Zhaikmunai LP

Consolidated Financial Statements

Year ended December 31, 2010

With Independent Auditors' Report

CONTENTS

Independent Auditors' Report

To the participants of Zhaikmunai LP:

We have audited the accompanying consolidated financial statements of Zhaikmunai LP (the "Partnership") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Conclusion

In our opinion, the consolidated financial statements of Zhaikmunai LP for the year ended 31 December 2010 are prepared, in all material respects, in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Paul Cohn
Audit Partner

Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP

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

Auditor Qualification Certificate
No. 0000553 dated 24 December 2003

31 March 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2010

In thousands of US Dollars

	Note	2010	2009
ASSETS			
Non-Current Assets			
Property, plant and equipment	**5**	**955,911**	770,953
Derivative financial instrument	**20**	**–**	98
Restricted cash	**8**	**2,743**	21,358
Advances for equipment and construction works		**6,479**	27,399
		965,133	819,808
Current Assets			
Restricted cash	**8**	**1,000**	–
Inventories		**5,639**	3,477
Trade receivables	**6**	**1,635**	13,878
Prepayments and other current assets	**7**	**16,759**	22,663
Income tax prepayment		**3,200**	5,599
Cash and cash equivalents	**8**	**144,201**	137,375
		172,434	182,992
TOTAL ASSETS		**1,137,567**	1,002,800
EQUITY AND LIABILITIES			
Partnership capital and Reserves			
Partnership capital	**9**	**366,942**	366,942
Retained earnings and translation reserve		**133,727**	110,827
		500,669	477,769
Non-Current Liabilities			
Long term borrowings	**10**	**434,931**	356,348
Abandonment and site restoration liabilities	**11**	**4,543**	3,373
Due to Government of Kazakhstan	**12**	**6,290**	6,363
Employee share option plan	**21**	**10,104**	7,025
Deferred tax liability	**19**	**100,823**	76,659
		556,691	449,768
Current Liabilities			
Current portion of long term borrowings	**10**	**9,450**	–
Trade payables	**13**	**49,213**	66,381
Advances received		**11,693**	–
Derivative financial instrument	**20**	**372**	–
Current portion of Due to Government of Kazakhstan	**12**	**1,031**	1,028
Other current liabilities	**14**	**8,448**	7,854
		80,207	75,263
TOTAL EQUITY AND LIABILITIES		**1,137,567**	1,002,800

The accounting policies and explanatory notes on pages 6 through 30 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, 2010

In thousands of US Dollars

	Note	2010	2009
Sales of crude oil:			
Export sales		**172,102**	109,368
Domestic sales		**6,057**	6,665
		178,159	116,033
Cost of sales	**15**	**(53,860)**	(44,035)
Gross profit		**124,299**	71,998
General and administrative expenses	**16**	**(27,265)**	(29,726)
Selling and oil transportation expenses	**17**	**(17,014)**	(5,692)
Loss on hedging contract	**20**	**(470)**	(16,909)
Finance costs	**18**	**(21,296)**	(7,801)
Foreign exchange gain / (loss), net		**46**	(2,184)
Interest income		**239**	60
Other expenses		**(1,054)**	(1,611)
Other income		**3,288**	705
Profit before income tax		**60,773**	8,840
Income tax expense	**19**	**(37,873)**	(27,608)
Profit / (loss) for the year		**22,900**	(18,768)
Other comprehensive income:		**–**	–
Total comprehensive profit / (loss) for the year, net of tax		**22,900**	(18,768)

The accounting policies and explanatory notes on pages 6 through 30 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, 2010

	Note	2010	2009
Cash flow from operating activities:			
Profit before income tax		**60,773**	8,840
Adjustments for:			
Depreciation and amortization	**15, 16**	**15,695**	16,593
Finance costs	**18**	**21,296**	7,801
Interest income		**(239)**	(60)
Loss on hedging contract	**20**	**470**	16,909
Provision for tax claims		**728**	–
Accrual of share option expenses		**3,079**	6,509
Loss on disposal of property, plant and equipment		**920**	1,567
Operating profit before working capital changes		**102,722**	58,159
Changes in working capital:			
(Increase) / decrease in inventories		**(2,162)**	112
Decrease / (increase) in trade receivables		**12,243**	(12,794)
(Increase) / decrease in prepayments and other current assets		**(3,916)**	5,414
(Decrease) / increase in trade payables		**(18,622)**	3,745
Increase in advances received		**11,693**	–
Payment of obligation to Government of Kazakhstan	**12**	**(1,029)**	(1,032)
Increase in other current liabilities		**(134)**	1,241
Cash generated from operations		**100,795**	54,845
Income tax paid		**(1,840)**	(8,911)
Net cash flows from operating activities		**98,955**	45,934
Cash flow from investing activities:			
Interest income		**239**	60
Purchases of property, plant and equipment		**(132,428)**	(200,733)
Net cash used in investing activities		**(132,189)**	(200,673)
Cash flow from financing activities:			
Repayment of borrowings		**(381,677)**	–
Finance costs paid		**(30,478)**	(26,608)
Proceeds from issue of Global Depositary Receipts	**9**	**–**	300,000
Transaction costs paid		**–**	(25,130)
Issue of notes	**10**	**450,000**	–
Transfer from / (to) restricted cash		**17,615**	(280)
Proceeds from sale of hedging contract		**–**	48,200
Realised hedging income		**–**	5,416
Purchase of hedging contract		**–**	(7,700)
Fees paid on arrangement of notes and borrowings		**(15,750)**	(14,480)
Net cash provided by financing activities		**39,710**	279,418
Effects of exchange rate changes on cash and cash equivalents		**350**	809
Net increase in cash and cash equivalents		**6,826**	125,488
Cash and cash equivalents at the beginning of the year	**8**	**137,375**	11,887
Cash and cash equivalents at the end of the year	**8**	**144,201**	137,375

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended December 31, 2010

NON-CASH TRANSACTIONS

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

Offset of Corporate Income Tax with Value Added Tax

During the year ended December 31, 2010, the Partnership offset Corporate Income Tax for the amount of US$9,820 thousand with Value Added Tax.

The accounting policies and explanatory notes on pages 6 through 30 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, 2010

	Partnership capital	Retained earnings	Translation reserve	Total
As of December 31, 2008	**92,072**	**126,296**	**3,299**	**221,667**
Net loss for the period	–	(18,768)	–	(18,768)
Total comprehensive loss for the period	**–**	**(18,768)**	**–**	**(18,768)**
Issue of Global Depositary Receipts (Note 9)	300,000	–	–	300,000
Transaction costs (Note 9)	(25,130)	–	–	(25,130)
As of December 31, 2009	**366,942**	**107,528**	**3,299**	**477,769**
Net income for the period	–	22,900	–	22,900
Total comprehensive income for the year	**–**	**22,900**	**–**	**22,900**
As of December 31, 2010	**366,942**	**130,428**	**3,299**	**500,669**

The accounting policies and explanatory notes on pages 6 through 30 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, 2010

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.

The Group operates in a single operating segment of exploration and production of hydrocarbons in Chinarevskoye oil and gas condensate field.

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 31, 2011.

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.

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 from 4% to 9% of produced natural gas.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2010

1. GENERAL (continued)

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.

New and amended standards and interpretations

- IFRS 2 *Share-based Payment: Group Cash-settled Share-based Payment Transactions* effective January 1, 2010.
- IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)* effective July 1, 2009, including consequential amendments to IFRS 2, IFRS 5 IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39.
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Ite*ms effective July 1, 2009.
- IFRIC 17 *Distributions of Non-cash Assets to Owners* effective July 1, 2009.
- Improvements to IFRSs (May 2008).
- Improvements to IFRSs (April 2009).

IFRS 2 *Share-based Payment (Revised)*

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of January 1, 2010. It did not have significant impact on the financial position or performance of the Group.

IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)*

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after January 1, 2010.

The change in accounting policy was applied prospectively and had no material impact on consolidated financial statements.

2. BASIS OF PREPARATION (continued)

New and amended standards and interpretations (continued)

IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 17 *Distribution of Non-cash Assets to Owners*

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position nor performance of the Group.

Improvements to IFRSs

In May 2008 and April 2009, the IASB issued 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 adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

Issued in May 2008

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Group.

Issued in April 2009

IFRS 5 *Non-current Assets Held for Sale* and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The amendment had no significant impact on the financial position nor financial performance of the Group.

IFRS 8 *Operating Segments*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. The amendment had no significant impact on the financial position nor financial performance of the Group.

IAS 7 *Statement of Cash Flows*: States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. The amendment had no impact on the financial position nor financial performance of the Group.

IAS 36 *Impairment of Assets:* The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment had no impact on the financial position nor financial performance of the Group.

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

IAS 12 *Income taxes (Amendment)*

On December 20, 2010, the IASB issued Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12). These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recovered through sale. The amendments also incorporate SIC-21 Income Taxes - Recovery of Revalued Non-Depreciable Assets into IAS 12. The Group does not expect any impact on its financial position or performance as it does not have any investment property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2010

2. BASIS OF PREPARATION (continued)

Standards issued but not yet effective (continued)

IAS 24 *Related Party Disclosures (Amendment)*

The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues (Amendment)*

The amendment to IAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

IFRS 9 *Financial Instruments: Classification and Measurement*

In November 2009, the IASB issued the first part of Phase 1 of IFRS 9 dealing with the classification and measurement of financial assets. On October 28, 2010, the IASB issued amendments to IFRS 9 to address financial liabilities. Furthermore, these amendments also incorporate the current derecognition principles of IAS 39 into IFRS 9. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial instruments. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC 14 *Prepayments of a minimum funding requirement (Amendment)*

The amendment to IFRIC 14 is effective for annual periods beginning on or after January 1, 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the consolidated financial statements of the Group.

Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- **IFRS 3** *Business Combinations*;
- IFRS 7 *Financial Instruments: Disclosures*;
- IAS 1 *Presentation of Financial Statements*;
- IAS 27 *Consolidated and Separate Financial Statements*.

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.

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 21% for 2010 and 2009, respectively. There were no impairment losses recognized by the Group during the years ended December 31, 2010 and 2009.

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 21.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation and Assumptions (continued)

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, 2010 were 5% and 10.35% respectively. Movements in the provision for decommissioning liability are disclosed in Note 11.

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 both Zhaikmunai Finance B.V. and the Partnership is the United States Dollar (the "US Dollar" or "US$").

Transactions and balances denominated in foreign currencies

Transactions in foreign currencies are initially recorded by the Group at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

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.

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 incurred during 2010 (2009: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 and impairment. 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 takes a substantial period of time to get ready for its intended use, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2010

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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.

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, 2010

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.

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.

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 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2010

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

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

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

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

Revenue Recognition

The Partnership sells crude oil 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.

4. RECLASSIFICATION OF COMPARATIVE INFORMATION

Starting June 30, 2010 the Partnership presents Cost of goods sold in the notes to its consolidated financial statements as cost of production less/add effect of the change in the closing and opening inventory.

The effects of the above reclassification is presented below

	As previously reported	*Reclassifica-tions*	*As restated*
Statement of comprehensive income for the year ended December 31, 2009:			
Cost of sales			
Depreciation and amortization	16,198	(22)	16,176
Repair, maintenance and other services	7,338	(24)	7,314
Royalties	5,740	(29)	5,711
Payroll and related taxes	5,516	(18)	5,498
Materials and supplies	2,262	(12)	2,250
Management fees	2,064	(12)	2,052
Other transportation services	1,367	(6)	1,361
Government profit share	1,112	–	1,112
Environmental levies	1,083	(4)	1,079
Well workover costs	148	(31)	117
Change in oil stock	–	159	159
Other	1,207	(1)	1,206
	44,035	**–**	**44,035**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2010

5. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the year ended December 31, 2009 and 2010 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, 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**
Additions	990	198,047	199,037	139	948	32	1,417	2,536	201,573
Transfers	103,156	(103,532)	(376)	259	501	273	(657)	376	–
Disposal	–	–	–	–	(705)	–	(215)	(920)	(920)
Depreciation charge	(13,820)	–	(13,820)	(398)	(853)	(320)	(304)	(1,875)	(15,695)
Balance at December 31, 2010, net of accumulated depreciation	**456,005**	**490,825**	**946,830**	**2,614**	**3,325**	**1,504**	**1,638**	**9,081**	**955,911**
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**
At cost at December 31, 2010	539,607	490,825	1,030,432	4,237	5,122	2,819	2,839	15,017	1,045,449
Accumulated depreciation	(83,602)	–	(83,602)	(1,623)	(1,797)	(1,315)	(1,201)	(5,936)	(89,538)
Balance at December 31, 2010, net of accumulated depreciation	**456,005**	**490,825**	**946,830**	**2,614**	**3,325**	**1,504**	**1,638**	**9,081**	**955,911**

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 3.36% and 5.41% in 2010 and 2009, 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, 2010. Depreciation has been calculated using the unit of production method based on these reserves estimates.

The Partnership incurred borrowing costs including amortization of arrangement and other borrowing related fees of US$ 47,452 thousand, and US$ 32,865 thousand for the years ended December 31, 2010 and 2009. The total amount of borrowing costs was capitalized as December 31, 2010. Borrowing costs totaling US$ 26,440 thousand, were capitalized as of December 31, 2009 at capitalization rates of 7.7%.

6. TRADE RECEIVABLES

As at December 31, 2010 and 2009 trade receivables were denominated in US$, were less than 30 days and were not impaired.

7. PREPAYMENTS AND OTHER CURRENT ASSETS

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

In thousands of US Dollars	**2010**	2009
VAT receivable	**11,090**	20,429
Advances paid	**5,146**	1,199
Other	**523**	1,035
	16,759	22,663

Advances paid consist primarily of prepayments made to service providers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2010

8. CASH AND CASH EQUIVALENTS

In thousands of US Dollars	**2010**	2009
Current accounts in US Dollars	**143,452**	134,988
Current accounts in Tenge	**543**	1,069
Cash accounts in other currencies	**206**	1,318
	144,201	137,375

No interest was accrued on current accounts during the years ended December 31, 2010 and 2009.

In addition the Partnership has restricted cash accounts. As of December 31, 2009, restricted cash was represented by the Partnership's pledges under the Facility agreement with BNP Paribas (Note 10) of US$ 19,078 thousand and an additional liquidation fund deposit of US$ 2,280 thousand with Sberbank in Kazakhstan. The restricted cash as of December 31, 2010 represents money held by Citibank under the hedging contract with Citibank (Note 20) for the amount of US$1,000 thousand and a liquidation fund deposit of US$2,743 thousand with Kazcommertsbank JSC in Kazakhstan.

9. 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, 2010 and 2009.

As discussed in Note 1 on September 15, 2009 Zhaikmunai LP successfully raised an additional US$300 milliion through the sale of 75,000,000 new common units in the form of GDRs at US$4 per GDR. The proceeds of the placing were used to supplement the Partnership's then-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, 2010 and 2009 were as follows:

	2010	2009
Balance at January 1,	**185,000,000**	110,000,000
Issued during the year	**–**	75,000,000
Balance at December 31,	**185,000,000**	185,000,000

10. BORROWINGS

Borrowings comprise the following as at December 31:

In thousands of US Dollar	**2010**	2009
Notes payable	**444,381**	–
Facility agreement with BNP Paribas	**–**	356,348
Less amounts due within 12 months	**9,450**	–
Amounts due after 12 months	**434,931**	356,348

Notes payable

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

The Notes bear interest at the rate of 10.50% per year. Interest on the Notes is payable on April 19 and October 19 of each year, beginning on April 19, 2011. The Notes will mature on October 19, 2015. The Issuer may redeem some or all of the Notes at any time on or after October 19, 2013 at the prices and as described in the offering memorandum relating to the Notes. Prior to 19 October 2013, the Issuer may redeem all or part of the Notes by paying a "make whole" premium. In addition, prior to October 19, 2013, the Issuer may redeem up to 35% of the outstanding principal amount of Notes from the proceeds of certain equity offerings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2010

10. BORROWINGS (continued)

The Notes are jointly and severally guaranteed (the "Guarantees") on a senior basis by Zhaikmunai L.P. and all of its subsidiaries other than the Issuer (the "Guarantors"). The Notes are the Issuer's and the Guarantors' senior obligations and rank equally with all of the Issuer's and the Guarantors' other senior indebtedness.

Zhaikmunai LLP may elect to undertake, upon satisfaction of certain conditions, to be substituted for the Issuer as issuer of the Notes, whereupon it will assume all of the obligations of the Issuer under the Notes (the "Substitution").

The Notes are secured by a first-priority pledge over the loan by the Issuer to Zhaikmunai LLP of the proceeds of the Notes (the "Proceeds Loan"). In addition, the Notes and the Guarantees have the benefit of first-priority pledges over the shares of the Issuer and its direct holding company Frans van der Schoot B.V. ("FvdS"). In the event that, pursuant to the terms of the Indenture, Zhaikmunai LLP is substituted for the Issuer as issuer of the Notes pursuant to the Substitution, the Proceeds Loan will be assigned or novated to Zhaikmunai LLP and the pledge over the Proceeds Loan shall thereupon be terminated.

If the Substitution occurs and the pledge over the Proceeds Loan is terminated, the only security for the Notes and the Guarantees will be the first priority pledges over the shares of Zhaikmunai Finance B.V. and the shares of FVDS.

In preparation for the Substitution, on December 29, 2009 the shares in Zhaikmunai Finance B.V. were transferred to Zhaikmunai LLP for a consideration of US$74,583.

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.

The Partnership used part of the net proceeds of the Notes to repay in full all amounts outstanding under the BNP Paribas Facility on October 19, 2010. All security for the BNP Paribas Facility has been released.

In accordance with the BNP Paribas Facility, the Partnership maintained a hedging programme under which it hedged a fixed volume of 4,000 barrels per day of production at Brent crude oil price at a put price of US$ 60 per bbl until December 31, 2010 (Note 20). All the security pledged under the BNP Paribas Facility was also provided to the counterparties under the hedging agreements. After the deed of release was concluded all hedge agreements concluded between the Partnership and BNP Paribas, Natixis and Raiffeisen Zentralbank Österreich AG became unsecured. Therefore, on October 19, 2010, by novation, all the rights, liabilities, duties and obligations of the Partnership under and in respect of each of the hedging agreements were transferred to Citibank, N.A. ("Citibank") (Note 20).

11. 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	**2010**	2009
Abandonment and site restoration liability as at January 1,	**3,373**	3,411
Unwinding of discount (Note 18)	**397**	314
Additional provision	**308**	152
Change in estimates	**465**	(504)
	4,543	3,373

The long-term inflation and discount rates used to determine the abandonment and site restoration liabilities at December 31, 2010were 5.0% and 10.35% respectively (2009: 5.0% and 10.88%). The decrease in the discount rate used for estimation of the liability was treated as a change in estimates.

12. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2010

12. DUE TO GOVERNMENT OF KAZAKHSTAN (continued)

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	**2010**	2009
Due to Government of Kazakhstan as at January 1,	**7,391**	7,361
Unwinding of discount (Note 18)	**959**	1,062
Paid during the year	**(1,029)**	(1,032)
	7,321	7,391
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,028)
Due to Government of Kazakhstan	**6,290**	6,363

13. TRADE PAYABLES

In thousands of US Dollars	**2010**	2009
Tenge denominated trade payables	**12,786**	52,930
US dollar denominated trade payables	**35,548**	8,556
Trade payables denominated in other currencies	**879**	4,895
	49,213	66,381

Accounts payable to KazSrtoyService JSC for construction of the gas treatment unit amounted to US$ 24,118 thousand as of December 31, 2010 (2009: US$ 46,636 thousand).

14. OTHER CURRENT LIABILITIES

In thousands of US Dollars	**2010**	2009
Training liability accrual	**5,552**	4,602
Taxes payable, other than corporate income tax	**1,266**	1,420
Due to employees	**255**	1,005
Provision for tax claims	**728**	–
Other	**647**	827
	8,448	7,854

15. COST OF SALES

In thousands of US dollars	**2010**	2009
Depreciation and amortization	**15,183**	16,176
Royalties	**8,863**	5,711
Payroll and related taxes	**6,629**	5,498
Repair, maintenance and other services	**7,617**	7,314
Well workover costs	**5,871**	117
Materials and supplies	**2,239**	2,250
Other transportation services	**1,985**	1,361
Management fees	**1,947**	2,052
Environmental levies	**1,631**	1,079
Government profit share	**1,676**	1,112
Change in oil stock	**(1,529)**	159
Other	**1,748**	1,206
	53,860	44,035

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2010

16. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US Dollars	**2010**	2009
Management fees	**6,423**	8,561
Employee share option plan (Note 21)	**3,079**	6,509
Professional services	**5,080**	4,311
Payroll and related taxes	**3,469**	3,210
Training	**2,642**	2,774
Insurance fees	**898**	543
Provision for tax claims (Note 23)	**728**	
Business travel	**725**	818
Communication	**651**	403
Bank charges	**517**	503
Depreciation and amortization	**512**	417
Other taxes	**426**	90
Sponsorship	**419**	238
Lease payments	**316**	291
Materials and supplies	**316**	112
Social program	**300**	300
Other	**764**	646
	27,265	29,726

17. SELLING AND OIL TRANSPORTATION EXPENSES

In thousands of US Dollar	**2010**	2009
Oil transport costs	**11,844**	1,265
Management fees	**1,500**	1,857
Payroll	**1,173**	1,029
Oil loading and storage costs	**357**	87
Other	**2,140**	1,454
	17,014	5,692

During 2010 the Partnership commenced selling oil at Odessa in the Ukraine instead of the rail loading terminal outside Uralsk. The Partnership believes over time this will provide better pricing for their oil.

18. FINANCE COSTS

In thousands of US Dollar	**2010**	2009
Interest expense	**19,940**	6,035
Unwinding of discount on amounts Due to Government	**959**	1,062
Loan review fees	**–**	335
Unwinding of discount on Abandonment and Site Restoration Liability	**397**	314
Commitment fees on syndicated loan agreement	**–**	55
	21,296	7,801

19. INCOME TAX EXPENSES

The provision for income taxes consisted of the following:

In thousands of US Dollar	**2010**	2009
Income tax expenses comprise:		
- current income tax expense	**13,709**	7,889
- deferred income tax expense	**24,164**	19,719
Total income tax expense	**37,873**	27,608

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2010

19. INCOME TAX EXPENSES (continued)

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	**2010**	2009
Profit before income tax	**60,773**	8,840
Statutory tax rate	**30%**	30%
Expected tax provision	**18,232**	2,652
Non-deductible interest expense on borrowings	**16,452**	5,893
Employee share option plan	**924**	1,953
Foreign exchange loss	**206**	610
Difference arising on Abandonment and Site Restoration Liability and payables Due to Government	**277**	282
Change of the tax base	**964**	20,266
Effect of income taxed at different rate	**6**	(4,443)
Other non-deductible expenses	**812**	395
Income tax expense reported in the accompanying consolidated financial statements	**37,873**	27,608

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	**2010**	2009
Deferred tax asset:		
Hedging contract at fair value	**112**	–
Accounts payable and provisions	**1,943**	1,567
	2,055	1,567
Deferred tax liability:		
Crude oil inventory	**–**	(448)
Property, plant and equipment	**(102,878)**	(77,778)
	(102,878)	(78,226)
Net deferred tax liability	**(100,823)**	(76,659)

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

In thousands of US Dollar	**2010**	2009
Balance at January 1, 2010 and 2009	**(76,659)**	(56,940)
Current year charge to profit or loss	**(24,164)**	(19,719)
Balance at December 31, 2010 and 2009	**(100,823)**	(76,659)

20. DERIVATIVE FINANCIAL INSTRUMENT

Pursuant to the terms of the BNP Paribas facility (Note 10) 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 on March 30, 2009. On the same day the Partnership entered into a new hedging contract at a 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 a price of US$ 50 per bbl. The contract expired on June 30, 2010.

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

On October 19, 2010, after prepayment in full of the BNP Paribas Facility all the rights, liabilities, duties and obligations of the Partnership under and in respect of each of the hedging agreements were transferred by novation to Citibank, N.A. ("Citibank") (Note 10).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2010

20. DERIVATIVE FINANCIAL INSTRUMENT (continued)

Cash of US$3,000 thousand was initially restricted under the hedging agreement with Citibank as the estimation of the potential payments under the hedging agreement during the period from October 19, 2010 till December 31, 2010. The restricted cash was to be released in three equal tranches on November 10, 2010, December 10, 2010 and January 10, 2011 after approval by Citibank.

The balance of cash held by Citibank, representing the final tranche, under the hedging agreement with Citibank as of December 31, 2010 is US$1,000 thousand (Note 8).

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	**2010**	2009
Hedging contract fair value at January 1	**98**	62,923
Proceeds from sale of hedging contract	**–**	(48,200)
Realized hedging gain	**–**	(5,416)
Hedging loss	**(470)**	7,602
(Loss) / gain on hedging contract	**(470)**	16,909
Hedging contract fair value at January 1	**98**	–
Purchase of hedging contract	**–**	7,700
Unrealized hedging loss	**(470)**	(7,602)
Hedging contract at fair value	**(372)**	98

21. 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 the plan during 2010. 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.

During 2008 – 2010, 2,982,958 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. 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 July 1, 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.

The carrying amount of the liability relating to 2,982,958 of SARs at December 31, 2010 is US$ 10,104 thousand (2009: US$ 7,025 thousand). During the year ended December 31, 2010, 654,695 were fully vested (2009: 690,748).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2010

21. EMPLOYEE SHARE OPTION PLAN (continued)

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

	December 31, 2010		December 31, 2009	
	No.	**EP, US Dollar**	No.	EP, US Dollar
Outstanding at the beginning of period	**2,732,958**	**4**	2,500,000	10
Granted	**250,000**	**4**	232,958	4
Exercised	**–**	**–**	–	–
Outstanding at the end of period	**2,982,958**	**4**	2,732,958	4
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, 2010:

In thousands of US Dollars	**2010**	2009
Dividend yield (%)	**0**	0
Expected volatility (%)	**86**	86
Risk -free interest rate (%)	**3.2**	3.2
Expected life (years)	**3.5**	3.5
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.

22. 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 companies.

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

In thousands of US Dollars	**2010**	2009
Trade receivables and advances		
Probel Capital Management N.V.	**223**	–
Total	**223**	–

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

In thousands of US Dollars	**2010**	2009
Trade payables		
Amersham Oil LLP	**–**	498
Prolag BVBA	**106**	129
Probel Capital Management N.V.	**–**	394
Total	**106**	1,021

During the year ended December 31, 2010 and 2009 the Group had the following transactions with related parties:

In thousands of US Dollars	**2010**	2009
Management fees and consulting services		
Probel Capital Management N.V.	**8,508**	9,215
Amersham Oil LLP	**1,186**	1,746
Prolag BVBA	**1,378**	2,184
Total	**11,072**	13,145

22. RELATED PARTY TRANSACTIONS (continued)

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.

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.

23. 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.

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, 2010. As at December 31, 2010 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.

In 2010, a comprehensive tax audit was performed on the Partnership's tax accounts for 2006, 2007 and 2008 which resulted in tax claims being made. Management believes that these claims contradict the terms of the Contract and the relevant tax codes. The Partnership appealed to the court to resolve these claims. A provision of US$ 728 thousand (Note 16) has been made in these consolidated financial statements in respect to the claims where the likelihood of the Partnership being required to pay additional tax, fines and penalties is probable. In addition, the Partnership assesses that the likelihood of the remaining US$ 9,363 thousand of claims, while unlikely or less likely than not, is possible and therefore, no provision has been made for this amount.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2010

23. CONTINGENT, COMMITMENTS AND OPERATING RISKS (continued)

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, 2010 the Group had contractual capital commitments in amount of US$ 23,638 thousand (2009: US$ 50,949 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.

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.

Domestic oil sales

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

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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 2010 and 2009 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 LIBOR interest rates, with all other variables held constant, of the Group's profit before tax through the impact on floating rate borrowings.

Increase / decrease in LIBOR interest rate	**Effect on profit before tax for the year ended December31, 2010**	Effect on profit before tax for the year ended December 31, 2009
In thousands of US Dollar		
+1.5%	–	(5,725)
-1.5%	–	5,725

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2010

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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**
2010		
US thousand dollar	**+11.56%**	**(78)**
US thousand dollar	**-11.56%**	**78**
2009		
US thousand dollar	+19.5%	(574)
US thousand dollar	-19.5%	574

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The table below summarizes the maturity profile of the Group's financial liabilities at December 31, 2010 and 2009 based on contractual undiscounted payments:

Liquidity Risk (continued)

Year ended December 31, 2010	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**more than 5 years**	**Total**
Borrowings	**–**	**24,938**	**101,135**	**955,954**	**–**	**1,082,027**
Trade payables	**49,213**	**–**	**–**	**–**	**–**	**49,213**
Employee share option plan	**–**	**–**	**–**	**10,104**	**–**	**10,104**
Other current liabilities	**8,448**	**–**	**–**	**–**	**–**	**8,448**
Due to Government of Kazakhstan	**–**	**258**	**773**	**4,124**	**15,721**	**20,876**
	57,661	**25,196**	**101,908**	**970,182**	**15,721**	**1,170,668**

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

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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, 2010 and 2009, 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 20 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 Baa1 (stable) from Moody’s rating agency and its US Dollar denominated cash with BNP Paribas with a credit rating of AA (positive) from Moody’s rating agency for the year ended December 31, 2010. 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.

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 does not have any financial instruments valued using Level 2 hierarchy.

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 (excluding the effect of unamortized transaction costs) are not significantly different from their fair values at December 31, 2010 and 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2010

25. SUBSEQUENT EVENTS

On February 24, 2011 the Partnership listed the notes for the amount of US$ 450,000 thousand on the Kazakhstan Stock Exchange (“KASE”) and on February 28, 2011 the Partnership transferred the notes from Zhaikmunai Finance B.V. to Zhaikmunai LLP.

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