

**Zhaikmunai LLP**

Interim Condensed Consolidated Financial Statements (Unaudited)

*For the three months ended March 31, 2012*

**CONTENTS**

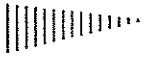
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Report on Review of Interim Condensed Consolidated Financial Statements

**Interim Condensed Consolidated Financial Statements**

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## REPORT ON REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the participants and management of Zhaikmunai LLP

### *Introduction*

We have reviewed the accompanying interim condensed consolidated statement of financial position of Zhaikmunai LLP and its subsidiary ("the Group") as at 31 March 2012 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the three-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

*Ernst & Young LLP*

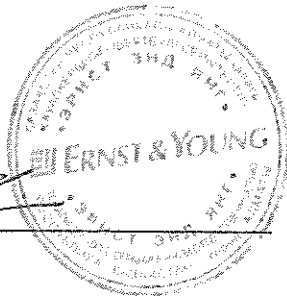
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Paul Cohn  
Audit Partner

*[Handwritten signature]*

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Evgeny Zhemaletdinov  
Auditor / General Director  
Ernst & Young LLP



Auditor Qualification Certificate № 0000553  
dated 24 December 2003

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

15 May 2012

**Interim Condensed Consolidated Statement of Financial Position***In thousands of US dollars*

	Note	March 31, 2012 (unaudited)	December 31, 2011 (audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	1,140,785	1,124,410
Restricted cash		3,189	3,076
Advances for equipment and construction works		9,413	3,368
		<b>1,153,387</b>	<b>1,130,854</b>
<b>Current assets</b>			
Inventories		15,962	14,518
Trade receivables		40,545	12,640
Prepayments and other current assets		23,774	22,878
Income tax prepayment		–	3,456
Cash and cash equivalents		58,950	47,357
		<b>139,231</b>	<b>101,029</b>
<b>TOTAL ASSETS</b>		<b>1,292,618</b>	<b>1,231,883</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Partnership capital and reserves</b>			
Partnership capital	4	4	4
Additional paid-in capital	4	29,200	29,200
Retained earnings and translation reserve		244,045	196,645
		<b>273,249</b>	<b>225,849</b>
<b>Non-current liabilities</b>			
Long term borrowings	5	737,976	737,140
Abandonment and site restoration liabilities		9,125	8,713
Due to Government of Kazakhstan		6,122	6,211
Deferred tax liability	11	147,995	146,674
		<b>901,218</b>	<b>898,738</b>
<b>Current liabilities</b>			
Current portion of long term borrowings	5	21,263	9,450
Trade payables		60,306	81,365
Advances received		6,012	3,154
Income tax payable		17,294	–
Current portion of Due to Government of Kazakhstan		1,031	1,031
Other current liabilities		12,245	12,296
		<b>118,151</b>	<b>107,296</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,292,618</b>	<b>1,231,883</b>

*The accounting policies and explanatory notes on pages 5 through 12 are an integral part of these interim condensed consolidated financial statements*

General Director of Zhaikmunai LLP

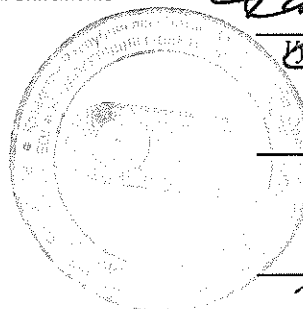
Vyacheslav Druzhinin

Chief Financial Officer of Zhaikmunai LLP

Gudrun Wykrota

Chief Accountant of Zhaikmunai LLP

Olga Shoshinova

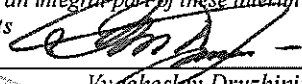


**Interim Condensed Consolidated Statement of Comprehensive Income***In thousands of US dollars*

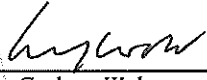
	Notes	Three months ended March 31, 2012 (unaudited)	2011 (unaudited)
<b>Revenues:</b>			
Revenues from export sales		139,287	51,164
Revenues from domestic sales		24,108	1,238
	6	163,395	52,402
Cost of sales	7	(44,393)	(14,206)
<b>Gross profit</b>		<b>119,002</b>	<b>38,196</b>
General and administrative expenses	8	(4,803)	(3,482)
Selling and transportation expenses	9	(21,475)	(6,762)
Finance costs, net	10	(17,310)	(8,944)
Loss on derivative financial instrument	12	—	(487)
Foreign exchange gain, net		222	72
Interest income		48	47
Other (expenses) / income		(769)	110
<b>Profit before income tax</b>		<b>74,915</b>	<b>18,750</b>
Income tax expense	11	(27,515)	(9,687)
<b>Profit for the period</b>		<b>47,400</b>	<b>9,063</b>
Other comprehensive income		—	—
<b>Total comprehensive income, net of tax</b>		<b>47,400</b>	<b>9,063</b>

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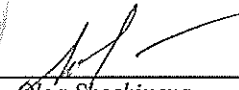
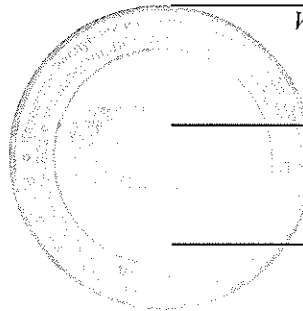
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Chief Accountant of Zhaikmunai LLP

  
 Olga Shoshinova


**Interim Condensed Consolidated Statement of Cash Flows***In thousands of US dollars*

	Notes	Three months ended March 31	
		2012 (unaudited)	2011 (unaudited)
<b>Cash flow from operating activities:</b>			
Profit before income tax		74,915	18,750
Adjustments for:			
Depreciation and amortization	7,8	21,921	3,719
Finance costs	10	17,310	8,944
Interest income		(48)	(47)
Loss on derivative financial instrument	12	-	487
Unrealized foreign exchange gain/loss		(103)	(28)
<b>Operating profit before working capital changes</b>		<b>113,995</b>	<b>31,825</b>
Changes in working capital:			
Increase in inventories		(1,444)	(2,739)
Increase in trade receivables		(27,905)	-
Increase in prepayments and other current assets		(4,518)	(3,356)
Increase / (decrease) in trade payables		3,229	(8,120)
Increase / (decrease) in advances received		2,857	(9,869)
Payment of obligation to Government of Kazakhstan		(257)	(515)
Increase in other current liabilities		432	832
<b>Cash generated from operations</b>		<b>86,389</b>	<b>8,058</b>
Income tax paid		(1,822)	-
<b>Net cash flows from operating activities</b>		<b>84,567</b>	<b>8,058</b>
<b>Cash flow from investing activities:</b>			
Interest income		48	47
Purchases of property, plant and equipment		(64,274)	(18,387)
<b>Net cash used in investing activities</b>		<b>(64,226)</b>	<b>(18,340)</b>
<b>Cash flow from financing activities:</b>			
Finance costs paid		(8,815)	(8,333)
Transfer (to) / from restricted cash		(113)	1,001
Realized derivative financial instrument	12	-	(372)
<b>Net cash provided used in financing activities</b>		<b>(8,928)</b>	<b>(7,704)</b>
Effects of exchange rate changes on cash and cash equivalents		-	39
<b>Net change in cash and cash equivalents</b>		<b>11,413</b>	<b>(17,947)</b>
<b>Cash and cash equivalents at the beginning of period</b>		<b>47,537</b>	<b>84,697</b>
<b>Cash and cash equivalents at the end of period</b>		<b>58,950</b>	<b>66,750</b>

**NON-CASH TRANSACTIONS**

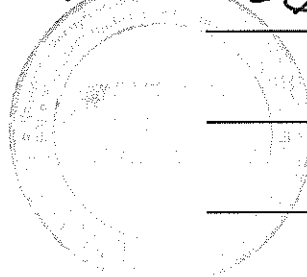
During the three month period ended March 31, 2012, the Partnership offset Corporate Income Tax liability for the amount of US\$ 3,622 thousand with Value Added Tax receivable.

*The accounting policies and explanatory notes on pages 5 through 12 are an integral part of these interim condensed consolidated financial statements.*

General Director of Zhaikmunai LLP

Chief Financial Officer of Zhaikmunai LLP

Chief Accountant of Zhaikmunai LLP



Vyacheslav Druzhinin

Gudrun Wykrota

Olga Shoshinova

**Interim Condensed Consolidated Statement of Changes in Equity***In thousands of US dollars*


	Partnership capital	Additional paid-in capital	Retained earnings and reserves	Total
<b>As of December 31, 2010 (audited)</b>	4	34,220	130,869	165,093
Profit for the period	–	–	9,063	9,063
<b>Total comprehensive income for the period</b>	–	–	9,063	9,063
Loss from substantial modification of loan from Zhaikmunai Netherlands B.V. (Note 5)	–	(5,020)	–	(5,020)
<b>As of March 31, 2011 (unaudited)</b>	4	29,200	139,932	169,136
<b>As of December 31, 2011 (audited)</b>	4	29,200	196,645	225,849
Profit for the period	–	–	47,400	47,400
<b>Total comprehensive income for the period</b>	–	–	47,400	47,400
<b>As of March 31, 2012 (unaudited)</b>	4	29,200	244,045	273,249

*The accounting policies and explanatory notes on pages 5 through 12 are an integral part of these interim condensed consolidated financial statements*

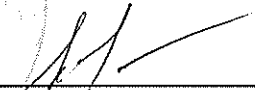
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 Vyacheslav Druzhinin

Chief Financial Officer of Zhaikmunai LLP

  
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Chief Accountant of Zhaikmunai LLP

  
 Olga Shoshinova



**Notes to the Interim Condensed Consolidated Financial Statements (unaudited)***In thousands of US dollars***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.

On December 29, 2010 the Partnership has acquired in a transaction under common control 18,000 ordinary shares of Zhaikmunai Finance B.V., representing 100% of its charter capital, from Zhaikmunai Netherlands B.V. (formerly known as Frans van der Schoot B.V.), an entity under control of a common parent. Zhaikmunai Finance B.V. was established by Frans van der Schoot B.V. in April 2010 specifically to issue the US\$450 million senior bond with an October 19, 2015 maturity and a fixed coupon of 10.50% per annum. Zhaikmunai Finance B.V. is consolidated from the date of incorporation.

The interim condensed consolidated financial statements include the financial statements of the Partnership and its subsidiary, Zhaikmunai Finance B.V. (jointly the "Group"). The Group operates in a single operating segment of exploration and production of hydrocarbons in Chinarevskoye oil and gas condensate field.

The participants of the Partnership, their shares and changes in the participants' structure are disclosed in Note 4.

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 interim condensed consolidated financial statements were authorized for issue by the Partnership's General Director, Chief Financial Officer and Chief Accountant on May 15, 2012.

**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, Tournasian 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, which expired on May 26, 2011. An application for further extension has been made.

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 hydrocarbons recovery levels and the phase of production and can vary from 2% to 7% of produced petroleum and from 4% to 9% of produced 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 hydrocarbon 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.

**Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)***In thousands of US dollars***2. BASIS OF PREPARATION AND CHANGES TO THE GROUPS ACCOUNTING POLICIES**

These interim condensed consolidated financial statements for the three months ended March 31, 2012 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated annual financial statements for the year ended December 31, 2011.

**New standards, interpretations and amendments thereof, adopted by the Group**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2011, except for the adoption of new standards and interpretations as of January 1, 2012, noted below.

The following amendments to IFRSs standards did not have any impact on the accounting policies, financial position or performance of the Group:

**IAS 12 - *Deferred Tax: Recovery of Underlying Assets* (Amendment)**

This amendment to IAS 12 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. Effective implementation date is for annual periods beginning on or after 1 January 2012.

**IFRS 7 - *Disclosures - Transfers of financial assets* (Amendment)**

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Effective implementation date is for annual periods beginning on or after 1 July 2011 with no comparative requirements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

**Seasonality of operations**

The Group's operating expenses are subject to seasonal fluctuations, with higher expenses for various professional services, maintenance and other services usually performed in the warmer months.

**Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)***In thousands of US dollars***3. PROPERTY, PLANT AND EQUIPMENT**

During the three months ended March 31, 2012, the Group had additions of property, plant and equipment of US\$ 38,425 thousand (three month period ended March 31, 2011: US\$ 36,501 thousand). These additions are mostly associated with drilling costs, capitalised interest of US\$ 4,044 thousand (three month period ended March 31, 2011: US\$ 13,403 thousand), and abandonment and site restoration assets of US\$ 208 thousand (three month period ended March 31, 2011: US\$ 2,858 thousand).

As of March 31, 2012 the Partnership's property, plant and equipment of US\$ 1,086,250 thousand are pledged as security for the loans due to Zhaikmunai Netherlands B.V (Note 5).

**4. 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 and Claydon Industrial Ltd in charter capital of the Partnership constitutes 55% and 45%, respectively, equivalent to US\$ 2.2 thousand and US\$ 1.8 thousand, respectively.

Gain on initial recognition of loans received from Zhaikmunai Netherlands B.V. at below market interest rates as well as loss on its subsequent substantial modification have been recorded in additional paid-in capital (Note 5).

Participants in the Partnership are entitled to vote based on their participation percentage and also entitled to participate in any distributions on the same basis.

**5. BORROWINGS**

<i>In thousands of US Dollar</i>	<b>March 31, 2012</b> (unaudited)	December 31, 2011 (audited)
Notes payable	459,239	446,590
Loans due to Zhaikmunai Netherland BV	300,000	300,000
Less amounts due within 12 months	(21,263)	(9,450)
Amounts due after 12 months	737,976	737,140

**Notes payable**

On October 19, 2010 Zhaikmunai Finance B.V. (the «Initial Issuer») issued US\$ 450,000 thousand notes (the «Notes»).

On February 28, 2011 Zhaikmunai LLP (the «Issuer») replaced the Initial Issuer of the Notes, whereupon it assumed all of the obligations of the Initial Issuer under the Notes.

The Notes bear interest at the rate of 10.50% per year. Interest on the Notes is payable on April 19 and October 19 of each year, beginning on April 19, 2011. Prior to 19 October 2013, the Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more equity offerings at a redemption price of 10.50% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date; provided that (1) at least 65% of the original principal amount of the Notes (including Additional Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

In addition, the Notes may be redeemed, in whole or in part, at any time prior to 19 October 2015 at the option of the Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of Notes at its registered address, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Applicable Premium means, with respect to any Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such Note at 19 October 2013 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such Note through 19 October 2013 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such Note.

**Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)***In thousands of US dollars***3. PROPERTY, PLANT AND EQUIPMENT**

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**Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)***In thousands of US dollars***5. BORROWINGS (continued)****Notes payable (continued)**

The Notes are jointly and severally guaranteed (the "Guarantees") on a senior basis by Zhaikmunai LP and all of its subsidiaries other than the Issuer (the "Guarantors"). The Notes are the Issuer's and the Guarantors' senior obligations and rank equally with all of the Issuer's and the Guarantors' other senior indebtedness. The Notes and the Guarantees have the benefit of first-priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

The total outstanding principal balance of the liability under the Notes payable as at March 31, 2012 is US\$ 450,000 thousand, which is presented net of the unamortized transaction costs of US\$ 12,024 thousand and increased by the amount of interest payable of US\$ 21,263 thousand (December 31, 2011: US\$ 450,000 thousand, US\$ 12,860 thousand, and US\$ 9,450 thousand, respectively).

**Loans due to Zhaikmunai Netherlands 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 September 15, 2009 Frans van der Schoot B.V. provided an additional loan of US\$ 261,650 thousand at the then prevailing interest rate of 2.6% pa. On December 22, 2010, a portion of this loan amounting to US\$ 51,926 thousand was repaid.

On October 19, 2010, amendments to the loans were made according to which the interest rate was increased from 2.6% to 10% and the maturity date was moved to December 31, 2015.

These loans were initially recognised at their fair values using a discount rate of 10.88% with the corresponding discount of US\$ 116,640 thousand recognised in 2009 as a contribution to additional paid-in capital. The subsequent substantial changes in 2010 to the original repayment terms and the interest rate change have resulted in a loss on the modification of the loan of US\$ 102,857 thousand recognised as reduction of additional paid-in capital.

**6. REVENUES**

<i>In thousands of US Dollars</i>	<b>Three months ended March 31,</b>	
	<b>2012 (unaudited)</b>	<b>2011 (unaudited)</b>
Oil and gas condensate	130,608	52,402
Gas and liquefied petroleum gas ("LPG")	32,787	—
	<b>163,395</b>	<b>52,402</b>

In November 2011 the Company started recording revenue from sales of products from the gas treatment unit, which allows the Company to produce gas condensate, LPG and gas. As a result the Company's revenues during the three months ended 31 March 2012 included revenues from these products.

**7. COST OF SALES**

<i>In thousands of US dollars</i>	<b>Three months ended March 31,</b>	
	<b>2012 (unaudited)</b>	<b>2011 (unaudited)</b>
Depreciation and amortization	21,647	3,600
Repair, maintenance and other services	8,606	2,909
Payroll and related taxes	3,966	2,633
Well workover costs	1,477	2,111
Royalties	3,209	1,952
Materials and supplies	3,684	765
Other transportation services	1,611	654
Management fees	506	547
Government profit share	787	487
Environmental levies	418	205
Change in stock	(2,726)	(2,251)
Other	1,208	594
	<b>44,393</b>	<b>14,206</b>

**Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)***In thousands of US dollars***8. GENERAL AND ADMINISTRATIVE EXPENSES**

<i>In thousands of US dollars</i>	<b>Three months ended March 31,</b>	
	<b>2012 (unaudited)</b>	<b>2011 (unaudited)</b>
Payroll and related taxes	1,046	899
Management fees	1,015	663
Training	804	483
Professional services	198	418
Communication	200	167
Bank charges	206	127
Depreciation and amortization	274	119
Insurance fees	294	96
Other taxes	144	43
Sponsorship	142	37
Materials and supplies	132	83
Business trip	100	81
Social program	75	75
Lease payments	83	72
Other	90	119
	<b>4,803</b>	<b>3,482</b>

**9. SELLING AND TRANSPORTATION EXPENSES**

<i>In thousands of US Dollar</i>	<b>Three months ended March 31,</b>	
	<b>2012 (unaudited)</b>	<b>2011 (unaudited)</b>
Transportation costs	19,097	5,329
Loading and storage costs	801	154
Payroll	407	329
Management fees	476	365
Other	694	585
	<b>21,475</b>	<b>6,762</b>

**10. FINANCE COSTS**

<i>In thousands of US dollars</i>	<b>Three months ended March 31,</b>	
	<b>2012 (unaudited)</b>	<b>2011 (unaudited)</b>
Interest expense on borrowings	16,938	8,590
Unwinding of discount on Due to Government	168	178
Unwinding of discount on Abandonment and Site Restoration Liability	204	176
	<b>17,310</b>	<b>8,944</b>

**Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)***In thousands of US dollars***11. INCOME TAX EXPENSE**

The income tax expense consisted of the following:

<i>In thousands of US dollars</i>	<b>Three months ended March 31,</b>	
	<b>2012 (unaudited)</b>	<b>2011 (unaudited)</b>
Income tax expenses comprise:		
- current income tax expense	26,194	4,667
- deferred income tax expense	1,321	5,020
<b>Total income tax expense</b>	<b>27,515</b>	<b>9,687</b>

The Group's profits are assessed for income taxes only in the Republic of Kazakhstan. A reconciliation between tax expense and the product of accounting profit multiplied by the Kazakhstani tax rate applicable to the license for the three months period ended 31 March is as follows:

<i>In thousands of US Dollar</i>	<b>Three months ended March 31,</b>	
	<b>2012 (unaudited)</b>	<b>2011 (unaudited)</b>
Profit before income tax	74,915	18,750
Statutory tax rate	30%	30%
<b>Expected tax provision</b>	<b>22,475</b>	<b>5,625</b>
Non-deductible interest expense on borrowings	5,405	5,917
Change of the tax base	(635)	(2,084)
Foreign exchange gain	(67)	(104)
Other	337	333
<b>Income tax expense reported in the financial statements</b>	<b>27,515</b>	<b>9,687</b>

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 amounts and the amounts reported in the financial statements and are comprised of the following:

<i>In thousands of US Dollar</i>	<b>March 31,</b>	<b>December 31,</b>
	<b>2012 (unaudited)</b>	<b>2011 (audited)</b>
<b>Deferred tax asset:</b>		
Accounts payable and provisions	2,433	2,289
<b>Deferred tax liability:</b>		
Property, plant and equipment	(150,428)	(148,963)
<b>Net deferred tax liability</b>	<b>(147,995)</b>	<b>(146,674)</b>

The movements in the deferred tax liability were as follows:

<i>In thousands of US dollars</i>	<b>2012 (unaudited)</b>	<b>2011 (unaudited)</b>
Balance at January 1, 2012 and 2011	(146,674)	(100,823)
Current year charge to statement of income	(1,321)	(5,020)
<b>Balance at March 31, 2012 and 2011</b>	<b>(147,995)</b>	<b>(105,843)</b>

**Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)***In thousands of US dollars***12. DERIVATIVE FINANCIAL INSTRUMENT**

On March 4, 2010, the Partnership entered, at nil cost, into a hedging contract covering oil export sales of 4,000 bbls/day from March 2010 through December 2010. The counterparties ("Hedging Providers") to the hedging agreement were BNP Paribas, Natixis and Raiffeisen Zentralbank Österreich AG. Based on the new hedging contract the floor price for Brent crude oil was fixed at a price of US\$ 60 per bbl. The ceiling price was set at a range from US\$ 89.25 per bbl to US\$ 100 per bbl such that the Partnership received all sales proceeds in excess of \$ 100 per bbl.

On October 19, 2010, after prepayment in full of the BNP Paribas Facility all the rights, liabilities, duties and obligations of the Partnership under and in respect of each of the hedging agreements were transferred by novation to Citibank, N.A. ("Citibank"). The contract expired in January 2011.

On March 29, 2011, in accordance with its hedging policy, the Partnership entered, at nil upfront cost, into a new hedging contract covering oil sales of 2,000 bbls/day, or a total of 556,000 bbls running through December 31, 2011. The counterparty to the hedging agreement was Citibank. Based on the new hedging contract the Partnership bought a put at \$85/bbl, sold a call at \$125/bbl and bought a call at \$134/bbl.

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

<i>In thousands of US Dollar</i>	2012 (unaudited)	2011 (unaudited)
Hedging contract fair value at January 1	–	(372)
Realized hedging loss	–	372
Hedging loss	–	(487)
<b>Hedging contract at fair value at March 31</b>	<b>–</b>	<b>(487)</b>

**13. RELATED PARTY TRANSACTIONS**

For the purpose of these interim condensed consolidated financial statements related parties transactions include mainly balances and transactions between the Group and the participants and/or their affiliated companies.

Accounts payable to and borrowings from related parties as at March 31, 2011 and December 31, 2011 consisted of the following:

<i>In thousands of US Dollar</i>	March 31, 2012 (unaudited)	December 31, 2011 (audited)
<b>Borrowings</b>		
Zhaikmunai Netherlands B.V. (Note 5)	300,000	300,000
<b>Trade payables</b>		
Probel Capital Management N.V.	356	194
Prolag BVBA	359	18
Amersham Oil	39	39
<b>Total</b>	<b>754</b>	<b>251</b>

During the three month period year ended March 31, 2012 and 2011 the Group had the following transactions with related parties:

<i>In thousands of US Dollar</i>	Three months ended March 31, 2012 (unaudited)	2011 (unaudited)
<b>Interest paid</b>		
Zhaikmunai Netherlands B.V.	8,333	8,333
<b>Management fees and consulting services</b>		
Amersham Oil LLP	296	284
Prolag BVBA	571	488
Probel Capital Management B.V.	1,061	767

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

Remuneration of key management personnel amounted to US\$ 123 thousand for the three month period ended March 31, 2012 (three month period ended March 31, 2011: US\$ 123 thousand). Other key management personnel were employed and paid by Amersham Oil LLP and Probel Capital Management and their remuneration forms part of management fees and consulting services above.

All related parties are companies indirectly controlled by Frank Monstrey.



**Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)***In thousands of US dollars***14. CONTINGENT LIABILITIES AND COMMITMENTS****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 March 31, 2012. As at March 31, 2012 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.

**Capital commitments**

As at March 31, 2012 the Partnership had contractual capital commitments in amount of US\$ 21,971 thousand (31 December 2011: US\$ 17,880 thousand) mainly in respect to the Partnership's oil field development activities.

**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.

In March 2010 the Partnership entered into an agreement on lease of 200 railway tank wagons for transportation of liquefied hydrocarbon gases and hydrocarbon products for a period of 7 years for KZT 6,989 (equivalent of US\$ 47) per day per one wagon.

**Social and education commitments**

As required by the Contract (as amended by, inter alia, amendment #9), the Partnership is obliged to:

- (i) spend US\$ 300 thousand per annum to finance social infrastructure;
- (ii) perform repair and reconstruction of state automobile roads for the amount of US\$ 12,000 thousand in 2012;
- (iii) make an accrual of one percent of capital expenditure per annum for the purposes of educating Kazakh citizens; and
- (iv) adhere to a spending schedule on education which lasts until (and including) 2020.

**Domestic oil sales**

In accordance with Addendum # 7 of the Contract, the Partnership is required to sell at least 15% of produced oil on the domestic market on a monthly basis for which prices are materially lower than export prices.