Zhaikmunai L.P.

FINAL RESULTS 2009

London – April 9, 2010 - Zhaikmunai L.P. (LSE:ZKM), the oil and gas exploration, development and production company with assets in north-western Kazakhstan, today announces its audited results for the year ended 31st December 2009.

KEY HIGHLIGHTS

- Strong production growth
- Four new wells on stream
- Costs significantly reduced
- Good progress in the construction of the Gas Treatment Facility
- Successfully completed a secondary share offering raising US$ 300 million
- EBITDA of US$ 58.86 million (+ 3 % YoY)
- Strong balance sheet with US$ 158.73 million cash

FINANCIAL HIGHLIGHTS

All figures in US$ millions unless otherwise stated

	FY2009	FY2008	Change YoY
Revenue	116.033	135.912	-14.63%
EBITDA	58.858	57.145	+3.00%
Net Cash Flow from operating activities	45.934	45.819	+0.25%
Cash Balance	158.733	32.965	
Debt	381.677	381.677	
Net income	(18.768)	62.468	

Kai Uwe Kessel, Chief Executive Officer of Zhaikmunai, said: "*We are very pleased to have ended 2009 with strong results in spite of the difficult economic climate and the challenges we had to overcome. Looking ahead we are determined to complete the Gas Treatment Facility this summer and to start selling gas, condensate and LPG. It will move us towards another level of development and growth to increase shareholder value.*"

EBITDA (US$58.86 million vs US$57.15 million in 2008) and net cash flow from operating activities (US$45.93 million vs US$45.82 million in 2008) increased slightly but Net income turned negative (net loss of US$18.77 million vs net profit of US$ 62.47 million at the end of 2008).

Extraordinary items that influenced financial figures in 2009 are:

- A realised loss on the hedge contract sold in March 2009 of US$9.31 million. This compares to an unrealized gain on this hedge contract of US$63.18 million in 2008.
- An unrealized loss of US$7.60 million recorded on the new hedge contract bought in March 2009.
- The change in functional currency as from January 1, 2009 followed by the devaluation of the Kazakhstani Tenge ("Tenge" or "KZT") has led to a deferred tax balance of US$20.27 million.

In September 2009, Zhaikmunai successfully completed a US$300 million secondary equity offering. In connection with such offering Zhaikmunai and its lenders signed an amendment to the terms of the Company's senior credit facility and pursuant to which all previously existing events of default under such facility were waived or cured.

The nominal long-term debt (the credit facility) at the end of 2009 was unchanged from the previous year at US$381.68 million.

Zhaikmunai ended the year 2009 with US$158.73 million of cash and cash equivalents of which US$21.358 million (vs. US$ 21.078 million in 2008) is restricted cash. Almost all of this cash is held in US Dollar accounts.

Frank Monstrey, Chairman of Zhaikmunai, said: *"Our strong cash position at the end of 2009 enables us to finance all of our capital expenditures for 2010. It will help us to execute our strategy for 2010 to complete the Gas Treatment Facility and start selling gas, condensate and LPG."*

As from January 1, 2009, the Group has changed its functional currency from the Kazakhstani Tenge ("Tenge" or "KZT") to the United States Dollar (US Dollar) as a result of increased purchases of materials and other costs from foreign suppliers which were denominated in US Dollar. Moreover, the Group now has all of its financing in US Dollars. Accordingly, all items in the balance sheet as of January 1, 2009 have been translated into US Dollars.

On 4 February Kazakhstan's central bank devalued the Tenge by 18 percent. The devaluation of the Tenge resulted in a deferred tax balance of US$20.27 million coming from the revaluation (in Tenge terms) of the fixed assets. The 2009 current income tax expense is US$7.89 million.

OPERATIONAL HIGHLIGHTS

All figures in bbl unless otherwise stated

	FY2009	FY2008	Change YoY
Average daily oil production	7,442	5,095	+46.06%
Oil production	2,697,980	1,749,066	+54.25%
Oil Sales – export	2,383,030	1,463,335	+59.90%
Oil Sales – domestic	292,475	209,885	+62.85%
Oil Sales – total	2,675,505	1,673,220	+39.35%
Weighted Average Netback for crude oil sales	US$ 46.81/bbl	US$ 82.53/bbl	-43.28%

Zhaikmunai's crude oil production volumes grew strongly in 2009 as it brought four new wells onstream, increasing production to an all-time high of 2.698 million barrels of oil, up 46% from 1.749 million barrels in 2008.

The new wells allowed Zhaikmunai to reach a record daily production of 7,442 bbl a day. Fourth quarter average daily oil production reached a new quarterly record of 7,559 barrels.

The higher volumes partially offset the impact of lower crude oil prices as the overall 2009 revenues declined 14% to $116.74 million.

The successful 2009 drilling programme brings the total number of wells in production at end 2009 to 15.

In 2009 Zhaikmunai brought the 120 kilometre pipeline from the Chinarevskoye field and its own rail terminal into operation, eliminating the high cost of transporting oil by truck to a rail terminal owned by a third party. As well as reducing selling and transportation costs, this has improved safety and efficiency.

As a result, selling and oil transportation expenses decreased by US$18.5 million, or 76.4%, to US$5.7 million in 2009 from US$24.2 million in 2008 primarily due to the fact that the oil pipeline from the field to the terminal went into operation in January of 2009. No export duty was payable on the Company's exports in 2009 as the export duty rate has been set at zero.

KEY DEVELOPMENTS

Oil pipeline

In January 2009 the 120km oil pipeline from the Chinarevskoye field to the City of Uralsk and the Company's own rail terminal came into operation. This eliminated the costs associated with transportation oil by truck from the field. The introduction of the new pipeline has provided both safety and efficiency improvements as well as reductions in selling and transportation expenses.

Gas pipeline

Zhaikmunai completed the construction of a 17 km gas pipeline that is connected to the Orenburg Novopskov pipeline. After completion of the Gas Treatment Facility the Group will start transportation of sales gas through this newly built gas-pipeline.

Marketing & Sales

In 2009 Zhaikmunai expanded its sales and marketing department by hiring experienced traders for condensate, natural gas and LPG. The team is working towards new contracts and transportation options for the gas, condensate and LPG with a view to having such arrangements in place by the time the gas treatment facility nears completion. To date Zhaikmunai has only sold crude oil.

Gas Treatment Facility

Construction of the Gas Treatment Facility is ongoing despite severe weather conditions in northwestern Kazakhstan at the beginning of 2010. Progress at December 31 for overall engineering (design, project management & administration) against the project plan was 88%. Pictures showing progress of the Gas Treatment Facility can be viewed on our website (www.zhaikmunai.com).

Horizontal drilling

At the end of the year Zhaikmunai successfully started drilling its first horizontal well ("well 119"). Well 119 was flowed for ten days and exceeded expectations, flowing at 26,475 million cubic feet (MMcf) of natural gas and 4,410 barrels of condensate per day on a 20 mm choke from the Middle Devonian Biski carbonate formation. Additional hydrocarbons are expected in the Afoninski reservoir, which is expected to be tested separately at a later stage.

POST-YEAR END UPDATE

The Group expects the Gas Treatment Facility to be finished in the summer of this year. Management hopes to be able to determine a final completion date for the Gas Treatment Facility in early May. After completion an additional 6 to 8 weeks will be needed for commissioning.

After completion of the Gas Treatment Facility the Group is also planning to start drilling two new exploration wells. That will enable the Company to complete exploration and appraisal of its reserves inside the license area and to fulfil its contractual obligations under the existing exploration permit, which is valid until May 2011.

In January 2010 Zhaikmunai successfully tested the second horizontal well at the Chinarevskoye field. The test results have met our expectations and represent another step towards Zhaikmunai's planned production ramp-up.

In March 2010 Zhaikmunai entered into a new hedge contract for part (4,000 bbl / day) of its current daily oil production, on a zero-cost basis.

CONFERENCE CALL

Zhaikmunai's management team will give a presentation, followed by a Q&A session for analysts and investors on **Monday 12 April 2010 at 2 pm GDT (=UK time).**

Please confirm your attendance with Zhaikmunai's Investor Relations Department on +44 1624 682179 or email on investor_relations@zhaikmunai.com.

Telephone:	+ 44 (0) 1452 561 371
Conference ID:	64923881

Teleconference replay until Friday 23 April 2010 :

International:	+ 44 (0) 1452 550 000 (access code: 64923881#)
UK Free Call:	0800 953 1533
USA Free Call:	1866 247 422

FURTHER ENQUIRIES

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ABOUT ZHAIKMUNAI

Zhaikmunai L.P. is a limited partnership engaged in oil and gas exploration, development and production that is quoted on the London Stock Exchange (Ticker symbol: ZKM). Its principal producing asset is the Chinarevskoye Field located in northwestern Kazakhstan. Zhaikmunai L.P. raised $100mn in March 2008 at an IPO, and $300mn in September 2009 through a share placement.

Zhaikmunai L.L.P., a wholly-owned subsidiary of Zhaikmunai L.P., holds a 100% interest in and is the operator of the Production Sharing Agreement for the Chinarevskoye Field. During September 2009 Ryder Scott finalised the reserve estimation as of July 1, 2009. Reported 2P reserves are 526 mmboe. 3P reserves are 1,086 mmboe.

FORWARD-LOOKING STATEMENTS

Some of the statements in this document are forward-looking. Forward-looking statements include statements regarding the intent, belief and current expectations of the Partnership or its officers with respect to various matters. When used in this document, the words "expects," "believes," "anticipates," "plans," "may," "will," "should" and similar expressions, and the negatives thereof, are intended to identify forward-looking statements. Such statements are not promises or guarantees, and are subject to risks and uncertainties that could cause actual outcomes to differ materially from those suggested by any such statements.

MANAGEMENT REPORT

The following report should be read together with the audited consolidated financial statements as at and for the year ended 31 December 2009, including the accompanying notes. The audited consolidated financial statements and the accompanying notes have been prepared in accordance with IFRS.

Overview

Zhaikmunai L.P. is the indirect holding entity of Zhaikmunai LLP (―Zhaikmunai”), an independent oil and gas enterprise currently engaging in the exploration, production and sale of crude oil in northwestern Kazakhstan. Zhaikmunai‘s field and licence area is the Chinarevskoye Field located in the oil-rich Pre-Caspian Basin.

Since 2004, after new management was appointed at Zhaikmunai, the sales, expenses and profit of Zhaikmunai L.P. and its consolidated subsidiaries (―the Group”) has increased over the period as a result of increased crude oil production due to the Group‘s investments in infrastructure and an accelerated drilling programme. The primary factors affecting the Group‘s results of operations are (i) crude oil prices and the average realised price received by Zhaikmunai for its crude oil, (ii) the amount of crude oil produced by the Group for a given period, (iii) the costs the Group incurs to produce and transport its crude oil, (iv) finance costs incurred by the Group under its borrowings and (v) amounts payable pursuant to Zhaikmunai‘s production sharing agreement with the Republic of Kazakhstan (the ―State”).

The following table sets forth the Group‘s sales of crude oil, cost of sales, gross profit, profit before income tax and net income for the years ended 31 December 2009, 2008 and 2007:

	Years ended 31 December		
	2009	**2008**	**2007**
		(US$ millions)	
Sales of crude oil	116.0	135.9	108.5
Cost of sales	(44.0)	(44.6)	(37.4)
Gross profit	72.0	91.3	71.1
Profit before income tax	8.8	98.7[(1)]	52.0
Net income/(loss)	(18.8)	63.5	36.3

Primary Factors Affecting Results of Operations

The primary factors affecting the Group‘s results of operations during the period under review are the following:

Crude oil prices and Netback

Zhaikmunai‘s sales of crude oil have accounted for substantially all of its revenues during the period under review. The revenue Zhaikmunai receives for its crude oil is influenced by: (i) fluctuations in the price of international crude oil (i.e. Brent crude oil); and (ii) the discount to this price which, after such discount, represents the realised price for Zhaikmunai‘s crude oil, which Zhaikmunai refers to as its Netback.

All crude oil is delivered on a FCA Uralsk shipment basis and due to the high quality thereof, the price of Zhaikmunai‘s crude oil is based on a discount to the market price of Brent crude oil. The table below sets out the average price for Brent crude oil on which Zhaikmunai has based its sales for the years ended 2009, 2008 and 2007:

[1] Profit before income tax in 2008 includes a significant one-off unrealized hedging gain of US$63.2 million.

	Years ended 31 December		
	2009	2008	2007
		(US$/bbl)	
Weighted average Brent crude oil price on which Zhaikmunai based its sales (US$/bbl)	62.02	98.11	72.43

During 2008 and the first half of 2009, the price of Brent crude oil experienced significant fluctuations. After reaching highs of up to US$147.0 per barrel in mid-2008, international oil prices fell dramatically in late 2008 with an average closing price in December 2008 of US$43.10 per barrel. Brent crude oil prices recovered in the first half of 2009, reaching US$70 per barrel in June 2009 and US$80 per barrel in March 2010. These fluctuations have affected the Group‘s revenues directly, as the price Zhaikmunai receives for its crude oil is based on the price of Brent crude oil. However, in March 2008, the Group entered into a hedging contract offering it partial protection against a drop in international oil prices. The contract was sold in March 2009, and the Group subsequently entered into a new hedging agreement that was to expire in June 2010, the Group entered into a new hedge contract in March 2010 which expires on 31 December 2010.

Crude oil is sold and delivered from Uralsk to Zhaikmunai‘s customer, an oil trader, on a FCA Uralsk shipment basis who then on-sells the crude oil to its ultimate customers. During the period under review, the oil trader contracted to purchase the Group‘s production has sold and delivered Zhaikmunai‘s crude oil to customers located in Finland and the Ukraine. The price Zhaikmunai receives for its crude oil is based on the market price for Brent crude oil, less a discount for the trader‘s transportation costs of the crude oil from Uralsk to its ultimate destination in Finland, including certain quality differentials and the trader‘s fee. The discount, which is negotiated on an annual basis, is a fixed amount per barrel, comprising rail transportation tariffs in Kazakhstan and Russia and the cost of leasing railcars to transport the crude oil and, to a lesser extent, the discount takes into account quality differentials in the oil and the profit margin retained by the trader. The full breakdown of this discount is not disclosed to Zhaikmunai. Transportation costs have risen as rail tariffs have increased with increases in the commodity price of crude oil and rail car leasing rates. The Group‘s sales contract stipulates that any increase in rail tariffs is borne by the Group. In addition, Russian rail tariffs are priced in Swiss francs and Kazakh rail tariffs are priced in Tenge, whereas Zhaikmunai‘s oil prices are quoted and settled in US Dollars. Consequently, if the US Dollar depreciates or appreciates against the Swiss franc or the Tenge, Zhaikmunai‘s Netback is reduced or increased, respectively. Zhaikmunai‘s discount for crude oil sales generated for the year 2009 was US$15.21 per barrel, compared to US$15.58 per barrel for the year 2008. This decrease was a result of lower transportation costs due to decreased rail tariffs and decreases in rail car lease rates.

The table below sets out Zhaikmunai‘s average Netback for crude oil sales for the years ended 2009, 2008 and 2007.

	Years ended 31 December		
	2009	2008	2007
		(US$/bbl)	
Average Netback for crude oil sales	46.81	82.53	58.71

Crude oil production

All crude oil produced by Zhaikmunai is sold and as at 31 December 2009, inventory comprised less than 0.2% of the Group‘s current assets compared to 0.8% as 31 December 2008. Consequently, the volume of crude oil produced by the Group directly affects its revenues. The table below illustrates Zhaikmunai‘s production for the years ended 31 December 2009, 2008 and 2007.

	Years ended 31 December		
	2009	2008	2007
Total crude oil production (_000 bbl)	2,679,980	1,749,066	1,719,153
Average crude oil production (bpd)	7,442	5,095	5,063
Increase (decrease) in production from previous period (bpd)	3,399	32	2,163
Increase (decrease) in production from previous period (%)	66.7	0.6	74

Zhaikmunai's production growth has been primarily driven by its growing drilling programme. In 2009, the Group successfully completed six new wells. Management intends to drill an average of 13 new production wells per year between 2011 and 2014 which it believes will significantly increase crude oil production in the future.

Cost of sales

As crude oil prices are based on quotation pricing, Zhaikmunai's ability to control costs is critical to its profitability. Zhaikmunai's cost of sales principally comprise depreciation for oil and gas properties, well workover costs and royalties. To a lesser extent, during the period under review, cost of sales has included repair, maintenance and other services, payroll and related taxes and materials and supplies, environmental levies and management fees.

Depreciation costs have represented as a percentage of total cost of sales, 36.8% and 17.7% for the years ended 31 December 2009 and 2008, respectively. Such costs fluctuate according to the level of Zhaikmunai's proved developed reserves, the volume of crude oil it produces and the net book value of its oil and gas properties. As the Group continues with its capital investment programme, management expects depreciation costs to increase as the Group's proved developed reserves are expected to remain broadly constant while its production and the value of its oil and gas properties increase. Well workover costs are related to ongoing repair and maintenance of production and exploration wells. These costs have represented as a percentage of total cost of sales, 0.3% and 14.2% for the years ended 31 December 2009 and 2008, respectively. Management expects such costs to increase in absolute terms but to decrease as a percentage of cost of sales as it continues with its drilling programme. The decrease in 2009 and 2008 of such costs as a percentage of cost of sales was due to the release of oil separation units and the devaluation of the Tenge.

Other cost of sales during the period under review have included environmental levies, which decreased by 39.4% during 2009 compared to 2008 due to reduction of flared gas volumes. Management fees increased as a result of increases in remuneration while the increase in labour costs resulted from an increase in the number of personnel contracted and/or employed by Zhaikmunai as well as through increases in salaries. Management expects that labour costs will increase faster than overall growth in Kazakhstan, although any consequent increases in these costs are expected to be partially offset by productivity growth. Costs for repairs and maintenance and material and supplies are expected to fluctuate in line with changes in the market price of oil.

Interest expense and capitalised finance costs

Interest expense consisted of interest on Zhaikmunai's Syndicated Facility. In December 2007, the Group entered into the Syndicated Facility under which its previous fixed rate borrowings were refinanced. As a result of lower than anticipated EBITDA at 31 December 2008, the Group was in breach of the Syndicated Facility covenants relating to its EBITDA to interest expense and total indebtedness to EBITDA ratios and such breaches were subsequently waived under an amendment agreement to the Syndicated Facility.

Royalties, Government Share and Taxes payable pursuant to the PSA

Zhaikmunai operates its production and sales of crude oil pursuant to the PSA. The PSA has, during the periods under review, and will continue to have, an effect, both positive and negative, on Zhaikmunai's results of operations as a result of (i) the beneficial tax rates available to Zhaikmunai, (ii) increasing royalty expenses payable to the State and (iii) the share of profit oil that Zhaikmunai pays to the State.

Under the PSA, the Kazakh tax regime that was in place in 1997 applies to the Group for the entire term of the PSA and the Licence. As of 1 January 2009, the new Tax Code became effective which introduced a new tax regime and taxes applicable to subsoil users (including oil mineral extraction tax and historical cost). However, the Tax Code did not supersede the previous tax regime applicable to PSAs entered into before 1 January 2009, which continue to be effective under Article 308 of the Tax Code. Despite the stabilization clauses (providing for general and tax stability) provided for by the PSA, in 2008 Zhaikmunai was required to pay new crude oil export duties introduced by the Government. Despite Zhaikmunai‘s efforts to prove that the new export duties were not applicable to it under the PSA, the State authorities did not accept this and Zhaikmunai was held liable for the export duties. However, during January 2009, the Government revised and established the rate of the export duties at US$ nil per tonne of crude oil which now applies to Zhaikmunai.

For the purposes of corporate income tax from 1 January 2007, the Group considers its revenue from crude oil sales related to the Tournaisian horizon as taxable revenue and its expenses related to the Tournaisian horizon as deductible expenses, except those expenses which are not deductible in accordance with the tax legislation of Kazakhstan. Assets related to the Tournaisian reservoir that were acquired during the exploration phase are then depreciated for tax purposes at a maximum rate of 25.0%. Assets related to the Tournaisian reservoir that were acquired after the commencement of the production phase are subject to the depreciation rate in accordance with the 1997 Kazakh tax regime, expected to be approximately 14.0%. Under the PSA, the exploration phase for the remainder of the Chinarevskoye Field will expire in May 2011. Assets related to the other horizons will depreciate in the same manner as those described above for the Tournaisian reservoir.

Under the PSA, Zhaikmunai is obliged to pay to the State royalties on the volumes of crude oil and gas produced, with the royalty rate increasing as the volume of hydrocarbons produced increases. In addition, Zhaikmunai is required to deliver a share of its monthly production to the State (or make a payment in lieu of such delivery). The share to be delivered to the State also increases as annual production levels increase. Pursuant to the PSA, the Group is currently able to effectively deduct a significant proportion of production from the sharing arrangement (known as Cost Oil) that it would otherwise have to share with the Government. Cost oil reflects the deductible capital and operating expenditures incurred by the Group in relation to its operations. Royalties and government profit share have represented, as a percentage of total cost of sales, for the year ended 31 December 2009, 12.9% and 2.5%, respectively, for the year ended 31 December 2008, 12.8% and 2.5%, respectively and for the year ended 31 December 2007, 14.1% and 2.7%, respectively.

Summary of Critical Accounting Policies

The Group‘s significant accounting policies are more fully described in note 3 to the audited consolidated financial statements for 2009. However, certain of the Group‘s accounting policies are particularly important to the presentation of the Group‘s results of operations and require the application of significant judgment by its management.

In applying these policies, the Group‘s management uses its judgment to determine the appropriate assumption to be used in the determination of certain estimates used in the preparation of the Group‘s results of operations. These estimates are based on the Group‘s previous experience, the terms of existing contracts, information available from external sources and other factors, as appropriate.

The Group‘s management believes that, among others, the following accounting policies that involve management judgments and estimates are the most critical to understanding and evaluating its reported financial results.

Estimations and Assumptions

Oil and gas reserves

Oil and gas reserves are a material factor in Zhaikmunai L.P.'s computation of depreciation, depletion and amortisation (the ―**DD&A**‖.) Zhaikmunai L.P. 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, Zhaikmunai L.P. 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 our business and provide the most appropriate basis for estimating oil and gas reserves. All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

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

Property, Plant and Equipment

Abandonment and site restoration (decommissioning)

Provision for decommissioning is recognised in full, on a discounted cash flow basis, when the Group 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 tangible fixed asset of an amount equivalent to the provision is also created. 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 recognised immediately in the income statement; 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 Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss in accordance with IAS 36.

Borrowing Costs

The Group capitalises borrowing costs on qualifying assets. Assets qualifying for borrowing costs capitalisation include all assets under construction that are not being depreciated, depleted, or amortised, *provided that* work is in progress at that time. Qualifying assets mostly include wells and other oilfield infrastructure under construction. Capitalised borrowing costs are calculated by applying the capitalisation rate to the expenditures on qualifying assets. The capitalisation rate is the weighted average of the borrowing costs applicable to the Group‘s borrowings that are outstanding during the period.

Derivative Financial Instruments and Hedging

The Group uses a hedging contract for oil export sales to cover part of its risks associated with oil price fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured 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.

Description of key financial terms

Sales of crude oil during the period under review is affected by the Group‘s volume of crude oil production, the market price for crude oil and the discount to the market price incurred by the Group for its crude oil. The Group expects to generate further revenue from sales of condensate gas and LPG from the completion of its gas treatment facility currently under construction (the –Gas Treatment Facility”). The audited consolidated financial statements issued with this report present sales of crude oil gross of any portion required to be delivered to the State under the terms of the PSA since, during the period under review, it has elected to settle its obligations to the State in cash. Consequently, the incurrence of any such obligation is reported as an expense in cost of sales. If the Group elects, in the future, to settle such obligation by the delivery of crude oil to the State, its sales of crude oil, and therefore revenue, will be affected.

Cost of sales comprises various costs including: (i) depreciation of oil and gas properties; (ii) well workover costs for the repair, maintenance and change of well completions; (iii) royalties payable to the Government; (iv) repair, maintenance and other services, (v) payroll and related taxes for field operational staff; (vi) materials and supplies and other related expenses; (vii) the rental and operation of oil separation units (used to separate crude oil and gas condensate); (viii) environmental levies; (ix) management fees related to the provision of geological, geophysical, drilling, scientific, technical and other consultancy services and (x) Government profit share.

General and administrative expenses consist of professional services relating to geological analyses, legal fees and accounting fees, bank charges and employee training, management fees for consultants and service providers and payroll and related taxes for employees in managerial or administrative roles.

Selling and oil transportation expenses principally comprise the costs incurred in transporting crude oil from the Chinarevskoye Field to the Zhaiktrans terminal at Uralsk, which is the point of sale at which the trader who currently purchases Zhaikmunai‘s crude oil becomes responsible for transportation. In January 2009, the Group completed the construction of an oil pipeline linking the Chinarevskoye Field with the rail terminal in Uralsk. The Group currently transports all its crude oil to Uralsk along this pipeline rather than the trucks it used prior to completion of the pipeline. Consequently, this has reduced the Group's transportation expenses relating to trucking and road maintenance costs.

Comparison of the years ended 31 December 2009 and 2008

The table below sets forth the line items of the Group's income statement for the years ended 31 December 2009 and 2008 in US Dollars and as a percentage of sales of crude oil.

	Year ended 31 December 2009	**% of sales of crude oil**	**Year ended 31 December 2008**	**% of sales of crude oil**
	(US$ millions)		*(US$ millions)*	
Sales of crude oil	116.033	100	135.912	100.0
Cost of sales	(44.035)	38.3	(44.610)	32.8
Gross Profit	**71.998**	61.7	**91.302**	67.2
General and administrative expenses	(29.726)	25.3	(20.299)	14.9
Selling and oil transportation expenses	(5.692)	4.9	(24.212)	17.8
Gain/(loss) on hedging contract	(16.909)	14.6	64.780	47.7
Interest income	0.060	0.05	0.604	0.44
Finance costs	(7.801)	6.7	(13.171)	9.7
Foreign exchange (loss)/gain	(2.184)	18.9	(1.527)	1.1
Other (expenses)/income	(906)	7.8	1.189	0.9
Profit before income tax	**8.840**	7.6	**98.666**	72.6
Income tax expense	(27.608)	4.4	(35.188)	25.9
Net Loss/Income	**18.768**	12.0	**63.478**	46.7

Sales of crude oil decreased by US$19.9 million, or 14.6%, to US$116.0 million in 2009 from US$135.9 million in 2008 due, primarily, to a lower average oil price during 2009 as compared to 2008.

The following table shows the Group's sales of crude oil and sales volumes for the years ended 31 December 2009 and 2008:

	Years ended 31 December	
	2009	**2008**
Sales of crude oil (US$ millions)	116.033	135.912
Sales volumes (gross of Cost Oil) (bbl)	2,679,980	1,749.066

The table below shows changes in the commodity price of Brent crude oil and changes in the discount and the Netback received by the Group for its crude oil for the years ended 31 December 2009 and 2008.

	Years ended 31 December	
	2009	**2008**
Weighted average Brent crude oil price on which Zhaikmunai based its sales (US$/bbl)	62.02	98.11
Weighted average discount to Brent (US$/bbl)	15.21	15.58
Average Netback (US$/bbl)	46.81	82.53

Cost of sales decreased by US$0.6 million, or 0.1%, to US$44.0 million in 2009 from US$44.6 million in 2008 due, primarily, to a reduction in well workover costs (2009: US$0.1 million versus 2008: US$6.4 million) and a reduction in the cost for rent and operation of oil separation units (2009: US$0.1 million versus 2008: US$2.9 million).

General and administrative expenses increased by US$9.4 million, or 46.4%, to US$29.7 million in 2009 from US$20.3 million in 2008 due, primarily, to an increase of the expense charged for the employee share option plan (2009: US$6.5 million versus 2008: US$0.5 million).

Selling and oil transportation expenses decreased by US$18.5 million, or 76.4%, to US$5.7 million in 2009 from US$24.2 million in 2008 due, primarily, to the fact that the oil pipeline from the field to the terminal has been put in operation in January of 2009. Also no export duty was payable in 2009 as the export duty rate has been set to 0.

Finance costs decreased by US$5.4 million, or 40.9%, to US$7.8 million in 2009 from US$13.2 million in 2009 from US$7.8 million in 2008 due, primarily, to a lower average USD libor rate during 2009 as compared to 2008.

Loss on hedging contract amounted to US$16.9 million compares to a gain of US$64.9 million in 2008 due, primarily, to the increase in the oil price.

Foreign exchange losses amounted to US$2.2 million compared to US$1.5 million in 2008 due, primarily, to the reduction of the US$ value of the VAT receivable (that is denominated in Tenge) at the time of the Tenge devaluation in March of 2009.

Profit before income tax decreased by US$89.8 million, or 90.1%, to US$8.8 million in 2009 from US$98.7 million in 2008 due, primarily, to the realization of a hedging loss of US$16.9 million as compared to a hedging gain of US$64.8 million in 2008.

Income tax expense decreased by US$7.6 million, or 21.5%, to US$27.6 million in 2009 from an expense of US$35.2 million in 2008 due. The tax expense of US$27.6 million is largely due to a revaluation (in tenge terms) of the noncurrent assets following the tenge devaluation in February 2009.

Net income decreased by US$49.5 million resulting in a Net loss of US$18.8 million in 2009 from a net income of US$62.8 million in 2008 as a result of the foregoing.

Liquidity and Capital Resources

General

Zhaikmunai's principal sources of funds are cash from operations and amounts raised under our offering of GDRs in September 2009. Its liquidity requirements primarily relate to meeting ongoing debt service obligations and to funding capital expenditures and working capital requirements.

Cash Flows

The following table sets forth the Group's cash flow statement data for the years ended 31 December 2009, 2008 and 2007.

	Years ended 31 December		
	2009	**2008**	**2007**
		(US$ millions)	
Net cash flow from operating activities	45.934	45.819	48.233
Net cash flow used in investing activities	(220.673)	(195.196)	(173.105)
Net cash flow provided by financing activities	279.418	175.109	129.166

Net cash flows from operating activities

Net cash flows from operating activities were US$45.9 million for the year ended 31 December 2009 and US$44.2 million for the year ended 31 December 2008. Before changes in working capital, for the year ended 31 December 2009, cash flow from operating activities was at US$58.1 million, similar to the US$59.1 million for the year ended 31 December 2008.

Net cash flows from operating activities were US$45.8 million for the year ended 31 December 2008 and US$48.2 million for the year ended 31 December 2007. Before changes in working capital, for the year ended 31 December 2008, cash flow from operating activities increased principally due to an increase in profit before income tax. This was adjusted with an unrealised gain of US$63.2 million made by the Group pursuant to a hedging contract entered into by Zhaikmunai which came into effect during March 2008. Changes in working capital for the year ended 31 December 2008 were primarily a result of increases in (i) prepayments and other current assets, including VAT prepayments of US$20.6 million and, to a lesser extent, a number of ―long lead” contracts requiring advance payments for drilling materials and supplies, (ii) decreases in trade receivables and (iii) payments made to the State under the PSA.

Net cash used in investing activities

Net cash used in investing activities was US$200.6 million in 2009 compared to US$195.2 million in 2008. The increase was due primarily to higher investment in the Gas Treatment Facility**.**

Net cash used in investing activities was US$195.2 million in 2008. The increase was due primarily to increases in investments in the Group's oil and gas properties, including the drilling of new production wells.

Net cash provided by financing activities

Net cash provided by financing activities was US$279.4 million in 2009 compared to US$175.1 million in 2008, which increase resulted from both the sale of the hedging contract in March 2009 and the offering of GDRs of September 2009.

Net cash provided by financing activities was US$155.6 million in 2008, which resulted from drawdowns under the Syndicated Facility and the proceeds of Zhaikmunai L.P.'s debut offer of global depositary receipts in April 2008, which were listed on the main market of the London Stock Exchange. These funds were used mainly to repay certain existing facilities and to fund the Group's capital expenditure programme.

Commitments

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. 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 31 December 2009 based on contractual undiscounted payments:

	(US$ millions)					
Year ended December 31 2009	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**	**Total**
Borrowings	—	7.666	23.000	415.750	—	**446.416**
Trade payables	50.242	—	17.593	—	—	**67.835**
Employee share option plan	—	—	—	7.025	—	**7.025**
Other current liabilities	7.854	—	—	—	—	**7.854**
Due to Government of Kazakhstan	—	0.258	0.773	4.124	16.753	**21.908**
Total	**58.096**	**7.924**	**41.366**	**426.899**	**16.753**	**551.038**

Capital Expenditures

In the years ended 2009 and 2008, Zhaikmunai's capital expenditures were approximately US$200.7 million and US$195.2 million respectively, reflecting primarily drilling costs and infrastructure and development costs for items such as the crude oil pipeline, the oil treatment unit and the Gas Treatment Facility. This represented 183% and 143% of revenue respectively.

Drilling Expenditures

Based on historical contracts, Zhaikmunai has budgeted a cost per well of approximately US$11.0 million for production/appraisal wells to be drilled to the Devonian reservoirs (and an additional US$3.0 million per well for horizontal wells). The cost per well for production wells to the Tournaisian reservoir is budgeted at approximately US$8.0 million.

Gas Treatment Facility

On 10 August 2007, Zhaikmunai entered into an agreement with KazStroyService OGCC JSC (―KSS") for the construction of the Gas Treatment Facility that is expected to process associated gas and gas condensate.

The first phase of construction, of the Gas Treatment Facility (which is scheduled to be completed by 30 June 2010 and management expects to be completed in August 2010) involves the construction of two gas treatment units and is expected to cost approximately US$227.0 million. Outstanding payments of approximately US$73 million due to KSS were deferred until 20 September 2009 (such amounts having subsequently been paid).

Oil treatment units

Currently Zhaikmunai operates a first crude oil treatment unit, which was built and commissioned at the beginning of 2006.

The Group expects to complete a second oil treatment unit in 2011 in order to double its oil and gas treatment capacity. Total capital expenditure for the oil treatment unit is expected to be approximately US$20 million.

Oil Pipeline and rail loading terminal

In 2009, the construction of a 120km oil pipeline from the Chinarevskoye Field to a rail terminal near the city of Uralsk was successfully completed. Zhaikmunai's oil pipeline construction contains three parts: the main pump station at the field site; a 120 km long, 324mm diameter crude oil pipeline; rail loading terminal, including a receiving station, an automation system and a vapour recovery unit, as well as increased storage capacity. The cost for the entire project amounted to US$97.0 million. As a result, Zhaikmunai no longer transports crude oil via road from the field to the oil loading rail terminal in Uralsk. This is expected to lead to a decrease in transportation costs of approximately US$25.0 per tonne.

Disclosure about Market Risk

The Group is exposed to a variety of market risks with respect to the market price of crude oil and condensate, foreign currency exchange rates, interest rates and the creditworthiness of the counterparties with whom Zhaikmunai expects payments under normal commercial conditions.

Commodity price risk

Commodity price risk is the risk that the Group's current or future earnings will be adversely impacted by changes in the market price of crude oil. Commodity price risk is extremely significant to the Group's results of operations given that all sales of crude oil are based on the commodity price. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals. Other than its existing hedge arrangement made in accordance with the Syndicated Facility the Group does not hedge its exposure to the risk of crude oil price fluctuations.

Foreign currency exchange rate risk

The Group is exposed to foreign currency risk associated with transactions entered into, and assets and liabilities denominated, in currencies other than the functional currency of its operating entities, the US dollar since 1 January 2009. This exposure is primarily associated with transactions, contracts and borrowings denominated in Tenge. Most of the Group‘s cash inflows as well as its accounts receivable are denominated in US Dollars, and most of the Group‘s expenses are primarily denominated in US Dollars, with approximately 20% denominated in Tenge. There is no significant forward market for the Tenge and the Group does not use other foreign exchange or forward contracts to manage this exposure. The Group incurred a loss of US$2.184 million in the year ended 2009, US$1.5 million for the year ended 31 December 2008. The Group does not hedge against this risk. As at the date of this Report, all of the Group‘s financing is in US Dollars and in the future the Group‘s capital expenditures are expected to be primarily denominated in US Dollars.

Interest rate risk

The Group‘s interest rate risk principally relates to interest receivable and payable on its cash deposits and borrowings. During the periods under review, the Group‘s existing borrowings have borne interest at (i) a fixed margin as stated in the Syndicated Facility and (ii) a variable rate credit facility linked to the London Interbank Offered Rate. The Group does not propose to hedge against the fluctuation in this rate.

Credit risk

Although Zhaikmunai sells all of its crude oil pursuant to contracts with the oil trader who purchases its production, Zhaikmunai mitigates the payment risk by requiring all purchases to be secured by a letter of credit from an international bank.

Off-Balance Sheet Arrangements

The Group does not currently utilise any off-balance sheet financing arrangements.

Recent Developments

Production

Oil production during the first 3 months of 2010 has been 667 thousand bbl. Gas production during the first 3 months of 2010 has been 818.4 million scft.

Capital expenditure and construction and engineering projects

The focus of the construction activity in the first quarter of 2010 was on the Gas Treatment Facility. All heavy equipment has been delivered to site and activity now mainly relates to pipe installations, erection of buildings and construction of storage tanks.

Drilling

Three heavy drilling rigs were employed in the first quarter of 2010. A Saipem rig has been drilling well 215. Two UNGG rigs have been drilling sidetracks in well 32 and well 121. In addition a KBG rig has been employed for workover operations.

Hedging

On March 12, 2010, pursuant to the terms of the Syndicated Facility Zhaikmunai L.P. entered, at nil cost, into a new hedging contract covering oil export sales of 4,000 bbls/day running from March 2010 through December 2010. The counterparties ("Hedging Providers") to the hedging agreement are BNP

Paribas, Natixis and Raiffeisen Zentralbank. Based on the new hedging contract the floor price for Brent crude oil is fixed at price of US$ 60 per bbl. The ceiling price is set at a range from US$ 89.25 per bbl to US$ 100 per bbl such that Zhaikmunai L.P. will receive all sales proceeds in excess of $ 100 per bbl.

Other Key Developments

On 6 November 2009, Claremont Holdings Limited, a significant holder of limited partnership interests in Zhaikmunai L.P., announced that it had agreed to sell (subject to receipt of regulatory approval in Kazakhstan which has not yet been granted) 50,000,000 GDRs, representing approximately 27% of the issued limited partnership interests in Zhaikmunai L.P., to KazStroyService Global B.V., an affiliate of KSS, the company which is currently constructing the Group‘s Gas Treatment Facility in the Chinarevoskoye Field in Kazakhstan.

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Independent Auditors' Report

To the Partners of Zhaikmunai LP:

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

ERNST & YOUNG

Opinion

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

Ernst & Young LLP

29 March 2010

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2009

In thousands of US Dollars

	Note	2009	2008
ASSETS			
Non-Current Assets			
Property, plant and equipment	4	770,953	513,491
Derivative financial instrument	19	98	62,923
Restricted cash	7	21,358	–
Advances for equipment and construction works		27,399	75,385
		819,808	651,799
Current Assets			
Restricted cash	7	–	21,078
Inventories		3,477	3,589
Trade receivables	5	13,878	1,084
Prepayments and other current assets	6	22,663	28,081
Income tax prepayment		5,599	5,386
Cash and cash equivalents	7	137,375	11,887
		182,992	71,105
TOTAL ASSETS		1,002,800	722,904
EQUITY AND LIABILITIES			
Partnership capital and Reserves			
Partnership capital	8	366,942	92,072
Retained earnings and translation reserve		110,827	129,595
		477,769	221,667
Non-Current Liabilities			
Long term borrowings	9	356,348	–
Abandonment and site restoration liabilities	10	3,373	3,411
Due to Government of Kazakhstan	11	6,363	6,330
Employee share option plan	20	7,025	516
Deferred tax liability	18	76,659	56,940
		449,768	67,197
Current Liabilities			
Trade payables	12	66,381	60,953
Current portion of long term borrowings	9	–	365,439
Current portion of Due to Government of Kazakhstan	11	1,028	1,031
Other current liabilities	13	7,854	6,617
		75,263	434,040
TOTAL EQUITY AND LIABILITIES		1,002,800	722,904

The accounting policies and explanatory notes on pages 6 through 32 are an integral part of these consolidated financial statements.

Chief Executive Officer of the General Partner of Zhaikmunai LP

Kai-Uwe Kessel

Chief Financial Officer of the General Partner of Zhaikmunai LP

Jan-Ru Muller

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2009

In thousands of US Dollars

	Note	2009	2008
Sales of crude oil:			
Export sales		**109,368**	127,811
Domestic sales		**6,665**	8,101
		116,033	135,912
Cost of sales	**14**	**(44,035)**	(44,610)
Gross Profit		**71,998**	91,302
General and administrative expenses	**15**	**(29,726)**	(20,299)
Selling and oil transportation expenses	**16**	**(5,692)**	(24,212)
(Loss) / gain on hedging contract	**19**	**(16,909)**	64,780
Finance costs	**17**	**(7,801)**	(13,171)
Foreign exchange loss		**(2,184)**	(1,527)
Interest income		**60**	604
Other expenses		**(1,611)**	(665)
Other income		**705**	1,854
Profit before income tax		**8,840**	98,666
Income tax expense	**18**	**(27,608)**	(35,188)
(Loss) / profit for the year		**(18,768)**	63,478
Other comprehensive income:			
Exchange difference on translation to presentation currency		**-**	(702)
Total comprehensive (loss) / profit for the year		**(18,768)**	62,776

The accounting policies and explanatory notes on pages 6 through 32 are an integral part of these consolidated financial statements.

Chief Executive Officer of the General Partner of Zhaikmunai LP

Kai-Uwe Kessel

Chief Financial Officer of the General Partner of Zhaikmunai LP

Jan-Ru Muller

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2009

	Note	2009	2008
Cash flow from operating activities:			
Profit before income tax		8,840	98,666
Adjustments for:			
Depreciation and amortization		16,615	8,045
Finance costs	17	7,801	13,171
Interest income		(60)	(604)
Loss / (gain) on hedging contract	19	16,909	(64,780)
Foreign exchange loss / (gain) on non-operating activities		-	3,649
Accrual of share option expenses		6,509	516
Loss on disposal of property, plant and equipment	4	1,567	443
Operating profit before working capital changes		58,181	59,106
Changes in working capital:			
Decrease / (increase) in inventories		90	(789)
(Increase) / decrease in trade receivables		(12,794)	8,444
Decrease / (increase) in prepayments and other current assets		5,414	(13,843)
Increase in trade payables		3,745	1,827
Payment of obligation to Government of Kazakhstan	11	(1,032)	(2,062)
Increase in other current liabilities		1,241	1,157
Cash generated from operations		54,845	53,840
Income tax paid		(8,911)	(9,617)
Net cash flows from operating activities		45,934	44,223
Cash flow from investing activities:			
Interest income		60	604
Purchases of property, plant and equipment		(200,733)	(195,800)
Net cash used in investing activities		(200,673)	(195,196)
Cash flow from financing activities:			
Repayment of borrowings		-	(246,353)
Finance costs paid		(26,608)	(32,344)
Proceeds from issue of Global Depositary Receipts	8	300,000	100,000
Transaction costs paid	8	(25,130)	(7,928)
Proceeds from borrowings	9	-	381,677
Transfer from / (to) restricted cash		(280)	(21,078)
Proceeds from sale of hedging contract	19	48,200	-
Realised hedging income	19	5,416	1,596
Purchase of hedging contract	19	(7,700)	-
Fees paid on arrangement of BNPP facility		(14,480)	(19,943)
Net cash provided by financing activities		279,418	155,627
Effects of exchange rate changes on cash and cash equivalents		809	(127)
Net increase in cash and cash equivalents		124,679	4,654
Cash and cash equivalents at the beginning of the year		11,887	7,360
Cash and cash equivalents at the end of the year	8	137,375	11,887

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended December 31, 2009

Non cash transactions

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

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

The accounting policies and explanatory notes on pages 6 through 32 are an integral part of these consolidated financial statements.

Chief Executive Officer of the General Partner of Zhaikmunai LP — *Kai-Uwe Kessel*

Chief Financial Officer of the General Partner of Zhaikmunai LP — *Jan-Ru Muller*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2009

	Partnership capital	Retained earnings	Translation reserve	Total
As of December 31, 2007	**–**	**62,818**	**4,001**	**66,819**
Profit for the year	–	63,478	–	63,478
Other comprehensive loss	–	–	(702)	(702)
Total comprehensive income for the year	**–**	**63,478**	**(702)**	**62,776**
Issue of Global Depositary Receipts (Note 8)	100,000	–	–	100,000
Transaction costs (Note 8)	(7,928)	–	–	(7,928)
As of December 31, 2008	**92,072**	**126,296**	**3,299**	**221,667**
Total comprehensive loss for the year	**–**	**(18,768)**	**–**	**(18,768)**
Issue of Global Depositary Receipts (Note 8)	300,000	–	–	300,000
Transaction costs (Note 8)	(25,130)	–	–	(25,130)
As of December 31, 2009	**366,942**	**107,528**	**3,299**	**477,769**

The accounting policies and explanatory notes on pages 6 through 32 are an integral part of these consolidated financial statements.

Chief Executive Officer of the General Partner of Zhaikmunai LP

Kai-Uwe Kessel

Chief Financial Officer of the General Partner of Zhaikmunai LP

Jan-Ru Muller

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2009

1. GENERAL

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

These consolidated financial statements include the results of the operations of Zhaikmunai L.P. (―Zhaikmunai LP") and its wholly owned subsidiaries Frans Van Der Schoot B.V. (―FVDS"), Claydon Industrial Limited (―Claydon"), Jubilata Investments Limited (―Jubilata"), Zhaikmunai LLP (―the Partnership") and Condensate Holdings LLP (―Condensate"). Zhaikmunai LP and its subsidiaries are hereinafter referred to as ―the Group". The Group's operations comprise of a single operating segment and are primarily conducted through its oil and gas producing entity Zhaikmunai LLP located in Kazakhstan. The Group is ultimately indirectly controlled through Thyler Holdings Limited (―Thyler"), by Frank Monstrey. The General Partner of Zhaikmunai LP is Zhaikmunai Group Limited, which is responsible for the management of the Group (Note 9).

The Partnership was established in 1997 for the purpose of exploration and development of the 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, as amended, in accordance with the license MG No. 253D (the ―License") for the exploration and production of hydrocarbons in Chinarevskoye oil and gas condensate field between the State Committee of Investments of the Republic of Kazakhstan and the Partnership.

The Group was formed through a reorganization of entities under common control on March 28, 2008 to facilitate the listing of GDRs on the LSE. On March 28, 2008 Zhaikmunai LP listed 40,000,000 Global Depositary Receipts (‗GDRs') on the London Stock Exchange (‗LSE'), 30,000,000 of which were issued to Claremont Holdings Limited, a subsidiary of Thyler, after the reorganisation and 10,000,000 which were sold to other investors at US$10 per GDR, representing 9.09% of the equity interests in the Group,

These consolidated financial statements have been prepared using the pooling of interest method and, as such, the consolidated financial statements have been presented as if the transfers of the ownership interests in Frans Van Der Schoot B.V., Claydon, Jubilata, Zhaikmunai LLP and Condensate to Zhaikmunai LP had occurred from the beginning of the earliest period presented.

On September 15, 2009, Zhaikmunai LP raised an additional US$300 million through the sale of 75,000,000 new common units in the form of GDRs at US$4 per GDR. 25,000,000 of these GDRs were placed with Claremont Holdings Limited. Claremont Holdings Limited is indirectly controlled by Frank Monstrey.

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

These consolidated financial statements were authorized for issue by Kai-Uwe Kessel, Chief Executive Officer of the General Partner of Zhaikmunai LP and by Jan-Ru Muller, Chief Financial Officer of the General Partner of Zhaikmunai LP on March 29, 2010.

Licence terms

The term of the license of the Partnership originally included a 5 year exploration period and a 25 year production period. The exploration period was initially extended for 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 Tournasian horizons, was extended for an additional 3 year period with a new expiry on May 26, 2011.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

1. GENERAL (continued)

Royalty Payments

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

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

Government "profit share"

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

2. BASIS OF PREPARATION

These 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 under the historical cost convention except for financial instruments which are carried at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group‘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 3.

Adopted accounting standards and interpretations

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

2. BASIS OF PREPARATION (continued)

Adopted accounting standards and interpretations (continued)

IFRS 2 – Shared-based Payment (Revised)

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

IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument recognized at fair value. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The Group's derivative instruments are measured at fair value as disclosed in related notes to the consolidated financial statements, and the liquidity risk disclosures are not significantly impacted by the amendments and presented in Note 23.

IFRS 8 Operating Segments

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

IAS 1 Presentation of Financial Statements

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

IAS 23 Borrowing Costs

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

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

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

2. BASIS OF PREPARATION (continued)

Improvements to IFRSs

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

IAS 1 – *Presentation of Financial Statements*

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

IAS 16 – *Property, plant and equipment*

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

IAS 23 – *Borrowing costs*

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

IAS 36 - *Impairment of Assets*

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

IAS 38 – *Intangible assets*

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

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

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

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

IFRIC 13 - *Customer Loyalty Programmes*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

2. BASIS OF PREPARATION (continued)

Improvements to IFRSs (continued)

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

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

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

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

IFRIC 18 - *Transfer of Assets from Customers*

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

2. BASIS OF PREPARATION (continued)

Improvements to IFRSs (continued)

New accounting developments

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimation and Assumptions

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

Oil and gas reserves

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation and Assumptions (continued)

Impairment

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

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option and volatility and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 20.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The Group applied the translation procedures applicable to the new functional currency prospectively from the date of change. Accordingly, all items in the balance sheet as of January 1, 2009 have been translated into US$ using the exchange rate as of that date, i.e. US$ 1 = KZT 150.41. The resulting translated amounts for non-monetary items are treated as their historical cost.

The consolidated financial statements of the Group are presented in the United States Dollars (―USD"), which is also the functional currency of the Group's entities.

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.

Consolidation

The consolidated financial statements comprise the financial statements of the Parent entity and its controlled subsidiaries (Note 1).

Inter-company transactions, balances and unrealized gains on transactions between companies are eliminated. Unrealized losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries

Subsidiaries are all entities over which the Group 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 effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and continue to be consolidated until the date that such control ceases.

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.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the historical cost of the controlling entity. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment

Exploration expenditure

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

Oil and gas properties

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

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

Oil and Gas Reserves

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

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

Impairment of non-financial assets

The 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 Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

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

Other Properties

All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditures that are directly attributable to the acquisition or construction of the items. Subsequent costs are included in the asset‘s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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 Improvements	7-15
Vehicles	8
Machinery and Equipment	3-13
Other	3-10

Borrowing Costs

The Group capitalizes borrowing costs on qualifying assets. Assets qualifying for borrowing costs capitalization include all assets under construction that are not being depreciated, depleted, or amortized, provided that work is in progress at that time. Qualifying assets mostly include wells and other oilfield infrastructure under construction. Capitalized borrowing costs are calculated by applying the capitalization rate to the expenditures on qualifying assets. The capitalization rate is the weighted average of the borrowing costs applicable to the 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 is determined on the weighted-average method and other inventories are also valued using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

Accounts Receivable

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

Borrowings

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Group 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 Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss in accordance with IAS 36.

Financial assets

Initial recognition and measurement

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised 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 recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the 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. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the 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, recognised are not included in a collective assessment of impairment.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Financial assets carried at amortised cost (continued)

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

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

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

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

Derecognition

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

Offsetting of financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Fair value of financial instruments

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 23.

Derivative financial instruments and hedging

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

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

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

Taxation

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

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

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

Revenue Recognition

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

4. PROPERTY, PLANT AND EQUIPMENT

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

	Oil and gas properties			**Non oil and gas properties**					
In thousand of US Dollar	**Working assets**	**CIP**	**Total oil and gas properties**	**Buildings**	**Machinery & Equipment**	**Vehicles**	**Others**	**Total non oil gas properties**	**Total**
Balance at December 31, 2007, net of accumulated depreciation	98,691	184,124	282,815	2,387	2,209	1,015	1,107	6,718	289,533
Additions	3,290	228,734	232,024	376	849	734	797	2,756	234,780
Transfers	73,546	(72,645)	901	264	(1,044)	–	(121)	(901)	–
Transferred to inventory	–	(37)	(37)	–	–	–	–	–	(37)
Disposal	–	(442)	(442)	–	(14)	–	(3)	(17)	(459)
Depreciation charge	(7,132)	–	(7,132)	(311)	(362)	(203)	(261)	(1,137)	(8,269)
Depreciation on disposal	–	–	–	–	14	–	2	16	16
Translation difference	(670)	(1,373)	(2,043)	(9)	(7)	(7)	(7)	(30)	(2,073)
Balance at December 31, 2008, net of accumulated depreciation	167,725	338,361	506,086	2,707	1,645	1,539	1,514	7,405	513,491
Additions	1,286	272,320	273,606	210	834	345	627	2,016	275,622
Transfers	212,529	(214,159)	(1,630)	90	1,566		(26)	1,630	–
Disposal	(485)	(212)	(697)	–	(402)	(70)	(398)	(870)	(1,567)
Depreciation charge	(15,376)	–	(15,376)	(393)	(209)	(295)	(320)	(1,217)	(16,593)
Balance at December 31, 2009, net of accumulated depreciation	**365,679**	**396,310**	**761,989**	**2,614**	**3,434**	**1,519**	**1,397**	**8,964**	**770,953**
At cost at December 31, 2008	222,275	338,361	560,636	3,538	2,754	2,232	2,178	10,702	571,338
Accumulated depreciation	(54,550)	–	(54,550)	(831)	(1,109)	(693)	(664)	(3,297)	(57,847)
Balance at December 31, 2008, net of accumulated depreciation	167,725	338,361	506,086	2,707	1,645	1,539	1,514	7,405	513,491
At cost at December 31, 2009	**435,605**	**396,310**	**831,915**	**3,839**	**4,753**	**2,501**	**2,343**	**13,436**	**845,351**
Accumulated depreciation	**(69,926)**		**(69,926)**	**(1,225)**	**(1,319)**	**(982)**	**(946)**	**(4,472)**	**(74,398)**
Balance at December 31, 2009, net of accumulated depreciation	**365,679**	**396,310**	**761,989**	**2,614**	**3,434**	**1,519**	**1,397**	**8,964**	**770,953**

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

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

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

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

The Partnership incurred borrowing costs including amortization of arrangement and other borrowing related fees of US$ 32,865 thousand, and US$ 31,558 thousand for the years ended December 31, 2009 and 2008. For the same periods, the Partnership capitalized borrowing costs totaling US$ 26,440 thousand and US$ 19,640 thousand, at capitalization rates of 7.7% and 9.75%, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

5. TRADE RECEIVABLES

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

6. PREPAYMENTS AND OTHER CURRENT ASSETS

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

In thousands of US Dollars	**2009**	2008
VAT receivable	**20,429**	20,606
Advances paid	**1,199**	2,104
Receivable under hedging contract	–	2,613
Advance to Probel Capital Management B.V.	–	1,620
Other	**1,035**	1,138
	22,663	28,081

Advances paid consist primarily of prepayments made to service providers.

7. CASH AND CASH EQUIVALENTS

In thousands of US Dollars	**2009**	2008
Current accounts in US Dollars	**134,988**	7,345
Current accounts in Tenge	**1,069**	4,222
Cash accounts in other currencies	**1,318**	320
	137,375	11,887

No interest was earned on current accounts in 2009.

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

8. PARTNERSHIP CAPITAL

The ownership interests in Zhaikmunai LP consist of (a) Common Units, which represent a fractional entitlement in respect of all of the limited partner interests in Zhaikmunai LP and (b) the interest of the General Partner. At any general meeting every holder of Common Units shall have one vote for each Common Unit of which he or she is the holder. Under the Partnership Agreement, distributions to limited partners will be made either as determined by the General Partner in its sole discretion or following the approval of a majority of limited partners provided such amount does not exceed the amount recommended by the General Partner. Any distributions to Zhaikmunai LP‘s limited partners will be made on a pro rata basis according to their respective partnership interests in Zhaikmunai LP and will be paid only to the recorded holders of Common Units. There were no distributions declared for the years ended December 31, 2009 and 2008.

As discussed in Note 1 on September 15, 2009, Zhaikmunai LP successfully raised an additional US$300 million through the sale of 75,000,000 new common units in the form of GDRs at US$4 per GDR. 25,000,000 of these GDRs were placed with Claremont Holdings Limited. Upon completion of the placing, the capital structure of the Partnership was as follows: Claremont Holdings Limited (67.57%) and other holders of GDRs‘ (32.43%). The proceeds of the placing will supplement the Partnership‘s existing credit facilities and fund in part the capital expenditure programme for the Chinarevskoye field, in particular, the completion of the Gas Treatment Unit. The issuance costs amounted to US$ 25,130 thousand.

The movements in GDR‘s during the years ended December 31, 2009 and 2008 were as follows:

	2009	2008
Balance at January 1,	**40,000,000**	–
Issued during the year	**75,000,000**	40,000,000
Balance at December 31,	**115,000,000**	40,000,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

9. BORROWINGS

Facility agreement with BNP Paribas

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

On August 27, 2009, an amendment agreement was concluded with the lenders providing for a waiver of the existing defaults, which was conditional, amongst other things, upon completion of the US$300 million equity placing (Note 8) and in consideration for, inter alia, the lenders agreeing to reduce the size of the syndicated facility to US$382 million and increasing the rate of interest (over LIBOR and mandatory costs) to 7% from LIBOR plus 3%, 4% and 5% for tranches one, two and three, respectively. The amendment was treated as a non-substantial change to the existing Facility and the related amendment arrangement fees of US$14,480 thousand were added to the initial Facility arrangement fees.

The total amount outstanding principal balance of the liability under the loan facility as at December 31, 2009 is US$ 381,677 thousand which is reduced by the amount of the facility arrangement fees of US$ 25, 329 thousand (2008: US$ 381,677 thousand and US$ 16,238 thousand, respectively). The outstanding balance is repayable commencing September 30, 2011 in semi-annual instalments with the final payment being made on December 31, 2014. This is subject to further adjustment to reflect any changes to the borrowing base amount. In addition, the BNP Paribas Facility is mandatorily prepayable to the extent of the proceeds of any material disposals, and a cash sweep of 50% of debt or new equity issuance and 50% of the balance (in excess of US$ 25 million in aggregate) of the Partnership's account held with a member of the syndicate (the Collection Account) and (on and after December 31, 2010) the Partnership's account held with a member of the syndicate into which the proceeds of the equity issue (Note 1) were paid. The Partnership is also entitled to voluntarily prepay the amounts outstanding. The Partnership is required to give customary representations and warranties, repeated periodically and maintain certain financial covenants relating to profitability. Further, all export sale proceeds are paid into the Collection Account, and withdrawals from such account may only be made in accordance with the agreed banking case.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

10. ABANDONMENT AND SITE RESTORATION LIABILITIES

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

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

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

11. DUE TO GOVERNMENT OF KAZAKHSTAN

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

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

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

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

12. TRADE PAYABLES

In thousands of US Dollars	**2009**	2008
Tenge denominated trade payables	**52,930**	41,679
US dollar denominated trade payables	**8,556**	18,617
Trade payables denominated in other currencies	**4,895**	657
	66,381	60,953

13. OTHER CURRENT LIABILITIES

In thousands of US Dollars	**2009**	2008
Training accrual	**4,602**	3,049
Taxes payable, other than corporate income tax	**1,420**	1,950
Due to employees	**1,005**	491
Other	**827**	1,127
	7,854	6,617

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

14. COST OF SALES

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

15. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US Dollars	**2009**	2008
Management fees	**8,561**	5,385
Employee share option plan (Note 20)	**6,509**	516
Professional services	**4,311**	4,612
Payroll and related taxes	**3,210**	2,956
Training	**2,774**	2,501
Business travel	**818**	352
Insurance fees	**543**	724
Bank charges	**503**	588
Depreciation and amortization	**417**	162
Communication	**403**	395
Social program	**300**	300
Lease payments	**291**	268
Sponsorship	**238**	346
Materials and supplies	**112**	163
Other taxes	**90**	418
Other	**646**	613
	29,726	20,299

16. SELLING AND OIL TRANSPORTATION EXPENSES

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

17. FINANCE COSTS

In thousands of US Dollar	**2009**	2008
Interest expense	**6,035**	11,481
Unwinding of discount on amounts Due to Government	**1,062**	992
Loan review fees	**335**	–
Unwinding of discount on Abandonment and Site Restoration Liability	**314**	261
Commitment fees on syndicated loan agreement	**55**	437
	7,801	13,171

18. INCOME TAX EXPENSES

The provision for income taxes consisted of the following:

In thousands of US Dollar	**2009**	2008
Income tax expenses comprise:		
- current income tax expense	**7,889**	4,193
- deferred income tax expense	**19,719**	30,995
Total income tax expense	**27,608**	35,188

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

In thousands of US Dollar	**2009**	2008
Profit before income tax	**8,840**	98,666
Statutory tax rate	**30%**	30%
Expected tax provision	**2,654**	29,600
Non-deductible interest expense on borrowings	**5,893**	4,686
Adjustments in respect of current income tax of previous year	**–**	(1,116)
Employee share option pan	**1,953**	–
Foreign exchange loss	**610**	460
Difference arising on Abandonment and Site Restoration Liability and payables Due to Government	**282**	263
Change of the tax base	**20,266**	–
Effect of income taxed at different rate	**(4,443)**	–
Other non-deductible expenses	**393**	**1,295**
Income tax expense reported in the accompanying consolidated financial statements	**27,608**	35,188

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

18. INCOME TAX EXPENSES (continued)

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

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

19. DERIVATIVE FINANCIAL INSTRUMENT

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

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

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

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

20 EMPLOYEE SHARE OPTION PLAN

Employees (including senior executives and executive directors) of members of the Group receive remuneration in the form of equity-based payment transactions, whereby employees render services as consideration for share appreciation rights, which can only be settled in cash (‗cash-settled transactions').

The cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date using a binomial model. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

The equity-based payment plan is described below. There have been no cancellations or modifications to any of the plans during 2009.

During 2008 and 2009, 2,732,958 equity appreciation rights (SARs) were granted to senior employees and executive directors of members of the Group, which can only be settled in cash. These generally vest over a five year period from the date of grant, so that one fifth of granted SARs vests on each of the five anniversaries from the date of grant date. The contractual life of the SARs is ten years. The fair value of the SARs is measured at the grant date using a binomial option pricing model taking into account the terms and conditions upon which the instruments were granted. SARs are exercisable at any time after vesting (but not before 1 July 2011) till the end of the contractual life and give its holder a right to a difference between the market value of the Group's GDRs at the date of exercise and a stated base value. The services received and a liability to pay for those services are recognised over the expected vesting period. Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss as part of the employee benefit expenses arising from cash-settled share-based payment transactions. On December 30, 2009 the Board of Directors of the general partner of Zhaikmunai LP approved an adjustment in the number of SAR's and in their base value to US$4 as a result of the September 2009 GDR placement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

20 EMPLOYEE SHARE OPTION PLAN (continued)

The carrying amount of the liability relating to 2,732,958 of SARs at December 31, 2009 is US$ 7,025 thousand (2008: US$ 516 thousand). During the year ended December 31, 2009 1,081,006 were earned of which 690,748 were fully vested (2008: earned – 380,822, fully vested - Nil).

The following table illustrates the number (No.) and exercise prices (EP) of, and movements in, equity options during the year:

	December 31, 2009		December 31, 2008	
	No.	**EP, US Dollar**	No.	EP, US Dollar
Outstanding at the beginning of period	**2,500,000**	**10**	–	–
Granted	**232,958**	**4**	2,500,000	10
Exercised	**–**	**–**	–	–
Outstanding at the end of period	**2, 732,958**	**4**	2,500,000	10
Exercisable at the end of period	**–**	**–**	–	–

The following table lists the inputs to the models used for the plan for the year ended December 31, 2009:

In thousands of US Dollars	**2009**	2008
Dividend yield (%)	**0**	0
Expected volatility (%)	**86**	87
Risk -free interest rate (%)	**3.2**	3.2
Expected life (years)	**3.5**	7.2
Option turnover (%)	**10**	10
Price trigger	**2**	2

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

21. RELATED PARTY TRANSACTIONS

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

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

Trade receivables and advances		
Probel Capital Management N.V.	–	1,620
Total	–	1,620

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

In thousands of US Dollars	**2009**	2008
Trade payables		
Amersham Oil LLP	**498**	108
Prolag BVBA	**129**	–
Probel Capital Management N.V.	**394**	163
Total	**1,021**	271

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

21. RELATED PARTY TRANSACTIONS (continued)

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

In thousands of US Dollars	**2009**	2008
Management fees and consulting services		
Amersham Oil LLP	**1,746**	1,245
Prolag BVBA	**2,184**	–
Probel Capital Management N.V.	**9,215**	5,987
Total	**13,145**	7,232

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

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

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

22. CONTINGENT, COMMITMENTS AND OPERATING RISKS

Operating environment

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

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

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

Legal actions

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

22. CONTINGENT, COMMITMENTS AND OPERATING RISKS (continued)

Taxation

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

Abandonment and site restoration (decommissioning)

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

Capital commitments

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

Operating leases

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

Social and education commitments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk, liquidity risk, commodity price 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‘s exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

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

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

Increase / decrease interest rate	**Effect on profit before tax for the year ended December31, 2009**	Effect on profit before tax for the year ended December 31, 2008
In thousands of US Dollar		
+1.5%	**(5,725)**	(4,921)
-1.5%	**5,725**	4,921

Foreign Currency Risk

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

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rate, with all other variables held constant, of the 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**
2009		
US thousand dollar	**+19.5%**	**(574)**
US thousand dollar	**-19.5%**	**574**
2008		
US thousand dollar	+25%	(65,715)
US thousand dollar	+40%	(105,144)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity Risk (continued)

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

Year ended December 31, 2009	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**more than 5 years**	**Total**
Borrowings	**–**	**7,666**	**23,000**	**415,750**	**–**	**446,416**
Trade payables	**50,242**	**–**	**17,593**	**–**	**–**	**67,835**
Employee share option plan	**–**	**–**	**–**	**7,025**	**–**	**7,025**
Other current liabilities	**7,854**	**–**	**–**	**–**	**–**	**7,854**
Due to Government of Kazakhstan	**–**	**258**	**773**	**4,124**	**16,753**	**21,908**
	58,096	**7,924**	**41,366**	**426,899**	**16,753**	**551,038**

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

Capital management

Capital of Zhaikmunai LP consists of Common Units, which represent a fractional entitlement in respect of all of the limited partner interests in Zhaikmunai LP and the interest of the General Partner. During the years ended December 31, 2009 and 2008, the Group did not have a formal capital management strategy.

Commodity Price Risk

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

Other than the hedge arrangements described in Note 19 and Note 24 the Group does not hedge its exposure to the risk of fluctuations in the price of crude oil.

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.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2009

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair values of financial instruments

Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between knowledgeable willing parties according to arm‘s length conditions, other than in a forced or liquidation sale. As no readily available market exists for a large part of the 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 Group‘s derivative is valued with a reference to a quoted market price in an active market. The fair value of other financial assets has been calculated using market interest rates.

Fair value hierarchy

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

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly. The Group‘s financial instruments valued based on other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly include employee share options.

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

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

24. SUBSEQUENT EVENTS

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