

**/KASE, AUGUST 29, 12/ - Zhaikmunai (Oral, Kazakhstan) provided Kazakhstan Stock Exchange (KASE) with the following communication today:**

**quote**

**Zhaikmunai LP**

Interim Condensed Consolidated Financial Statements (Unaudited)

*For the six months ended June 30, 2012*

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

To the participants and management of Zhaikmunai LP

### ***Introduction***

We have reviewed the accompanying interim condensed consolidated statement of financial position of Zhaikmunai LP and its subsidiaries ("the Group") as at 30 June 2012 and the related interim condensed consolidated statements of comprehensive income three and six-month periods, changes in equity and cash flows for the six-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

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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

17 August 2012

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

	Note	June 30, 2012 (unaudited)	December 31, 2011 (audited)
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	3	1,157,772	1,120,453
Restricted cash		3,416	3,076
Advances for equipment and construction works		8,306	3,368
		<b>1,169,494</b>	<b>1,126,897</b>
<b>Current Assets</b>			
Inventories		19,097	14,518
Trade receivables		26,565	12,640
Prepayments and other current assets		26,814	23,279
Income tax prepayment		–	3,453
Cash and cash equivalents		159,339	125,393
		<b>231,815</b>	<b>179,283</b>
<b>TOTAL ASSETS</b>		<b>1,401,309</b>	<b>1,306,180</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Partnership capital and Reserves</b>			
Partnership capital	4	369,944	368,203
Additional paid-in capital		4,270	1,677
Retained earnings and translation reserve		302,000	215,351
		<b>676,214</b>	<b>585,231</b>
<b>Non-Current Liabilities</b>			
Long term borrowings	5	436,790	438,082
Abandonment and site restoration liabilities		9,590	8,713
Due to Government of Kazakhstan		6,122	6,211
Employee share option plan		9,165	11,734
Deferred tax liability	11	151,531	146,674
		<b>613,198</b>	<b>611,414</b>
<b>Current Liabilities</b>			
Current portion of long term borrowings	5	9,450	9,450
Trade payables		52,094	81,914
Advances received		1,396	3,154
Income tax payable		32,660	–
Current portion of Due to Government of Kazakhstan		1,031	1,031
Other current liabilities		15,266	13,986
		<b>111,897</b>	<b>109,535</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,401,309</b>	<b>1,306,180</b>

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

Chief Executive Officer of the General Partner of Zhaikmunai LP

*Kai-Uwe Kessel*

Chief Financial Officer of the General Partner of Zhaikmunai LP

*Jan-Ru Muller*

## Interim Condensed Consolidated Statement of Comprehensive Income

In thousands of US dollars

		Three months ended June 30,		Six months ended June 30,	
	Notes	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
<b>Revenue:</b>					
Revenue from export sales	6	133,685	70,461	272,972	121,625
Revenue from domestic sales	6	26,329	3,044	50,437	4,282
		160,014	73,505	323,409	125,907
Cost of sales	7	(50,583)	(14,197)	(94,976)	(28,403)
<b>Gross profit</b>		<b>109,431</b>	<b>59,308</b>	<b>228,433</b>	<b>97,504</b>
General and administrative expenses	8	(17,315)	(5,547)	(28,461)	(15,643)
Selling and transportation expenses	9	(23,161)	(8,674)	(44,636)	(15,437)
Finance costs	10	(9,083)	(435)	(18,980)	(789)
Foreign exchange (loss) / gain, net		190	(205)	336	(26)
Gain / (loss) on derivative financial instrument	12	–	298	–	(189)
Interest income		72	50	169	121
Other (expenses)/income		933	(1,565)	162	(1,503)
<b>Profit before income tax</b>		<b>61,067</b>	<b>43,230</b>	<b>137,023</b>	<b>64,038</b>
Income tax expense	11	(22,859)	(18,340)	(50,374)	(28,027)
<b>Profit for the period</b>		<b>38,208</b>	<b>24,890</b>	<b>86,649</b>	<b>36,011</b>
Other comprehensive income		–	–	–	–
<b>Total comprehensive income, net of tax</b>		<b>38,208</b>	<b>24,890</b>	<b>86,649</b>	<b>36,011</b>

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

Chief Executive Officer of the General Partner of Zhaikmunai LP

Kai-Uwe Kessel

Chief Financial Officer of the General Partner of Zhaikmunai LP

Jan-Ru Muller

## Interim Condensed Consolidated Statement of Cash Flows

In thousands of US dollars

	Notes	Six months ended June 30,	
		2012 (unaudited)	2011 (unaudited)
<b>Cash flow from operating activities:</b>			
Profit before income tax		137,023	64,038
Adjustments for:			
Depreciation and amortization	7,8	46,210	8,536
Accrual of share option expenses		24	1,320
Finance costs	10	18,980	789
Interest income		(169)	(121)
Loss on derivative financial instruments	12	–	189
Foreign exchange gain on investing and financing activities		–	(40)
<b>Operating profit before working capital changes</b>		<b>202,068</b>	<b>74,711</b>
Changes in working capital:			
Increase in inventories		(4,579)	(1,169)
Increase in trade receivables		(13,925)	(4,834)
Increase in prepayments and other current assets		(3,535)	(1,345)
Decrease in trade payables		(8,605)	(3,014)
Decrease in advances received		(1,758)	(9,702)
Payment of obligation to Government of Kazakhstan		(515)	(515)
(Decrease) / increase in other current liabilities		(2,451)	1,939
<b>Cash generated from operations</b>		<b>166,700</b>	<b>56,071</b>
Income tax paid		(5,782)	–
Payments under Employee share option plan		(2,593)	–
<b>Net cash flows from operating activities</b>		<b>158,325</b>	<b>56,071</b>
<b>Cash flow from investing activities:</b>			
Interest income		169	121
Purchases of property, plant and equipment		(100,100)	(39,206)
<b>Net cash used in investing activities</b>		<b>(99,931)</b>	<b>(39,085)</b>
<b>Cash flow from financing activities:</b>			
Finance costs paid		(28,442)	(25,424)
Transfer (to) / from restricted cash		(340)	780
Realized hedging loss	12	–	(372)
Treasury shares sold		4,334	–
<b>Net cash used in financing activities</b>		<b>(24,448)</b>	<b>(25,016)</b>
<b>Effects of exchange rate changes on cash and cash equivalents</b>		<b>–</b>	<b>–</b>
<b>Net change in cash and cash equivalents</b>		<b>33,946</b>	<b>(8,030)</b>
<b>Cash and cash equivalents at the beginning of period</b>		<b>125,393</b>	<b>144,201</b>
<b>Cash and cash equivalents at the end of period</b>		<b>159,339</b>	<b>136,171</b>

### NON-CASH TRANSACTIONS

During the six month period ended June 30, 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*

Chief Executive Officer of the General Partner of Zhaikmunai LP

*Kai-Uwe Kessel*

Chief Financial Officer of the General Partner of Zhaikmunai LP

*Jan-Ru Muller*

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

	Partnership capital	Treasury Shares	Additional paid-in capital	Retained earnings and reserves	Total
<b>As at December 31, 2010 (audited)</b>	<b>366,942</b>	<b>–</b>	<b>–</b>	<b>133,727</b>	<b>500,669</b>
Profit for the period	–	–	–	36,011	36,011
<b>Total comprehensive income for the period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>36,011</b>	<b>36,011</b>
<b>As at June 30, 2011 (unaudited)</b>	<b>366,942</b>	<b>–</b>	<b>–</b>	<b>169,738</b>	<b>536,680</b>
<b>As at December 31, 2011 (audited)</b>	<b>373,990</b>	<b>(5,787)</b>	<b>1,677</b>	<b>215,351</b>	<b>585,231</b>
Profit for the period	–	–	–	86,649	86,649
<b>Total comprehensive income for the period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>86,649</b>	<b>86,649</b>
Share issue (Note 4)	–	1,741	2,593	–	4,334
<b>As at June 30, 2012 (unaudited)</b>	<b>373,990</b>	<b>(4,046)</b>	<b>4,270</b>	<b>302,000</b>	<b>676,214</b>

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

Chief Executive Officer of the General Partner of Zhaikmunai LP

*Kai-Uwe Kessel*

Chief Financial Officer of the General Partner of Zhaikmunai LP

*Jan-Ru Muller*



## Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

*In thousands of US dollars*

### 1. GENERAL

Zhaikmunai LP is a Limited Partnership formed on August 29, 2007 pursuant to the Partnership Act 1909 of the Isle of Man. Zhaikmunai LP is registered in the Isle of Man with registered number 295P.

The registered address of the Zhaikmunai LP is: 7th Floor, Harbour Court, Lord Street, Douglas, Isle of Man, IM1 4LN.

These interim condensed consolidated financial statements were authorized for issue by Kai-Uwe Kessel, Chief Executive Officer of the General Partner of Zhaikmunai LP and by Jan-Ru Muller, Chief Financial Officer of the General Partner of Zhaikmunai LP on August 17, 2012.

These interim condensed consolidated financial statements include the results of the operations of Zhaikmunai LP ("Zhaikmunai LP") and its wholly owned subsidiaries Zhaikmunai Netherlands B.V. (formerly Frans Van Der Schoot B.V.), Claydon Industrial Limited ("Claydon"), Jubilata Investments Limited ("Jubilata"), Zhaikmunai LLP ("the Partnership") and Condensate Holdings LLP ("Condensate"). Zhaikmunai LP and its subsidiaries are hereinafter referred to as "the Group". The Group's operations comprise of a single operating segment and are primarily conducted through its oil and gas producing entity Zhaikmunai LLP located in Kazakhstan. The Group is ultimately indirectly controlled through Thyler Holdings Limited ("Thyler"), by Frank Monstrey. The General Partner of Zhaikmunai LP is Zhaikmunai Group Limited, which is responsible for the management of the Group (Note 4).

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.

#### 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 Tournaisian horizons, was extended for an additional 3-year period, which expired on May 26, 2011. An application for further extension has been made.

#### 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 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*

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### 2. BASIS OF PREPARATION

These interim condensed consolidated financial statements for the six months ended June 30, 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 at 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 maintenance and other oil field 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 six months ended June 30, 2012, the Group had additions of property, plant and equipment of US\$ 83,635 thousand (six month period ended June 30, 2011: US\$ 71,148 thousand). These additions are mostly associated with drilling costs, capitalised interest of US\$ 9,111 thousand (six month period ended June 30, 2011: US\$ 27,711 thousand), abandonment and site restoration assets of US\$ 262 thousand (six month period ended June 30, 2011: US\$ 2,857 thousand).

### 4. PARTNERSHIP CAPITAL

The ownership interests in Zhaikmunai LP consist of (a) Common Units, which represent a fractional entitlement in respect of all of the limited partner interests in Zhaikmunai LP and (b) the interest of the General Partner. At any general meeting every holder of Common Units shall have one vote for each Common Unit of which he or she is the holder. Under the Partnership Agreement, distributions to limited partners will be made either as determined by the General Partner in its sole discretion or following the approval of a majority of limited partners provided such amount does not exceed the amount recommended by the General Partner. Any distributions to Zhaikmunai LP's limited partners will be made on a pro rata basis according to their respective partnership interests in Zhaikmunai LP and will be paid only to the recorded holders of Common Units.

As at June 30, 2012 Zhaikmunai LP had issued 186,761,882 common units, all but 10 of which were represented by GDRs, which includes common units (represented by GDRs) issued by Zhaikmunai LP to support its obligations to employees under the Employee Share Option Plan (ESOP). The trust in which these GDRs are held for the ESOP constitutes a special purpose entity under IFRS and therefore, these GDRs are recorded as treasury shares of Zhaikmunai LP. During the six month period ended June 30, 2012 upon share options being exercised by employees under the ESOP, Ogier Employee Benefit Trustee Limited ("the Trustee") sold 435,276 GDRs on the market and settled the respective obligations under the ESOP.

### 5. BORROWINGS

<i>In thousands of US dollars</i>	<b>June 30, 2012 (unaudited)</b>	December 31, 2011 (audited)
Notes payable	<b>446,240</b>	447,532
Less amounts due within 12 months	<b>(9,450)</b>	(9,450)
Amounts due after 12 months	<b>436,790</b>	438,082

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") substituted for the Initial Issuer, as issuer of the Notes, whereupon it assumed all of the obligations of the Initial Issuer under the Notes (the "Substitution").

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 110.50% 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 2013 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.

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.

## Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

*In thousands of US dollars*

### 5. BORROWINGS (continued)

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 June 30, 2012 is US\$ 450,000 thousand, which is presented net of the unamortized transaction costs of US\$ 13,210 thousand and increased by the amount of interest payable of US\$ 9,450 thousand (December 31, 2011: US\$ 450,000 thousand, US\$ 11,919 thousand, and US\$ 9,450 thousand, respectively).

### 6. REVENUES

<i>In thousands of US dollars</i>	Three months ended June 30,		Six months ended June 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Oil and gas condensate	120,263	73,505	250,871	125,907
Gas and liquefied petroleum gas ("LPG")	39,751	–	72,538	–
	<b>160,014</b>	<b>73,505</b>	<b>323,409</b>	<b>125,907</b>

In November 2011 the Partnership started recording revenue from sales of products from the gas treatment unit, which allows the Partnership to produce gas condensate, LPG and gas. As a result the Partnership's revenues during the six months ended 30 June 2012 included revenues from these products.

### 7. COST OF SALES

<i>In thousands of US dollars</i>	Three months ended June 30,		Six months ended June 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Depreciation and amortization	23,984	4,673	45,631	8,273
Repair, maintenance and other services	13,740	1,105	22,346	4,014
Payroll and related taxes	4,814	705	8,780	3,338
Materials and supplies	3,799	720	7,483	1,485
Royalties	3,646	3,320	6,855	5,272
Other transportation services	1,256	288	2,867	942
Well workover costs	171	–	1,648	2,003
Government profit share	796	711	1,583	1,198
Management fees	444	221	950	768
Environmental levies	385	372	803	577
Change in stock	(3,709)	1,772	(6,434)	(479)
Other	1,257	310	2,464	1,012
	<b>50,583</b>	<b>14,197</b>	<b>94,976</b>	<b>28,403</b>

### 8. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of US dollars</i>	Three months ended June 30,		Six months ended June 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Social program	11,183	75	11,317	150
Management fees	2,896	2,064	5,687	3,956
Payroll and related taxes	1,151	938	2,310	1,931
Business travel	957	997	2,200	2,196
Training	1,054	478	1,858	961
Professional services	995	1,950	1,794	2,943
Insurance fees	344	194	667	316
Depreciation and amortization	303	141	579	263
Bank charges	233	112	463	242
Communication	190	176	407	349
Materials and supplies	138	136	270	219
Sponsorship	102	292	244	329
Other taxes	71	42	215	102
Lease payments	94	80	189	170
Employee share option plan	(2,541)	(2,276)	23	1,320
Other	145	148	238	196
	<b>17,315</b>	<b>5,547</b>	<b>28,461</b>	<b>15,643</b>

## Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

*In thousands of US dollars*

### 9. SELLING AND TRANSPORTATION EXPENSES

<i>In thousands of US Dollars</i>	Three months ended June 30,		Six months ended June 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Transportation costs	15,806	6,983	31,049	12,312
Loading and storage costs	5,608	129	10,263	283
Payroll	633	338	1,040	674
Management fees	432	326	908	655
Other	682	898	1,376	1,513
	<b>23,161</b>	<b>8,674</b>	<b>44,636</b>	<b>15,437</b>

### 10. FINANCE COSTS

<i>In thousands of US dollars</i>	Three months ended June 30,		Six months ended June 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Interest expense on borrowings	8,623	–	18,148	–
Unwinding of discount on Due to Government	257	258	425	436
Unwinding of discount on Abandonment and Site Restoration Liability	203	177	407	353
	<b>9,083</b>	<b>435</b>	<b>18,980</b>	<b>789</b>

### 11. INCOME TAX EXPENSE

The income tax expense consisted of the following:

<i>In thousands of US dollars</i>	Three months ended June 30,		Six months ended June 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Income tax expenses comprise:				
- current income tax expense	19,323	12,298	45,517	16,965
- deferred income tax expense	3,536	6,042	4,857	11,062
<b>Total income tax expense</b>	<b>22,859</b>	<b>18,340</b>	<b>50,374</b>	<b>28,027</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 six months period ended 30 June is as follows:

<i>In thousands of US Dollars</i>	Three months ended June 30,		Six months ended June 30,	
	2012 (unaudited)	2011 (unaudited)	2012 (unaudited)	2011 (unaudited)
Profit before income tax	61,067	43,230	137,023	64,036
Statutory tax rate	30%	30%	30%	30%
<b>Expected tax provision</b>	<b>18,320</b>	<b>12,969</b>	<b>41,107</b>	<b>19,211</b>
Non-deductible interest expense on borrowings	5,425	5,083	10,830	11,000
Change of the tax base	(382)	679	(1,017)	(1,405)
Foreign exchange gain	(83)	1	(150)	(103)
Non-assessable income	(2,036)	(1,922)	(2,347)	(2,539)
Other	1,615	1,530	1,951	1,863
Income tax expense reported in the financial statements	<b>22,859</b>	<b>18,340</b>	<b>50,374</b>	<b>28,027</b>

## Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

*In thousands of US dollars*

### 11. INCOME TAX EXPENSE (continued)

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

<i>In thousands of US Dollars</i>	<b>June 30, 2012 (unaudited)</b>	December 31, 2011 (audited)
<b>Deferred tax asset:</b>		
Accounts payable and provisions	<b>2,589</b>	2,289
<b>Deferred tax liability:</b>		
Property, plant and equipment	<b>(154,120)</b>	(148,963)
<b>Net deferred tax liability</b>	<b>(151,531)</b>	(146,674)

The movements in the deferred tax liability were as follows:

<i>In thousands of US Dollars</i>	<b>2012 (unaudited)</b>	2011 (unaudited)
Balance at January 1,	<b>(146,674)</b>	(100,823)
Current period charge to profit or loss	<b>(4,857)</b>	(11,062)
Balance at June 30,	<b>(151,531)</b>	(111,885)

### 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 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 was 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 Dollars</i>	<b>2012 (unaudited)</b>	2011 (unaudited)
Hedging contract fair value at January 1	-	(372)
Realized hedging loss	-	372
Hedging loss	-	(189)
<b>Hedging contract at fair value at June 30</b>	<b>-</b>	<b>(189)</b>

## Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

*In thousands of US dollars*

### 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 related parties as at June 30, 2012 and December 31, 2011 consisted of the following:

<i>In thousands of US Dollars</i>	June 30, 2012 (unaudited)	December 31, 2011 (audited)
<b>Trade payables</b>		
Probel Capital Management N.V.	374	242
Prolag BVBA	192	18
Amersham Oil LLP	39	39
	<b>605</b>	<b>299</b>

During the six month period ended June 30, 2012 and 2011 the Group had the following transactions with related parties:

<i>In thousands of US Dollars</i>	Three months ended June 30, 2012		Six months ended June 30, 2012	
	(unaudited)	2011 (unaudited)	(unaudited)	2011 (unaudited)
<b>Management fees and consulting services</b>				
Probel Capital Management B.V.	3,044	2,723	5,881	4,236
Prolag BVBA	501	657	1,073	1,087
Amersham Oil	295	300	591	584
	<b>3,840</b>	<b>3,680</b>	<b>7,545</b>	<b>5,907</b>

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 relate to the rendering of geological, geophysical, drilling, technical and other consultancy services.

Remuneration of key management personnel amounted to US\$ 331 thousand for the six month period ended June 30, 2012 (six month period ended June 30, 2011: US\$ 205 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.

### 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 June 30, 2012. As at June 30, 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.

## Notes to the Interim Condensed Consolidated Financial Statements (unaudited) (continued)

*In thousands of US dollars*

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### 14. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

#### 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 June 30, 2012 the Partnership had contractual capital commitments in the amount of US\$ 13,487 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 other 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 the 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.

#### unquote

[2012-08-29]