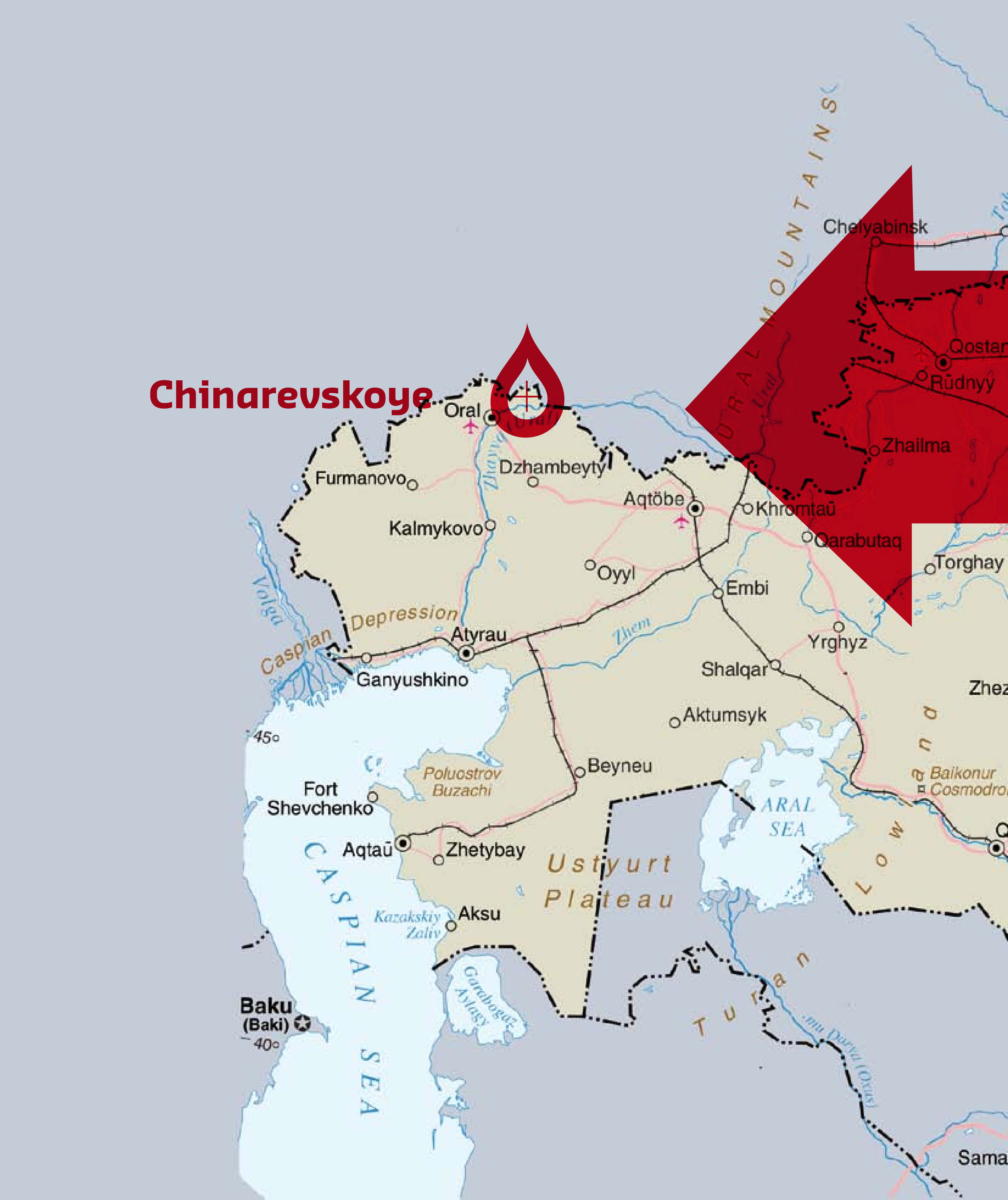
From Exploration to Production

# ZHAIKMUNAI

Annual report 2007



Chinarevskoye
Oral
Furmanovo
Dzhambeyty
Kalmykovo
Aqtöbe
Khromtaū
Qarabutaq
Oyyl
Embi
Torghay
Chelyabinsk
Qostan
Rūdnyy
Zhailma
URAL MOUNTAINS
Ural
Zhayyq (Ural)
Volga
Caspian Depression
Atyrau
Ganyushkino
Zhem
Yrghyz
Shalqar
Aktumsyk
Beyneu
Poluostrov Buzachi
Fort Shevchenko
Aqtaū
Zhetybay
Ustyurt Plateau
ARAL SEA
Baikonur Cosmodro
Kazakskiy Zaliv
Aksu
CASPIAN SEA
Garabogaz Aylagy
Baku (Baki)
45°
40°
Turan Lowland
Amu Darya (Oxus)
Sama
Zhez

# From Exploration to Production

ZHAIKMUNAI

CONTENT



THE ZHAIKMUNAI GROUP is an independent oil and gas enterprise operating principally in northwestern Kazakhstan and is engaged in the exploration, production and sale of crude oil and gas condensate.

## From Exploration to Production

2007 was the year in which Zhaikmunai successfully moved from the exploration phase to the production phase. Commercial production started January 1, 2007 as the partnership was granted a production permit relating to the northern part of the Tournasian reservoir in the Chinarevskoye field.

## Financial Highlights

Cash flow from investing activities rose 86 per cent to US$173.1 million (2006: US$92.8 million);

Refinancing of existing debt facility at lower interest rate;

Revenue rose 99 per cent to US$ 108.5 million (2006: US$ 58.5 million), on the back of higher crude oil production and increased commodity prices (average Brent price 2007: 72.43 $/bbl versus 2006: 67.83 $/bbl);

Net Income rose three-fold to US$ 37.7 million, up from US$ 12.9 million in 2006.

## Operational Highlights

Production for the year up to 1.8 mbbls (2006: 1.1 mbbls);

2P reserves increased from 304 mboe in 2006 to 397 mboe in 2007;

Successful execution of the 2007 drilling program (drilling 9 wells);

Signing of EPC contract for a Gas Treatment Unit (contract value $ 182 million).

## Highlights since end of 2007

**Successful completion in Q1, 2008 of all Conditions Precent for the new $ 550 million debt facility that was signed in December 2007;**

**Successful listing of GDR's on the London Stock Exchange in April, 2008 raising US$100 million equity for Zhaikmunai from new investors.**

# COMMENTING ON THE RESULTS

"Zhaikmunai worked hard throughout the year in preparation for entering the production phase in the Chinarevskoye field. The focus of 2007 was two-fold: first to finalise the exploration of the field, and second to contract out all the required infrastructure and processing projects as identified in the business plan.

With the signing of the new loan agreement in December, 2007 and the completion of the listing in 2008 Zhaikmunai has for the first time tapped international financial markets. With this new financing in place the partnership is confident of achieving its goals of significantly increasing production and completing the necessary infrastructure, transportation and processing projects in accordance with its plans."



Kai-Uwe Kessel
*Chief Executive*





# CHAIRMAN AND CHIEF EXECUTIVE'S REVIEW

FRANK MONSTREY, CHAIRMAN

KAI-UWE KESSEL, CEO

## Financial Results

The year was characterised by strong oil prices, leading to record cash flows and excellent profits despite a rising cost environment. Zhaikmunai also strengthened the balance sheet by restructuring its debts and accessing international capital markets through the IPO in April.

Market circumstances in 2007 were favourable for Zhaikmunai. With Zhaikmunai being allowed to export 100% of its production it gained maximum benefit from higher international oil prices.

Notwithstanding the sharply rising costs of all materials and services, higher commodity prices have had a positive net effect.

During the year, Zhaikmunai drew further on its loan facility with BTA for the financing of its capex programme. Due to macro economic circumstances, however, Kazakh banks began to incur higher borrowing rates towards the end of the year. Zhaikmunai was consequently also confronted with a higher interest rate on its debt (rising from 12 to 15%).

In December Zhaikmunai concluded a new loan agreement with BNP Paribas enabling it to refinance its debt at a lower interest rate. In April of 2008 the partnership secured further financing by listing on the London Stock Exchange.



## Operational Overview

In 2007 Zhaikmunai went from the exploration phase to the production phase. All divisions made significant contributions to help achieve this transition.

GEOLOGY
The Ryder Scott reserve audit confirmed that significant progress has been made in increasing reserves over the past years. 2P reserves increased from 304mboe in 2006 to 397mboe in 2007.

DRILLING
The execution of the drilling programme demonstrated that drilling is being performed at the rate anticipated in our plan for the field.

FIELD ENGINEERING
Important progress was made on a number of projects including field roads, rail terminal and oil pipeline. Zhaikmunai also signed a contract for a gas treatment plant, the first phase of which will

become operational towards the end of Q2 2009 and is designed to have a capacity of 200 million cubic meters a year.

ACCOUNTING & FINANCE
Work continued on implementation / optimization of the SAP information system in preparation for the sale of multiple hydrocarbon products from the second half of 2009.

In short, Zhaikmunai made good progress on all fronts.

## Board and Management

The business and affairs of Zhaikmunai LP are managed by a general partner, Zhaikmunai Group Limited. The general partner is managed by a board of directors and officers. On 16 November 2007 the following individuals were appointed to the board of the General Partner:

| | EXECUTIVE DIRECTOR | NON EXECUTIVE DIRECTOR | AUDIT COMMITTEE | REMUNERATION COMMITTEE |
|---|---|---|---|---|
| FRANK MONSTREY | Boardmember | | | Chairman |
| KAI-UWE KESSEL | Boardmember | | | |
| STEVE MCGOWAN | | Boardmember | Boardmember | Boardmember |
| EIKE VON DER LINDEN | | Boardmember | Chairman | Boardmember |
| PIET EVERAERT | | Boardmember | | |

BOARDMEMBER CHAIRMAN



## Outlook

**Commenting on the outlook, Frank Monstrey, chairman of Zhaikmunai LP, said: "In 2007 we strengthened our balance sheet, had an excellent drilling programme, increased our 2P reserves and signed contracts for major infrastructure works. Most investment projects have now been indentified, scaled, tendered and contracted out and the total estimated capital expenditure will be funded by the new BNPP facility and the IPO proceeds. The board is therefore confident that the strong progress made in 2007 will serve as a solid basis for the groups performance in 2008 and beyond."**

**Frank Monstrey**
**Chairman, 30 June 2008**

**Kai-Uwe Kessel**
**CEO, 30 June 2008**

# OPERATIONAL REVIEW

VYACHESLAV DRUZHININ,
GENERAL DIRECTOR

## Overview

Zhaikmunai's operational facilities are located in Chinarevskoye Field in the province of Batys Kazakhstan in north-western Kazakhstan.

They include an oil processing facility capable of processing 400,000 tpa of crude oil, multiple oil gathering and transportation lines, a gas powered electricity generation system, major warehouse facilities for the storage of oil, materials, machinery and chemicals used in crude oil production, an employee field camp for 180 people as well as 14 existing wells and 4 exploration wells currently under drilling and test operations throughout the Chinarevskoye Field.

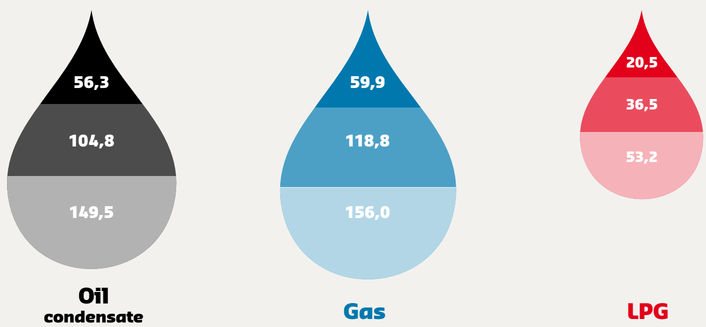
## Geology

The Field is a multi-formation structure. It has tested hydrocarbons at significant rates from:

- the Lower Permian horizons (at approximately 2,700m to 2,900m);
- Lower Carboniferous Tournasian (at approximately 4,200m);
- Devonian Givetian horizons (at approximately 5,000m);
- Devonian Biski and Afoninisky formations (at approximately 5,000m).

Independent petroleum consultant Ryder Scott has audited the Zhaikmunai reserves as at July 1 2007. The table below provides for a summary of the audited results:

Alexei Erber
Director of Geology

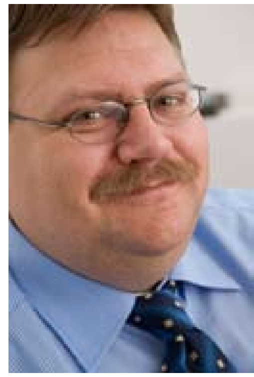



| GROSS RESERVES | UNITS | PROVEN | PROBABLE | 2P | POSSIBLE | 3P |
|---|---|---|---|---|---|---|
| **Oil/Condensate** | mbbl | 56,3 | 104,8 | 161,1 | 149,5 | 310,6 |
| **Gas** | mboe | 59,9 | 118,8 | 178,6 | 156,0 | 334,6 |
| **LPG** | mbbl | 20,5 | 36,9 | 57,4 | 53,2 | 110,6 |
| **Total** | **Mboe** | **136,7** | **260,5** | **397,2** | **358,7** | **755,8** |

A work programme has been prepared for futher appraisal. The Partnership believes a portion of the possible reserves, estimated to be up to 358,7 mboe as at 1 July 2007, could be transferred into higher reserve categories as a result of the scheduled appraisal activities.

An estimate by Ryder Scott of remaining resources, not yet drilled and thus not included in the above table, amounts to 143,5 mboe.

## Drilling



Jörg Pahl
Drilling Director

Oil and gas operations in the Chinarevskoye Field began during the Soviet era with the drilling of nine wells. Hydrocarbons were discovered in the Biski and Afoninski reservoirs in 1991.

The discovery of the Tournaisian reservoir was made in 1992. In 1997, Zhaikmunai was granted the exploration and production licence and the PSA and commenced exploration activities in the Chinarevskoye Field. Three of the wells that were drilled during Soviet times were reactivated between 2000 and 2002. In 2003, Zhaikmunai discovered the Givetian (Mullinski) accumulation and in 2004 the Lower Permian reservoir was successfully tested.

An oil processing facility was built in 2006. In 2007 gas condensate was discovered in the Givetian (Adatovski) and Southern Tournaisian reservoirs and during the same year, crude oil was discovered in the Bashkirian formation.

During the year Zhaikmunai employed 4 heavy drilling rigs. Two western rigs were operated by Saipem and two local rigs were operated by UNGG. Zhaikmunai drilled five production wells and four exploration wells in 2007. Zhaikmunai will continue with the 4 drilling rigs presently on the Field and these are planned to drill a total of 10 wells in 2008.

## Production

By December 2007 Zhaikmunai had 8 producing wells. Production in 2007 amounted to 1.8 mbbls. Production in 2006 amounted to 1.1 mbbls.



In August, 2007 Zhaikmunai signed its single largest contract. Zhaikmunai entered into an agreement with KSS for the construction of a gas treatment plant that wll process associated gas and gas condensate. For this purpose, KSS has formed a consortium with Exterran, which will provide engineering and manufacturing services for the main equipment for the Gas Treatment Facility, while KSS will provide project management and construction services. Zhaikmunai in turn hired SGS for project management.

Until the first train of the gas treatment unit is commissioned, Zhaikmunai is solely producing oil while the associated gas is flared. Zhaikmunai obtained a license from MEMR to flare gas until 31 December 2008. It intends to acquire a permit to cover the period up to May 2009 when the first unit of the gas treatment facility becomes operational. This unit is designed to have the capacity to treat 200 million cubic meters of associated gas per year. A second unit at an additional capacity of 1.4 billion cubic meters will be commissioned in 3rd quarter 2009 and will mainly treat gas-condensate.

## Transportation

The field is situated close to the city of Uralsk in West Kazakhstan and is only 60 km from the border with the Russian Federation. Due to this favourable location, the company benefits from multiple transportation and export options for its crude oil - via rail or pipeline and is also close to existing gas export pipelines from Orenburg to Western Europe.

Zhaikmunai has also commissioned the building of its own crude oil pipeline and a rail loading facility, which will make transportation of its production less costly, safer and more efficient.

At present oil is trucked from the field to the city of Uralsk where it is loaded in railcars for transportation to off takers inside or outside Kazakhstan. In 2006 the partnership awarded a contract to KSS for the construction of an 120 km oil pipeline from the field to the city of Uralsk, a compressor station at the field site, and a rail terminal near Uralsk.

This project is now well underway and is expected to be commissioned in Q3 of 2008. Zhaikmunai will then be able to reduce transportation costs by transporting oil from the field to the rail terminal by pipeline.

## Sales and Marketing

Zhaikmunai sales are made pursuant to annual tenders which are awarded to an oil trader based on the most favourable terms and conditions offered to the Group. Pursuant to the PSA, Zhaikmunai is permitted to export 100% of its oil and gas production. The Group delivers all of its crude oil on the basis of FCA Uralsk, the price being based on the market price for Brent crude oil less a discount for rail fees, transportation costs, quality differentials and trader fees incurred in order to deliver the crude oil from Uralsk to its current ultimate destination at a refinery in Finland. The table below shows the Netback figures for 2007 and 2006 respectively.



| | 2007 | 2006 |
|---|---|---|
| Average Brent crude oil price on which Zhaikmunai based its sales ($/bbl) | **72.43** | 67.83 |
| Weighted Average Discount to Brent ($/bbl) | **13.72** | 12.43 |
| Average Netback ($/bbl) | **58.71** | 55.40 |

Berek Bimuratov
Commercial Director

Sale of other products (dry gas, propane and butane) are expected to start in the course of 2009, as soon as the company takes delivery of the first part of the gas treatment unit under construction .

## Environment

In 2007 Zhaikmunai began a building project in the city of Uralsk to relocate the approximately 300 inhabitants of the village of Rozhkovo which  is currently situated within the exploration zone of the Field. This was necessary in order for the group to successfully pursue its drilling and exploration activities in the License area. In 2006 the residents of the village unanimously approved the terms of the relocation programme. Zhaikmunai also obtained permission from the administrative body of Western Kazakhstan in December 2006 for the relocation and demolition programme. The programme is expected to be completed by the end of 2008 at an estimated cost of US$ 5million.

During 2007 Zhaikmunai has had an environmental study carried out by AMEC Earth & Environmental UK Ltd. The report dated September 2007 considers the status of the Field and the level of environmental compliance of Zhaikmunai's operations as being of a high standard.

## Employees



The table below sets out the number of people (full-time equivalents) employed by the Group as of 31 December for the years indicated:

| Location | 2007 | 2006 | 2005 |
|---|---|---|---|
| Chinarevskoye Field | 330 | 310 | 160 |
| Uralsk | 120 | 120 | 90 |
| Total | 450 | 430 | 250 |

# FINANCIAL REVIEW

JAN-RU MULLER ,
GROUP CFO

## Basis of Presentation

Zhaikmunai LP became the controlling entity of the Group on 28 March 2008. As Zhaikmunai LP did not, at 31 December 2007, have control of the Group, Zhaikmunai LP is not able to prepare, in accordance with IFRS, consolidated financial statements for 2007. Accordingly the Combined Financial Information has been prepared on an equal basis as the Combined Financial Information that was prepared for the purpose of the Partnership's Prospectus for its IPO.

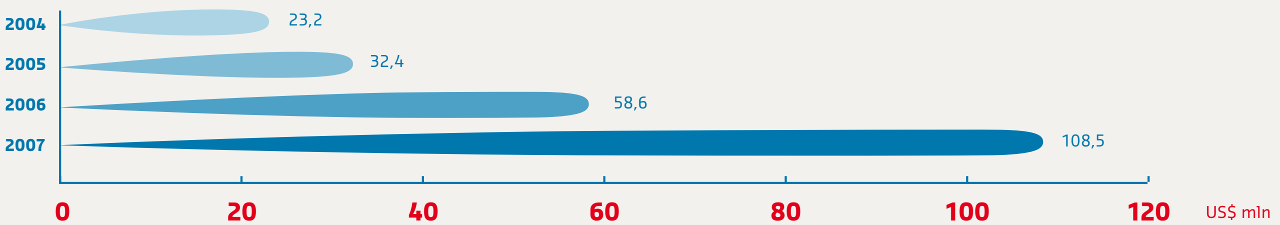
The Combined Financial Information, audited by Ernst & Young, combines the results of operations and financial position of Claydon, Jubilata and their subsidiaries which include Zhaikmunai LLP, being all members of the Group other than Zhaikmunai LP, by applying the principles underlying the consolidation procedures of IAS 27 for each of the years ended 31 December 2007 and 31 December 2006

The Combined Financial Information has therefore been prepared in accordance with IFRS except that the financial information is prepared on a combined basis and therefore does not comply with the requirements of IAS 27. In all other respects, IFRS have been applied.

## Income statement



Sales of crude oil rose to US$ 108.5 million, up from US$ 58.6 million in 2006 (+99%). Production of crude rose  to 1.8 mbbls up from 1.1 mbbls in 2006 (+73%). At year-end Zhaikmunai was producing about 6000 bbl/day.



Cost of sales rose to US$ 37.4 million, up from US$26.1 million in 2006 (+43%). The biggest increase related to well workover costs. These amounted to US$ 7.1 million in 2007 compared with US$ 1.7 million in 2006. The second biggest item in cost of sales was depreciation which fell to US$6.1 million from US$14.6 million in 2006. The lower depreciation charge resulted from the higher audited reserve estimate. The depletion rate for oil and gas working assets was calculated to be 6.76% for 2007 down from 19.69% for 2006.

General and administrative expenses rose to US$10.2 million, up from US$6.9 million in 2006 (+48%). The largest absolute increase in general and administrative expenses was in payroll and related taxes. which rose to US$2.2 million from US$1.3 million in 2006 (+71%).

Selling and oil transportation expenses rose to US$6.8 million, up from US$4.0 million in 2006 (+68%), in accordance with increase crude oil production.

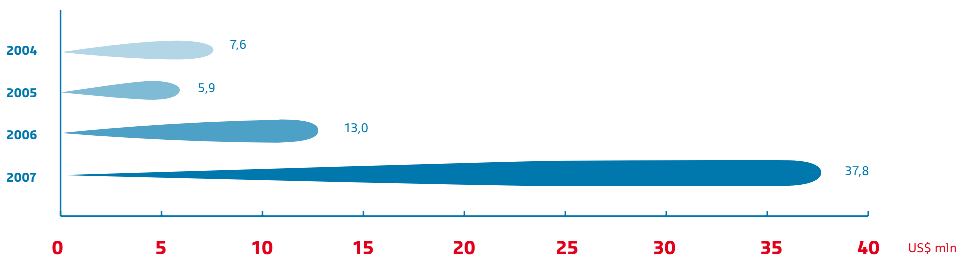
Financing costs rose to US$6.8 million, up from US$2.2 million in 2006. The increased costs were due to higher interest expense on borrowings (up 211%) because of the higher loan amount (2007: US$249.5 million versus 2006: US$98.9 million) and higher interest rates.

A foreign exchange gain has been realized of US$6.1 million, compared with US$ 0.5 million in 2006. The average KZT/USD exchange rate for 2007 was 122.55 versus a KZT/USD exchange rate of 126.09 for 2006.



Income tax, at a rate of 30%, was US$15.6 million, up from US$6.9 million in 2006. Unlike prior years, when income tax was deferred, Zhaikmunai started paying income tax in 2007 following the commencement of commercial production from the Tournasian reservoir. Consequently the cash flow figure for income tax paid is US$6.5 million up from US$9,000 in 2006.

Net income for the year was US$37.8 million, up from US$12.9 million in 2006 (+377%).



## Balance sheet

Non-current Assets are at US$360 million (2006: US$150 million). Out of Non-current Assets, Property, plant and equipment amounts to US$289 million (2006: US$135.8 million). A breakdown of Property, plant and equipment is shown in the following table (x US$1,000):

| | 2007 | 2006 |
|---|---|---|
| OIL AND GAS PROPERTIES | | |
| Working assets | 98,691 | 55,409 |
| Construction in Progress | 184,124 | 76,243 |
| **Total oil and gas properties** | **282,815** | **131,652** |
| NON OIL AND GAS PROPERTIES | | |
| Buildings | 2,387 | 1,960 |
| Machinery & Equipment | 2,209 | 530 |
| Vehicles | 1,015 | 940 |
| Others | 1,107 | 804 |
| **Total non oil and gas properties** | **6,718** | **4,198** |
| **Total** | **289,533** | **135,850** |



Advances for equipment and construction works largely consist of an advance to KSS stemming from the GTU contract.

Current Assets amount to US$34.3 million (2006: US$17.2 million). The single largest item under current assets is prepayments and other current assets at US$14.9 million (2006: US$5.8 million). Within prepayments and other current assets, VAT receivable amounts to US$11,561 (2006: US$4,894).

Equity: All income from prior years has been added to Retained Earnings. Zhaikmunai has not declared a dividend. All generated income is put to use for developing the field at this time.

The balance of Non-Current Liabilities, at US$237.8 million, is up from US$118,9 million. The increasing balance is largely attributable to the increase in long term borrowings to US$204.0million from US$ 93.8 million in 2006.

In December 2007 the Partnership signed a new financing agreement underwritten by an international consortium of banks led by BNP Paribas.

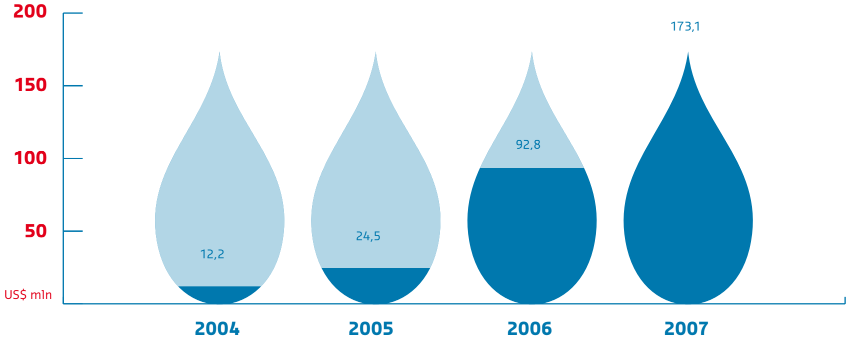
The balance of Current Liabilities, at US$88.3 million, represents a more then 4 fold increase from the balance at 31 December 2006 of US$20.1 million. Of the US$88.3 million more than half (US$45.5 million) represents the current portion of two loans. Of the US$88.3 million trade payables amount to US$35.7 million.

Darmen Jakishev
Financial Director

## Cash flow statement

Cash flow from operating activities increased to US$48.2 million up from US$37.4 million in 2006. The changes in working capital are largely driven by prepayments and other current assets reflecting the multitude of investment projects going on.

Cash flow from investing activities at US$173.1 million is an historic high for the partnership, up from $92.8 million in 2006 (86%).




Cash flow from financing activities at US$129.2 million compares to US$54.8 million in 2006 (135%). Proceeds from borrowings at US$151.4 million have financed the investment program (2006: US$72.5 million).

# CORPORATE GOVERNANCE

In november of 2007 the Group established a Board of Directors having 5 members: the chairman, the CEO and 3 non-executive board members. The Board provides strategic leadership and guidance to the business. The directors critically evaluate the Groups performance and identify areas where improvements can be made.

The Group has subscribed to the code of conduct as laid out in the Code on Corporate Governance issued by the Financial Reporting Council. The Directors are fully committed to applying these principles of corporate governance contained in the Combined Code. The growth that the Group has experienced, and that the Group will experience going forward, makes that it will benefit greatly from its adoption of the Combined Code.

In the wake of the establishment of the Board two committees have been formed: a Remuneration Committee and an Audit Committee. After the Board and the Committee's have been formed in november of 2007 the board has held a couple of meetings still in 2007 but has really only become fully operational in 2008.

## Directors

**Frank Monstrey** was appointed as a director of ZGL on 16 November 2007 and has served as chairman of the partners participating in Zhaikmunai since September 2004. Since 1991, Mr Monstrey has been Chief Executive Officer of Probel Capital Management, a private equity and asset management firm based in Belgium specialising in long term capital management in emerging markets. Mr Monstrey holds a graduate's degree in Business Economics from the University of Louvain (KUL).



**Kai-Uwe Kessel** was appointed as a director of ZGL on 16 November 2007 and has served as chief executive of the partners participating in Zhaikmunai since November 2004. Since 2005, Mr Kessel has been Managing Director of Probel Capital Management. From 2002 to 2005, Mr Kessel was director of Gaz de France's North African E&P division. From 1992 to 2001, Mr Kessel was Managing Director of Erdgas Erdol GmbH, an oil and gas company owned by Gaz de France, and a member and chairman of the board of KazGermunai. Mr Kessel is a graduate of the Gubkin Russian State University of Oil and Gas.

**Steve McGowan** was appointed as a director of ZGL on 16 November 2007. He has been an executive chairman of SMP Partners Fiduciary and Trust Company in the Isle of Man since January 2007 and serves as a member of the board of Edasco (a fiduciary company owned by UBS). Prior to this, Mr McGowan served as managing director of Intertrust (Isle of Man) from 2001 to 2007. Mr McGowan starting his banking career at National Westminster Bank in London in 1982.

**Eike von der Linden** was appointed as a director of ZGL on 16 November 2007. He has been the Managing Director of Linden Advisory and Consulting Services since 1988. Since 1985, Mr von der Linden has acted as an independent advisor to financial institutions for equity investments, mezzanine and debt funding (project finance) in the field of natural resources. Mr von der Linden holds a PhD in mining economics from the Technical University of Clausthal.

**Piet Everaert** was appointed as a director of ZGL on 16 November 2007. He has been a lawyer at the Brussels Bar since 1986 and has served as a partner of the Vwew Advocaten law firm since 1993. He is active in the field of Belgian business law. Mr Everaert graduated from the University of Louvain (KUL) in 1984 and obtained the Diploma of Advanced European Legal Studies at the College of Europe (Bruges-Belgium) in 1985.

**Jubilata Investments Limited,**
**Claydon Industrial Limited and their subsidiaries**
**Condensate Holdings LLP and**
**Zhaikmunai LLP**

**Combined Financial Statements**
**December 31, 2007**

INDEPENDENT AUDITORS' REPORT

**To the Board of Directors and shareholders of Zhaikmunai LP:**

We have audited the accompanying special purpose combined financial statements of Claydon Industrial Limited and Jubilata Investments Limited and their subsidiaries Condensate Holdings LLP and Zhaikmunai LLP. ( together the "Combined Group"), which comprise the combined balance sheet as at 31 December 2007, and the combined income statement, combined statement of changes in equity and combined statement of cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes ("special-purpose combined financial statements").

**Management's Responsibility for the Special-purpose Combined Financial Statements**

Management is responsible for the preparation and presentation of the special-purpose combined financial statements in accordance with the basis of preparation described in Note 2. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of special purpose combined financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the special purpose combined 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 presentation of the special purpose combined 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 special purpose combined financial statements.

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

**Opinion**

In our opinion, the special-purpose combined financial statements for the year ended 31 December 2007 have been prepared, in all material respects, in accordance with the basis of accounting described in Note 2.

Ernst & Young LLP

[Date of Auditor's report]

# COMBINED BALANCE SHEET
## As at December 31, 2007

| | NOTE | 2007 | 2006 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 4 | 289,533 | 135,850 |
| Advances for equipment and construction works | | 70,475 | 14,231 |
| | | **360,008** | **150,081** |
| **Current Assets** | | | |
| Inventories | | 2,496 | 3,014 |
| Trade receivables | 5 | 9,530 | 5,580 |
| Prepayments and other current assets | 6 | 14,973 | 5,787 |
| Cash and cash equivalents | 7 | 7,344 | 2,832 |
| | | **34,343** | 17,213 |
| **TOTAL ASSETS** | | **394,351** | **167,294** |
| **EQUITY AND LIABILITIES** | | | |
| **Share capital and Reserves** | | | |
| Share capital | 8 | 50 | 50 |
| Retained earnings and translation reserve | | 68,190 | 28,142 |
| | | 68,240 | 28,192 |
| **Non-Current Liabilities** | | | |
| Long term borrowings | 9 | 203,982 | 93,799 |
| Abandonment and site restoration liabilities | 10 | 1,299 | 1,214 |
| Due to Government of Kazakhstan | 11 | 6,317 | 8,094 |
| Deferred tax liability | 18 | 26,191 | 15,867 |
| | | **237,789** | **118,974** |
| **Current Liabilities** | | | |
| Trade payables | 12 | 35,768 | 12,890 |
| Current portion of long term borrowings | 9 | 45,521 | 5,099 |
| Current portion of Due to Government of Kazakhstan | 11 | 2,062 | - |
| Other current liabilities | 13 | 4,971 | 2,139 |
| | | **88,322** | 20,128 |
| **TOTAL EQUITY AND LIABILITIES** | | **394,351** | **167,294** |

The accounting policies and explanatory notes on pages 34 through 58 are an integral part of these financial statements.

# COMBINED INCOME STATEMENT
## For the year ended December 31, 2007

| | NOTE | 2007 | 2006 |
|---|---|---|---|
| Sales of crude oil | | 108,490 | 58,565 |
| Cost of sales | 14 | (37,401) | (26,080) |
| **Gross Profit** | | **71,089** | **32,485** |
| General and administrative expenses | 16 | (10,183) | (6,891) |
| Selling and oil transportation expenses | 15 | (6,793) | (4,042) |
| Finance costs | 17 | (6,841) | (2,194) |
| Foreign exchange gain | | 6,151 | 586 |
| **Profit before income tax** | | **53,423** | **19,944** |
| Income tax expense | 18 | (15,650) | (6,973) |
| **NET INCOME** | | **37,773** | **12,971** |

The accounting policies and explanatory notes on pages 34 through 58 are an integral part of these financial statements.

# COMBINED STATEMENT OF CASH FLOWS
## For the year ended December 31, 2007

| | NOTE | 2007 | 2006 |
|---|---|---|---|
| **Cash flow from operating activities:** | | | |
| Profit before income tax | | 53,423 | 19,944 |
| Adjustments for: | | | |
| Depreciation and amortization | 14 | 6,126 | 14,590 |
| Interest expense on borrowings | 17 | 6,454 | 1,279 |
| Unwinding of discount on due to Government of Kazakhstan | 11 | 964 | 762 |
| Revision of contractual obligation to Government of Kazakhstan | 11 | (679) | – |
| Unrealized foreign exchange (gain), net | | (6,561) | (404) |
| Unwinding of discount on abandonment and site restoration liability | 10 | 102 | 153 |
| Write off of property, plant and equipment | 4 | 686 | - |
| **Operating profit before working capital changes** | | **60,515** | **36,324** |
| Changes in working capital: | | | |
| Decrease/(Increase) in inventories | | 739 | (1,601) |
| Increase in trade receivables | | (3,641) | (3,316) |
| Increase in prepayments and other current assets | | (8,658) | (4,706) |
| Increase in trade payables | | 3,049 | 9,545 |
| Increase in other current liabilities | | 2,634 | 1,188 |
| **Cash generated from operations** | | **54,638** | **37,434** |
| Income tax paid | | (6,399) | (9) |
| **Net cash flows from operating activities** | | **48,239** | **37,425** |
| **Cash flow from investing activities:** | | | |
| Purchases of property, plant and equipment | | (173,105) | (92,851) |
| **Net cash used in investing activities** | | **(173,105)** | **(92,851)** |
| **Cash flow from financing activities:** | | | |
| Repayment of borrowings | | (3,966) | (11,295) |
| Interest paid | | (18,312) | (6,365) |
| Proceeds from borrowings | | 151,444 | 72,500 |
| **Net cash provided by financing activities** | | **129,166** | **54,840** |
| Effects of exchange rate changes on cash and cash equivalents | | 212 | 182 |
| **Net increase / (decrease) in cash and cash equivalents** | | 4,300 | (586) |
| Cash and cash equivalents at the beginning of the year | | 2,832 | 3,236 |
| **Cash and cash equivalents at the end of the year** | 7 | **7,344** | **2,832** |

The accounting policies and explanatory notes on pages 34 through 58 are an integral part of these financial statements.

# COMBINED STATEMENT OF CHANGES IN EQUITY
## For the year ended December 31, 2007

| | SHARE CAPITAL | RETAINED EARNINGS | TRANSLATION RESERVE | TOTAL |
|---|---|---|---|---|
| **As at December 31, 2005** | **50** | **13,467** | **1,005** | **14,522** |
| Translation difference | – | – | 699 | 699 |
| Net Income | – | 12,971 | – | 12,971 |
| **As at December 31, 2006** | **50** | **26,438** | **1,704** | **28,192** |
| Translation difference | – | – | 2,275 | 2,275 |
| Net Income | – | 37,773 | – | 37,773 |
| **As at December 31, 2007** | **50** | **64,211** | **3,979** | **68,240** |

The accounting policies and explanatory notes on pages 34 through 58 are an integral part of these financial statements.

# NOTES TO THE COMBINED FINANCIAL INFORMATION
## For the year ended December 31, 2007

### 1. GENERAL

This combined financial information represents the combination of the financial statements of Claydon Industrial Limited (BVI) ("Claydon") and Jubilata Investments Limited (BVI) ("Jubilata"). These entities together own 100% of Zhaikmunai LLP (the "Partnership"), an oil and gas producing entity located in Kazakhstan and Condensate Holdings LLP. Both Claydon and Jubilata (jointly the "Combined Entity") are ultimately indirectly controlled by Frank Monstrey. The immediate parent of the Combined Entity is Scoulton Holdings Limited ("Scoulton').

The principal operation of the combined entity is the Partnership. The Partnership was established in 1997 for the purpose of exploration and development of Chinarevskoye oil and gas condensate field in the Western Kazakhstan Region. The Partnership carries out its activities in accordance with the Contract for Additional Exploration, Production and Production-Sharing of Crude Hydrocarbons in the Chinarevskoye oil and gas condensate field (the "Contract") dated October 31, 1997 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.

This combined financial information has been prepared because the entity, which was used in the public offering, Zhaikmunai Limited Partnership ("Zhaikmunai LP"), a partnership formed in Isle of Man, acquired the beneficial ownership in the issued share capital in Claydon and Jubilata immediately following admission of Global Depository Receipts ("GDRs") to the official list of the United Kingdom Listing Authority on March 28, 2008. This special purpose combined financial information has been prepared on the basis that Claydon and Jubilata were under the ultimate indirect common control of Frank Monstrey from the beginning of the earliest period presented, i.e. January 1, 2006.

The registered address of Claydon is Trident Chambers, Road Town, Tortola, British Virgin Islands.

The registered address of Jubilata is Trident Chambers, Road Town, Tortola, British Virgin Islands.

This condensed combined financial information was authorised for issue by Montrond Incorporated and Bluebrook on June 10, 2008.

### 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, 2008.

The final exploration extension of 2 years did not change 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 6% of produced petroleum and natural gas.

*Government 'profit share'*

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

## 2.BASIS OF PREPARATION

The basis of preparation and accounting policies used in preparing the combined financial information for the year ended December 31, 2007 are set out below. These accounting policies have been consistently applied in all material respects to the periods presented.

This combined financial information has been prepared in accordance with this basis of preparation and in conformity with International Financial Reporting Standards ("IFRSs") except as described below. As discussed in Note 1, the parent entity, Zhaikmunai LP acquired beneficial interest in Claydon and Jubilata as at March 28, 2008. As a result, Claydon and Jubilata have been combined as described in the basis of combination below. The combined financial information does not constitute a set of general purpose financial statements under paragraph 3 of IAS 1 and consequently there is no explicit and unreserved statement of compliance with IFRS as contemplated by paragraph 14 of IAS 1.

### Basis of preparation

IFRSs do not provide for the preparation of combined financial information. The basis of preparation under which these accounts have been prepared results in the following material departures from IFRSs. In other respects IFRSs have been applied:

- IAS 27 "Consolidated and Separate Financial Statements" defines a group as a parent and its subsidiaries and further describe how consolidated financial statements are prepared. The historical financial information is prepared on a combined basis and therefore does not comply with the requirements of IAS 27.

The combined financial information is prepared on a basis that combines the results and assets and liabilities of Claydon and Jublilata and the companies which they, in aggregate, control by applying the principles underlying the consolidation procedures of IAS 27 for the year ended December 31, 2007. The underlying financial statements of Claydon and Jubilata have been prepared using the principles of IFRSs. Internal transactions between Claydon, Jubilata and their subsidiaries have been eliminated on combination.

This combined financial information is presented in US dollars and have been prepared on a historical cost basis, except for financial instruments.



### Basis of combination

The combined financial information incorporates the results of Claydon and Jubilata and their subsidiaries. The results of the subsidiaries are included from the date on which effective control was acquired up to the date control ceased to exist. Subsidiaries are those enterprises controlled by Claydon and Jubilata regardless of the amount of shares owned or partnership interests held. Control exists when Claydon and/or Jubilata have the power, either directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are combined from the date on which control is transferred and cease to be combined from the date on which control is transferred to a third party. The financial statements of subsidiaries are prepared for the same reporting periods as Claydon and Jubilata using consistent accounting policies. All intercompany transactions and balances, including unrealized profits arising from transactions between Claydon and Jubilata and their subsidiaries, have been eliminated on combination.

### Adopted accounting standards and interpretations

The following new standards, amendments to standards and interpretations are mandatory for the financial year ended December 31, 2007:

IFRS 7 Financial Instruments: Disclosures
This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Partnership's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements.

While there has been no effect on the financial position or results, comparative information has been revised where needed.

*IAS 1 Amended – Presentation of Financial Statements*
This standard requires the Partnership to make new disclosures to enable users of the financial statements to evaluate the Combined Entity's objectives, policies, and processes for managing capital. These new disclosures are shown in Note 21.

*IAS 23 Amended – Borrowing costs*
This standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The amendment of standard has no effect on the financial position or performance of the Combined Entity as the Combined Entity already capitalized borrowing costs on qualifying assets (Note 4).

*IFRIC 8 Scope of IFRS 2*
This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As there were no equity instruments issued as part of consideration, the interpretation had no impact on the financial position of the Combined Entity.



*IFRIC 9 Reassessment of Embedded Derivatives*
IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Combined Entity has no embedded derivatives, the interpretation had no impact on the financial position or performance of the Combined Entity.

*IFRIC 10 Interim Financial Reporting and Impairment*
IFRIC Interpretation 10 as of 1 January 2007 requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Combined Entity has neither impairment losses previously recognized nor goodwill, the interpretation had no impact on the financial position or performance of the Combined Entity.

## New accounting developments
The following IFRS and IFRIC interpretations are not yet in effect as at December 31, 2007:
- IFRS 2 "Share-based Payments – Vesting Conditions and Cancellations";
- IFRS 3 Business Combinations – amendment
- IFRS 8 Operating Segments
- IAS 27 Consolidated and Separate Financial Statements – amendment

- IAS 32 Amendment "Financial Instruments: Presentation"
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction.

The Combined Entity expects that the adoption of the pronouncements listed above will have no significant impact on the Partnership's results of operations and financial position in the period of initial application

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Estimation and Assumptions

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material change to the carrying amounts of assets and liabilities within the next financial year 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 chiefly 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.



### Foreign Currency Translation

The functional currency of Jubilata, Claydon and the foreign operations, Condensate LLP and Zhaikmunai LLP, is the Kazakhstani Tenge ("Tenge" or "KZT"). Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognized in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also

dealt with in equity. 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 was determined.
The combined financial information is presented in US Dollars, which is the presentation currency of the Combined Entity. As at the reporting date, the assets and liabilities are translated into the presentation currency of the Combined Entity at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to equity.

## Property, Plant and Equipment

*Oil and Gas Properties*

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. 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.
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 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 applied.



*Oil and Gas Reserves*

Proved oil and gas reserves are estimated quantities of commercially viable hydrocarbons which existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs.
The Partnership uses the reserve estimates provided by an independent appraiser to assess the oil and gas reserves of its oil and gas fields. These reserve quantities are used for calculating the unit of production depreciation rate as it reflects the expected pattern of consumption of future economic benefits by the entity.

## Impairment of non-financial assets

The Combined Entity 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 Combined Entity 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 profit or loss.

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

### Other Properties

All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditures that are directly attributable to the acquisition 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 Combined Entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement 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 | 5 |
| Machinery and Equipment | 3-13 |
| Other | 3-10 |



### Borrowing Costs

The Combined Entity capitalizes borrowing costs on qualifying assets. Assets qualifying for borrowing costs capitalization include all assets under construction that are not being depreciated, depleted, or amortized, provided that work is in progress at that time. Qualifying assets mostly include wells and other oilfield infrastructure under construction. Capitalized borrowing costs are calculated by applying the capitalization rate to the expenditures on qualifying assets. The capitalization rate is the weighted average of the borrowing costs applicable to the Partnership borrowings that are outstanding during the period.

### Inventories

Inventories are stated at the lower of cost or net realizable value ("NRV"). Cost is determined on the First-in-First-out ("FIFO") method. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

### Trade Receivables

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.

## Cash and Cash Equivalents

Cash and cash equivalents are recognized and measured at the fair value of consideration received. Cash and cash equivalents consist of cash on hand and bank deposits that mature within ninety days from the date of origination and are free from contractual encumbrances.

## Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the combined financial information over the period of the borrowings using the effective interest method.
Gains and losses are recognized in the income statement when the liabilities are derecognized or impaired, as well as through amortization of the borrowings using the effective interest method.

## Provisions

Provisions are recognized when the Combined Entity 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 Combined Entity has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term interest rates for emerging market debt adjusted for risks specific to the Kazakhstan market. The unwinding of the discount related to the obligation is recorded in finance costs. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. This asset is subsequently depreciated as part of the capital costs of the oil and gas properties on a unit-of-production basis.
Changes in the measurement of an existing decommissioning liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or changes to the discount rate:

(a)are added to, or deducted from, the cost of the related asset in the current period. If deducted from the cost of the asset the amount deducted shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognized immediately in the income statement; and

(b)if the adjustment results in an addition to the cost of an asset, the Combined Entity 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 Combined Entity tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss in accordance with IAS 36.

## Financial Instruments

*Derecognition of financial assets*

The Combined Entity derecognizes a financial asset or a portion of a financial asset when, and only when, the Combined Entity loses control of the contractual rights that comprise the financial asset (or a portion of the financial asset). The Combined Entity loses such control if it has fully utilized the rights to benefits specified in a contract, the rights expire, or the Combined Entity surrenders those rights.

*Derecognition of financial liabilities*

The Combined Entity derecognizes a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished – that is, when the obligation specified in the contract is discharged, cancelled or expires.

## Taxation

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

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

## Trade and Other Payables

Trade and other payables are carried the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Combined Entity.

## 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 of the goods 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.

## Expense Recognition

Expenses are accounted for at the time the actual flow of the related goods or services occur, regardless of when cash or its equivalent is paid, and are reported in the financial statements in the period to which they relate.

## Social Tax and Deductions to Pension Fund

The Partnership contributes 21% of the gross income of employees as a Social tax to the Government of the Republic of Kazakhstan. Social tax and related staff costs are expensed as incurred.
The Partnership also withholds and contributes up to 10% from the salary of its employees as the employees' contribution to their designated pension funds. Under the legislation, employees are responsible for their retirement benefits and the Partnership has no present or future obligation to pay its employees upon their retirement.

## Related Parties

Related parties include the Combined Entity's shareholders, key management personnel, and enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Combined Entity's shareholders or key management personnel.

## 4.PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the year ended December 31, 2007 was as follows:

| IN THOUSANDS OF US DOLLARS | OIL AND GAS PROPERTIES | | | NON OIL AND GAS PROPERTIES | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | WORKING ASSETS | CIP | TOTAL OIL AND GAS PROPERTIES | BUILDINGS | MACHINERY & EQUIPEMENT | VEHICLES | OTHERS | TOTAL NON OIL GAS PROPERTIES | TOTAL |
| **Balance at December 31, 2005, net of accumulated depreciation** | **37,120** | **21,999** | **59,119** | **731** | **425** | **397** | **232** | **1,785** | **60,904** |
| Additions | 1,297 | 82,355 | 83,652 | 1,289 | 219 | 616 | 469 | 2,593 | 86,245 |
| Write off | – | – | – | – | (17) | – | (60) | (77) | (77) |
| Transfers | 28,713 | (28,918) | (205) | – | – | – | 205 | 205 | – |
| Transferred to inventory | – | – | – | – | – | – | (6) | (6) | (6) |
| Depreciation charge | (13,639) | – | (13,639) | (90) | (130) | (127) | (80) | (427) | (14,066) |
| Depreciation of write offs | – | – | – | – | 10 | | 36 | 46 | 46 |
| Translation difference | 1,918 | 807 | 2,725 | 30 | 23 | 18 | 8 | 79 | 2,804 |
| **Balance at December 31, 2006, net of accumulated depreciation** | **55,409** | **76,243** | **131,652** | **1,960** | **530** | **904** | **804** | **4,198** | **135,850** |
| Additions | 185 | 148,589 | 148,774 | 285 | 555 | 230 | 478 | 1,548 | 150,322 |
| Transfers | 44,553 | (46,250) | (1,697) | 278 | 1,401 | – | 18 | 1,697 | – |
| Write off | – | (679) | (679) | – | – | (2) | (5) | (7) | (686) |
| Depreciation charge | (5,197) | – | (5,197) | (247) | (351) | (161) | (235) | (994) | (6,191) |
| Translation difference | 3,741 | 6,221 | 9,962 | 111 | 74 | 44 | 47 | 276 | 10,238 |
| **Balance at December 31, 2007, net of accumulated depreciation** | **98,691** | **184,124** | **282,815** | **2,387** | **2,209** | **1,015** | **1,107** | **6,718** | **289,533** |
| At cost at December 31, 2006 | 95,502 | 76,243 | 171,745 | 2,215 | 908 | 1,229 | 980 | 5,332 | 177,077 |
| Accumulated depreciation | (40,093) | – | (40,093) | (255) | (378) | (325) | (176) | (1,134) | (41,227) |
| **Balance at December 31, 2006, net of accumulated depreciation** | **55,409** | **76,243** | **131,652** | **1,960** | **530** | **904** | **804** | **4,198** | **135,850** |
| At cost at December 31, 2007 | 146,324 | 184,124 | 330,448 | 2,912 | 2,974 | 1,507 | 1,514 | 8,907 | 339,355 |
| Accumulated depreciation | (47,633) | – | (47,633) | (525) | (765) | (492) | (407) | (2,189) | (49,822) |
| **Balance at December 31, 2007, net of accumulated depreciation** | **98,691** | **184,124** | **282,815** | **2,387** | **2,209** | **1,015** | **1,107** | **6,718** | **289,533** |

## 4.PROPERTY, PLANT AND EQUIPMENT (continued)

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

Category "Non Oil and Gas properties" represents mainly buildings and constructions, vehicles, machinery and equipment.

The Combined Entity calculates depreciation, depletion and amortization of oil and gas properties using the unit-of-production method. A depletion rate is computed by dividing the unamortized costs of proved oil and gas properties by the total estimated proved developed reserves. This depletion rate is applied to the physical units of oil and gas produced during the relevant period. The unamortized costs of proved oil and gas properties include all capitalized costs net of accumulated amortization.

The depletion rate for oil and gas working assets was 6.76% and 19.69% in 2007 and 2006 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, 2007. Depreciation has been calculated using the unit of production method based on these reserves estimates.

As at December 31, 2006 machinery and equipment amounting to US Dollars 420 thousand were pledged in accordance with the loan agreement with Blavin Holdings Limited dated October 30, 2003 (Note 9), and oil and gas assets under construction amounting to US Dollars 56,790 thousand were pledged in accordance with the loan agreement with Bank Turan Alem dated July 7, 2005 (Note 9).

A depreciation charge of US Dollars 6,191 thousand has been charged to depreciation and amortization expense for 2007 less US Dollars 65 thousand of represent the effect of capitalization of depreciation as part of crude oil inventory (2006: US Dollars 14,590 thousand and US Dollars 524 thousand, respectively).

The Partnership incurred borrowing costs of US Dollars 19,414 thousand and US Dollars 7,138 thousand for the years ended December 31, 2007 and 2006, at the average interest rates of 13% and 10.96% per annum, respectively. For the same periods, the Partnership capitalized borrowing costs totalling US Dollars 12,960 thousand and US Dollars 4,221 thousand.



## 5. TRADE RECEIVABLES

As at December 31, trade receivables were denominated in US Dollars and are less than 30 days.

## 6.PREPAYMENTS AND OTHER CURRENT RECEIVABLES

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

| IN THOUSANDS OF US DOLLARS | 2007 | 2006 |
|---|---|---|
| Advances paid | **3,144** | 806 |
| VAT receivable | **11,561** | 4,894 |
| Other | **268** | 87 |
| | **14,973** | **5,787** |

Advances paid consist primarily of prepayments made to service providers.

## 7. CASH AND CASH EQUIVALENTS

| IN THOUSANDS OF US DOLLARS | 2007 | 2006 |
|---|---|---|
| Current accounts in US Dollars | **6,002** | 1,887 |
| Current accounts in Tenge | **1,334** | 930 |
| Cash on hand in Tenge | **8** | 15 |
| | **7,344** | **2,832** |

No interest is earned on current accounts.

## 8. SHARE CAPITAL

The authorized share capital of the Combined Entity comprises 50,000 shares of Jubilata and 50,000 shares of Claydon with par value of US Dollar 1 each. At December 31, 2007 the share capital of the Combined Entity is presented as follows:

| | AUTHORIZED, ISSUED AND PAID SHARES (NUMBER OF SHARES) | ISSUED SHARES (NUMBER OF SHARES) | SHARE CAPITAL (THOUSANDS OF US DOLLARS) |
|---|---|---|---|
| Jubilata | 50,000 | 2 | – |
| Claydon | 50,000 | 50,000 | 50 |
| | **100,000** | **50,002** | **50** |

## 9.BORROWINGS

Borrowings, including interest accrued thereon comprise the following as at December 31:

| IN THOUSANDS OF US DOLLARS | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | CURRENT | NON-CURRENT | TOTAL | CURRENT | NON-CURRENT | TOTAL |
| Credit line due to Bank Turan Alem | **38,793** | **203,982** | **242,775** | 1,462 | 88,200 | 89,662 |
| Loan due to Blavin Holdings Limited | **6,728** | **-** | **6,728** | 3,637 | 5,599 | 9,236 |
| | **45,521** | **203,982** | **249,503** | 5,099 | 93,799 | 98,898 |

### Credit line due to Bank Turan Alem

The General credit line agreement ("Credit Line") signed between the Partnership and Bank Turan Alem ("the Bank") on July 7, 2005 was provided to finance the development of the Chinarevskoye oil and gas condensate field. The Credit Line is repayable by monthly installments of US Dollars 460 thousand starting from January 25, 2008 and US Dollars 4,445 thousand from May 12, 2008 with final maturity on October 6, 2012. The total credit facility available under the Credit Line was US Dollars 246 million as at December 31, 2007. Interest on the credit line is set at 15% per annum. The interest rate can be varied at the discretion of Bank Turan Alem in the event that the Bank's cost of capital changes. The carrying value of the loan approximates its fair value.

The Credit Line is secured by a 30% share in the Partnership held by Condensate Holding LLP, by future cash inflows into the Partnership's bank accounts, with the Bank, up to US Dollars 50,000 thousand and by property, plant and equipment pledged by the Partnership of US Dollars 56,790 thousand.

### Loan due to Blavin Holdings Limited

The loan agreement, dated May 20, 1999, was initially signed between First International Oil Company (the "FIOC") and the Partnership. In accordance with an additional agreement, dated May 16, 2003, the right of claim was transferred by FIOC to Albatross Holding Ltd. In accordance with a Factoring Agreement, dated October 30, 2003, Albatross Holding Ltd transferred the right of claim to Blavin Holding Ltd. The loan was provided to finance exploration and development of the Chinarevskoye oil and gas condensate field. The loan is repayable in equal quarterly instalments of US Dollars 727 thousand during the period from January 1, 2004 to December 31, 2007 and US Dollars 1,682 thousand during the period from January 1, 2008 to December 31, 2008. Interest is set at the rate of 10% per annum and is to be paid in 2008 in equal quarterly instalments and is included within non-current portion of the borrowings.

As at December 31, 2007 machinery and equipment amounting to US Dollars 420 thousand were pledged in accordance with the loan agreement with Albatross Holding Ltd.



## 10. ABANDONMENT AND SITE RESTORATION LIABILITIES

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

| IN THOUSANDS OF US DOLLARS | 2007 | 2006 |
|---|---|---|
| Abandonment and site restoration liability as at January 1, | **1,214** | 622 |
| Unwinding of discount | **102** | 153 |
| Additional provision | **410** | 310 |
| Change in estimates | **(427)** | 129 |
| | **1,299** | 1,214 |

The long-term inflation and discount rates used to determine the abandonment and site restoration liabilities at December 31, 2007 were 5.0% and 13% respectively (2006: 5.0% and 10.96%).

The Partnership increased the discount rate from 10.96% per annum to 13 % per annum due to the fact that in September 2007 Bank Turan Alem increased the annual interest rate on the Credit Line from 12 % to 15%, which affected the Partnership's incremental borrowing rate.

## 11. DUE TO GOVERNMENT OF KAZAKHSTAN

The amount due to Government of the Republic of Kazakhstan has been recorded to reflect the present value of 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.

Initially, reimbursement of this liability was scheduled to begin from May, 2008, from the end of phase two of the exploration period as described in Note 1 "Licence terms". However, due to early commencement of commercial production from the first horizon, the Government of Kazakhstan reassessed the payment schedule making the Partnership liable for 2007 production. The reassessment resulted in requirement of the Partnership to make a first payment of US Dollars 1,031 thousand in March 2008 and with further reimbursement by equal quarterly instalments of US Dollars 257 thousand until May 26, 2031. The liability was discounted at 13%.

The total amount of liability due to Government as stipulated by the Contract is US Dollars 25,000 thousand. 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 DOLLARS | 2007 | 2006 |
|---|---|---|
| Due to Government of Kazakhstan as at January 1, | **8,094** | 7,332 |
| Unwinding of discount | **964** | 762 |
| Revision of contractual obligation | **(679)** | – |
| | **8,379** | 8,094 |
| **Less: Current Portion of Due to Government of Kazakhstan** | **(2,062)** | – |
| **Due to Government of Kazakhstan** | **6,317** | 8,094 |

## 12. TRADE PAYABLES

| IN THOUSANDS OF US DOLLARS | 2007 | 2006 |
|---|---|---|
| Tenge denominated trade payables | **19,065** | 8,503 |
| US dollar denominated trade payables | **16,462** | 4,152 |
| Trade payables denominated in other currencies | **241** | 235 |
| | **35,768** | 12,890 |

## 13. OTHER CURRENT LIABILITIES

| IN THOUSANDS OF US DOLLARS | 2007 | 2006 |
|---|---|---|
| Taxes payable, other than corporate income tax | **2,892** | 1,103 |
| Training accrual | **1,687** | 378 |
| Due to employees | **270** | 81 |
| Other | **122** | 577 |
| | **4,971** | 2,139 |

## 14. COST OF SALES

| IN THOUSANDS OF US DOLLARS | 2007 | 2006 |
|---|---|---|
| Well workover costs | **7,103** | 1,703 |
| Depreciation and amortization | **6,126** | 14,590 |
| Royalties | **5,265** | 2,085 |
| Repair, maintenance and other services | **4,453** | 2,235 |
| Payroll and related taxes | **3,048** | 1,669 |
| Materials and supplies | **2,800** | 1,097 |
| Rent and operation of oil separation units | **2,678** | 687 |
| Management fees (Note 19) | **1,957** | 697 |
| Other transportation services | **1,243** | 62 |
| Government profit share | **994** | 510 |
| Environmental levies | **913** | 582 |
| Other | **821** | 163 |
| | **37,401** | 26,080 |



## 15. SELLING AND OIL TRANSPORTATION EXPENSES

Sales and transportation expenses consist primarily of costs in transporting oil to the railway loading terminal and costs of using the railway loading terminal. Staff costs related to sales are not significant.

## 16. GENERAL AND ADMINISTRATIVE EXPENSES

| IN THOUSANDS OF US DOLLARS | 2007 | 2006 |
|---|---|---|
| Management fees (Note 19) | **2,009** | 1,811 |
| Payroll and related taxes | **2,187** | 1,281 |
| Training | **1,698** | 881 |
| Bank charges | **1,298** | 583 |
| Professional services | **713** | 112 |
| Sponsorship | **314** | 299 |
| Communication | **298** | 186 |
| Social program | **255** | 250 |
| Insurance fees | **211** | – |
| Materials and supplies | **197** | 112 |
| Lease payments | **187** | 175 |
| Business trip | **155** | 167 |
| Other taxes | **4** | 542 |
| Other | **657** | 492 |
| | **10,183** | 6,891 |

## 17. FINANCE COSTS, NET

| IN THOUSANDS OF US DOLLARS | 2007 | 2006 |
|---|---|---|
| Interest expense on borrowings | **6,454** | 1,279 |
| Unwinding of discount on amounts Due to Government of Kazakhstan(Note 11) | **964** | 762 |
| Revision of contractual obligation to Government of Kazakhstan (Note 11) | **(679)** | – |
| Unwinding of discount on Abandonment and Site Restoration Liability (Note 10) | **102** | 153 |
| | **6,841** | 2,194 |

## 18. INCOME TAX EXPENSES

The provision for income taxes consisted of the following:

| IN THOUSANDS OF US DOLLARS | 2007 | 2006 |
|---|---|---|
| Income tax expenses comprise: | | |
| - current income tax expense | **6,382** | 9 |
| - deferred income tax expense | **9,268** | 6,964 |
| **Total income tax expense** | **15,650** | 6,973 |

A reconciliation of income tax expense applicable to profit before income tax at the statutory income tax rate of 30% to current income tax expense was as follows for the years ended December 31:

| IN THOUSANDS OF TENGE | 2007 | 2006 |
|---|---|---|
| Profit before income tax | **53,454** | 19,944 |
| Statutory tax rate | **30%** | 30% |
| **Expected tax provision** | **16,036** | 5,983 |
| Non-deductible interest expense on borrowings | **2,565** | 700 |
| Adjustments in respect of current income tax of previous year | **(2,128)** | – |
| Foreign exchange gain | **(1,875)** | (103) |
| Unwinding of discount on Abandonment and Site Restoration Liability and Due to Government | **83** | 275 |
| Withholding tax | – | 167 |
| Other | **969** | (49) |
| Income tax expense reported in the accompanying consolidated financial statements | **15,650** | 6,973 |

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

| IN THOUSANDS OF US DOLLARS | 2007 | 2006 |
|---|---|---|
| **Deferred tax asset:** | | |
| Accruals | 610 | 114 |
| | **610** | 114 |
| **Deferred tax liability:** | | |
| Property, plant and equipment | (26,585) | (15,959) |
| Crude oil inventory | (216) | (22) |
| **Net deferred tax liability** | **(26,191)** | (15,867) |

In 2007, in accordance with the Licence terms, the Group commenced commercial production from the first horizon for income tax reporting purposes. Therefore, the Group considers its revenue from crude oil sales related to the first horizon as taxable revenue and its expenses related to the first horizon as deductible expenses, except those expenses, which are not deductible in accordance with the tax legislation of the Republic of Kazakhstan. This has resulted in a current year charge to income tax expense. Previously income tax was deferred.

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

| | 2007 | 2006 |
|---|---|---|
| Balance at January 1, | (15,867) | (8,489) |
| Current year charge / (benefit) to translation reserve | (1,056) | (414) |
| Current year charge to statement of income | (9,268) | (6,964) |
| Balance at December 31, | (26,191) | (15,867) |

## 19. RELATED PARTY TRANSACTIONS

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

Balances with related parties at the balance sheet dates and transactions with related parties for the respective years follow.

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

| IN THOUSANDS OF US DOLLARS | 2007 | 2006 |
|---|---|---|
| **Trade receivables and advances** | | |
| Frans Van Der Schoot B.V. | **1,500** | – |
| **Total** | **1,500** | – |

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

| IN THOUSANDS OF US DOLLARS | 2007 | 2006 |
|---|---|---|
| **Trade payables** | | |
| Amersham Oil LLP | **81** | – |
| Probel Capital Management B.V. | **190** | – |
| **Total** | **271** | – |

During the year ended 31 December 2007 the Combined Entity had the following transactions with related parties:

| IN THOUSANDS OF US DOLLARS | 2007 | 2006 |
|---|---|---|
| **Operating Expenses and General and Administrative Expenses incurred** | | |
| Amersham Oil LLP | **965** | – |
| Frans Van Der Schoot B.V. | **904** | – |
| Probel Capital Management B.V. | **2,144** | – |
| Tensor Asset Management B.V. | – | 2,508 |
| **Total** | **4,013** | 2,508 |

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

Annual remuneration of four key managers amounted to US Dollars 199 thousand for 2007 (2006: four, US Dollars 143 thousand). Other key management personnel were employed and paid by Amersham Oil LLP, Frans Van Der Schoot B.V. and Probel Capital Management and whose remuneration forms part of the operating and general and administrative expenses above.

All related parties are companies indirectly controlled by Frank Monstrey.

## 20. CONTINGENT, COMMITMENTS AND OPERATING RISKS

### Description of Environment

The Kazakhstani economy, while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market economy in transition. These characteristics have in the past included higher than normal historical inflation, lack of liquidity in capital markets, and the existence of currency controls, which caused the national currency to be illiquid outside of Kazakhstan. The continued success and stability of the Kazakhstani economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

Meanwhile, the Partnership's operations and financial position will continue to be affected by Kazakhstan political developments including the application of existing and future legislation and tax regulations. The likelihood of such occurrences and their effect on the Partnership could have a significant impact on the Partnership's ability to continue operations. As at December 31, 2007, the Partnership does not believe that any material matters exist relating to developing markets and the evolving fiscal and regulatory environment in Kazakhstan, including current pending or future governmental claims and demands, which would require adjustment to this combined financial information.



### Capital Commitments

As at December 31, 2007 the Partnership had contractual capital commitments in amount of US Dollars 186,148 thousand (2006: US Dollars 28,500 thousand).

## Operating leases

The Partnership entered into a lease agreement for the main administrative office in Uralsk in October 2006 for a period of 20 years for US Dollars 12 thousand per month.

Social and education commitments

As required by the Contract with the Government, the Partnership is obliged to spend: (i) US Dollars 250 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.

## Contingent Liabilities

In the ordinary course of business, the Partnership is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Partnership. The Partnership assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its combined financial information only where it is probable that actual events giving rise to a liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in this combined financial information for any of the contingent liabilities mentioned above.

## 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, 2007. As at December 31, 2007 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Partnership's tax positions will be sustained, except as provided for or otherwise disclosed in this combined financial information.

## Abandonment and site restoration (decommissioning)

As Kazakh laws and regulations concerning site restoration and cleanup evolve, the Partnership may incur future costs, the amount of which is currently indeterminable. Such costs, when known, will be provided for as new information, legislation and estimates evolve.

## Environmental

The Partnership may also be subject to loss contingencies relating to regional environmental claims that may arise from the past operations of the related fields in which it operates. As Kazakh laws and regulations evolve concerning environmental assessments and site restoration, the Partnership may incur future costs, the amount of which is currently indeterminable due to such factors as the ultimate determination of responsible parties associated with these costs and the Government's assessment of respective parties' ability to pay for the costs related to environmental reclamation. However, depending on any unfavourable claims or penalties assessed by the Kazakh regulatory agencies, it is possible that the Partnership's future results of operations or cash flow could be materially affected in a particular period.

## 21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Partnership'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 Partnership financial assets consist of trade and other receivables, cash and cash equivalents.
The main risks arising from the Partnership's financial instruments are interest rate risk, foreign exchange risk, liquidity risk, commodity price risk and credit risk. The Partnership's management reviews and agrees policies for managing each of these risks which are summarized below.

### Interest Rate Risk

Interest rate risk is the risk of changes in the market interest rates, reducing the overall return on its investments and increasing the cash outflow on its borrowings. The Partnership is not exposed to interest rate risk as rates of interest on its borrowings are fixed for the whole term of such borrowings.

### Foreign Currency Risk

As significant portion of the Combined Entity's operation is the Kazakhstani Tenge denominated, the Combined Entity's balance sheet can be affected significantly by movements in the US Dollar / Tenge exchange rates. The Combined Entity's 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 Combined Entity's profit before tax (due to changes in the fair value of monetary assets and liabilities).

| | ISSUED SHARES (NUMBER OF SHARES) | SHARE CAPITAL (THOUSANDS OF US DOLLARS) |
|---|---|---|
| **2007** | | |
| US dollar | + 5% | (6,934) |
| US dollar | - 5% | 6,934 |
| **2006** | | |
| US dollar | + 5% | (5,220) |
| US dollar | - 5% | 5,220 |

### Liquidity Risks

Liquidity risk is the risk that the Partnership 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 Partnership's financial liabilities at December 31, 2007 based on contractual undiscounted payments:

| YEAR ENDED DECEMBER 31, 2007 | ON DEMAND | LESS THAN 3 MONTHS | 3-12 MONTHS | 1-5 YEARS | MORE THAN 5 YEARS | TOTAL |
|---|---|---|---|---|---|---|
| Borrowings | – | 3,061 | 42,460 | 203,982 | – | 249,503 |
| Trade payables | 30,459 | – | 5,309 | – | – | 35,768 |
| Other current liabilities | 4,971 | – | – | – | – | 4,971 |
| Due to Government of Kazakhstan | | 1,289 | 773 | 4,124 | 18,814 | 25,000 |
| | **35,430** | **4,350** | **48,542** | **208,106** | **18,814** | **315,242** |

| YEAR ENDED DECEMBER 31, 2006 | ON DEMAND | LESS THAN 3 MONTHS | 3-12 MONTHS | 1-5 YEARS | MORE THAN 5 YEARS | TOTAL |
|---|---|---|---|---|---|---|
| Borrowings | – | 2,371 | 2,728 | 78,569 | 15,230 | 98,898 |
| Trade payables | 12,890 | – | – | – | – | 12,890 |
| Other current liabilities | 2,139 | – | – | – | – | 2,139 |
| Due to Government of Kazakhstan | – | – | – | 3,804 | 21,196 | 25,000 |
| | **15,029** | **2,371** | **2,728** | **82,373** | **36,426** | **138,927** |

### Commodity Price Risk

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

The Partnership does not hedge its exposure to the risk of fluctuations in the price of crude oil.

### Credit Risk

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

The Partnership places its cash with Bank Turan Alem, which has a credit rating of BB (negative) on long-term US dollar deposits from Standard and Poor's rating agency for the year ended 31 December, 2007 (2006: BB (positive)). The Partnership does not guarantee obligations of other parties.

The Partnership sales 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 Partnership'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 Partnership'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.

Management believes that the Partnership's carrying value of financial assets and liabilities consisting of cash and cash equivalents, trade accounts receivable and advances, trade and other payables and obligations under debt instruments are not significantly different from their fair values at December 31, 2007.

## 22. SUBSEQUENT EVENTS



### Facility agreement with BNP Paribas

The Partnership has entered into a US$ 550,000,000 senior secured facility agreement with BNP Paribas as mandated lead arranger maturing no later than 31 December 2014 with the Partnership as borrower and Zhaikmunai LP and the Combined Entity as guarantors. The Partnership drew down on March 7, 2008 approximately US$291 million for (inter alia) the purpose of fully refinancing the BTA Facility and fully refinancing the Blavin Loan. Thereafter the Partnership will use the proceeds of the BNP Paribas Facility to finance the construction of the Gas Treatment Facility and otherwise towards developing the field. The BNP Paribas Facility will comprise three tranches of US$200 million, US$200 million and US$150 million. All customary documentary conditions precedent have been met. However, only approximately US$341 million of the BNP Paribas Facility is available until not less than US$90 million has been invested in Zhaikmunai. Furthermore (once the investment referred to above has taken place) the second US$50 million of tranche 3 shall only become available upon a successful syndication (or if the Majority Lenders consent) and the final US$50 million of tranche 3 shall only become available if there is a successful syndication and shall be exclusively dedicated to the funding of cost overruns.

The rate of interest payable on outstanding amounts under each tranche will be LIBOR plus mandatory cost plus, under tranche 1, a margin of 3%, under tranche 2, a margin of 4% and under tranche 3, a margin of 5%.

### Facility agreement with BNP Paribas

The total amount outstanding is repayable in accordance with a reduction schedule, reducing the total commitments to US$450 million on December 31, 2010 and reducing to zero by December 31, 2014. In addition, the BNP Paribas Facility is mandatorily prepayable to the extent of the proceeds of any material disposals, debt offerings and a cash sweep of 50% of the Partnership collected revenue (in excess of US$25 million). The Partnership is also entitled to voluntarily prepay the amounts outstanding. The Partnership will be required to give customary representations and warranties, repeated periodically, and certain covenants.

The Partnership will also be required to maintain a hedging programme pursuant to which it will hedge a minimum Brent crude oil price of US$70 per bbl for at least 25% of the initial production profile, as assessed by BNP Paribas, for the NE and W Tournasian horizons for the period 2008 to 2013. The Partnership will additionally be required to maintain and fund a debt service reserve account with a balance equal to at least 5% of the amount outstanding under the BNP Paribas Facility. Lastly, the Partnership will be required to maintain annual oil and gas off-take contracts (gas to be commenced in 2010) with off-takers required to purchase 80% of total production and 100% of production available for export. The Partnership's obligations under the BNP Paribas Facility are secured by various forms of security, including, (i) a pledge over 100% of the participatory interests in the Partnership; (ii) pledges over its bank accounts; (iii) the assignment of rights under the off-take contracts; (iv) assignment of all guarantees or performance bonds issued in connection with the contract with KSS for the Gas Treatment Facility; and (v) assignment of the benefit of the Partnership's relevant existing and future insurance policies. As at date of these financial statements the Partnership has drawn down US Dollars 321,291 thousand on the facility.

*Initial Public Offering*

As discussed in Note 1, pursuant to the Initial Public Offering on March 28, 2008, part of the proceeds raised were used to fulfil the conditions in the BNP Paribas facility agreement as discussed above.



*Gas Treatment Facility*

As a result of various meetings with vendors during the first quarter of 2008, on April 10, 2008 an addendum to the contract with KSS was concluded. This resulted in the value of the contract, originally signed in August of 2007, increasing by US Dollars 45 million to a total of US Dollars 227 million.
The expanded scope of work includes an additional gas-condensate separation unit with a capacity of 23.000 bbl/day of free condensate as well as a complete sour condensate stabilization unit equally with a capacity of 23.000 bbl/day, that will produce approximately 20.000 bbl/day of stabilized condensate.

## FINANCIAL CALENDAR 2008

| | |
|---|---|
| **May 30** | *Q1 Interim management statement* |
| **June 30** | *2007 Results Release* |
| **July 24** | *Annual General Meeting ** |
| **July 30** | *Q2 Interim management statement* |
| **Aug 29** | *H1 Financials* |
| **Nov 28** | *Q3 Interim management statement* |

Please note that all future dates are subject to change

*** Notice of Annual General Meeting**

The Company will hold its *Annual General Meeting* at its offices on the Isle of Man, Clinch's House, Lord Street, Douglas FM99 1RZ on Thursday 24th July 2008 at 2.00pm and 2007 Annual Accounts, Notice of Meeting and Form of Proxy will be available to all partners the first week of July 2008.
The podcast on the 2007 results will be available at 0900 (UK time) on Friday 25 July 2008.
This will be available at the Zhaikmunai website: www.zhaikmunai.com.

## CORPORATE INFORMATION

**Corporate Offices**

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**Corporate Information**

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Almaty, Kazakhstan

*Legal Counsel*
White & Case LLP
London, United Kingdom

*Corporate Communications*
Brunswick
London, United Kingdom

*Share Listing*
LSE
Trading symbol ZKM

**Board of Directors**

Piet Everaert
Boutersem, Belgium

Kai-Uwe Kessel
Leefdal, Belgium

Eike Von der Linden [1] [2]
Dreieich, Germany

Steve McGowan [1] [2]
Douglas, Isle of Man

Frank Monstrey [2]
Blanden, Belgium

1 Member of the Audit Committee

2 Member of the Remuneration Committee

**Officers**

Frank Monstrey
Chairman of the Board

Kai-Uwe Kessel
Chief Executive Officer

Jan-Ru Muller
Chief Financial Officer

## Image Glossary

| | |
|---|---|
| cover | : UNGG heavy drilling rig, Chinareveskoye fieldsite. |
| p 2-3 | : Oil loading terminal for trucks, Chinarevskoye fieldsite. |
| p 7 | : (clockwise from top) Saipem Rig at fieldsite, Zhaikmunai offices Uralsk, casings, storage facility under construction near company rail terminal, oil treatment plant Chinarevskoye field |
| p 8 | : Storage facility under construction near company rail terminal. |
| p 11 | : loading of crude oil at loading terminal for trucks. |
| p 12 | : Oil loading terminal for rail cars under construction |
| p 20 | : Storage facility being built by KSS near company rail terminal |
| p 23 | : Oil treatment plant, Chinarevskoye field |

## Disclaimer

This Annual Report contains forward-looking statements regarding Zhaikmunai, it's corporate plans, future financial condition, future results of operations, future business plans and strategies. All such forward-looking statements are based on it's management's assumptions and beliefs in the light of information available to them at this time. These forward-looking statements are, by their nature, subject to significant risks and uncertainties and actual results, performance and achievements may be materially different from those expressed in such statements. Factors that may cause actual results, performance or achievements to differ from expectations include, but are not limited to, regulatory changes, future levels of industry product supply, demand and pricing, weather and weather related impacts, wars and acts of terrorism, development and use of technology, acts of competitors and other changes to business conditions. Zhaikmunai undertakes no obligation to revise any such forward-looking statements to reflect any changes in Zhaikmunai's expectations with regard thereto or any change in circumstances or events after the date hereof.



## Glossary of Terms

The following are the main terms and abbreviations used in this announcement:

| | |
|---|---|
| $ | United States dollars |
| 2D/3D | two dimensional/three dimensional |
| 1P | proven |
| 2P | proven plus probable |
| 3P | proven plus probable plus possible |
| Board | the board of directors of Zhaikmunai Limited, the genral partner of the PartnershipP |
| boe | barrels of oil equivalent |
| boepd | barrels of oil equivalent per day |
| bopd | barrels of oil per day |
| bscf | billion standard cubic feet of gas |
| EOR | enhanced oil recovery |
| EPC | engineering procurement contract |
| FCA | free carrier (incoterm) |
| FDP | field development plan |
| FIELD | Chinarevskoye oil and gas condensate field |
| Group | the Partnership and its subsidiaries |
| GTU | Gas Treatment Unit |
| IAS | International Accounting Standard |
| IFRS | International Financial Reporting Standards |
| IPO | initial public offering |
| KSS | KazStroyService |
| KZT | Kazakhstan Tenge |
| License | license issued by the Government of the Republic of Kazahstan on 26 May 1997 |
| MEMR | ministry of energy and mines |
| mbbls | million barrels of oil |
| mboe | million barrels of oil equivalent |
| mscfd | million standard cubic feet of gas per day |
| OUT | Oil Treatment Unit |
| Partnership | Zhaikmunai L.P. |
| Prospectus | Zhaikmunai L.P. Prospectus of 28 March 2008 |
| PSA | production sharing agreement |
| UNGG | AO Uralskneftegazgeologia |

## Credits

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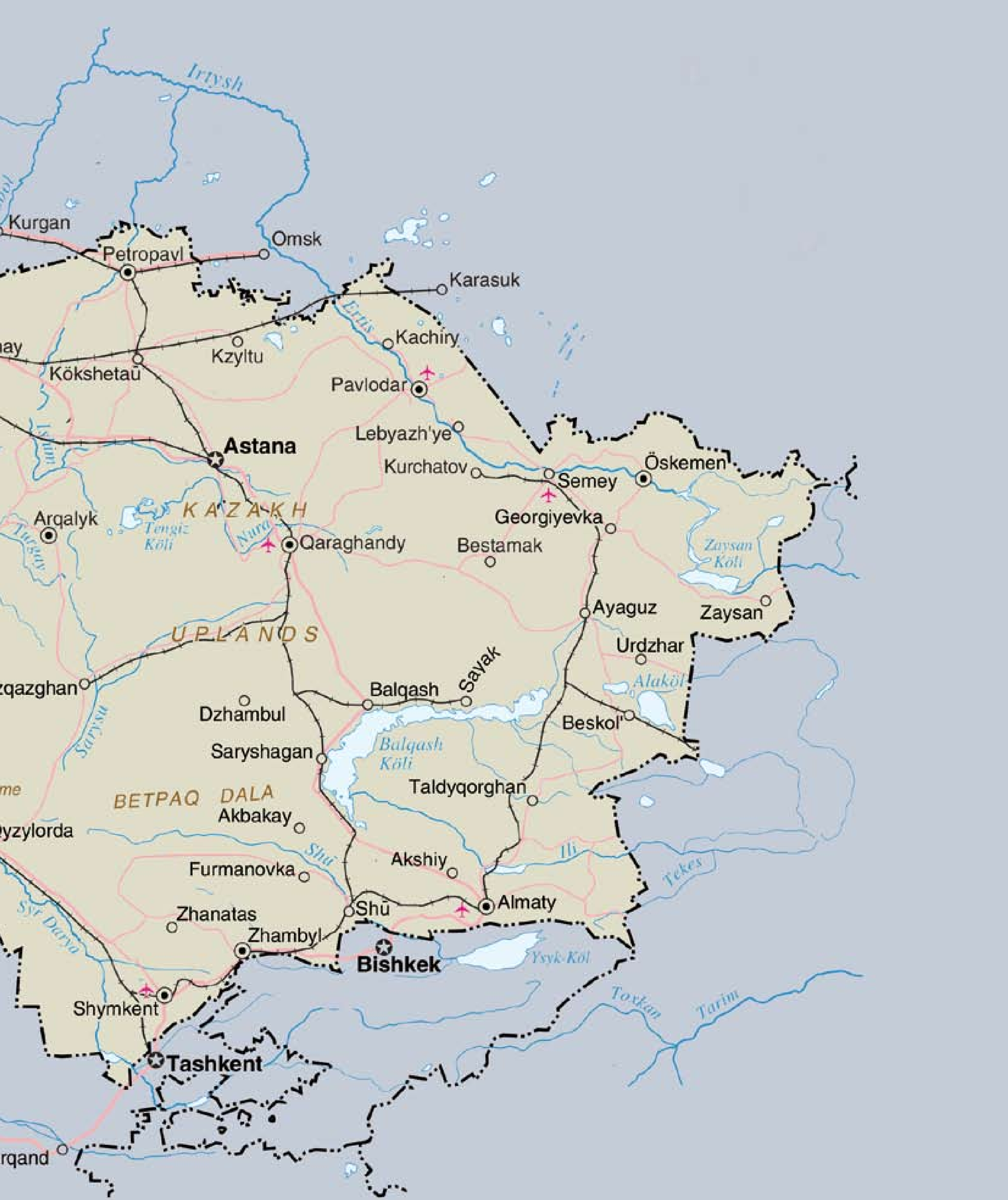
Jan Caudron, www.anaklasis.com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