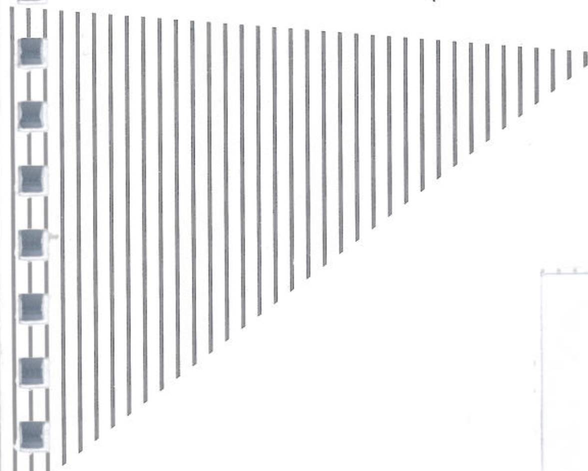

Zhaikmunai LLP

Financial Statements

Year ended December 31, 2009

With Independent Auditors' Report

Ernst & Young

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Independent Auditors' Report

To the participants of Zhaikmunai LLP:

We have audited the accompanying financial statements of Zhaikmunai LLP (the "Partnership"), which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Ernst & Young

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Partnership as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Paul Cohn
Audit Partner

Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

Auditor Qualification Certificate
No. 0000553 dated 24 December 2003

29 March 2010

STATEMENT OF FINANCIAL POSITION

For the year ended December 31, 2009

In thousands of US Dollars

	Note	2009	2008
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	**774,420**	515,546
Derivative financial instrument	19	**98**	62,923
Restricted cash	7	**21,358**	–
Advances for equipment and construction works		**27,399**	75,385
		823,275	653,854
Current Assets			
Restricted cash	7	**–**	21,078
Inventories		**3,477**	3,591
Trade receivables	5	**13,878**	1,075
Prepayments and other current assets	6	**21,306**	26,154
Income tax prepayment		**5,571**	5,386
Cash and cash equivalents	7	**132,344**	11,433
		176,576	68,717
TOTAL ASSETS		**999,851**	722,571
EQUITY AND LIABILITIES			
Partnership capital and Reserves			
Partnership capital	8	**4**	4
Additional paid-in capital		**137,077**	20,437
Retained earnings and translation reserve		**115,765**	131,245
		252,846	151,686
Non-Current Liabilities			
Long term borrowings	9	**591,407**	74,254
Abandonment and site restoration liabilities	10	**3,373**	3,411
Due to Government of Kazakhstan	11	**6,363**	6,330
Deferred tax liability	18	**76,659**	56,940
		677,802	140,935
Current Liabilities			
Trade payables	12	**60,602**	60,028
Current portion of long term borrowings	9	**–**	362,985
Current portion of Due to Government of Kazakhstan	11	**1,028**	1,031
Other current liabilities	13	**7,573**	5,906
		69,203	429,950
TOTAL EQUITY AND LIABILITIES		**999,851**	722,571

The accounting policies and explanatory notes on pages 6 through 30 are an integral part of these financial statements.

General Director of Zhaikmunai LLP *Vyacheslav Druzhinin*

Chief Accountant of Zhaikmunai LLP *Olga Shoshinova*

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2009

In thousands of US Dollars

	Note	2009	2008
Sales of crude oil:			
Export sales		**109,368**	127,811
Domestic sales		**6,665**	8,101
		116,033	135,912
Cost of sales	**14**	**(44,035)**	(44,610)
Gross Profit		**71,998**	91,302
General and administrative expenses	**15**	**(16,182)**	(13,211)
Selling and oil transportation expenses	**16**	**(5,692)**	(24,212)
(Loss) / gain on hedging contract	**19**	**(16,909)**	64,780
Finance costs	**17**	**(18,850)**	(14,615)
Foreign exchange loss		**(2,147)**	(1,539)
Interest income		**43**	150
Other expenses		**(904)**	(650)
Other income		**676**	340
Profit before income tax		**12,033**	102,345
Income tax expense	**18**	**(27,513)**	(35,188)
(Loss) / profit for the year		**(15,480)**	67,157
Other comprehensive income:			
Exchange difference on translation to presentation currency		**-**	(543)
Total comprehensive (loss) / profit for the year		**(15,480)**	66,614

The accounting policies and explanatory notes on pages 6 through 30 are an integral part of these financial statements.

General Director of Zhaikmunai LLP — *Vyacheslav Druzhinin*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

STATEMENT OF CASH FLOWS

For the year ended December 31, 2009

	Note	2009	2008
Cash flow from operating activities:			
Profit before income tax		**12,033**	102,345
Adjustments for:			
Depreciation and amortization		**16,615**	8,045
Finance costs	17	**18,850**	14,615
Interest income		**(43)**	(150)
Loss / (gain) on hedging contract	19	**16,909**	(64,780)
Foreign exchange loss / (gain) on non-operating activities		**–**	2,226
Loss on disposal of property, plant and equipment	4	**1,567**	442
Operating profit before working capital changes		**65,931**	62,743
Changes in working capital:			
Decrease / (increase) in inventories		**92**	(791)
(Increase) / decrease in trade receivables		**(12,803)**	8,452
Decrease / (increase) in prepayments and other current assets		**3,824**	(10,296)
(Decrease) / increase in trade payables		**(4,422)**	1,827
Payment of obligation to Government of Kazakhstan	11	**(1,032)**	(2,062)
Increase in other current liabilities		**1,667**	1,021
Cash generated from operations		**53,257**	60,894
Income tax paid		**(8,911)**	(9,617)
Net cash flows from operating activities		**44,346**	51,277
Cash flow from investing activities:			
Interest income		**43**	150
Purchases of property, plant and equipment		**(200,723)**	(195,800)
Net cash used in investing activities		**(200,680)**	(195,650)
Cash flow from financing activities:			
Repayment of borrowings		**–**	(246,416)
Finance costs paid		**(27,943)**	(35,624)
Proceeds from borrowings	9	**261,650**	473,083
Transfer to restricted cash		**(280)**	(21,078)
Proceeds from sale of hedging contract	19	**48,200**	–
Realised hedging income	19	**5,416**	1,596
Purchase of hedging contract	19	**(7,700)**	–
Fees paid on arrangement of BNPP facility		**(3,030)**	(22,943)
Net cash provided by financing activities		**276,313**	148,618
Effects of exchange rate changes on cash and cash equivalents		**932**	(129)
Net increase in cash and cash equivalents		**119,979**	4,245
Cash and cash equivalents at the beginning of the year		**11,433**	7,360
Cash and cash equivalents at the end of the year	8	**132,344**	11,433

STATEMENT OF CASH FLOWS (continued)

For the year ended December 31, 2009

Non cash transactions

Non-cash transactions, constituting the following, have been excluded from the statement of cash flows:

- Purchases of property, plant and equipment during the year ended December 31, 2009, included assets, works and services not yet paid for in the amount of US$ 1,509 thousand (2008: US$ 22,703 thousand).

The accounting policies and explanatory notes on pages 6 through 30 are an integral part of these financial statements.

General Director of Zhaikmunai LLP — *Vyacheslav Druzhinin*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2009

	Partnership capital	Additional paid-in capital	Retained earnings and reserves	Translation reserve	Total
As at December 31, 2008	4	3,631	60,651	3,980	68,266
Profit for the year	–	–	67,157	–	67,157
Other comprehensive loss	–	–	–	(543)	(543)
Total comprehensive income for the year	**–**	**–**	**67,157**	**(543)**	**66,614**
Contribution from Frans Van Der Schoot B.V. *(Notes 8 and 9)*	–	16,806	–	–	16,806
As at December 31, 2008	4	20,437	127,808	3,437	151,686
Profit for the year	–	–	(15,480)	–	(15,480)
Other comprehensive loss	–	–	–	–	–
Total comprehensive income for the year	**–**	**–**	**(15,480)**	**–**	**(15,480)**
Contribution from Frans Van Der Schoot B.V. *(Notes 8 and 9)*	–	116,640	–	–	116,640
As at December 31, 2009	**4**	**137,077**	**112,328**	**3,437**	**252,846**

The accounting policies and explanatory notes on pages 6 through 30 are an integral part of these consolidated financial statements.

General Director of Zhaikmunai LLP *Vyacheslav Druzhinin*

Chief Accountant of Zhaikmunai LLP *Olga Shoshinova*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2009

1. GENERAL

Zhaikmunai, a Limited Liability Partnership (the "Partnership" or "Zhaikmunai"), was established in Kazakhstan in 1997 for the purpose of exploration and development of Chinarevskoye oil and gas condensate field in the Western Kazakhstan Region.

The Partnership carries out its activities in accordance with the Contract for Additional Exploration, Production and Production-Sharing of Crude Hydrocarbons in the Chinarevskoye oil and gas condensate field (the "Contract") dated October 31, 1997 in accordance with the license MG No. 253D (the "License") for the exploration and production of hydrocarbons in Chinarevskoye oil and gas condensate field between the State Committee of Investments of the Republic of Kazakhstan and the Partnership.

The participants of the partnership, their shares and changes in the participants' structure are disclosed in Note 8.

The registered legal address of the Partnership is: 59/2, Prospect Evrazia, Uralsk, the Republic of Kazakhstan.

The Partnership is ultimately indirectly controlled by Frank Monstrey.

These financial statements were authorised for issue by the Partnership's General Director, Chief Financial Officer and Chief Accountant on March 29, 2010.

Licence terms

The term of the license of the Partnership originally included a 5 year exploration period and a 25 year production period. The exploration period was initially extended for additional 4 years and then for further 2 years according to the supplements to the Contract dated January 12, 2004 and June 23, 2005, respectively. In accordance with the supplement dated June 5, 2008, Tournaisian North reservoir entered into production period as at January 1, 2007. Following additional commercial discoveries during 2008, the exploration period under the license, other than for the Tournasian horizons, was extended for an additional 3 year period with a new expiry on May 26, 2011.

The extensions to the exploration periods have not changed the license term, which will expire in 2031.

Royalty Payments

The Partnership is required to make monthly royalty payments throughout the entire Production Period, at the rates specified in the Contract.

Royalty rates depend on crude oil recovery levels and the phase of production and can vary from 2% to 7% of produced petroleum and natural gas.

Government "profit share"

The Partnership makes payments to the Government of its "profit share" as determined in the Contract. The "profit share" depends on crude oil production levels and varies from 10% to 40% of production after deducting royalties and reimbursable expenditures. Reimbursable expenditures include operating expenses, costs of additional exploration and development costs. Government "profit share" is expensed as incurred and paid in cash.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention except for financial instruments which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Partnership's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

2. BASIS OF PREPARATION (continued)

Adopted accounting standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Partnership has adopted the following new and amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Partnership.

- IFRS 2 Shared-based Payment – Vesting Conditions and Cancellation – effective January 1, 2009
- IFRS 7 Financial Instruments: Disclosures – effective 1 January 2009
- IFRS 8 Operating Segments – effective 1 January 2009
- IAS 1 Presentation of Financial Statements – effective 1 January 2009
- IAS 23 Borrowing Costs (Revised) – effective 1 January 2009
- IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation – effective 1 January 2009
- IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement – effective 30 June 2009
- IFRIC 13 Customer Loyalty Programs – effective 1 July 2008
- IFRIC 15 Agreements for the Construction of Real Estate – effective 1 January 2009
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation – effective 1 October 2008
- IFRIC 18 Transfer of Assets from Customers – effective 1 July 2009
- Improvements to IFRSs - May 2008

IFRS 2 – Shared-based Payment (Revised)

The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. The Partnership adopted this amendment as of 1 January 2009. It did not have an impact on the financial position or performance of the Partnership.

IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument recognized at fair value. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The Partnership's derivative instruments are measured at fair value as disclosed in related notes to the financial statements, and the liquidity risk disclosures are not significantly impacted by the amendments and presented in Note 22.

IFRS 8 Operating Segments

This standard requires disclosure of information about the Partnership's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Partnership. Adoption of this Standard did not have any effect on the financial position or performance of the Partnership, since Partnership operates in one operating segment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

2. BASIS OF PREPARATION (continued)

Adopted accounting standards and interpretations (continued)

IAS 1 Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Partnership has elected to present single statement.

IAS 23 Borrowing Costs

The standard has been revised to require capitalization of borrowing costs on qualifying assets disallowing the option of expensing borrowing costs. The Partnership's existing accounting policy was to capitalize borrowing costs on qualifying assets therefore; adoption of this standard did not have any effect on the financial position or performance of the Partnership.

IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation

These standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or performance of the Partnership.

Improvements to IFRSs

In May 2008 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Partnership adopted those amendments and improvements to IFRSs which are applicable to its operating activities in 2009.

IAS 1 – *Presentation of Financial Statements*

Assets and liabilities classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* are not automatically classified as current in the statement of financial position. The Partnership amended its accounting policy accordingly and analysed whether management's expectations of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the statement of financial position.

IAS 16 – *Property, plant and equipment*

Replace the term "net selling price" with "fair value less costs to sell". The Partnership amended its accounting policy accordingly, which did not result in any change in the financial position of the Partnership.

IAS 23 – *Borrowing costs*

The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Partnership has amended its accounting policy accordingly which did not result in any change in its financial position.

IAS 36 - *Impairment of Assets*

When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment had no immediate impact on the financial statements of the Partnership because the recoverable amount of its cash generating units is currently estimated using 'value in use'.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

2. BASIS OF PREPARATION (continued)

Improvements to IFRSs (continued)

IAS 38 – *Intangible assets*

Expenditure on advertising and promotional activities is recognized as expenses when the Partnership either has the right to access the goods or has received the service. This amendment has no impact on the Partnership because it does not enter into such promotional activities.

The reference to there being rarely, if ever, persuasive evidence to support an amortization method of intangible assets other than a straight-line method has been removed. The Partnership reassessed the useful lives if its intangible assets and concluded that the straight-line method was still appropriate.

IFRIC 9 - *Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement*

This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. This amendment has no impact on the Partnership financial position or profit and loss.

IFRIC 13 - *Customer Loyalty Programmes*

IFRIC 13 requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. This amendment has no impact on the Partnership because it does not maintain any customer loyalty programmes.

IFRIC 15 - *Agreements for the Construction of Real Estate*

The Interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors and provides guidance on whether the entity's arrangements fall within the scope of IAS 11 or IAS 18 and determining the timing of revenue recognition under these activities. This amendment has no impact on the Partnership as it did not enter into such activities.

IFRIC 16 - *Hedges of a Net Investment in a Foreign Operation*

The Interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Partnership the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This amendment has no impact on the Partnership as it did not enter into such activities.

IFRIC 18 - *Transfer of Assets from Customers*

This Interpretation applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. This Interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. As the Partnership is not receiving any items of property, plant and equipment or cash for these purposes, this Interpretation has no the Partnership.

2. BASIS OF PREPARATION (continued)

Improvements to IFRSs (continued)

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Partnership:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures
- IAS 8 Accounting Policies, Change in Accounting Estimates and Error
- IAS 10 Events after the Reporting Period
- IAS 18 Revenue
- IAS 19 Employee Benefits
- IAS 20 Accounting for Government Grants and Disclosure of Government Assistance
- IAS 27 and Separate Financial Statements
- IAS 28 Investments in Associates
- IAS 29 Financial Reporting in Hyperinflationary Economies
- IAS 31 Interest in Joint Ventures
- IAS 34 Interim Financial Reporting
- IAS 40 Investment Properties
- IAS 41 Agriculture

The management anticipates that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Partnership.

New accounting developments

The following IFRS, IFRIC interpretations and improvements to IFRS are not yet in effect for the year ended December 31, 2009:

- IFRS 3R Business Combinations
- IAS 27 and Separate Financial Statements - amendment
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- IFRS 9 Financial Instruments
- IAS 24 Related Party Disclosures – amendment
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters
- IFRS 2 Partnership cash-settled share-based payments transactions
- IAS 39 Eligible hedged items
- IAS 32 Classifications of rights issues
- Improvements to IFRSs (April 2009)

Management does not expect the above standards and interpretations to have a material impact on the Partnership's financial position or results of operations.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimation and Assumptions

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material change to the carrying amounts of assets and liabilities are discussed below:

Oil and gas reserves

Oil and gas reserves are a material factor in the Partnership's computation of depreciation, depletion and amortization (the "DD&A"). The Partnership estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (the "SPE"). In estimating its reserves under SPE methodology, the Partnership uses long-term planning prices which are also used by management to make investment decisions about development of a field. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year end spot prices. Management believes that long-term planning price assumptions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves. All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability. Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A.

Impairment

The Partnership assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Partnership makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Partnership of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. The time value of money is determined based on weighted average cost of capital of the Partnership of 21% and 19% for 2009 and 2008, respectively. There were no impairment losses recognized by the Partnership during the years ended December 31, 2009 and 2008.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation and Assumptions (continued)

Abandonment and site restoration liabilities

The Partnership estimates future dismantlement and site restoration cost for oil and gas properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement and the extent of site restoration required in accordance with current legislation and industry practice. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Partnership reviews site restoration provisions at each balance sheet date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". Estimating the future closure costs involves significant estimates and judgments by management. Significant judgments in making such estimates include estimate of discount rate and timing of cash flow. The management made its estimate based on the assumption that cash flow will take place at the expected end of the licenses.

Management of the Partnership believes that the interest rates on its debt financing shall provide best estimates of applicable discount rate. The discount rate shall be applied to the nominal amounts the managements expect to spend on site restoration in the future. The Partnership estimates future well abandonment cost using current year prices and the average long-term inflation rate.

The long term inflation and discount rates used to determine the balance sheet obligation at December 31, 2009 were 5% and 10.88% respectively. Movements in the provision for decommissioning liability are disclosed in Note 10.

Foreign Currency Translation

The functional currency of the Partnership until January 1, 2009 was the Kazakhstani Tenge ("Tenge" or "KZT") which reflected the economic substance of the underlying events and circumstances of the entity at the time. Commencing January 1, 2009, the Partnership has changed its functional currency to the United States Dollar (the "US Dollar" or "US$") as a result of increased purchases of materials and other costs from foreign suppliers which were denominated in US$. Moreover, the Partnership now has all of its financing in US Dollars. The increased volume of US$ denominated transactions was treated as a change in circumstances surrounding the Partnership's operating environment and the functional currency in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates".

The Partnership applied the translation procedures applicable to the new functional currency prospectively from the date of change. Accordingly, all items in the balance sheet as of January 1, 2009 have been translated into US$ using the exchange rate as of that date, i.e. US$ 1 = KZT 148.36. The resulting translated amounts for non-monetary items are treated as their historical cost.

The financial statements of the Partnership are presented in the United States Dollars, which is also the functional currency of the Partnership.

Transactions and balances denominated in foreign currencies

Transactions in foreign currencies are initially recorded by the Partnership at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment

Exploration expenditure

Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are capitalized within property, plant and equipment (construction work-in-progress) until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration and materials and fuel used, rig costs and payments made to contractors and asset retirement obligation fees. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development, the costs continue to be carried as an asset. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. There was no exploration expenditure expensed during 2009 (2008: Nil).

Oil and gas properties

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, is capitalized within property, plant and equipment as oil and gas properties. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment.

All capitalized costs of oil and gas properties are amortized using the unit-of-production method based on estimated proved developed reserves of the field, except the Partnership depreciates its oil pipeline and oil loading terminal on a straight line basis over the life of the License. In the case of assets that have a useful life shorter than the lifetime of the field, in which case the straight line method is also applied.

Oil and Gas Reserves

Proved oil and gas reserves are estimated quantities of commercially viable hydrocarbons which existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs.

The Partnership uses the reserve estimates provided by an independent appraiser to assess the oil and gas reserves of its oil and gas fields. These reserve quantities are used for calculating the unit of production depreciation rate as it reflects the expected pattern of consumption of future economic benefits by the entity.

Impairment of non-financial assets

The Partnership assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Partnership makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Other Properties

All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditures that are directly attributable to the acquisition or construction of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Partnership and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the year in which they are incurred.

Depreciation is calculated on a straight–line basis over the estimated useful lives of the assets as follows:

	Years
Buildings and Improvements	7-15
Vehicles	8
Machinery and Equipment	3-13
Other	3-10

Borrowing Costs

The Partnership capitalizes borrowing costs on qualifying assets. Assets qualifying for borrowing costs capitalization include all assets under construction that are not being depreciated, depleted, or amortized, provided that work is in progress at that time. Qualifying assets mostly include wells and other oilfield infrastructure under construction. Capitalized borrowing costs are calculated by applying the capitalization rate to the expenditures on qualifying assets. The capitalization rate is the weighted average of the borrowing costs applicable to the Partnership's borrowings that are outstanding during the period.

Inventories

Inventories are stated at the lower of cost or net realizable value ("NRV"). Cost of oil is determined on the weighted-average method and other inventories are also valued using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

Accounts Receivable

Accounts receivable are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for uncollectible amounts is made when collection of the full amount is no longer probable. These estimates are reviewed periodically, and as adjustments become necessary, they are reported as expense (credit) in the period in which they become known. Bad debts are written off when identified.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the financial information over the period of the borrowings using the effective interest method.

Gains and losses are recognized in the profit or loss when the liabilities are derecognized or impaired, as well as through amortization of the borrowings using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

Abandonment and site restoration (decommissioning)

Provision for decommissioning is recognized in full, on a discounted cash flow basis, when the Partnership has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term interest rates for emerging market debt adjusted for risks specific to the Kazakhstan market. The unwinding of the discount related to the obligation is recorded in finance costs. A corresponding amount equivalent to the provision is also recognized as part of the cost of the related property, plant and equipment. This asset is subsequently depreciated as part of the capital costs of the oil and gas properties on a unit-of-production basis.

Changes in the measurement of an existing decommissioning liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or changes to the discount rate:

(a) are added to, or deducted from, the cost of the related asset in the current period. If deducted from the cost of the asset the amount deducted shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognized immediately in the profit or loss; and

(b) if the adjustment results in an addition to the cost of an asset, the Partnership considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Partnership tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss in accordance with IAS 36.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Partnership determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Partnership commits to purchase or sell the asset.

The Partnership's financial assets include cash and short-term deposits, trade and other receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a Partnership of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Partnership has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Partnership has transferred substantially all the risks and rewards of the asset, or (b) the Partnership has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Partnership has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Partnership's continuing involvement in the asset.

In that case, the Partnership also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Partnership has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Partnership could be required to repay.

Impairment of financial assets

The Partnership assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Partnership first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Partnership determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Partnership of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Financial assets carried at amortised cost (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Partnership. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Partnership determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Partnership's financial liabilities include trade and other payables and borrowings.

Subsequent measurement

After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 22.

Derivative financial instruments and hedging

The Partnership uses a hedging contract for oil export sales to cover part of its risks associated with oil price fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to profit or loss.

The fair value of financial instruments contracts is determined by reference to market values for similar instruments.

Taxation

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Revenue Recognition

The Partnership sells crude oil under short-term agreements priced by reference to Platt's index quotations and adjusted for freight, insurance and quality differentials.

Revenue from the sale of crude oil is recognized when delivery has taken place and risks and rewards of ownership have passed to the customer.

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Partnership and the amount of revenue can be reliably measured.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

4. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the year ended December 31, 2008 and 2009 was as follows:

	Oil and gas properties			Non oil and gas properties					
In thousand of US Dollar	Working assets	CIP	Total oil and gas properties	Buildings	Machinery & Equipment	Vehicles	Others	Total non oil gas properties	Total
Balance at December 31, 2007, net of accumulated depreciation	98,691	184,124	282,815	2,387	2,209	1,015	1,107	6,718	289,533
Additions	3,290	230,789	234,079	376	849	734	797	2,756	236,835
Transfers	73,546	(72,645)	901	264	(1,044)	–	(121)	(901)	–
Transferred to inventory	–	(37)	(37)	–	–	–	–	–	(37)
Disposal	–	(442)	(442)	–	(14)	–	(3)	(17)	(459)
Depreciation charge	(7,132)	–	(7,132)	(311)	(362)	(203)	(261)	(1,137)	(8,269)
Depreciation on disposal	–	–	–	–	14	–	2	16	16
Translation difference	(670)	(1,373)	(2,043)	(9)	(7)	(7)	(7)	(30)	(2,073)
Balance at December 31, 2008, net of accumulated depreciation	167,725	340,416	508,141	2,707	1,645	1,539	1,514	7,405	515,546
Additions	1,286	273,732	275,018	210	834	345	627	2,016	277,034
Transfers	212,529	(214,159)	(1,630)	90	1,566		(26)	1,630	–
Disposal	(485)	(212)	(697)	–	(402)	(70)	(398)	(870)	(1,567)
Depreciation charge	(15,376)	–	(15,376)	(393)	(209)	(295)	(320)	(1,217)	(16,593)
Balance at December 31, 2009, net of accumulated depreciation	**365,679**	**399,777**	**765,456**	**2,614**	**3,434**	**1,519**	**1,397**	**8,964**	**774,420**
At cost at December 31, 2008	222,275	340,416	562,691	3,538	2,754	2,232	2,178	10,702	573,393
Accumulated depreciation	(54,550)	–	(54,550)	(831)	(1,109)	(693)	(664)	(3,297)	(57,847)
Balance at December 31, 2008, net of accumulated depreciation	167,725	340,416	508,141	2,707	1,645	1,539	1,514	7,405	515,546
At cost at December 31, 2009	**435,605**	**399,777**	**835,382**	**3,839**	**4,753**	**2,501**	**2,343**	**13,436**	**848,818**
Accumulated depreciation	**(69,926)**		**(69,926)**	**(1,225)**	**(1,319)**	**(982)**	**(946)**	**(4,472)**	**(74,398)**
Balance at December 31, 2009, net of accumulated depreciation	**365,679**	**399,777**	**765,456**	**2,614**	**3,434**	**1,519**	**1,397**	**8,964**	**774,420**

Category "Oil and Gas properties" represents mainly wells, oil treatment facilities, oil transportation and other related assets.

The depletion rate for oil and gas working assets was 5.41% and 6.18% in 2009 and 2008, respectively. The unamortized costs of proved oil and gas properties include all capitalized costs net of accumulated amortization.

The Partnership engaged independent petroleum engineers to perform a reserves evaluation as at July 1, 2009. Depreciation has been calculated using the unit of production method based on these reserves estimates.

A depreciation charge of US$ 16,593 thousand has been charged to depreciation and amortization expense for 2009 plus US$ 22 thousand which represent a release of depreciation from the cost of crude oil inventory (2008: US$ 8,269 thousand and a deduction of US$ 224 thousand, respectively).

The Partnership incurred borrowing costs including amortization of arrangement and other borrowing related fees of US$ 45,337 thousand, and US$ 35,057 thousand for the years ended December 31, 2009 and 2008. For the same periods, the Partnership capitalized borrowing costs totaling US$ 27,863 thousand and US$ 21,695 thousand, at capitalization rates of 8.1% and 9.7%, respectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

5. TRADE RECEIVABLES

As at December 31, 2009 and 2008 trade receivables were denominated in US$, were less than 30 days and were not impaired.

6. PREPAYMENTS AND OTHER CURRENT ASSETS

As at December 31, prepayments and other current assets comprised the following:

In thousands of US Dollars	**2009**	2008
VAT receivable	**20,244**	20,595
Advances paid	**897**	2,835
Receivable under hedging contract	**–**	2,613
Other	**165**	111
	21,306	26,154

Advances paid consist primarily of prepayments made to service providers.

7. CASH AND CASH EQUIVALENTS

In thousands of US Dollars	**2009**	2008
Current accounts in US Dollars	**131,296**	7,211
Current accounts in Tenge	**1,048**	4,222
	132,344	11,433

No interest was earned on current accounts in 2009.

In addition the Partnership has restricted cash accounts representing the Partnership's pledges under the Facility agreement with BNP Paribas (Note 9) of US$ 19,078 thousand and an additional liquidation fund deposit of US$ 2,280 thousand with Sberbank in Kazakhstan.

8. PARTNERSHIP CAPITAL

The charter capital of the Partnership was contributed in Tenge and amounts to Tenge 600 thousand, equivalent to US$ 4 thousand as at December 31, 2003. The share of Condensate Holding LLP (incorporated in Kazakhstan) and Claydon Industrial Ltd (incorporated in Kazakhstan) in charter capital of the Partnership constitutes 55% and 45%, respectively, equivalent to US$ 2.2 thousand and US$ 1.8 thousand, respectively.

Additional paid in capital has been recognised during the years ended December 31, 2009 and 2008 with the fair value adjustments on initial recognition of US$116,640 thousand and US$16,806 thousand on loans received from Frans Van Der Schoot B.V. at the below market interest rates (Note 9).

Partners in the Partnership are allowed to vote based on their participation percentage and also participate in any distributions on the same basis. Any changes to the partner's share of the partnership must be approved by all participants in the partnership.

9. BORROWINGS

Borrowings comprise the following as at December 31:

In thousands of US Dollar	**2009**		2008	
	Current	**Non-current**	Current	Non-current
Facility agreement with BNP Paribas	**–**	**364,505**	362,985	–
Loans due to Frans Van Der Schoot B.V.	**–**	**226,902**	–	74,254
	–	**591,407**	362,985	74,254

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

9. BORROWINGS (continued)

Facility agreement with BNP Paribas

On December 12, 2007 the Partnership entered into a US$ 550 million senior secured facility agreement between BNP Paribas (Suisse) S.A. ("BNP Paribas Facility"), as a facility agent, and the Partnership, as a borrower, and Zhaikmunai LP as a guarantor. Initially, the BNP Paribas Facility comprised three tranches of US$ 200 million, US$ 200 million and US$ 150 million. As a result of lower than anticipated EBITDA at December 31, 2008 the Partnership was in breach of the covenants related to its EBITDA to interest expense and total indebtedness ratios. As a result of the breach, the loan was classified as current liabilities as at December 31, 2008. As at December 31, 2008 the Partnership had drawn down US$381,677 thousand under the loan facility.

On August 27, 2009, an amendment agreement was concluded with the lenders providing for a waiver of the existing defaults, which was conditional, amongst other things, upon completion of the US$300 million equity placing of Zhaikmunai LP and in consideration for, inter alia, the lenders agreeing to reduce the size of the syndicated facility to US$382 million and increasing the rate of interest (over LIBOR and mandatory costs) to 7% from LIBOR plus 3%, 4% and 5% for tranches one, two and three, respectively. The amendment was treated as a non-substantial change to the existing Facility and the related amendment arrangement fees of US$3,030 thousand were added to the initial Facility arrangement fees.

The total amount of the outstanding principal balance of the liability under the loan facility as at December 31, 2009 is US$ 381,677 thousand which is reduced by the amount of the facility arrangement fees of US$17,172 thousand (2008: US$381,677 thousand and US$18,692 thousand, respectively). The outstanding balance is repayable commencing September 30, 2011 in semi-annual instalments with the final payment being made on December 31, 2014. This is subject to further adjustment to reflect any changes to the borrowing base amount. In addition, the BNP Paribas Facility is mandatorily prepayable to the extent of the proceeds of any material disposals, and a cash sweep of 50% of debt or new equity issuance of Zhaikmunai LP and 50% of the balance (in excess of US$25 million in aggregate) of the Partnership's account held with a member of the syndicate (the Collection Account) and (on and after December 31, 2010) the Partnership's account held with a member of the syndicate into which the proceeds of the equity issue of Zhaikmunai LP were paid. The Partnership is also entitled to voluntarily prepay the amounts outstanding. The Partnership is required to give customary representations and warranties, repeated periodically and maintain certain financial covenants relating to profitability. Further, all export sale proceeds are paid into the Collection Account, and withdrawals from such account may only be made in accordance with the agreed banking case.

In accordance with the BNP Paribas Facility, the Partnership maintains a hedging programme under which it hedges a fixed volume of production at Brent crude oil price of US$ 60 per bbl until December 31, 2010 (Note 19). The Partnership is additionally required to maintain and fund a debt service reserve account with a balance equal to at least 5% of the amount outstanding under the BNP Paribas Facility. From completion of the gas treatment unit, 100% of gas production and no less than 50% of projected LPG production are also required to be covered by off-take contracts. The Partnership's obligations under the BNP Paribas Facility are secured by various forms of security, including, (i) a pledge over 100% of the participatory interests of Zhaikmunai LP in the Partnership; (ii) pledges over its bank accounts; (iii) the assignment of rights under the off-take contracts; (iv) assignment of all guarantees or performance bonds issued by Zhaikmunai LP in connection with the contract with KSS for the gas treatment facility; (v) assignment of the benefit of the Partnership's relevant existing and future insurance policies; (vi) pledges over all of its property, plant and equipment; and (vii) pledges over all of Zhaikmunai LP's interest in the issued capitals of FVDS, Claydon and Jubilata.

The total Partnership's debt service reserve account, classified as restricted cash under the terms of the BNP Paribas Facility amounted to US$19,078 thousand (Note 7) as at December 31, 2009.

Loans due to Frans Van Der Schoot B.V.

On July 1, 2008 the Partnership signed a loan agreement with Frans Van Der Schoot B.V. under which the latter provided the Partnership with a US$90,276 thousand loan at an annual interest rate of two times LIBOR.

On August 27, 2009 Frans Van Der Schoot B.V. has provided an additional loan of US$ 261,650 thousand at an interest rate of 2.6% pa.

These loans are only repayable upon full settlement of the Partnership's commitments under the Facility agreement.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

9. BORROWINGS (continued)

Loans due to Frans Van Der Schoot B.V. (continued)

These loans were initially recognised at their fair values using a discount rate of 9.3% and 10.88% with the corresponding discounts of US$ 16,806 thousand and US$ 116,640 thousand in 2008 and 2009, respectively, recognised as a contribution to additional paid-in capital.

In thousands of US Dollar	**2009**	2008
Principal amount	**351,926**	90,276
Additional paid-in capital (Note 8)	**(133,446)**	(16,806)
Unwinding	**8,422**	784
	226,902	74,254

10. ABANDONMENT AND SITE RESTORATION LIABILITIES

The summary of changes in abandonment and site restoration liabilities during the years ended December 31 are as follows:

In thousands of US Dollar	**2009**	2008
Abandonment and site restoration liability as at January 1,	**3,411**	1,299
Unwinding of discount	**314**	271
Additional provision	**152**	271
Change in estimates	**(504)**	1,570
	3,373	3,411

The long-term inflation and discount rates used to determine the abandonment and site restoration liabilities at December 31, 2009 were 5.0% and 10.88% respectively (2008: 5.0% and 9.4%). The decrease in the discount rate used for estimation of the liability was treated as a change in estimates.

11. DUE TO GOVERNMENT OF KAZAKHSTAN

The amount due to Government of the Republic of Kazakhstan has been recorded to reflect the present value of a liability in relation to the expenditures made by the Government in the time period prior to signing the Contract that were related to exploration of the Contract territory and the construction of surface facilities in fields discovered therein and that are reimbursable by the Partnership to the Government during the production period. The total amount of liability due to Government as stipulated by the Contract is US$25,000 thousand.

Repayment of this liability commenced in 2008 with the first payment of US$ 1,030 thousand in March 2008 and with further payments by equal quarterly instalments of US$258 thousand until May 26, 2031. The liability was discounted at 13%.

The balances as at December 31, and changes in the amount due to Government of Kazakhstan for the year were as follows:

In thousands of US Dollar	**2009**	2008
Due to Government of Kazakhstan as at January 1,	**7,361**	8,379
Unwinding of discount	**1,062**	992
Paid during the year	**(1,032)**	(2,062)
Translation difference	**–**	52
	7,391	7,361
Less: current portion of due to Government of Kazakhstan	**(1,028)**	(1,031)
Due to Government of Kazakhstan	**6,363**	6,330

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

12. TRADE PAYABLES

In thousands of US Dollars	2009	2008
Tenge denominated trade payables	**8,556**	41,679
US dollar denominated trade payables	**51,393**	18,023
Trade payables denominated in other currencies	**653**	326
	60,602	60,028

13. OTHER CURRENT LIABILITIES

In thousands of US Dollars	2009	2008
Training accrual	**4,602**	3,049
Taxes payable, other than corporate income tax	**1,330**	1,908
Due to employees	**876**	491
Other	**765**	458
	7,573	5,906

14. COST OF SALES

In thousands of US Dollar	2009	2008
Depreciation and amortization	**16,198**	7,883
Repair, maintenance and other services	**7,338**	5,149
Royalties	**5,740**	5,705
Payroll and related taxes	**5,516**	4,661
Materials and supplies	**2,262**	3,855
Management fees	**2,064**	1,771
Other transportation services	**1,367**	1,681
Government profit share	**1,112**	1,125
Environmental levies	**1,083**	2,752
Well workover costs	**148**	6,355
Rent and operation of oil separation units	**121**	2,926
Other	**1,086**	747
	44,035	44,610

15. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US Dollars	2009	2008
Management fees	**3,107**	1,883
Professional services	**3,768**	2,634
Payroll and related taxes	**3,170**	2,956
Training	**2,774**	2,501
Business travel	**183**	261
Insurance fees	**397**	314
Bank charges	**492**	581
Depreciation and amortization	**417**	162
Communication	**399**	395
Social program	**300**	300
Lease payments	**258**	268
Sponsorship	**238**	346
Materials and supplies	**112**	169
Other taxes	**74**	99
Other	**493**	342
	16,182	13,211

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

16. SELLING AND OIL TRANSPORTATION EXPENSES

In thousands of US Dollar	2009	2008
Oil export duty	–	15,086
Management fees	1,857	–
Transporting oil to the railway loading terminal costs	1,265	4,985
Payroll	1,029	–
Oil loading and storage costs	87	2,835
Other	1,454	1,306
	5,692	24,212

In 2008 Kazakhstan introduced an oil export duty on the major oil production companies in the Republic of Kazakhstan. In 2009 the oil export duty was reduced to 0%.

During 2009 the Partnership completed construction and commenced operation of an oil pipeline and oil loading terminal, which resulted in reduction of expenses related to oil transportation.

17. FINANCE COSTS

In thousands of US Dollar	2009	2008
Interest expense	17,180	12,925
Unwinding of discount on amounts Due to Government	1,062	992
Loan review fees	239	–
Unwinding of discount on Abandonment and Site Restoration Liability	314	261
Commitment fees on syndicated loan agreement	55	437
	18,850	14,615

18. INCOME TAX EXPENSES

The provision for income taxes consisted of the following:

In thousands of US Dollar	2009	2008
Income tax expenses comprise:		
- current income tax expense	7,794	4,193
- deferred income tax expense	19,719	30,995
Total income tax expense	27,513	35,188

The Partnership's profits are assessed for income taxes only in the Republic of Kazakhstan. A reconciliation of income tax expense applicable to profit before income tax using the Kazakhstani tax rate, applicable to the license, of 30% to income tax expense as reported in the Partnership's financial statements for the years ended December 31 is as follows:

In thousands of US Dollar	2009	2008
Profit before income tax	12,033	102,345
Statutory tax rate	30%	30%
Expected tax provision	3,610	30,703
Non-deductible interest expense on borrowings	5,893	4,686
Adjustments in respect of current income tax of previous year	-	(1,116)
Foreign exchange loss	610	460
Difference arising on Abandonment and Site Restoration Liability and payables Due to Government	282	263
Change of the tax base	20,266	-
Effect of income taxed at different rate	(4,443)	-
Other non-deductible expenses	1,295	192
Income tax expense reported in the accompanying financial statements	27,513	35,188

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

18. INCOME TAX EXPENSES (continued)

Deferred tax balances are calculated by applying the Kazakhstani statutory tax rates in effect at the respective reporting dates to the temporary differences between the tax and the amounts reported in the financial statements and are comprised of the following at December 31:

In thousands of US Dollar	**2009**	2008
Deferred tax asset:		
Accounts payable and provisions	**1,567**	1,413
	1,567	1,413
Deferred tax liability:		
Crude oil inventory	**(448)**	(551)
Hedging contract at fair value	**–**	(18,877)
Property, plant and equipment	**(77,778)**	(38,925)
Net deferred tax liability	**(76,659)**	(56,940)

As at December 31, the movements in the deferred tax liability were as follows:

In thousands of US Dollar	**2009**	2008
Balance at January 1,	**(56,940)**	(26,191)
Current year charge to statement of income	**(19,719)**	(30,995)
Balance at December 31,	**(76,659)**	(56,940)

19. DERIVATIVE FINANCIAL INSTRUMENT

Pursuant to the terms of the BNP Paribas facility (Note 9) in 2008 the Partnership entered, at nil cost, into a hedging contract covering oil export sales commencing March 2008 through till December 2013 which was sold before expiration on March 31, 2009.

On March 31, 2009, the Partnership entered into a new hedging contract at cost of US$ 7,700 thousand covering oil export sales of 967,058 bbl and 596,766 bbl in 2009 and 2010, respectively. The floor price for Brent crude oil under this hedging contract was fixed at price of US$ 50 per bbl.

Gains and losses on the hedge contract, which do not qualify for hedge accounting, are taken directly to profit or loss.

In thousands of US Dollar	**2009**	2008
Hedging contract fair value at December 31	**62,923**	–
Proceeds from sale of hedging contract	**(48,200)**	–
Realized hedging gain	**(5,416)**	(1,596)
Hedging loss / (gain)	**7,602**	(63,184)
Gain on hedging contract	**16,909**	64,780
Purchase of hedging contract	**7,700**	–
Unrealized hedging (loss) / gain	**(7,602)**	63,184
Translation difference	**–**	(261)
Hedging contract at fair value	**98**	62,923

20. RELATED PARTY TRANSACTIONS

For the purpose of these financial statements transactions with related parties mainly comprise transactions between the Partnership and the participants and/or their subsidiaries or associated companies.

Accounts receivable from related parties at December 31 consisted of the following:

In thousands of US Dollar	**2009**	2008
Trade receivables and advances		
Frans Van Der Schoot B.V.	**–**	1,025
Total	**–**	1,025

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

20. RELATED PARTY TRANSACTIONS (continued)

Accounts payable to related parties as at December 31 consisted of the following:

In thousands of US Dollars	2009	2008
Trade payables		
Amersham Oil LLP	**498**	108
Prolag BVBA	**129**	–
Frans Van Der Schoot B.V.	**421**	–
Probel Capital Management N.V.	**325**	163
Total	**1,373**	271

During the year ended December 31, 2009 and 2008 the Partnership had the following transactions with related parties:

In thousands of US Dollar	2009	2008
Fees incurred in relation with arrangement of Facility agreement		
Frans Van Der Shoot B.V.	–	**3,000**
Proceeds from borrowing		
Frans Van Der Shoot B.V. (Note 9)	**261,650**	**90,276**
Interest paid		
Frans Van Der Shoot B.V.	**5,745**	**3,196**
Management fees and consulting services		
Frans Van Der Shoot B.V.	**421**	–
Amersham Oil	**1,746**	**1,245**
Prolag BVBA	**2,184**	
Probel Capital Management B.V.	**3,980**	**2,485**

Management fees are payable in accordance with the Technical Assistance Agreements signed between the Partnership, Amersham Oil LLP and Probel Capital Management NV relate to the rendering of geological, geophysical, drilling, scientific, technical and other consultancy services.

Annual remuneration of four key managers amounted to US$ 200 thousand for 2009 (2008: four, US$ 238 thousand). Other key management personnel were employed and paid by Amersham Oil LLP and Probel Capital Management and whose remuneration forms part of management fees and consulting services above.

All related parties are companies and key management personnel, indirectly controlled by Frank Monstrey.

21. CONTINGENT, COMMITMENTS AND OPERATING RISKS

Operating environment

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets and commodity price instability, significant deterioration of liquidity in the banking sector and tighter credit conditions within Kazakhstan. Consequently, the Kazakhstan Government has introduced a range of stabilization measures aimed at providing liquidity and supporting finance for Kazakhstan banks and companies.

While management believes it is taking appropriate measures to support the sustainability of the Partnership's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Partnership's results and financial position in a manner not currently determinable.

21. CONTINGENT, COMMITMENTS AND OPERATING RISKS (continued)

Legal actions

In the ordinary course of business, the Partnership is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Partnership.

The Partnership assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that actual events giving rise to a liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these financial statements for any of the litigations mentioned above.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2009. As at December 31, 2009 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Partnership's tax positions will be sustained.

Abandonment and site restoration (decommissioning)

As Kazakh laws and regulations concerning site restoration and cleanup evolve, the Partnership may incur future costs, the amount of which is currently indeterminable. Such costs, when known, will be provided for as new information, legislation and estimates evolve.

Environmental obligations

The Partnership may also be subject to loss contingencies relating to regional environmental claims that may arise from the past operations of the related fields in which it operates. As Kazakh laws and regulations evolve concerning environmental assessments and site restoration, the Partnership may incur future costs, the amount of which is currently indeterminable due to such factors as the ultimate determination of responsible parties associated with these costs and the Government's assessment of respective parties' ability to pay for the costs related to environmental reclamation. However, depending on any unfavorable claims or penalties assessed by the Kazakh regulatory agencies, it is possible that the Partnership's future results of operations or cash flow could be materially affected in a particular period.

Capital commitments

As at December 31, 2009 the Partnership had contractual capital commitments in amount of US$ 50,949 thousand (2008: US$ 247,237 thousand) mainly in respect to the Partnership's oil field development activities and construction of a gas utilisation plant.

Operating leases

The Partnership entered into a cancellable lease agreement for the main administrative office in Uralsk in October 2007 for a period of 20 years for US$ 15 thousand per month.

Social and education commitments

As required by the Contract with the Government, the Partnership is obliged to spend: (i) US$ 300 thousand per annum to finance social infrastructure and (ii) one percent from the capital expenditures incurred during the year for education purposes of the citizens of Kazakhstan on an annual basis until the end of the Contract.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Partnership's principal financial liabilities comprise bank loans, payables to Government of Kazakhstan, trade payables and other current liabilities. The main purpose of these financial liabilities is to finance the development of the Chinarevskoye oil and gas condensate field and its operations. The Partnership's financial assets consist of trade and other receivables, cash and cash equivalents.

The main risks arising from the Partnership's financial instruments are interest rate risk, foreign exchange risk, liquidity risk, commodity price risk and credit risk. The Partnership's management reviews and agrees policies for managing each of these risks which are summarized below.

Interest Rate Risk

The Partnership's exposure to the risk of changes in market interest rates relates primarily to the Partnership's long-term debt obligations with floating interest rates.

The Partnership is exposed to interest rate risk in 2009 and 2008 as rates of interest on its borrowings were floating for the whole term of such borrowings.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Partnership's profit before tax through the impact on floating rate borrowings.

Increase / decrease interest rate	**Effect on profit before tax for the year ended December 31, 2009**	Effect on profit before tax for the year ended December 31, 2008
In thousands of US Dollar		
+1.5%	**(5,725)**	(4,921)
-1.5%	**5,725**	4,921

Foreign Currency Risk

As a significant portion of the Partnership's operation is the Kazakhstani Tenge denominated, the Partnership's statement of financial position can be affected significantly by movements in the US Dollar / Tenge exchange rates. The Partnership mitigates the effect of its structural currency exposure by borrowing in US Dollars and denominating sales in US Dollars.

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rate, with all other variables held constant, of the Partnership's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Change in Tenge to US$ exchange rate	**Effect on profit before tax**
2009		
US thousand dollar	**+19.5%**	**(574)**
US thousand dollar	**-19.5%**	**574**
2008		
US thousand dollar	+25%	(65,715)
US thousand dollar	+40%	(105,144)

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity Risk

Liquidity risk is the risk that the Partnership will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The table below summarizes the maturity profile of the Partnership's financial liabilities at December 31, 2009 and 2008 based on contractual undiscounted payments:

Year ended December 31, 2009	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings		10,288	30,659	808,936	–	849,883
Trade payables	44,463	–	17,593	–	–	62,056
Other current liabilities	7,573	–	–	–	–	7,573
Due to Government of Kazakhstan		258	773	4,124	16,753	21,908
	52,036	10,546	49,025	813,060	16,753	941,420

Year ended December 31, 2008	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	381,677	–	–	–	–	381,677
Trade payables	60,028	–	–	–	–	60,028
Other current liabilities	5,906	–	–	–	–	5,906
Due to Government of Kazakhstan	–	258	773	4,124	17,784	22,939
	447,611	258	773	4,124	17,784	470,550

Commodity Price Risk

The Partnership is exposed to the effect of fluctuations in price of crude oil, which is quoted in US Dollar on the international markets. The Partnership prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices in the future.

Other than the hedge arrangements described in Note 19 and Note 23 the Partnership does not hedge its exposure to the risk of fluctuations in the price of crude oil.

Credit Risk

Financial instruments, which potentially subject the Partnership to credit risk, consist primarily of accounts receivable and cash in banks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. The Partnership considers that its maximum exposure is reflected by the amount of trade accounts receivable and advances.

The Partnership places its Tenge denominated cash with Sberbank, which has a credit rating of BA (positive) from Moody's rating agency and its US Dollar denominated cash with BNP Paribas with a credit rating of AA (positive) from Standard and Poor's rating agency for the year ended December 31, 2009. The Partnership does not guarantee obligations of other parties.

The Partnership sells oil and makes advance payments only to recognized, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Partnership's exposure to bad debts and recoverability of prepayments made is not significant and thus risk of credit default is low.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair values of financial instruments

Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between knowledgeable willing parties according to arm's length conditions, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Partnership's financial instruments, judgment is needed to arrive at a fair value, based on current economic conditions and the specific risks attributable to the instrument.

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The Partnership's borrowings are at market rates of interest specific to those instruments and as such are stated at fair value. The Partnership's derivative is valued with a reference to a quoted market price in an active market. The fair value of other financial assets has been calculated using market interest rates.

Fair value hierarchy

The Partnership uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. The Partnership's financial instruments valued with a reference to quoted (unadjusted) prices include derivative financial instruments.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly. The Partnership does not have any financial instruments valued using Level 2 hierarchy.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data. The Partnership does not have any financial instruments valued using Level 3 hierarchy.

Management believes that the Partnership's carrying value of financial assets and liabilities consisting of cash and cash equivalents, trade accounts receivable and advances, derivative financial instruments, trade and other payables and obligations under debt instruments are not significantly different from their fair values at December 31, 2009 and 2008.

23. SUBSEQUENT EVENTS

On March 12, 2010, pursuant to the terms of the amended BNP Parisbas facility the Partnership has entered, at nil cost, into a new hedging contract covering oil export sales of 4,000 bbls/day running from March 2010 through December 2010. The counterparties ("Hedging Providers") to the hedging agreement are BNP Parisbas, Natixis and Raiffeisen Zentralbank. Based on the new hedging contract the floor price for Brent crude oil is fixed at price of US$ 60 per bbl. The ceiling price is set at a range from US$ 89.25 per bbl to US$ 100 per bbl such that the Partnership will receive all sales proceeds in excess of $ 100 per bbl.