

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**1. CORPORATE INFORMATION**

Altius Holdings Inc (“the Company”) and its subsidiaries (“the Group”) is an independent upstream oil and gas company with a portfolio of development and production assets located in the prolific basins of Kazakhstan. The Group operates four producing fields in Kazakhstan.

Altius Holdings Inc, an entity established under the laws of Canada, is 100% owned by KNOC Black Hill Ltd., a Canadian entity, which in turn 100% controlled by Korean National Oil Corporation, which is ultimately controlled by the government of the Republic of Korea. On March 18, 2011 KNOC Black Hill Ltd. purchased 100% share of the Company from Altius Energy Corporation, which is ultimately controlled by Vitol Holding B.V. and its subsidiaries (the “Vitol Group”).

The Company’s registered legal address is: 3700 Cattera Tower, 400 Third Avenue SW, Calgary, Alberta, Canada.

The financial statements of the Company for the period ended September 30, 2011 were authorized for issue by Managing Director on December 22, 2011.

**Licence terms**

Altius Petroleum B.V. 100% subsidiary of the Company is engaged in oil and gas field development and production Akzhar, Alimbai, Besbolek and Karataiky fields located in North-Western Kazakhstan through the branches operated in Aktobe and Atyrau cities. The Group’s operating license, which was obtained from the Government of Republic of Kazakhstan, expire in 2029-2036 (“Subsoil Agreements”). The Group started production at Besbolek field in 2006 and Karataiky and Akzhar fields in 2008.

**Kazakhstan business environment**

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

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Kazakhstan. While the Kazakhstan Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Kazakhstan banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group’s financial position, operating results and business prospects.

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

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****2. BASIS OF PREPARATION**

The interim condensed consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these interim condensed consolidated financial statements. All values in these interim condensed consolidated financial statements are rounded to the nearest thousands, except when otherwise indicated.

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard No. 34 "Interim Financial Reporting" (IAS 34).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with consolidated financial statements as at December 31, 2010.

**Foreign Currency Translation**

The financial statements are presented in Tenge, which is the Company's, and its subsidiary's functional and presentation currency.

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the statement of comprehensive income.

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as official currency exchange rates in the Republic of Kazakhstan.

The currency exchange rate of KASE as of September 30, 2011, was 147.87 Tenge to 1 US dollar. This rate was used to translate monetary assets and liabilities denominated in US dollars as of September 30, 2011 (December 31, 2010: 147.40 Tenge to 1 US dollar).

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Changes in Accounting Policies and Disclosures**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2010, except for the adoption of new standards and interpretations as of 1 January 2011, noted below:

- IAS 24 Related Party Transactions (Amendment)
- IAS 31 Financial Instruments: Presentation (Amendment)
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
- Improvement to IFRSs (issued May 2010)

**Improvements to IFRS**

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wordings. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments – Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 34 Interim Financial Statements

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Improvements to IFRS (continued)**

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

- IFRS 3 Business Combinations – clarification that contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008) are accounted for in accordance with IFRS 3 (2005)
- IFRS 3 Business Combinations – Unreplaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination
- IAS 27 Consolidation and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

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

**4. PROPERTY, PLANT AND EQUIPMENT**

The movement on property, plant and equipment as of September 30, 2011 and year ended 2010 was as follows:

| <i>In thousands of Tenge</i>                  | Land     | Buildings and constructions | Machinery and Equipment | Asset Retirement Obligations | Construction -in- progress | Other     | Total      |
|---|----------|-----------------------------|-------------------------|------------------------------|----------------------------|-----------|------------|
| <b>At cost</b>                                |          |                             |                         |                              |                            |           |            |
| At January 1, 2010                            | 9,407    | 11,136,925                  | 882,458                 | 193,460                      | 2,791,409                  | 498,696   | 15,512,355 |
| Additions                                     | 4,564    | 6,357                       | 154,841                 | 138,119                      | 3,608,733                  | 140,403   | 4,053,017  |
| Disposals                                     | (13,971) | (193,378)                   | (20,936)                | –                            | (10,511)                   | (229,350) | (468,146)  |
| Transfers and reclassifications               | –        | 4,887,080                   | 266,384                 | –                            | (5,177,174)                | 23,710    | –          |
| <b>At December 31, 2010</b>                   | –        | 15,836,984                  | 1,282,747               | 331,579                      | 1,212,457                  | 433,459   | 19,097,226 |
| Additions                                     | –        | 4,250                       | 173,803                 | 36,593                       | 1,711,876                  | 59,594    | 1,986,116  |
| Disposals                                     | –        | (4,442)                     | (60,369)                | –                            | (35,935)                   | (27,474)  | (128,220)  |
| Transfers and reclassifications               | –        | 1,308,797                   | 5,491                   | –                            | (1,328,221)                | 13,933    | –          |
| <b>At September 30, 2011</b>                  | –        | 17,145,589                  | 1,401,672               | 368,172                      | 1,560,177                  | 479,512   | 20,955,122 |
| <b>Accumulated depreciation and depletion</b> |          |                             |                         |                              |                            |           |            |
| At January 1, 2010                            | –        | 2,129,268                   | 392,315                 | –                            | –                          | 49,228    | 2,570,811  |
| Charge for the year                           | –        | 1,250,244                   | 153,094                 | 15,886                       | –                          | 70,950    | 1,490,174  |
| Disposals                                     | –        | (28,498)                    | (16,699)                | –                            | –                          | (21,337)  | (66,534)   |
| <b>At December 31, 2010</b>                   | –        | 3,351,014                   | 528,710                 | 15,886                       | –                          | 98,841    | 3,994,451  |
| Charge for the nine month Impairment          | –        | 1,090,219                   | 130,615                 | 12,731                       | –                          | 51,354    | 1,284,919  |
| Disposals                                     | –        | –                           | (55,199)                | –                            | 102,857                    | –         | 102,857    |
| <b>At September 30, 2011</b>                  | –        | 4,441,233                   | 604,126                 | 28,617                       | 102,857                    | 136,881   | 5,313,714  |
| <b>Net book value</b>                         |          |                             |                         |                              |                            |           |            |
| At January 1, 2010                            | 9,407    | 9,007,657                   | 490,143                 | 193,460                      | 2,791,409                  | 449,468   | 12,941,544 |
| At December 31, 2010                          | –        | 12,485,970                  | 754,037                 | 315,693                      | 1,212,457                  | 334,618   | 15,102,775 |
| <b>At September 30, 2011</b>                  | –        | 12,704,356                  | 797,546                 | 339,555                      | 1,457,320                  | 342,631   | 15,641,408 |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****5. INVENTORIES**

As at September 30, 2011 and December 31, 2010 inventories comprised:

| <i>In thousands of Tenge</i>                             | <b>September 30, 2011</b> | December 31, 2010 |
|--|---------------------------|-------------------|
| Materials  | <b>455,975</b>            | 292,550           |
| Crude oil  | <b>297,357</b>            | 328,146           |
| Work in progress   | <b>67,271</b>             | 32,262            |
| Less: provision for obsolete and slow-moving inventories | <b>(29,944)</b>           | (22,617)          |
|  | <b>790,659</b>            | 630,341           |

The movements in provision for obsolete and slow-moving inventories for the September 30, 2011 were as follows:

| <i>In thousands of Tenge</i>        | <b>September 30, 2011</b> | December 31, 2010 |
|-------------------------------------|---------------------------|-------------------|
| Provision as at January 1           | <b>(22,617)</b>           | (27,660)          |
| Charge for the nine month           | <b>(29,944)</b>           | (22,617)          |
| Recovered                           | <b>22,617</b>             | 27,660            |
| <b>Provision as at September 30</b> | <b>(29,944)</b>           | (22,617)          |

**6. TRADE RECEIVABLES**

| <i>In thousands of Tenge</i>    | <b>September 30, 2011</b> | December 31, 2010 |
|---------------------------------|---------------------------|-------------------|
| Trade receivables in US Dollars | <b>2,969,897</b>          | 434,985           |
| Trade receivables in Tenge      | <b>14,002</b>             | 41,849            |
|                                 | <b>2,983,899</b>          | 476,834           |

Trade receivables are interest free and normally receivable within 30 days. Trade receivables are current as at September 30, 2011 and December 31, 2010 represent amounts due from sales of crude oil.

**7. VAT RECOVERABLE AND OTHER TAXES PREPAID**

As at September 30, 2011 and December 31, 2010 VAT recoverable and other taxes prepaid comprised:

| <i>In thousands of Tenge</i>                 | <b>September 30, 2011</b> | December 31, 2010 |
|--|---------------------------|-------------------|
| VAT recoverable                              | <b>852,449</b>            | 1,185,668         |
| Mineral extraction tax prepaid               | <b>105</b>                | 359,744           |
| Rental tax prepaid                           | <b>1,149</b>              | 179,906           |
| Property tax                                 | <b>25,338</b>             | 49,254            |
| Other  | <b>262,208</b>            | 194,196           |
| Less: Allowance for doubtful VAT recoverable | <b>(79,001)</b>           | (79,001)          |
|  | <b>1,062,248</b>          | 1,889,767         |

**8. CASH AND CASH EQUIVALENTS**

As at September 30, 2011 and December 31, 2010 cash and cash equivalents comprised the following:

| <i>In thousands of Tenge</i>       | <b>September 30, 2011</b> | December 31, 2010 |
|------------------------------------|---------------------------|-------------------|
| Current bank accounts – US dollars | <b>2,728,382</b>          | 8,928,295         |
| Current bank account – Tenge       | <b>537,698</b>            | 235,457           |
| Current bank account – EURO        | <b>–</b>                  | 5,031             |
| Current bank account – CAD         | <b>33,218</b>             | –                 |
| Cash on hand                       | <b>3,362</b>              | 5,537             |
| Cash on card accounts              | <b>4,301</b>              | 2,191             |
| Deposit accounts - Tenge           | <b>682</b>                | 457               |
| Deposit accounts - US dollars      | <b>130,219</b>            | 129,805           |
| Less restricted cash               | <b>(130,901)</b>          | (130,262)         |
|                                    | <b>3,306,961</b>          | 9,176,511         |

As at September 30, 2011 and December 31, 2010 current bank accounts were interest free.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****9. SHARE CAPITAL**

On March 14, 2011 the stated capital of the Company was reduced by 54,860,927 Canadian Dollars. An amount equal to the reduction of stated capital was distributed in cash to Altius Energy Limited, being distribution of 0.3 Canadian Dollar per share. As at September 30, 2011 the amount of share capital was equal to 1 Canadian Dollar (equivalent to 143.65 Tenge).

**10. TAXES PAYABLE**

Taxes payable comprised the following at September 30, 2011 and December 31, 2010:

| <i>In thousands of Tenge</i> | <b>September 30, 2011</b> | December 31, 2010 |
|------------------------------|---------------------------|-------------------|
| Rental tax                   | <b>1,978,688</b>          | —                 |
| Mineral extraction tax       | <b>334,354</b>            | —                 |
| Other taxes payable          | <b>157,961</b>            | 19,697            |
|                              | <b>2,471,003</b>          | 19,697            |

**11. TRADE PAYABLES**

Trade payables comprised the following at September 30, 2011 and December 31, 2010:

| <i>In thousands of Tenge</i> | <b>September 30, 2011</b> | December 31, 2010 |
|------------------------------|---------------------------|-------------------|
| Due to related parties       | —                         | 177,330           |
| Due to third parties         | <b>639,896</b>            | 1,626,130         |
|                              | <b>639,896</b>            | 1,803,460         |

**12. COST OF SALES**

The composition of cost of sales for the period ended September 30, 2011, was as follows:

| <i>In thousands of Tenge</i>                       | <b>For the period ended September 30, 2011</b> |
|--|--|
| Depreciation, depletion and amortization           | <b>1,353,386</b>                               |
| Mineral extraction tax                             | <b>2,018,613</b>                               |
| Transportation expenses                            | <b>847,863</b>                                 |
| Repair and maintenance                             | <b>503,994</b>                                 |
| Services   | <b>358,576</b>                                 |
| Salaries and related costs                         | <b>380,038</b>                                 |
| Taxes and fees                                     | <b>151,823</b>                                 |
| Geological and geophysical expenses                | <b>143,236</b>                                 |
| Fuel and electricity                               | <b>118,824</b>                                 |
| Security   | <b>107,267</b>                                 |
| Impairment loss                                    | <b>102,857</b>                                 |
| Materials  | <b>51,801</b>                                  |
| Catering   | <b>46,988</b>                                  |
| Rent Expenses                                      | <b>40,486</b>                                  |
| Communication                                      | <b>23,971</b>                                  |
| Insurance  | <b>13,702</b>                                  |
| Trainings  | <b>11,001</b>                                  |
| Other  | <b>18,819</b>                                  |
| <b>Cost of production</b>                          | <b>6,293,245</b>                               |
| Change in work in progress, crude oil:             |  |
| Work in progress, beginning balance of crude oil   | <b>324,800</b>                                 |
| Oil for own needs                                  | <b>(71,148)</b>                                |
| Work in progress, ending balance of crude oil      | <b>(364,628)</b>                               |
| Net changes in work in progress and finished goods | <b>(110,976)</b>                               |
|  | <b>6,182,269</b>                               |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****13. SELLING EXPENSES**

The composition of selling expenses for the period ended September 30, 2011, was as follows:

| <i>In thousands of Tenge</i>  | <b>For the period ended September<br/>30, 2011</b> |
|-------------------------------|--|
| Rental tax                    | 6,680,576  |
| Transportation                | 2,580,253  |
| Custom duties                 | 1,518,945  |
| Depreciation and amortization | 73,858   |
| Other                         | 70,666   |
|                               | <b>10,924,298</b>                                  |

Transportation expenses represent costs related to transportation of oil through the pipelines MunaiTas JSC and KazTransOil JSC that provide oil pipeline transportation services throughout Kazakhstan.

**14. GENERAL AND ADMINISTRATIVE EXPENSES**

The composition of general and administrative expenses for the period ended September 30, 2011, was as follows:

| <i>In thousands of Tenge</i>  | <b>For the period ended September 30,<br/>2011</b> |
|-------------------------------|--|
| Payroll and related expenses  | 826,978  |
| Rent and office maintenance   | 175,632  |
| Expenses of main office       | 122,288  |
| Professional services         | 117,692  |
| Depreciation and amortization | 67,354   |
| Advertising                   | 24,999   |
| Operating taxes               | 18,777   |
| Business trips                | 16,440   |
| Training                      | 13,913   |
| Bank commissions              | 13,304   |
| Communication                 | 11,525   |
| Historical cost               | 11,370   |
| Charity                       | 10,472   |
| Materials and suppliers       | 10,371   |
| Other                         | 38,449   |
|                               | <b>1,479,564</b>                                   |

**15. INCOME TAXES**

The Group's Kazakhstani operations are subject to income tax of 20% on taxable profit and Branch profit tax of 5% after corporate income tax as determined under the laws of the Republic of Kazakhstan. Income tax expense consisted of the following for the period ended September 30, 2011:

| <i>In thousands of Tenge</i> | <b>For the period ended September<br/>30, 2011</b> |
|------------------------------|--|
| Corporate income tax         | 3,428,318  |
| Excess profit tax            | 1,094,608  |
| Deferred tax charge          | —  |
| <b>Income tax expense</b>    | <b>4,522,926</b>                                   |

**16. COMMITMENTS AND CONTINGENCIES**

Commitments and contingencies were disclosed in the annual consolidated financial statements for the ended December 31, 2010. During the nine months ended September 30, 2011 there were no significant changes in the financial and contingent liabilities.



**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****17. RELATED PARTIES (continued)**

As discussed in Note 1, the shareholder of the Group changed from Altius Energy Corporation to KNOC on March 18, 2011. As the result all transactions starting from March 19, 2011 and balances as of September 30, 2011 with Arawak Group companies are treated as not related party transactions and balances.

**Compensation to key management personnel**

Key management personnel totalled four persons as at September 30, 2011. Total compensation to key management personnel included in personnel costs in the accompanying statement of comprehensive income for the period ended September 30, 2011 amounted to 240,170 thousand Tenge.

**Book value of shares**

In accordance with the decision of the Exchange Board of the Kazakhstan Stock Exchange ("KASE") dated October 4, 2010 financial statements shall disclose book value per share (common and preferred) as of the reporting date, calculated in accordance with the KASE rules.

| <i>In thousands of Tenge</i>        | <b>September 30 2011</b> | December 31, 2010 |
|-------------------------------------|--------------------------|-------------------|
| Total assets                        | <b>31,547,036</b>        | 36,539,984        |
| Intangible assets                   | <b>3,978,648</b>         | 4,194,255         |
| Total liabilities                   | <b>7,352,400</b>         | 5,247,404         |
| <b>Net assets for common shares</b> | <b>20,215,988</b>        | 27,098,325        |
| <b>Number of common shares</b>      | <b>182,644,452</b>       | 182,644,452       |
| Book value per share, Tenge         | 110,68                   | 148,37            |