginning of the year	**589,000**	589,000	**589,000**	589,000
Premium on issues of options during the year	-	-	-	-
Balance at end of year	**589,000**	589,000	**589,000**	589,000

Nature and purpose of the Option 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.

20. ACCUMULATED LOSSES

	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Accumulated losses at the beginning of the year	**60,038,559**	58,211,881	**58,211,605**	58,200,545
Net loss attributable to members of the parent entity	**699,897**	1,826,678	**2,526,851**	11,060
Accumulated losses at the end of the year	**60,738,456**	60,038,559	**60,738,456**	58,211,605

21. OUTSIDE EQUITY INTERESTS

	Consolidated 2005 $	Consolidated 2004 $
Outside equity interests in controlled entities comprise:		
Share capital	-	759,648
Accumulated losses	-	(147,085)
Total outside equity interests – refer note below	-	612,563

Note

In September 2004, the Company's interest in the share capital of Perseus Mining Ltd was reduced from 58% to 39% as a result of the completion by Perseus of an initial public offer of its securities and a listing on the Australian Stock Exchange. Consequently, Perseus has ceased to be part of the consolidated entity since September 2004 and, since that time, has been accounted for as an associate company.

22. FINANCIAL INSTRUMENTS

(a) Interest Rate Risk Exposures

The consolidated entity may be exposed to interest rate risk through primary financial assets and liabilities. The following table summarises interest rate risk for the consolidated entity, together with effective interest rates as at balance date.

2005	Weighted average effective interest rate	Floating interest rate	Fixed interest rate maturing in: 1 year or less	Fixed interest rate maturing in: Over 1 year	Non-interest bearing	Total
		$	$	$	$	$
Financial Assets:						
Current:						
Cash at bank	3.49%	461,469	-	-	36,866	498,335
Receivables	-	-	-	-	158,905	158,905
Non Current:						
Receivables		-	-	-	81,696	81,696
Investments	-	-	-	-	1,820,314	1,820,314
Total Financial Assets		461,469	-	-	2,097,781	2,559,250
Financial Liabilities:						
Current:						
Trade creditors	-	-	-	-	312,662	312,662
Amount due for acquisition of investment in Textonic Consulting Ltd	-	-	-	-	392,468	392,468
Non Current:						
Amount due for acquisition of investment in Textonic Consulting Ltd	-	-	-	-	2,445,139	2,445,139
Payables	-	-	-	-	72,660	72,660
Total Financial Liabilities		-	-	-	3,222,929	3,222,929

2004	Weighted average effective interest rate	Floating interest rate	Fixed interest rate maturing in: 1 year or less	Fixed interest rate maturing in: Over 1 year	Non-interest bearing	Total
		$	$	$	$	$
Financial Assets:						
Current:						
Cash at bank	3.25%	607,774	-	-	-	607,774
Receivables	-	-	-	-	86,652	86,652
Non Current:						
Other financial assets	-	-	-	-	5,500	5,500
Investments	-	-	-	-	4,929,363	4,929,363
Total Financial Assets		607,774	-	-	5,021,515	5,629,289
Financial Liabilities:						
Current:						
Trade creditors	-	-	-	-	276,769	276,769
Amount due for acquisition of investment in Textonic Consulting Ltd	-	-	-	-	568,047	568,047
Non Current:						
Payables	-	-	-	-	78,924	78,924
Total Financial Liabilities		-	-	-	923,740	923,740

22. FINANCIAL INSTRUMENTS - continued

(b) Net fair values

The aggregate net fair value of financial assets and financial liabilities approximate the carrying amount of the financial assets and financial liabilities as indicated in the Statement of Financial Position. There are no unrecognised financial assets or financial liabilities at year-end.

(c) Credit risk exposures

The consolidated entity's maximum exposures to credit risk at year end in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Statement of Financial Position.

(d) Concentration of credit risk

As the consolidated entity is exclusively involved in exploration rather than trading there is currently very little credit risk. The risk is considered immaterial to the operations of the consolidated entity.

(e) Exchange rate exposures

The Company has not entered into any general or specific contracts to hedge against losses that may arise from exchange rate fluctuations. The Company may suffer such exchange rate fluctuation losses as it has a number of assets and liabilities denominated in foreign currencies, particularly US dollars.

23. COMMITMENTS

Exploration expenditure commitments

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

	Consolidated		**Company**	
	2005	**2004**	**2005**	**2004**
	$	**$**	**$**	**$**
Within one year	**350,000**	575,000	**50,000**	50,000
One year or later and not later than five years	**770,000**	1,270,000	**100,000**	100,000
Later than five years	**770,000**	1,270,000	**100,000**	100,000
	1,890,000	3,115,000	**250,000**	250,000

24. CONTINGENT LIABILITIES

(a) Legal actions

A former director and shareholder of Oda River Goldmining Company Ltd ("Oda River") commenced an action at the Kumasi High Court in Ghana in 1996 against Oda River, Oda River's managing director and Mutual Ghana Ltd ("Mutual") claiming a twenty percent shareholding in Oda River. Oda River contends that the shareholding was forfeited after a call on the shares was not paid. A subsidiary of the Company was in joint venture with Oda River and Mutual and acquired ownership of the Abore prospecting licence from those parties. The consolidated entity's interest in the Abore project was sold in July 2001 and the Company has received legal advice that it has no exposure to this action. No provision has been made in the financial statements in respect of the claim.

Oda River has also commenced an action in the High Court in Ghana claiming compensation for breaches under its agreements with Mutual and is seeking a declaration that it retains a 20% interest in the company owning the Abore project. The Company has received legal advice that the consolidated entity has no exposure to the claim and a defence to the action has been lodged. No provision has been made in the financial statements in respect of the claim by Oda River.

The registered trustees of the Christian Faith Church, Akim Asuboa have commenced an action in the High Court in Ghana claiming ownership of land within the Akim-Oda prospecting licence and losses and damages due to exploration activities. The plaintiffs are seeking a declaration that the Akim-Oda joint venture partners are not entitled to enter the land and damages of 200,000,000 cedis (approx AUD$30,000). The Company has received legal advice that the consolidated entity has no exposure to the claim and a defence to the action has been lodged. No provision has been made in the financial statements in respect of the claim.

(b) Acquisition of investment in Textonic Consulting Limited

The terms of the agreement under which Caspian Oil & Gas Limited acquired the first 50% of the issued capital of Textonic Consulting Ltd require additional consideration to be paid in the future if certain performance criteria are achieved:

- 67,276,596 shares in the issued capital of Caspian Oil & Gas Limited are required to be issued to the vendors if combined proved and probable reserves, as certified by an independent expert, on the licences currently held by JSC Textonic, the operating subsidiary of Textonic, exceed 100,000,000 barrels of recoverable oil on or before 30 November 2007.

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

25. STATEMENTS OF CASH FLOWS

	Notes	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
(a) Reconciliation of the loss from ordinary activities to net cash used in operating activities					
Loss from ordinary activities after income tax		**(744,670)**	(1,973,763)	**(2,526,851)**	(11,060)
Add back non-cash items:					
Depreciation		**316,932**	274,827	**9,587**	5,996
Decrement in carrying value of plant and equipment		**301,893**	266,789	**-**	-
Bad debts written off		**3,846**	-	**3,846**	-
(Profit)/loss on sale of plant and equipment		**(108,224)**	(13,154)	**-**	868
(Profit)/loss on sale or write-down of investments		**(15,090)**	(162,062)	**(15,090)**	(103,927)
(Profit)/loss on sale of mineral tenements		**-**	-	**-**	(100,000)
Gain due to deconsolidation of Perseus Mining Limited		**(1,674,385)**	-	**-**	-
Share of associates' net (profits)/losses		**253,632**	203,701	**-**	-
Exploration expenditure write-off		**156,150**	167,274	**-**	20,000
Diminution in value of investments (listed)		**-**	(23,283)	**-**	(23,283)
Provision for non-recovery of investments in and loans to controlled entities (write-back of provision)		**-**	-	**1,371,584**	(994,057)
Employee benefits provision		**1,705**	473	**5,614**	5,331
Foreign currency (gain)/loss		**(31,909)**	(474)	**75,586**	627,754
Change in assets and liabilities:					
(Increase)/decrease in receivables		**(175,645)**	25,675	**(12,374)**	(2,816)
(Increase)/decrease in other assets		**12,087**	4,300	**-**	-
(Decrease)/increase in payables		**438,533**	185,590	**138,702**	46,988
Net cash used in operating activities		**(1,265,145)**	(1,044,107)	**(949,396)**	(528,206)

25. STATEMENTS OF CASH FLOWS - continued

(b) Acquisition of Controlled Entities

	Textonic Consulting Ltd
Date of acquisition:	30 November 2004
Non-Cash Consideration:	
Shares issued	4,018,298
Share of past and current year equity accounted losses	(256,250)
Cash Consideration:	
Cash paid in prior year	2,558,055
Cash paid this year	1,163,739
Foreign exchange gain on actual payments made	28,592
Consideration still outstanding	2,701,177
Total Consideration	10,213,611
Net Assets Acquired:	
Cash assets	17,616
Receivables and prepayments	90,000
Plant and equipment	219,597
Intangibles – fair value of oil properties acquired	9,898,406
Payables	(12,008)
	10,213,611
Net cash effect:	
- cash consideration paid	3,721,794
- cash included in net assets acquired	(17,616)
Total Net cash paid for controlling entity	3,704,178
Less cash consideration paid in prior year	(2,558,055)
Net cash paid for controlling entity this year	1,146,123

Operations of acquired controlled entities

Textonic Consulting Limited is a Canadian holding company, whose wholly owned Kyrgyz subsidiary, JSC Textonic, owns ten oil projects covering approximately 16,500 sq km of permit areas located mainly around the established Fergana Basin oil province.

(c) Loss of Control of subsidiary

In October 2003, Perseus Mining Limited was incorporated as a 100% subsidiary of Caspian Oil & Gas Limited. During the period to 30 June 2004, Perseus raised a further $759,648 as equity capital from third parties. Consequently, Caspian Oil & Gas's shareholding in Perseus was reduced to 58% at 30 June 2004. Through the successful completion of Perseus's initial public offer of securities in September 2004, the Company's shareholding reduced to 39 % at 30 June 2005 and it ceased to be accounted for as a controlled entity of the Company.

(d) Non-Cash Financing and Investing Activities

During the year, the Company entered in to an agreement to issue 50,000,000 ordinary shares in the capital of the Company as part consideration for the acquisition of the remaining 50% of the share capital in Textonic Consulting Ltd. 20,000,000 of these shares were issued at 4 cents each, with the balance of 30 million shares required to be issued at later dates. The liability for the issue of the remaining 30 million shares has been recorded at 4 cents per share. These shares were issued in September 2005.

	Consolidated		Company	
	2005	2004	2005	2004
	$	$	$	$
26. EMPLOYEE BENEFITS				
The aggregate employee benefit liability is comprised of:				
Annual leave provision – current	**21,059**	19,354	**19,668**	14,054
	No.	**No.**	**No.**	**No.**
Number of employees at year end	**41**	29	**2**	1

27. DIRECTOR AND EXECUTIVE DISCLOSURES

The Company has applied the exemption under Corporations Amendment Regulation 2005 which exempts listed companies from providing remuneration disclosures in relation to their specified directors and executives in their annual financial reports by Accounting standard AASB 1046, 'Director and Executive Disclosures by Disclosing Entities'. These remuneration disclosures are provided in the Remuneration Report of the Directors' Report designated as audited.

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.

	Balance at 1 July 2004	Received as Remuneration	Options Exercised	Other Movements(a)	Balance at 30 June 2005
Parent entity directors					
Reginald Gillard	1,749,428	-	-	-	1,749,428
Nana Prah Agyensaim VI	1,350,000	-	-	-	1,350,000
Colin Carson	25,061,247	-	-	2,050,000	27,111,247
Mark Calderwood	1,835,000	-	-	-	N/A
Jürg Walker	74,153,500	-	-	15,825,110	89,978,610
Alexander Becker	-	-	-	-	-

(a) Other Movements
Shares purchased or sold during the financial year.

Mark Calderwood resigned as a director during the year.

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.

	Balance at 1 July 2004	Received as Remuneration	Options Exercised / (Expired)	Other Movements	Balance at 30 June 2005	Vested and exercisable at year end
Parent entity directors						
Reginald Gillard	1,000,000	-	-	-	1,000,000	1,000,000
Nana Prah Agyensaim VI	2,035,000	-	(2,035,000)	-	-	-
Colin Carson	-	-	-	-	-	-
Mark Calderwood	5,820,000	-	-	-	N/A	-
Jürg Walker	6,600,000	-	(6,100,00)	-	500,000	500,000
Alexander Becker	-	-	-	-	-	-

Mark Calderwood resigned as a director during the year.

27. DIRECTOR AND EXECUTIVE DISCLOSURES - continued

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 consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year end.

28. RELATED PARTY TRANSACTIONS

(a) Directors and specified executives

The Company has applied the exemption under Corporations Amendment Regulation 2005 which exempts listed companies from providing remuneration disclosures in relation to their specified directors and executives in their annual financial reports by Accounting standard AASB 1046, 'Director and Executive Disclosures by Disclosing Entities'. These remuneration disclosures are provided in the Remuneration Report of the Directors' Report designated as audited.

(b) Transactions with Directors and Director-Related Entities

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

	Consolidated		Company	
	2005	2004	2005	2004
	$	$	$	$
(i) Accounting, secretarial and corporate service fees paid or payable to Corporate Consultants Pty Ltd, a company in which Mr Gillard is a director and has a beneficial interest.	**119,319**	129,438	**119,319**	83,934
(ii) Rent paid or payable to Ledgar Road Partnership, an entity in which Mr Gillard and Mr Carson both have a beneficial interest.	**1,458**	-	**1.458**	-
(iii) Commission fees paid to J Walker, pursuant to a private placement in October 2003.	-	5,000	-	5,000
(iv) Taxation services paid or payable to Icon Financial Management Pty Ltd, an entity in which Mr Gillard is a director and has a beneficial interest.	**3,317**	-	**3,317**	-
Balances due to Directors and Director Related Entities at year end				
- included in trade creditors and accruals	**104,362**	116,823	**104,362**	64,016

(c) Transactions with Related Parties - Controlled Entities

Wholly Owned Group

The parent entity incurs exploration expenditure on behalf of the controlled entities. It also provides management and administration services to the controlled entities, for which a fee of Nil (2004: $45,000) has been charged for the year. Investments in and loans to wholly owned controlled entities are disclosed in Notes 12 and 9 respectively.

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

(d) Transactions with Other Related Parties

During the year, the Company concluded an agreement with its associate, Perseus Mining Ltd in respect of the Kwatechi mineral property in Ghana. The Company assigned farm-in rights in the property such that Perseus can earn 60% out of the Company's 67% interest by funding expenditure to a mining operation. Effectively, the Company will have a free carried 7% interest.

29. EVENTS OCCURRING AFTER THE REPORTING DATE

There are no matters or circumstances that have arisen since 30 June 2005 that have or may significantly affect the operations, results, or state of affairs of the consolidated entity in future financial years, other than the matters referred to below:

- In August 2005, the Company entered into an agreement with Santos International Operations Pty Ltd ("Santos"), a wholly owned subsidiary of Santos Limited, a major Australian oil and gas exploration and production company to:

  - farm out and joint venture its oil projects in the Kyrgyz Republic. Santos is required to incur expenditure of US$28 million on the oil projects in order to earn an 80% interest in the oil projects; and

  - issue 100 million fully paid ordinary shares at an issue price of 3 cents per share to raise $3 million and grant an option over an additional 40 million shares.

  On 23 September 2005, the agreement with Santos was completed and Santos subscribed for 100 million shares at 3 cents each and 40 million shares at 5 cents each for total subscription monies of $5 million. Santos will also pay US$1 million for acquisition of Caspian's technical database in relation to the Kyrgyz oil projects and commence sole funding the exploration and development expenditure on the oil projects.

  A condition to the Santos agreement required the Company to settle its outstanding liabilities to the vendors of the Kyrgyz oil projects immediately rather than on the deferred basis previously agreed with the vendor. Consequently, the Company issued 30 million fully paid ordinary shares on 23 September 2005 and made payment of US$2 million in full and final settlement of all liabilities to the vendor of the oil projects on 29 September 2005.

- On 30 August 2005, the Company completed the placement of 58 million shares at an issue price of 5 cents per share for total subscription monies of $2.9 million. The Company also completed the allotment of 20 million options exercisable at 5 cents each as consideration for various corporate and technical services provided to the Company.

  The subscription monies referred to above have been used / will be used for settlement of vendor liabilities, feasibility studies for shallow oil production, general working capital and to assist with the identification and assessment of complementary new opportunities in the energy sector.

The financial effects of the above events occurred after balance date and have not been recognised in this financial report.

Caspian Oil & Gas Limited
Directors' Declaration
30 June 2005

In the opinion of the Directors of Caspian Oil & Gas Limited ("the Company"):

(a) the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2005 and of their performance for the year ended on that date; and

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

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

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 period ending 30 June 2005.

Signed in accordance with a resolution of the Directors made pursuant to s 295(5) of the Corporations Act 2001.

On behalf of the Directors

R N Gillard
Chairman

Dated at Perth, 30 September 2005

HLB Mann Judd
Chartered Accountants

INDEPENDENT AUDIT REPORT

To the members of
CASPIAN OIL & GAS LIMITED (formerly Afminex Limited)

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position as at 30 June 2005, statement of financial performance, statement of cash flows and accompanying notes to the financial statements for the year then ended, and the directors' declaration of Caspian Oil & Gas Limited ("the company"). The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether or not the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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HLB Mann Judd (WA Partnership) is a member of HLB International and the HLB Mann Judd National Association of independent accounting firms

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

In our opinion, the financial report of Caspian Oil & Gas Limited is in accordance with:

(a) the Corporations Act 2001, including:

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year then ended; and

  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Norman G Neill

Perth, Western Australia
30 September 2005

N G NEILL
Partner

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

Board of Directors

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital, exploration and operating expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting.

The Board has delegated responsibility for operation and administration of the Company to the Executive Directors and senior management.

Board processes

To assist in the execution of its responsibilities, the Board has established an Audit Committee. Due to the small size of the Board, other matters that would be addressed by committees (eg. nomination committee or remuneration committee) are dealt with by the full Board of directors.

The Board has established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full Board holds regular meetings to discuss operational matters, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman, the Executive Directors and Company Secretary. Board reports are circulated in advance.

Independent professional advice and access to company information

Each director has the right of access to all relevant company information and to the Company's employees and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the consolidated entity's expense. The director must consult with an advisor suitably qualified in the relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the Board.

Composition of the Board

The names of directors of the Company in office at the date of this report are set out in the Directors' report.

The composition of the Board is determined using the following principles:

- the Board should comprise at least three directors. This number may be increased where it is felt that additional expertise is required in specific areas, or when an outstanding candidate is identified.
- the Board should comprise a majority of independent, non-executive directors.
- the Board should comprise directors with a broad range of expertise, with a majority of directors having extensive knowledge of the Company's industry.
- the Chairman should be a non-executive independent director.
- directors appointed by the Board are subject to election by shareholders at the following annual general meeting and thereafter directors are subject to re-election at least every three years.

The composition of the Board is reviewed on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the services of a new director with particular skills, a panel of candidates is selected with the appropriate expertise and experience. External advisers may be used to assist in such a process. The Board then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders. In order to conserve funds and maximise spending on exploration, the size of the Board has been restricted from time to time. As a consequence independent, non-executive directors have not always been in the majority on the Board.

The Chairman reviews the performance of all directors each year. Directors whose performance is unsatisfactory are asked to retire.

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Director's Report. Directors of Caspian Oil & Gas Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered judgement.

The following directors of Caspian Oil & Gas Limited are considered to be independent:

Name	Position
R N Gillard	Non-Executive Joint Chairman
N Prah	Non-Executive Joint Chairman – resigned 23 September 2005

<u>Audit Committee</u>

The role of the Audit Committee is to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity. It also gives the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report.

The members of the committee are:

Nana Prah Agyensaim VI (Chairman) – resigned 23 September 2005
Reg Gillard
Colin Carson

The committee plans to meet twice a year and more often if required. The committee members' attendance record is disclosed next to the table of Directors' meetings in the Directors' Report.

The responsibilities of the Committee also include:

- reviewing the financial report and other financial information distributed externally
- reviewing the performance and independence of the auditor
- liaising with the external auditors and ensuring that the annual and half-year statutory audits are conducted in an effective manner
- monitoring the establishment of an appropriate internal control framework and considering enhancements
- monitoring the procedures in place to ensure compliance with the Corporations Act and Stock Exchange Listing Rules and all other regulatory requirements
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, Australian Stock Exchange and financial institutions

Remuneration report

Remuneration policies

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. 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. Where necessary, independent advice on the appropriateness of remuneration packages is obtained.

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. The ability to exercise the options is conditional on the holder remaining in the Company's employment. There are no other non-cash benefits available to directors or employees, although the consolidated entity may provide housing to expatriate employees from time to time.

Total remuneration for all non-executive directors, approved at a shareholders meeting held on 17 January 1995, is not to exceed $125,000 per annum. Director's 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 Company does not have any schemes for retirement benefits, other than statutory superannuation, for directors.

Risk management

Oversight of the risk management system

The Board oversees the establishment, implementation, and annual review of the Company's Risk Management System. Management has established and implemented the Risk Management System for assessing, monitoring and managing operational, financial reporting and compliance risks for the consolidated entity. Financial reporting risk management and associated compliance and controls have been assessed and found to be operating adequately. The operational and other compliance risk management have also been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial period and the period up to the signing of the financial report for all material operations in the consolidated entity.

Risk profile

The Executive Director(s) reports to the Board monthly on the status of risks, ensuring that they are identified, assessed and appropriately managed.

Major risks arise from such matters as exploration risk, security of tenure, environment, government policy changes, commodity prices, occupational health and safety and financial reporting.

Comprehensive practices have been established to ensure:

- exploration expenditure is incurred in accordance with an approved budget, actual costs are reviewed against budget by the Executive Directorsoccupational health and safety standards are monitored and reviewed to achieve high standards of performance
- joint ventures and project acquisitions are properly authorised and executed
- the quality and integrity of personnel
- financial reporting accuracy and compliance with the financial reporting regulatory framework
- environmental regulation compliance*Quality and integrity of personnel*

Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of co-operation and constructive dialogue with employees and senior management.

Financial reporting

The Executive Director and the Company Secretary have declared, in writing to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Environmental regulation

The consolidated entity and its associate, Textonic Consulting Ltd, hold exploration interests in Ghana, Côte d'Ivoire and the Kyrgyz Republic. The consolidated entity's operations are subject to environmental regulations in the relevant jurisdictions in relation to its exploration activities.

The consolidated entity is committed to achieving a high standard of environmental performance. The Executive Directors and Exploration Managers are responsible for the regular monitoring of environmental exposures and compliance with environmental regulations. As part of this process they are responsible for:

- implementing environmental management plans in operating areas which may have a significant environmental impactidentifying where remedial actions are required and implementing action plans

The Board is advised of any significant environmental issues as they occur. Based upon the work completed, the Board is not aware of any significant breaches of environmental requirements during the period covered by this report.

Ethical standards

The Board acknowledges the need for continued maintenance of the highest standards of corporate governance practice and ethical conduct by all Directors and employees of the consolidated entity. A fundamental theme of the consolidated entity's code of ethics is that all business affairs are conducted legally, ethically and with the strict observance of the highest standards of integrity and propriety. The Directors and management have the responsibility to carry out their functions with a view to maximising financial performance of the consolidated entity.

All directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity.

Conflicts of interest

Directors must keep the Board advised, on an ongoing basis, of any interests that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists for a director on a board matter, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Company and the consolidated entity are set out in notes to the Financial Statements.

Trading in general company securities by directors and employees

The policy on trading in Company securities by directors and employees is that directors and employees are prohibited from dealing in company shares or exercising options whilst in possession of price sensitive information not yet released to the market. The Directors have also resolved that any of them planning to trade any securities of the Company will consult with the Chairman and one of the Executive Directors prior to any such trade.

Communication with shareholders

The Board provides shareholders with information using a comprehensive continuous disclosure policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website, and issuing media releases.
In summary, the continuous disclosure policy operates as follows

- the Executive Director and the Company Secretary are responsible for interpreting the Company's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the ASX.the full annual financial report is distributed to all shareholders.
- the half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it.
- quarterly reports contain summarised financial information and a review of the operations of the consolidated entity during the period. The quarterly reports are lodged with the ASX, and sent to any shareholder who requests it.
- proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders.
- all announcements made to the market are placed on the Company's website after they are released to the ASX.
- the full texts of notices of meetings and associated explanatory material are placed on the Company's website.
- the external auditor is requested to attend the annual general meetings to answer any questions concerning the audit and the content of the auditor's report.All of the above information is made available on the Company's website as soon as possible after public release, and is emailed to all shareholders who lodge their email contact details with the Company. Information on lodging email addresses with the Company are available on the Company's website.

The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions.

Copies of the Constitution are available to any shareholder who requests it.

Group Oil Interests at 25 September 2005

Location	*Licence name*	*Registered Holder*	*Licence Number*	*Caspian Oil & Gas's current equity interest*
Kyrgyz Republic	Sulukta	JSC Textonic	НГ-124-01	100%
	Batken	JSC Textonic	НГ-125-01	100%
	Katran	JSC Textonic	НГ-126-01	100%
	Ak-Bura	JSC Textonic	НГ-93-01	100%
	Charvak	JSC Textonic	НГ-50-01	100%
	Ashvaz	JSC Textonic	НГ-25-01	100%
	Aksai	JSC Textonic	НГ-49-01	100%
	East Mailisu	JSC Textonic	НГ-175-02	100%
	North Mailisu	JSC Textonic	НП 91	100%
	West Mailisu	JSC Textonic	НП 90	100%

Note

Santos International Operations Pty Ltd ("Santos") has the right to earn an 80% interest in all of the oil projects by spending up to US$28 million on them over approximately four years. There are two separate facets of the proposed joint venture arrangement with Santos - a farmin to all of the licences, focussing on the deeper potential, and a farmin to the shallow potential of some of the northern Fergana licences subject to a review of those projects.

Santos can incur staged expenditure of US$24 million as indicated below to earn an 80% interest in all of the licences, excluding the shallow production potential down to 1,000m depth on the northern Fergana licences of Charvak, Ashvaz, East Mailisu and West Mailisu.

- Minimum expenditure of US$3 million by 31 December 2006 (Phase 1);
- Minimum expenditure of US$6 million by 30 June 2008 (Phase 2); and
- Minimum expenditure of US$15 million by 30 June 2009 (Phase 3).

At its sole discretion Santos may withdraw from the farm-in at the end of Phase 1 or end of Phase 2. If Santos elects to withdraw before completing the US$24 million in expenditure it does not retain any equity in the oil projects.

Santos will complete a feasibility study by 1 January 2006 to determine whether it will participate in the development of the shallow northern prospects (defined as to a depth of up to 1,000m at the Charvak, East Mailisu, West Mailisu and Ashvaz licences). If it decides to proceed with the development, Santos must sole fund expenditure of US$2 million by 31 December 2006 and a further US$2 million by 30 June 2008 to earn its 80% equity.

Santos has the right to participate in future share issues by the Company at the same price per share as other participants in order to maintain its percentage shareholding in the Company. If Santos declines to participate in future issues and consequently its percentage holding in the Company is diluted to less than 10%, then its right to future participation ceases. Its right also ceases if it withdraws from the farmin agreement.

Group Mineral Concession Interests at 27 September 2005

Location	*Concession name and type*	*Registered Holder (or Applicant)*	*File Number*	*Caspian Oil & Gas's current equity interest*	*Maximum equity interest capable of being earned*	*Notes* 1
Ghana	Kwatechi Prospecting Licence	Tropical Exploration and Mining Company Limited	PL3/64	67%	N/A	2
	Akim-Oda Prospecting Licence	Regimanuel Limited	PL5/119	0%	80%	3
	Osenase Reconnaissance Licence	Leo Shield Exploration Ghana Limited	RL5/12	90%	N/A	
	Pramkese Prospecting Licence Application	Leo Shield Exploration Ghana Limited	N/A	90%	N/A	
	Apam Prospecting Licence	Obotan Minerals Limited	PL3/67	0%	82%	4
	Nsuaem Reconnaissance Licence	Centrum Resources Limited	RL2/350	0%	82%	5
	Atwere Boanda Reconnaissance Licence	Minconsults Limited	RL2/357	0%	82%	5
Guinea	Mansounia Research Permit	Caspian Oil & Gas Limited	A2002/019/ DIGM/CPDM	78%	78%	6
Democratic Republic of Congo	Tshikapa Prospecting Licences	Caspian Oil & Gas Limited	PR976-983 PR1755-1756	95%	N/A	

Notes

1. The governments of African countries in which the Company operates are entitled to equity in mining companies owning projects as follows – Ghana 10%, Guinea 15% and Democratic Republic of Congo 5%. Caspian Oil & Gas's quoted equity is after allowance for that national interest, which occurs when a new project company is established prior to commencement of mining.

2. Perseus Mining Limited, the current holder of a 16% interest, has the right to earn 60% out of the Company's 67% interest in the property by funding the development of the project to profitable production. In that case, the Company and the tenement owner will each retain a 7% interest which is convertible to a 1.25% net smelter royalty at the option of those parties within 30 days of completion of a feasibility study.

3. The Company can earn an 80% interest by bringing the project to production. Caspian Oil & Gas and the Vendor share equally the first US$600,000 in surplus cash from production, then Caspian Oil & Gas recovers the balance of expenditure by it on the project in priority to other distributions.

4. The Company can earn 82% equity in the project by completing a feasibility study and developing a mining operation, with all exploration and development costs recoverable from production. US$20,000 is payable to the tenement holder on taking a decision to commence a mining operation.

5. The Company can earn 82% equity in the project by completing a feasibility study and developing a mining operation, with all exploration and development costs recoverable from production. US$5,000 is payable to the tenement holder on the conversion to a prospecting licence and a further US$20,000 is payable to the tenement holder on the granting of a mining lease.

6. Under an arrangement with its Guinean joint venture partners Caspian Oil & Gas is required to meet all exploration expenditure until completion of a feasibility study and is entitled to a refund of that expenditure from production. The Guinean partners may contribute to expenditure from feasibility to maintain a 7% equity or revert to a 3% net profit interest. The property is subject to a farm-in by Gold Fields Ltd, who can earn a 60% interest in the project by spending US$1.5 million on exploration. At that stage project equities would be Caspian Oil & Gas 18%, Gold Fields 60%, local partners 7% and Guinea Government 15%. Gold Fields can elect to earn a further 8% from Caspian Oil & Gas by spending US$6 million in total, or completing a feasibility study.

The shareholder information set out below was applicable as at 27 September 2005.

Substantial Shareholders

Holdings of substantial shareholders as advised to the Company are set out below.

Name of Interest Holder	Number of Ordinary Shares
Santos Limited	140,000,000
J Walker	74,153,500
Insinger Brummby Trust (Labuan) SDN BHD, and Zentar Securities Ltd	71,153,500
Cadden Nominees Pty Ltd and Hargrave Holdings Pty Ltd	21,476,247

Distribution of Holders of Equity Securities

Size of Holding	Ordinary Shares
1 to 1,000	30
1,001 to 5,000	295
5,001 to 10,000	296
10,001 to 100,000	994
100,001 and over	502
	2,117

The number of shareholdings comprising less than a marketable parcel was 416.

Voting Rights

The voting rights attaching to ordinary shares are governed by the Constitution. On a show of hands every person present who is a Member or representative of a Member shall have one vote and on a poll, every Member present in person or by proxy or by attorney or duly authorised representative shall have one vote for each share held. None of the options has any voting rights.

Twenty Largest Shareholders as at 26 September 2005	Number of Shares	% Held
Santos Limited	140,000,000	17.68
ANZ Nominees Limited	98,169,354	12.40
Bell Potter Nominees Ltd	94,515,564	11.94
Ashling Development Incorporated	50,000,000	6.32
Citicorp Nominees Pty Ltd	22,518,710	2.84
National Nominees Limited	21,142,293	2.67
Zero Nominees Pty Ltd	19,854,884	2.51
Sergei Shestaev	18,127,659	2.29
Hargrave Holdings Pty Ltd	13,657,250	1.73
Cadden Nominees Pty Ltd	13,453,997	1.70
Karari Australia Pty Ltd	10,000,000	1.26
Rowntry Trading Limited	8,553,500	1.08
Fairmount International Pty Ltd	8,500,000	1.07
Fairmount Superannuation Custodian Pty Ltd	8,250,000	1.04
Nefco Nominees Pty Ltd	4,300,000	0.54
HSBC Custody Nominees (Australia) Limited-GSI ECSA	4,125,000	0.52
Irrewarra Investments Pty Ltd	4,000,000	0.51
Gregorach Pty Ltd	3,901,667	0.49
Anastasia Panagakis	3,610,000	0.46
Westpac Custodian Nominees Limited	3,049,833	0.39
	549,729,711	69.44

Unquoted Options

Unquoted options on issue at 26 September 2005 were as follows:

Refer Note	Number of Options	Exercise Price	Exercise Periods/ Expiry Dates	Number of Holders
1	6,400,000	10 cents	From 1 December 2003 to 30 December 2005	11
2	3,000,000	4 or 5 cents	Exercisable at 4 cents up to 31 December 2005 or at 5 cents each if exercised from 1 January 2006 to 31 December 2006.	1
3	2,000,000	5 cents	From 1 June 2005 to 31 December 2007	1
4	4,000,000	5 cents	From 1 September 2005 to 31 March 2008	2
5	20,000,000	5 cents	On or before 30 November 2007	6

The names of the holders of 20% or more options in these unquoted securities are listed below:

Note	Name	Number of Options Held	% of Options Held
1	M A Calderwood	2,500,000	39.06%
2	Far East Capital Limited	3,000,000	100%
3	MJ Sandy & Associates Pty Ltd	2,000,000	100%
4	MJ Sandy & Associates Pty Ltd	2,000,000	50%
4	A Sinelnikov	2,000,000	50%
5	R Feldt	7,000,000	35%
5	P Geraths	6,000,000	30%
5	Element & Associates	4,000,000	20%