

Zhaikmunai LLP

Interim consolidated financial statements

For the six months ended June 30, 2013

with Independent auditors' report

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Report on review of the interim consolidated financial statements

To the participants and management of Zhaikmunai LLP

Introduction

We have reviewed the accompanying interim consolidated statements of Zhaikmunai LLP and its subsidiaries ("the Group") as at 30 June 2013, which comprise the interim consolidated statement of financial position as at 30 June 2013 and the related interim consolidated statements of comprehensive income for the three and six-month periods then ended, statements of changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim consolidated financial information in accordance with International Financial Reporting Standards (IFRS). Our responsibility is to express a conclusion on this interim consolidated financial information 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 consolidated 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 consolidated financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2013, and of its financial performance for the three and six-month periods and its cash flows for the six-month period then ended in accordance with IFRS.

Ernst & Young LLP

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 MΦЮ-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

16 August 2013

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at June 30, 2013

In thousands of US dollars

| | Note | June 30, 2013 (unaudited) | December 31, 2012 (audited) |
|--|------|------------------------------|--------------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Exploration and evaluation assets | 5 | 15,835 | – |
| Property, plant and equipment | 6 | 1,272,315 | 1,222,980 |
| Restricted cash | 12 | 4,154 | 3,652 |
| Advances for non-current assets | 7 | 10,871 | 25,278 |
| | | 1,303,175 | 1,251,910 |
| Current assets | | | |
| inventories | 8 | 19,884 | 24,963 |
| Trade receivables | 9 | 90,309 | 54,002 |
| Prepayments and other current assets | 10 | 21,755 | 24,070 |
| Short-term investments | 11 | – | 50,000 |
| Cash and cash equivalents | 12 | 243,395 | 164,979 |
| | | 375,343 | 318,014 |
| TOTAL ASSETS | | 1,678,518 | 1,569,924 |
| EQUITY AND LIABILITIES | | | |
| Partnership capital and reserves | | | |
| Partnership capital | 13 | 4 | 4 |
| Other reserves | | 32,440 | 32,637 |
| Retained earnings | | 446,536 | 340,857 |
| | | 478,980 | 373,498 |
| Non-current liabilities | | | |
| Long-term borrowings | 14 | 857,903 | 915,776 |
| Abandonment and site restoration liabilities | 15 | 11,982 | 11,064 |
| Due to Government of Kazakhstan | 16 | 6,021 | 6,122 |
| Deferred tax liability | 25 | 145,233 | 148,932 |
| | | 1,021,139 | 1,081,894 |
| Current liabilities | | | |
| Current portion of long term borrowings | 14 | 67,152 | 7,152 |
| Trade payables | 17 | 50,625 | 58,809 |
| Advances received | | 23 | 61 |
| Obligations under profit distribution | 13 | 10,000 | – |
| Income tax payable | | 20,010 | 11,662 |
| Current portion of Due to Government of Kazakhstan | 16 | 1,031 | 1,031 |
| Other current liabilities | 18 | 29,558 | 35,817 |
| | | 178,399 | 114,532 |
| TOTAL EQUITY AND LIABILITIES | | 1,678,518 | 1,569,924 |

General Director of Zhaikmunai LLP

Chief Financial Officer of Zhaikmunai LLP

Chief Accountant of Zhaikmunai LLP



Heinz Wendel

Gudrun Wykrota

Olga Shoshinova

The accounting policies and explanatory notes on pages 5 through 28 are an integral part of these interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2013

In thousands of US dollars

| | Notes | Three months ended June 30, | | Six months ended June 30, | |
|--|----------|-----------------------------------|---------------------|------------------------------------|---------------------|
| | | 2013 (unaudited) | 2012 (unaudited) | 2013 (unaudited) | 2012 (unaudited) |
| Revenue: | | | | | |
| Revenue from export sales | | 181,378 | 133,685 | 378,090 | 272,972 |
| Revenue from domestic sales | | 32,595 | 26,329 | 64,409 | 50,437 |
| Cost of sales | 19 20 | 213,973 (62,929) | 160,014 (50,583) | 442,499 (135,331) | 323,409 (94,976) |
| Gross profit | | 151,044 | 109,431 | 307,168 | 228,433 |
| General and administrative expenses | 21 | (8,266) | (16,256) | (14,877) | (21,059) |
| Selling and transportation expenses | 22 | (34,279) | (23,161) | (60,814) | (44,636) |
| Finance costs | 23 | (17,748) | (16,940) | (34,420) | (34,250) |
| Foreign exchange (loss) / gain, net | | (128) | 216 | (226) | 438 |
| Interest income | | 233 | 58 | 491 | 106 |
| Other expenses | 24 | (6,013) | (869) | (10,646) | (2,155) |
| Other income | | 1,095 | 1,807 | 2,100 | 2,324 |
| Profit before income tax | | 85,938 | 54,286 | 188,776 | 129,201 |
| Income tax expense | 25 | (35,507) | (22,859) | (73,097) | (50,374) |
| Profit for the period | | 50,431 | 31,427 | 115,679 | 78,827 |
| Total comprehensive income for the period | | 50,431 | 31,427 | 115,679 | 78,827 |

General Director of Zhaikmunai LLP



Heinz Wendel

Chief Financial Officer of Zhaikmunai LLP

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2013

In thousands of US dollars

| | Note | Six months ended June 30, | |
|---|--------|---------------------------|------------------|
| | | 2013 (unaudited) | 2012 (unaudited) |
| Cash flow from operating activities: | | | |
| Profit before income tax | | 188,776 | 129,201 |
| Adjustments for: | | | |
| Depreciation, depletion and amortization | 20, 21 | 63,836 | 46,207 |
| Finance costs | | 34,420 | 34,250 |
| Interest income | | (491) | (106) |
| Foreign exchange gain on investing and financing activities | | (12) | (207) |
| Operating profit before working capital changes | | 286,529 | 209,345 |
| Changes in working capital: | | | |
| Change in inventories | | 5,079 | (4,581) |
| Change in trade receivables | | (36,307) | (13,925) |
| Change in prepayments and other current assets | | 2,241 | (3,304) |
| Change in trade payables | | (6,047) | (8,892) |
| Change in advances received | | (37) | (1,757) |
| Change in due to Government of Kazakhstan | | (515) | (514) |
| Change in other current liabilities | | (6,408) | (3,139) |
| Cash generated from operations | | 244,535 | 173,233 |
| Income tax paid | | (68,375) | (5,426) |
| Net cash flows from operating activities | | 176,160 | 167,807 |
| Cash flow from investing activities: | | | |
| Interest received | | 491 | 106 |
| Purchase of property, plant and equipment | | (111,773) | (100,207) |
| Redemption of term bank deposits | | 50,000 | - |
| Net cash used in investing activities | | (61,282) | (100,101) |
| Cash flow from financing activities: | | | |
| Finance costs paid | | (35,960) | (40,292) |
| Transfer to restricted cash | | (502) | (340) |
| Net cash used in financing activities | | (36,462) | (40,632) |
| Net increase in cash and cash equivalents | | 78,416 | 27,074 |
| Cash and cash equivalents at the beginning of the period | | 164,979 | 47,537 |
| Cash and cash equivalents at the end of the period | | 243,395 | 74,611 |

NON-CASH TRANSACTIONS

Non-cash transaction, including the following, has been excluded from the consolidated statement of cash flows:


Offset of Corporate Income Tax with Value Added Tax

During the six months ended June 30, 2012, the Partnership offset tax liabilities for the non-cash amount of US\$ 3,622 thousand with value added tax receivables.

General Director of Zhaikmunai LLP

Chief Financial Officer of Zhaikmunai LLP

Chief Accountant of Zhaikmunai LLP



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INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**For the six months ended June 30, 2013***In thousands of US dollars*

| | Partnership capital | Other reserves | Retained earnings | Total |
|---|------------------------|-------------------|----------------------|----------|
| As at December 31, 2011 (audited) | 4 | 32,637 | 193,208 | 225,849 |
| Net income for the period | – | – | 78,827 | 78,827 |
| Total comprehensive income for the period | – | – | 78,827 | 78,827 |
| As at June 30, 2012 (unaudited) | 4 | 32,637 | 272,035 | 304,676 |
| As at December 31, 2012 (audited) | 4 | 32,637 | 340,857 | 373,498 |
| Net income for the period | – | – | 115,679 | 115,679 |
| Total comprehensive income for the period | – | – | 115,679 | 115,679 |
| Loss on acquisition of Zhaikmunai International B.V. | – | (197) | – | (197) |
| Profit distribution (Note 13) | – | – | (10,000) | (10,000) |
| As at June 30, 2013 (unaudited) | 4 | 32,440 | 446,536 | 478,980 |

General Director of Zhaikmunai LLP

Chief Financial Officer of Zhaikmunai LLP

Chief Accountant of Zhaikmunai LLP

*Hein Wendel**Gudrun Wykrota**Olga Shoshinova*

The accounting policies and explanatory notes on pages 5 through 28 are an integral part of these interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**For the six months ended June 30, 2013***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 between the State Committee of Investments of the Republic of Kazakhstan and Zhaikmunai LLP in accordance with the license MG No. 253D (the "License") for the exploration and production of hydrocarbons in Chinarevskoye oil and gas condensate field.

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 notes with an October 19, 2015 maturity and a fixed coupon of 10.50% per annum (the "2015 Notes").

The consolidated financial statements include the financial statements of the Partnership and its subsidiaries (jointly the "Group"), Zhaikmunai Finance B.V. and Zhaikmunai International B.V., which was established by Zhaikmunai Netherlands B.V., an entity under control of a common parent, in October 2012 specifically to issue the US\$ 560 million senior notes with a November 13, 2019 maturity and fixed coupon of 7.125% per annum (the "2019 Notes"). As at December 31, 2012 Zhaikmunai International B.V. was consolidated as a structured entity of the Partnership.

The Group's operations comprise of one production license and 3 additional exploration concessions and are primarily conducted through its oil and gas producing entity Zhaikmunai LLP located in Kazakhstan.

On August 17, 2012 the Partnership signed Asset Purchase Agreements to acquire 100% of the subsoil use rights related to three oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye – all located in the Western Kazakhstan region. On March 1, 2013 the Partnership has acquired the subsoil use rights related to these three oil and gas fields in Kazakhstan following the signing of the respective supplementary agreements related thereto by the Ministry of Oil and Gas (the "MOG") of the Republic of Kazakhstan.

The participants of the Partnership, their shares and changes in the participants' structure are disclosed in Note 13.

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

These consolidated financial statements were authorized for issue by the Partnership's General Director, Chief Financial Officer and Chief Accountant on August 16, 2013.

Licence terms

The term of the License originally included a 5-year exploration period and a 25-year production period. The exploration period was initially extended for an additional 4 years and then for a 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. The extensions to the exploration periods have not changed the license term, which will expire in 2031.

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated February 8, 2008 originally included a 3-year exploration period and a 12-year production period. On April 27, 2009 the exploration period was extended so as to have a total duration of 6 years. In January 2012 the MOG made the decision that the exploration period be extended until February 8, 2015. Upon receipt of the ownership rights the Partnership started the process of application for signing of the relevant supplementary agreement (Note 29).

The contract for exploration and production of hydrocarbons from Darjinskoye field dated July 28, 2006 originally included a 6-year exploration period and a 19-year production period. On October 21, 2008 the exploration period was extended for 6 months so as to expire on January 28, 2013. On April 27, 2009 the exploration period was extended until January 28, 2015. Upon receipt of the ownership rights the Partnership started the process of application for further extension of the exploration period.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)For the six months ended June 30, 2013

1. GENERAL (continued)*Licence terms (continued)*

The contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field dated July 28, 2006 originally included a 5-year exploration period and a 20-year production period. On April 27, 2009 the exploration period was extended until July 28, 2012. On July 8, 2011 the exploration period was further extended until July 28, 2014. Upon receipt of the ownership rights the Partnership started the process of application for further extension of the exploration period.

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 3% to 7% of produced crude oil 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.

2. BASIS OF PREPARATION AND CONSOLIDATION**Basis of preparation**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared based on a historical cost basis, except for certain financial instruments which are carried at fair value as stated in the accounting policies (Note 4). The consolidated financial statements are presented in US Dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires from 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 consolidated financial statements are disclosed in Note 4.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Partnership and its subsidiaries as at June 30, 2013.

Subsidiaries and structured entities are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies for all Group entities. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Subsidiaries

Subsidiaries are all entities over which the Partnership has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and the effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Partnership controls another entity.

Purchases of controlling interests in subsidiaries from entities under common control

Purchases of controlling interests in subsidiaries from entities under common control are accounted for using the pooling of interests method.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)For the six months ended June 30, 2013

2. BASIS OF PREPARATION AND CONSOLIDATION (continued)**Basis of consolidation (continued)***Purchases of controlling interests in subsidiaries from entities under common control (continued)*

The assets and liabilities of the subsidiary transferred under common control are recorded at the carrying values reported in the consolidated financial statements of the parent. Any difference between the total book value of net assets and the consideration paid is accounted for in the consolidated financial statements as an adjustment to the shareholders' equity.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the controlling entity

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**New standards, interpretations and amendments thereof, adopted by the Group**

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2012, except for the adoption of new standards and interpretations as of January 1, 2013, noted below.

The nature and the impact of each new standard/amendment are described below:

Improvements to IFRSs 2009-2011*IAS 1 Clarification of the requirement for comparative information (Amendment)*

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

The opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for interim financial statements do not include a third balance sheet. The amendment did not have an impact on the interim consolidated financial statements of the Group.

IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32 Financial Instruments: Presentation removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim consolidated financial statements of the Group.

IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. The amendment did not have an impact on the disclosures in the interim consolidated financial statements for the Group.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)For the six months ended June 30, 2013

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**New standards, interpretations and amendments thereof, adopted by the Group (continued)***New standards, interpretations and amendments thereof**IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment had no impact on the Group's financial position or performance.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The amendment had no impact on the Group's financial position or performance.

IFRS 7 Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including structured entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Structured Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. As the Group does not have JCEs, hence IFRS 11 had no impact on the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim consolidated financial statements of the Group.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)For the six months ended June 30, 2013

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)**New standards, interpretations and amendments thereof, adopted by the Group (continued)***IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required for financial instruments by IAS 34.16 A (j), thereby affecting the interim consolidated financial statements period. The Group provides these disclosures in Note 28.

In addition to the above-mentioned amendments and new standards, IFRS 1 First-time Adoption of International Financial Reporting Standards was amended with effect for reporting periods starting on or after 1 January 2013. The Group is not a first-time adopter of IFRS, therefore, this amendment is not relevant to the Group.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's interim consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

- Amendment to IAS 32 – *Offsetting Financial Assets and Financial Liabilities (effective from January 1, 2014)*
- IFRS 9 – *Financial Instruments (issued in 2009) (effective from January 1, 2015)*
- Amendments to IFRS 7 and IFRS 9 – *Mandatory Effective Date and Transition Disclosures (effective from January 1, 2015)*
- Amendments to IFRS 10, IFRS12 and IAS 27 – *Investment Entities (effective from January 1, 2014)*
- IFRIC 21 – *Levies (effective from January 1, 2014)*
- Amendment to IAS 39 – *Continuing hedge accounting after novation (effective from January 1, 2014)*

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Significant accounting judgements, estimates 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended June 30, 2013

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Significant accounting judgements, estimates and assumptions (continued)***Oil and gas reserves (continued)*

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.

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.

Abandonment and site restoration liabilities

The Group 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.

Over time, the discounted liability is increased for the change in present value based on the discount rate that reflects current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in profit or loss as a finance cost. 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, 2012 and 2011 were 7% and 10% respectively. Movements in the provision for decommissioning liability are disclosed in Note 14.

Consolidation of a structured entity

In October 2012 Zhaikmunai International B.V. was established by Zhaikmunai Netherlands B.V., an entity under control of a common parent, specifically to issue the 2019 Notes (Note 14). The net proceeds from the 2019 Notes were used to fund the repurchase of part of the 2015 Notes (Note 14) and to fund the costs and expenses of the repurchase of the 2015 Notes and the issue of the 2019 Notes. The remaining part of the net proceeds is intended to be used for general corporate purposes.

Based on these facts and circumstances, management concluded that at 31 December 2012 the Group controlled this entity and, therefore, consolidated the entity in its financial statements as of that date. During six months ended 30 June 2013 the Group acquired 100% ownership in the entity.

Foreign currency translation

Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. The functional currency of the Partnership and its subsidiaries is the United States dollar (the "US dollar" or "US\$").

Transactions and balances denominated in foreign currencies

Transactions in foreign currencies are initially recorded by the Group 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)For the six months ended June 30, 2013

4. 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 exploration wells 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 the period ended June 30, 2013 (2012: Nil).

Oil and gas properties

Expenditure on the construction, installation or completion of infrastructure facilities such as treatment facilities, 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 the straight line method is also applied.

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 Partnership.

Impairment of non-financial assets

The Group 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.

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 accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended June 30, 2013

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Other properties (continued)**

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 Group 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 Constructions | 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 operations field 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 Group'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, gas condensate and liquefied petroleum gas ("LPG") is determined on the weighted-average method based on the production cost including the relevant expenses on depreciation, depletion and impairment and overhead costs based on production volume. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

Provisions

Provisions are recognized when the Group 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 Group 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)For the six months ended June 30, 2013

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**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.

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 Group'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.

Accounts receivable

Accounts receivables 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.

Derecognition

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

- The rights to receive cash flows from the asset have expired;
- The Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group 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 recognized to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group 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 Group could be required to repay.

Impairment of financial assets

The Group 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)For the six months ended June 30, 2013

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial assets (continued)***Impairment of financial assets (continued)*

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 reorganization 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 amortized cost

For financial assets carried at amortized cost the Group 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 Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group 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, recognized 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.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized 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 realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized 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.

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 Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

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

Subsequent measurement

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

Amortized 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 amortization is included in finance cost in the profit or loss.

Derecognition

A financial liability is derecognized 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 recognized in the profit or loss.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)For the six months ended June 30, 2013

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial liabilities (continued)***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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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 28.

Derivative financial instruments and hedging

The Partnership uses hedging contracts 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 premeasured 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. As at December 31, 2012 and June 30, 2013 the Group had no open hedging contracts.

Taxation

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability 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, gas condensate and LPG under short-term agreements priced by reference to Platt's and/or Argus' index quotations and adjusted for freight, insurance and quality differentials where applicable.

Revenue from the sale of crude oil, gas condensate and LPG 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.

5. EXPLORATION AND EVALUATION ASSETS

During the six months ended June 30, 2013 the Group had additions of exploration and evaluation assets of US\$ 15,835 thousand (six months ended June 30, 2012: US\$ nil). The additions are related to the acquisition of subsoil use rights of three oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended June 30, 2013

6. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the six months ended June 30 was as follows:

| <i>In thousands of US dollar</i> | Oil and gas properties | | Total oil and gas properties | Non oil and gas properties | | | | Total Non-oil gas properties | Total |
|--|------------------------|----------------|------------------------------|----------------------------|-----------------------|--------------|--------------|------------------------------|------------------|
| | Working assets | CIP | | Buildings | Machinery & equipment | Vehicles | Others | | |
| Balance at December 31, 2011, net of accumulated depreciation (audited) | 903,178 | 209,199 | 1,112,377 | 5,488 | 2,919 | 1,106 | 2,520 | 12,033 | 1,124,410 |
| Additions | 1,290 | 77,439 | 78,729 | 215 | 1,096 | 32 | 3,139 | 4,483 | 83,212 |
| Transfers | 54,739 | (55,097) | (358) | 362 | 2,218 | 192 | (2,414) | 358 | – |
| Disposals | (5) | – | (5) | – | (238) | – | (99) | (337) | (342) |
| Disposals depreciation | – | – | – | – | 121 | – | 90 | 211 | 211 |
| Depreciation charge | (44,701) | – | (44,701) | (414) | (697) | (158) | (237) | (1,506) | (46,207) |
| Balance at June 30, 2012, net of accumulated depreciation (unaudited) | 914,501 | 231,541 | 1,146,042 | 5,651 | 5,419 | 1,172 | 2,999 | 15,242 | 1,161,284 |
| Balance at December 31, 2012, net of accumulated depreciation (audited) | 1,002,602 | 203,103 | 1,205,705 | 5,607 | 6,496 | 1,170 | 4,002 | 17,275 | 1,222,980 |
| Additions | 915 | 111,430 | 112,345 | 69 | 1,414 | 215 | 1,349 | 3,047 | 115,392 |
| Transfers | 94,803 | (94,803) | – | (29) | 829 | 21 | (821) | – | – |
| Disposals | – | (856) | (856) | – | (1,050) | (50) | (342) | (1,442) | (2,298) |
| Disposals depreciation | – | – | – | 8 | 18 | 46 | 4 | 76 | 76 |
| Depreciation charge | (61,657) | – | (61,657) | (434) | (1,247) | (158) | (339) | (2,178) | (63,835) |
| Balance at June 30, 2013, net of accumulated depreciation (unaudited) | 1,036,663 | 218,874 | 1,255,537 | 5,221 | 6,460 | 1,244 | 3,853 | 16,778 | 1,272,315 |
| Cost at June 30, 2012 | 1,066,768 | 231,541 | 1,298,309 | 8,170 | 8,888 | 2,849 | 4,644 | 24,552 | 1,322,861 |
| Accumulated depreciation | (152,267) | – | (152,267) | (2,519) | (3,469) | (1,677) | (1,645) | (9,310) | (161,577) |
| Balance at June 30, 2012, net of accumulated depreciation (unaudited) | 914,501 | 231,541 | 1,146,042 | 5,651 | 5,419 | 1,172 | 2,999 | 15,242 | 1,161,284 |
| Cost at June 30, 2013 | 1,305,091 | 218,874 | 1,523,965 | 8,601 | 12,171 | 3,189 | 6,028 | 29,989 | 1,553,954 |
| Accumulated depreciation | (268,428) | – | (268,428) | (3,380) | (5,711) | (1,945) | (2,175) | (13,211) | (281,639) |
| Balance at June 30, 2013, net of accumulated depreciation (unaudited) | 1,036,663 | 218,874 | 1,255,537 | 5,221 | 6,460 | 1,244 | 3,853 | 16,778 | 1,272,315 |

The category “Oil and Gas properties” represents mainly wells, oil and gas treatment facilities, oil transportation and other related assets.

The depletion rate for oil and gas working assets was 6.66% and 5.34% during six months ended June 30, 2013 and 2012, respectively. The unamortized costs of 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 January 1, 2013. Depletion has been calculated using the unit of production method based on these reserves estimates.

The Partnership incurred borrowing costs including amortization of arrangement fee of US\$ 40,935 thousand and US\$ 41,974 thousand for the six months ended June 30, 2013 and June 30, 2012. For the same periods, the Partnership capitalized borrowing costs totaling US\$ 6,890 thousand and US\$ 8,556 thousand, at capitalization rates of 4.67% and 5.69%, respectively.

As of June 30, 2013 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 14).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended June 30, 2013

7. ADVANCES FOR NON-CURRENT ASSETS

As at June 30, 2013 and December 31, 2012 advances for non-current assets comprised the following:

| <i>In thousands of US dollars</i> | June 30, 2013 (unaudited) | December 31, 2012 (audited) |
|---|--------------------------------------|--------------------------------|
| Advances for pipes and construction materials | 7,551 | 9,126 |
| Advances for construction services | 3,320 | 6,063 |
| Advances for purchase of licenses | – | 10,089 |
| | 10,871 | 25,278 |

8. INVENTORIES

As at June 30, 2013 and December 31, 2012, inventories comprised the following:

| <i>In thousands of US dollars</i> | June 30, 2013 (unaudited) | December 31, 2012 (audited) |
|-----------------------------------|--------------------------------------|--------------------------------|
| Materials and supplies | 15,893 | 17,126 |
| Gas condensate | 2,751 | 4,633 |
| Crude oil | 951 | 2,750 |
| LPG | 289 | 454 |
| | 19,884 | 24,963 |

As at June 30, 2013 and December 31, 2012 inventories are carried at cost.

9. TRADE RECEIVABLES

As at June 30, 2013 and December 31, 2012 trade receivables were denominated in US dollars, their collection period was less than 30 days and they were not impaired.

As at June 30, 2013 and December 31, 2012 the ageing analysis of trade receivables is as follows:

| <i>In thousands of US dollars</i> | Total | Neither past due nor impaired | Past due but not impaired | | | | |
|-----------------------------------|---------------|--|----------------------------------|-------------------|-------------------|--------------------|---------------------|
| | | | <30 days | 30-60 days | 60-90 days | 90-120 days | >120 days |
| June 30, 2013 (unaudited) | 90,309 | 71,843 | – | 18,240 | – | – | 226 |
| December 31, 2012 (audited) | 54,002 | 53,998 | – | – | – | – | 4 |

10. PREPAYMENTS AND OTHER CURRENT ASSETS

As at June 30, 2013 and December 31, 2012 prepayments and other current assets comprised the following:

| <i>In thousands of US dollars</i> | June 30, 2013 (unaudited) | December 31, 2012 (audited) |
|-----------------------------------|--------------------------------------|--------------------------------|
| VAT receivable | 12,836 | 10,818 |
| Advances paid | 8,240 | 12,318 |
| Other | 679 | 934 |
| | 21,755 | 24,070 |

Advances paid consist primarily of prepayments made to service providers.

11. SHORT-TERM INVESTMENTS

As at December 31, 2012 short-term investments were represented by an interest bearing short-term deposit placed by Zhaikmunai International B.V. on November 16, 2012 at for a six-month period.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended June 30, 2013

12. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

| <i>In thousands of US Dollars</i> | June 30, 2013 (unaudited) | December 31, 2012 (audited) |
|--|--------------------------------------|--------------------------------|
| Current accounts in US Dollars | 241,843 | 54,385 |
| Current accounts in Tenge | 1,521 | 10,567 |
| Current accounts in other currencies | 24 | 21 |
| Petty cash | 7 | 6 |
| Bank deposits with maturity less than three months | – | 100,000 |
| | 243,395 | 164,979 |

The Partnership has restricted cash accounts as liquidation fund deposits in the amount of US\$ 4,154 thousand with Kazkommertsbank JSC and SB Sberbank JSC in Kazakhstan (December 31, 2012: US\$ 3,652 thousand), which are kept as required by the License for abandonment and site restoration liabilities of the Partnership.

13. 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 shares 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 the below market interest rates as well as loss on its subsequent substantial modification have been recorded in other reserves.

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

At the Annual General Meeting of the Partnership on June 28, 2013 the participants in the Partnership approved a profit distribution by the Partnership in the KZT amount equivalent to US\$ 10,000 thousand (including withholding tax) making a net cash payment to Condensate-Holding LLP (applying the official NBK exchange rate at the date of the General Meeting) of KZT 834,680 thousand and a net cash payment to Claydon Industrial Limited of US\$ 4,275 thousand. Payment was made in July 2013 (Note 29).

14. BORROWINGS

Borrowings comprise the following as at June 30, 2013 and December 31, 2012:

| <i>In thousands of US dollars</i> | June 30, 2013 (unaudited) | December 31, 2012 (audited) |
|-------------------------------------|--------------------------------------|--------------------------------|
| Notes payable with maturity in 2019 | 532,208 | 530,425 |
| Zhaikmunai Netherlands B.V. | 300,000 | 300,000 |
| Notes payable with maturity in 2015 | 92,847 | 92,503 |
| | 925,055 | 922,928 |
| Less: amounts due within 12 months | (67,152) | (7,152) |
| Amounts due after 12 months | 857,903 | 915,776 |

2015 Notes

On October 19, 2010 Zhaikmunai Finance B.V. (the «2015 Initial Issuer») issued US\$ 450,000 thousand notes (the «2015 Notes»).

On February 28, 2011 Zhaikmunai LLP (the «2015 Issuer») replaced the 2015 Initial Issuer of the 2015 Notes, whereupon it assumed all of the obligations of the 2015 Initial Issuer under the 2015 Notes.

The 2015 Notes bear interest at the rate of 10.50% per year. Interest on the 2015 Notes is payable on April 19 and October 19 of each year, beginning on April 19, 2011. Prior to October 19, 2013, the 2015 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2015 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 (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2015 Notes (including Additional Notes as defined in the indenture relating to the 2015 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)For the six months ended June 30, 2013

14. BORROWINGS (continued)**2015 Notes (continued)**

In addition, the 2015 Notes may be redeemed, in whole or in part, at any time prior to October 19, 2013 at the option of the 2015 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2015 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2015 Notes redeemed plus the Applicable Premium (as defined below) 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 2015 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2015 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2015 Note at October 19, 2013 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2015 Note through October 19, 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 2015 Note.

The 2015 Notes are jointly and severally guaranteed (the "2015 Guarantees") on a senior basis by Zhaikmunai LP and all of its subsidiaries other than the 2015 Issuer (the "2015 Guarantors"). The 2015 Notes are the 2015 Issuer's and the 2015 Guarantors' senior obligations and rank equally with all of the 2015 Issuer's and the 2015 Guarantors' other senior indebtedness. The 2015 Notes and the 2015 Guarantees have the benefit of first-priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

On October 19, 2012, the Zhaikmunai International B.V. commenced a cash tender offer (the "Tender Offer") to purchase any and all of the 2015 Notes. US\$ 347,604 thousand aggregate principal amount of the 2015 Notes had been tendered into the Tender Offer, representing approximately 77% of the outstanding 2015 Notes, by the time the Tender Offer for 2015 Notes expired on November 19, 2012. The holders of US\$ 200,732 thousand 2015 Notes that accepted the Tender Offer have subscribed to the 2019 Notes of the same amount.

2019 Notes

On November 13, 2012, Zhaikmunai International B.V. (the "2019 Initial Issuer") issued US\$ 560,000 thousand notes (the "2019 Notes").

On April 24, 2013 Zhaikmunai LLP (the "2019 Issuer") replaced the 2019 Initial Issuer of the 2019 Notes, whereupon it assumed all of the obligations of the 2019 Initial Issuer under the 2015 Notes.

The 2019 Notes bear interest at the rate of 7.125% per year. Interest on the 2019 Notes is payable on May 14 and November 13 of each year, beginning on May 14, 2013. Prior to November 13, 2016, the 2019 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2019 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 107.125% of the principal amount thereof, plus accrued and unpaid interest, if any, to the 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); provided that (1) at least 65% of the original principal amount of the 2019 Notes (including Additional Notes as defined in the indenture relating to the 2019 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 2019 Notes may be redeemed, in whole or in part, at any time prior to November 13, 2016 at the option of the 2019 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2019 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2019 Notes redeemed plus the Applicable Premium (as defined below) 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 2019 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2019 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2019 Note at 13 November 2016 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2019 Note through November 13, 2016 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 2019 Note.

The 2019 Notes are jointly and severally guaranteed (the "2019 Guarantees") on a senior basis by Zhaikmunai LP and all of its subsidiaries other than the 2019 Issuer (the "2019 Guarantors"). The 2019 Notes are the 2019 Issuer's and the 2019 Guarantors' senior obligations and rank equally with all of the 2019 Issuer's and the 2019 Guarantors' other senior indebtedness. The 2019 Notes and the 2019 Guarantees do not have the benefit of first-priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended June 30, 2013

14. BORROWINGS (continued)**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 loan agreement 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.

On January 1, 2013, amendments to the loan agreement were made according to which the interest rate was decreased from 10% to 6.625%.

The outstanding balance of the loan as of June 30, 2013 has an interest rate of 6.625% (December 31, 2012: 10%).

At the Annual General Meeting of the Partnership on June 28, 2013, the participants in the Partnership approved in relation to the US\$ 300,000 intra-group loan agreement dated 1 January 2013 between the Partnership and Zhaikmunai Netherlands B.V. to (a) make early repayment of part of the loan in the amount of US\$ 60,000 thousand to Zhaikmunai Netherlands B.V. and (b) pay to Zhaikmunai Netherlands B.V. a early redemption fee of US\$ 450 thousand and (c) amend and restate the intra-group loan agreement to take into account the prepayment referred to in (a).

15. ABANDONMENT AND SITE RESTORATION LIABILITIES

The summary of changes in abandonment and site restoration liabilities during the six months ended June 30, 2013 and 2012 are as follows:

| <i>In thousands of US Dollar</i> | 2013 | 2012 |
|---|---------------|-------------|
| Abandonment and site restoration liability as at January 1 (audited) | 11,064 | 8,713 |
| Unwinding of discount | 517 | 407 |
| Additional provision | 1,125 | 1,041 |
| Change in estimates | (724) | (570) |
| Abandonment and site restoration liability as at June 30 (unaudited) | 11,982 | 9,591 |

The long-term inflation and discount rates used to determine the abandonment and site restoration liabilities at June 30, 2013 were 7% and 10%, respectively (June 30, 2012: 7.0% and 10%).

16. 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 June 30, 2013 and 2012 and changes in the amount due to Government of Kazakhstan were as follows:

| <i>In thousands of US dollar</i> | 2013 | 2012 |
|--|----------------|-------------|
| Due to Government of Kazakhstan as at January 1 (audited) | 7,153 | 7,242 |
| Unwinding of discount | 414 | 425 |
| Paid during the period | (515) | (514) |
| | 7,052 | 7,153 |
| Less: current portion of due to Government of Kazakhstan | (1,031) | (1,031) |
| Due to Government of Kazakhstan as at June 30 (unaudited) | 6,021 | 6,122 |

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended June 30, 2013

17. TRADE PAYABLES

| <i>In thousands of US dollars</i> | June 30, 2013 (unaudited) | December 31, 2012 (audited) |
|--|--------------------------------------|--------------------------------|
| Tenge denominated trade payables | 35,373 | 39,209 |
| US dollar denominated trade payables | 12,125 | 17,339 |
| Trade payables denominated in other currencies | 3,127 | 2,261 |
| | 50,625 | 58,809 |

18. OTHER CURRENT LIABILITIES

| <i>In thousands of US dollars</i> | June 30, 2013 (unaudited) | December 31, 2012 (audited) |
|--|--------------------------------------|--------------------------------|
| Taxes payable, other than corporate income tax | 10,227 | 24,832 |
| Training obligations | 10,795 | 9,257 |
| Due to employees | 2,036 | 1,169 |
| Other | 6,500 | 559 |
| | 29,558 | 35,817 |

19. REVENUES

| <i>In thousands of US dollars</i> | Three months ended June 30, | | Six months ended June 30, | |
|-----------------------------------|------------------------------------|---------------------|----------------------------------|---------------------|
| | 2013 (unaudited) | 2012 (unaudited) | 2013 (unaudited) | 2012 (unaudited) |
| Oil and gas condensate | 170,602 | 120,263 | 353,386 | 250,871 |
| Gas and LPG | 43,371 | 39,751 | 89,113 | 72,538 |
| | 213,973 | 160,014 | 442,499 | 323,409 |

During six months ended June 30, 2013 the revenue from sales to two major customers amounted to US\$ 95,809 thousand and US\$ 77,522 thousand, respectively (six months ended June 30, 2012: US\$ 113,115 thousand and US\$ 64,093 thousand, respectively).

20. COST OF SALES

| <i>In thousands of US dollars</i> | Three months ended June 30, | | Six months ended June 30, | |
|--|------------------------------------|---------------------|----------------------------------|---------------------|
| | 2013 (unaudited) | 2012 (unaudited) | 2013 (unaudited) | 2012 (unaudited) |
| Depreciation, depletion and amortization | 27,545 | 23,984 | 63,213 | 45,631 |
| Repair, maintenance and other services | 12,486 | 13,740 | 24,770 | 22,346 |
| Royalties | 8,257 | 3,646 | 18,028 | 6,855 |
| Payroll and related taxes | 3,819 | 4,814 | 7,804 | 8,780 |
| Materials and supplies | 3,276 | 3,799 | 6,279 | 7,483 |
| Government profit share | 1,954 | 796 | 4,249 | 1,583 |
| Other transportation services | 1,178 | 1,256 | 2,356 | 2,867 |
| Well workover costs | 891 | 171 | 1,745 | 1,648 |
| Management fees | 776 | 444 | 1,587 | 950 |
| Environmental levies | 393 | 385 | 574 | 803 |
| Change in stock | 1,758 | (3,708) | 3,847 | (6,434) |
| Other | 596 | 1,256 | 879 | 2,464 |
| | 62,929 | 50,583 | 135,331 | 94,976 |

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended June 30, 2013

21. GENERAL AND ADMINISTRATIVE EXPENSES

| <i>In thousands of US dollars</i> | Three months ended June 30, | | Six months ended June 30, | |
|-----------------------------------|------------------------------------|-------------|----------------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Payroll and related taxes | 1,755 | 1,139 | 3,379 | 2,185 |
| Professional services | 2,014 | 429 | 2,717 | 627 |
| Training | 1,472 | 1,054 | 2,549 | 1,858 |
| Management fees | 723 | 815 | 1,644 | 1,830 |
| Insurance fees | 503 | 320 | 954 | 614 |
| Sponsorship | 287 | 102 | 625 | 244 |
| Depreciation and amortization | 260 | 302 | 623 | 576 |
| Bank charges | 316 | 229 | 586 | 435 |
| Communication | 201 | 158 | 405 | 358 |
| Materials and supplies | 144 | 138 | 276 | 270 |
| Business trip | 152 | 115 | 272 | 215 |
| Other taxes | 157 | 71 | 251 | 215 |
| Lease payments | 118 | 83 | 237 | 166 |
| Social program | 75 | 11,242 | 150 | 11,317 |
| Other | 89 | 59 | 209 | 149 |
| | 8,266 | 16,256 | 14,877 | 21,059 |

22. SELLING AND TRANSPORTATION EXPENSES

| <i>In thousands of US dollars</i> | Three months ended June 30, | | Six months ended June 30, | |
|-----------------------------------|------------------------------------|-------------|----------------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Transportation costs | 21,009 | 15,806 | 39,485 | 31,049 |
| Loading and storage costs | 9,946 | 5,608 | 15,990 | 10,263 |
| Payroll and related taxes | 598 | 633 | 1,199 | 1,040 |
| Management fees | 277 | 432 | 475 | 908 |
| Other | 2,449 | 682 | 3,665 | 1,376 |
| | 34,279 | 23,161 | 60,814 | 44,636 |

23. FINANCE COSTS

| <i>In thousands of US dollars</i> | Three months ended June 30, | | Six months ended June 30, | |
|---|------------------------------------|-------------|----------------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Interest expense on borrowings | 17,232 | 16,480 | 33,489 | 33,418 |
| Unwinding of discount on Abandonment and Site Restoration Liability | 259 | 203 | 517 | 407 |
| Unwinding of discount on Due to Government | 257 | 257 | 414 | 425 |
| | 17,748 | 16,940 | 34,420 | 34,250 |

24. OTHER EXPENSES

| <i>In thousands of US dollars</i> | Three months ended June 30, | | Six months ended June 30, | |
|-----------------------------------|------------------------------------|-------------|----------------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Export customs duty | 4,812 | – | 6,607 | – |
| Compensation | 813 | 421 | 1,336 | 1,061 |
| Other | 388 | 448 | 2,703 | 1,094 |
| | 6,013 | 869 | 10,646 | 2,155 |

The export customs duty is represented by the custom duties for export of crude oil and customs fees for its services such as processing of declarations, temporary warehousing etc. Based on their interpretation of CIS free-trade legislation the Kazakhstan customs authorities have imposed customs duties on oil exports from Kazakhstan to Ukraine starting from December 2012. Zhaikmunai LLP believes such customs duties should not be applicable to its oil exports to Ukraine and is contesting the imposition of such duties to such exports.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended June 30, 2013

25. 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, | |
|---------------------------------------|------------------------------------|--------------------|----------------------------------|--------------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Current income tax expenses comprise: | 34,342 | 19,323 | 76,796 | 45,517 |
| Deferred income tax expense/(benefit) | 1,165 | 3,536 | (3,699) | 4,857 |
| Total income tax expense | 35,507 | 22,859 | 73,097 | 50,374 |

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 is as follows:

| <i>In thousands of US dollars</i> | Three months ended June 30, | | Six months ended June 30, | |
|--|------------------------------------|--------------------|----------------------------------|--------------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Profit before income tax | 85,938 | 54,286 | 188,776 | 129,201 |
| Statutory tax rate | 30% | 30% | 30% | 30% |
| Expected tax provision | 25,781 | 16,286 | 56,633 | 38,760 |
| Non-deductible interest expense on borrowings | 6,760 | 5,425 | 11,275 | 10,830 |
| Change of the tax base | 810 | (382) | 911 | (1,017) |
| Foreign exchange (gain)/loss | 447 | (83) | 553 | (150) |
| Other | 1,709 | 1,613 | 3,725 | 1,951 |
| Income tax expense reported in the financial statements | 35,507 | 22,859 | 73,097 | 50,374 |

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 dollars</i> | June 30, 2013 | December 31, 2012 |
|-----------------------------------|----------------------|--------------------------|
| | (unaudited) | (audited) |
| Deferred tax asset: | | |
| Accounts payable and provisions | 3,339 | 2,868 |
| Deferred tax liability: | | |
| Property, plant and equipment | (148,572) | (151,800) |
| Net deferred tax liability | (145,233) | (148,932) |

The movements in the deferred tax liability were as follows:

| <i>In thousands of US dollars</i> | 2013 (unaudited) | 2012 (unaudited) |
|---|-------------------------|-------------------------|
| Balance at January 1 (audited) | (148,932) | (146,674) |
| Current period charge to profit or loss | 3,699 | (4,857) |
| Balance at June 30 (unaudited) | (145,233) | (151,531) |

26. RELATED PARTY TRANSACTIONS

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended June 30, 2013

26. RELATED PARTY TRANSACTIONS (continued)

Accounts payable to and borrowings from related parties as at June 30, 2013 and December 31, 2012 consisted of the following:

| <i>In thousands of US dollars</i> | June 30, 2013 (unaudited) | December 31, 2012 (audited) |
|--------------------------------------|--------------------------------------|--------------------------------|
| Borrowings | | |
| Zhaikmunai Netherlands B.V.(Note 14) | 300,000 | 300,000 |
| Trade payables | | |
| Probel Capital Management N.V. | 239 | 288 |
| Amersham Oil LLP | 49 | 48 |
| Prolag BVBA | 35 | 298 |

During the six months ended June 30, 2013 and 2012 the Partnership had the following transactions with related parties:

| <i>In thousands of US dollars</i> | Three months ended June 30, | | Six months ended June 30, | |
|--|------------------------------------|-------------|----------------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Interest paid | | | | |
| Zhaikmunai Netherlands B.V. | 5,521 | 8,334 | 11,042 | 16,667 |
| Management fees and consulting services | | | | |
| Probel Capital Management B.V. | 1,061 | 295 | 2,215 | 591 |
| Prolag BVBA | 391 | 502 | 842 | 1,073 |
| Amersham Oil LLP | 325 | 965 | 650 | 2,026 |

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

Remuneration of key management personnel amounted to US\$ 107 thousand for the six months ended June 30, 2013 (six months ended June 30, 2012: US\$ 331 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.

27. CONTINGENT COMMITMENTS AND OPERATING RISKS**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, 2013. As at June 30, 2013 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended June 30, 2013

27. CONTINGENT COMMITMENTS AND OPERATING RISKS (continued)**Environmental obligations (continued)**

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 June 30, 2013 the Group had contractual capital commitments in the amount of US\$ 44,344 thousand (December 31, 2012: US\$ 23,088 thousand) mainly in respect to the Partnership's oil field development activities.

Operating lease

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 LPG 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, Supplement #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.

The contracts for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields require fulfillment of several social and other obligations. However, these obligations represent part of the work programs and may change in the process of negotiations and approval of the renewed work programs submitted by the Partnership to the MOG.

The current contract for exploration and production of hydrocarbons from Rostoshinskoye field requires the subsurface user to:

- (i) spend at least 1% of investments for education of personnel engaged to work under the contract during the exploration stage;
- (ii) spend US\$ 1,250 thousand to finance social infrastructure of the region during the last year of the exploration stage;
- (iii) fund development of Astana city for the amount of US\$ 1,000 thousand during the last year of the exploration stage;
- (iv) invest at least US\$ 13,420 thousand for exploration of the field during the exploration period;
- (v) reimburse historical costs of US\$ 383 thousand to the Government, including US\$ 11 thousand for the right to use geological information; and
- (vi) create a liquidation fund (special deposit account with local bank) equal to 1% of investment during the exploration stage and 0.1% of operational costs during the production stage.

The current contract for exploration and production of hydrocarbons from Darjinskoye field requires the subsurface user to:

- (i) spend at least US\$ 200 thousand for education of personnel engaged to work under the contract during the exploration stage;
- (ii) spend US\$ 18,850 thousand to finance social infrastructure of the region (including US \$1,000 thousand for funding of development of Astana city in case of commercial discovery);
- (iii) invest at least US\$ 20,000 thousand for exploration of the field during the exploration period;
- (iv) reimburse historical costs of US\$ 6,499 thousand to the Government, including US\$ 195 thousand for right to use geological information; and

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended June 30, 2013

27. CONTINGENT LIABILITIES AND COMMITMENTS (continued)**Social and education commitments (continued)**

- (v) create a liquidation fund (special deposit account with local bank) equal to 1% of capital expenditures during the exploration stage and 0.1% of operational costs during the production stage.

The current contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field requires the subsurface user to:

- (i) spend at least US\$ 200 thousand for education of personnel engaged to work under the contract during the exploration stage;
- (ii) spend US\$ 18,850 thousand to finance social infrastructure of the region (including US\$ 1,000 thousand for funding of development of Astana city in case of commercial discovery);
- (iii) invest at least US\$ 23,050 thousand for exploration of the field during the exploration period;
- (iv) reimburse historical costs of US\$ 3,194 thousand to the Government, including US\$ 96 thousand for right to use geological information; and
- (v) create a liquidation fund (special deposit account with local bank) equal to 1% of capital expenditures during the exploration stage and 0.1% of operational costs during the production stage.

Domestic oil sales

In accordance with Supplement # 7 to 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.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The group's principal financial liabilities comprise borrowings, 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 Group's financial assets consist of trade and other receivables, short-term investments and cash and cash equivalents.

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

Interest rate risk

The Group is not exposed to interest rate risk in 2013 and 2012 as the Group had no floating-rate borrowings as at June 30, 2013 and December 31, 2012.

Foreign currency risk

As a significant portion of the Group's operation is the Kazakhstani Tenge denominated, the Group'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 Dollars exchange rate, with all other variables held constant, of the Group'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 |
|--------------------------|---|--------------------------------|
| June 30, 2013 | | |
| US dollar thousand | +1.57 | (195) |
| US dollar thousand | -1.57 | 195 |
| December 31, 2012 | | |
| US dollar thousand | +1.57 | (235) |
| US dollar thousand | -1.57 | 235 |

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended June 30, 2013

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Liquidity risk**

Liquidity risk is the risk that the Group 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 Group's financial liabilities at June 30, 2013 and December 31, 2012 based on contractual undiscounted payments:

| June 30, 2013 | On demand | Less than 3 months | 3-12 months | 1-5 years | more than 5 years | Total |
|------------------------------------|------------------|-------------------------------|--------------------|------------------|------------------------------|------------------|
| Borrowings | – | 5,010 | 124,478 | 1,150,617 | – | 1,280,105 |
| Dividends payable | – | 10,000 | – | – | – | 10,000 |
| Trade payables | 50,625 | – | – | – | – | 50,625 |
| Other current liabilities | 12,831 | – | – | – | – | 12,831 |
| Due to Government of Kazakhstan | – | 258 | 773 | 5,155 | 12,113 | 18,299 |
| | 63,456 | 15,268 | 125,251 | 1,155,772 | 12,113 | 1,371,860 |
| December 31, 2012 | | | | | | |
| Borrowings | – | 7,397 | 72,216 | 631,531 | 639,800 | 1,350,944 |
| Trade payables | 58,809 | – | – | – | – | 58,809 |
| Other current liabilities | 10,426 | – | – | – | – | 10,426 |
| Due to Government of Kazakhstan | – | 258 | 773 | 4,124 | 13,402 | 18,557 |
| | 69,235 | 7,655 | 72,989 | 635,655 | 653,202 | 1,438,736 |

Credit risk

Financial instruments, which potentially subject the Group 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 Group considers that its maximum exposure is reflected by the amount of trade accounts receivable and advances paid.

The Group places its Tenge denominated cash with SB Sberbank JSC, which has a credit rating of Ba2 (stable) and Citibank, which has a credit rating of Baa2 (negative) from Moody's rating agency and its US dollar denominated cash with BNP Paribas with a credit rating of A2 (stable) and ING with a credit rating of A2 (negative) from Moody's rating agency at June 30, 2013. The Group does not guarantee obligations of other parties.

The Group sells its products 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 Group's exposure to bad debts and recoverability of prepayments made is not significant and thus risk of credit default is low

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 Group'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 Group's borrowings are at market rates of interest specific to those instruments and as such are stated at fair value. The fair value of other financial assets has been calculated using market interest rates.

Management believes that the Group's carrying value of financial assets and liabilities consisting of cash and cash equivalents, trade accounts receivable, trade and other payables are not significantly different from their fair values at June 30, 2013 and December 31, 2012.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended June 30, 2013

29. EVENTS AFTER THE REPORTING PERIOD

On July 3, 2013 the Partnership made early repayment of the part of the loan from Zhaikmunai Netherlands B.V. in the amount of US\$ 60,000 thousand.

On July 5, 2013 the Partnership made payments of profit distribution according to the decision made at the Annual General Meeting of the Partnership on June 28, 2013.

On August 9, 2013 the Rostoshinskoye oilfield appraisal period was extended to February 8, 2015.