



**Zhaikmunai L.P.  
(the “Company”)**

**H1 EBITDA UP TO US\$ 43.35 MM (+33.10 % YoY)**

London – September 6, 2010 - Zhaikmunai L.P. (LSE:ZKM) ('Zhaikmunai'), the independent oil and gas enterprise operating in northwestern Kazakhstan, today announces its half-yearly results for the six months ended 30 June 2010.

**2010 HALF-YEARLY RESULTS SUMMARY**

All figures in US\$ millions unless otherwise stated

	H1 2010	H1 2009	Change YoY
Revenues from oil sales	74.654	44.680	+67.08%
EBITDA	43.353	32.572	+33.10%
Net Cash Flow from operating activities	24.672	13.836	+78.32%
Net Cash Flow used in investing activities	(71.316)	(24.918)	
Net income	19.577	(20.101)	
Production (bopd)	7,261	7,271	-0.1%
Debt	381.677	381.677	unch.
Average Realised oil price (US\$ per bbl)	77.85	51.62	+50.81%
Discount (US\$ per bbl)	14.26	15.40	-7.40%
Weighted average netback (US\$ per bbl)	63.59	36.22	+75.57%

Zhaikmunai had a strong first half. All financial figures improved relative to the first half of 2009 reflecting a 50.8% increase in the average realised oil price. Oil production was practically unchanged. Production of condensate, LPG and dry sales gas is expected to commence before year-end, which will result in significant production growth.

**KEY H1 2010 HIGHLIGHTS**

- EBITDA was US\$43.35 million, 33% higher than EBITDA realized in H1 2009 (US\$32.57 million).
- Net profit was US\$19.58 million compared with a loss of US\$ 20.10 million during the same period last year.
- Revenues increased to US\$74.65 million, a 67% increase relative to the revenues realized in H1 2009 (US\$44.68 million).
- Successful test results for two new wells.
- Completion of Zhaikmunai's gas treatment facility is expected to occur before the end of September 2010

## FINANCIAL HIGHLIGHTS

### Revenue

Strong oil prices enabled Zhaikmunai to realize revenue from oil sales of US\$74.654 million. Revenues were also boosted by a 7.4% decrease in the discount for export sales that brought the weighted average netback prices to a level that was 75.57% higher compared with the level obtained during the first six months of 2009. This discount covers mainly transportation costs. Zhaikmunai's marketing team was able to reduce these costs thanks to a more diversified client base and other cost savings.

### Hedging contract

Zhaikmunai continues to undertake hedging activities. Such hedging is part of the Company's ongoing management of its business risk with the goal of protecting the availability of cash flows as provided under the terms of the Company's syndicated loan facility led by BNP Paribas.

The previous hedging contract, with a floor price for Brent crude oil at US\$50 per bbl and covering a portion of the Company's oil export sales, expired on June 30, 2010. In March 2010 Zhaikmunai entered into a new hedging contract at zero cost and covering oil export sales of 4,000 barrels per day running from March 2010 through December 2010. Under the new hedging contract the floor price for Brent crude oil is fixed at a price of US\$60 per bbl. The ceiling price is set at a range from US\$89.25 per bbl to US\$100 per bbl such that Zhaikmunai will receive all sales proceeds in excess of US\$100 per bbl (\*). The counterparties to the new hedging contract are BNP Paribas, Natixis and Raiffeisen Zentralbank.

On 30 June 2010 this hedging contract had a marked-to-market value of US\$38,000; this was US\$60,000 lower than the value at the beginning of the year due to the increase in oil prices. As this hedge does not qualify for hedge accounting, all gains and losses are taken directly to profit or loss.

(\*) Below US\$60 Zhaikmunai will obtain a price of US\$60; between US\$60 and US\$89.25; the Brent crude oil price is obtained; between US\$89.25 and US\$100 the price obtained will be US\$89.25; and above US\$100 the price will be US\$89.25 plus the proceeds in excess of US\$100.

## Finance costs & debt

Finance costs were only US\$654,000 in H1 2010 compared with US\$3,498,000 during the same period last year. The reason for this is the full capitalisation of interest expenses on borrowings.

Total interest paid on the outstanding debt of US\$381.677 million was US\$16.458 million compared with US\$8.526 million during the first half of 2009. In September 2009 the terms of the Company's loan facility were changed bringing the interest rate from a level of Libor plus 3%, 4% and 5% for tranches one, two and three, respectively to a level of Libor plus 7% on all the outstanding debt.

The total outstanding principal balance of the liability under the loan facility as at 30 June 2010 was US\$ 381,677 thousand, which is reduced by the amount of the facility arrangement fees of US\$ 21,860 thousand (31 December 2009: US\$ 381,677 thousand and US\$ 25,329 thousand, respectively). The outstanding balance is repayable commencing September 30, 2011 in semi-annual instalments with the final payment being made on December 31, 2014. These figures are subject to further adjustment to reflect any changes to the borrowing base amount under the facility.

## Cash

Zhaikmunai ended the first six months of 2010 with US\$95.67 million of cash and cash equivalents, of which US\$21.486 million is restricted cash. Almost all of this cash is held in US Dollar accounts.

## **OPERATIONAL HIGHLIGHTS**

	<b>1H 2010</b>	<b>1H 2009</b>	<b>Change YoY</b>
Average daily oil production (bopd)	7,261	7,271	-0.01%
Oil production (bbl)	1,314,256	1,316,051	-0.01%
Weighted Average Netback for crude oil sales	US\$ 63.59/bbl	US\$ 36.22/bbl	+75.57%

Most of Zhaikmunai's crude oil was delivered on a FCA (free carrier) Uralsk shipment basis and due to the high quality thereof, the discount to the market price of Brent crude oil is small. However, Zhaikmunai recently started to sell its crude oil on the basis of DAF (delivery at frontier) Solovey/Topoli terms in order to reduce its overall transportation costs.

As at 30 June 2010, inventory comprised 6.6% of the Company's current assets compared to 4.5% as at 30 June 2009. Consequently, the volume of crude oil produced by the Company directly affects its revenues.



As at the end of the first half of 2010 there were 14 producing wells.

## **POST H1 UPDATE**

- On 14 July 2010 Zhaikmunai announced successful test results for two more wells. Together with existing production, these wells will provide over 90% of the planned capacity of the gas treatment facility.
- On 25 August 2010, Zhaikmunai announced its first shipment of crude oil through the Black Sea port of Feodosia (Ukraine). A total of 233,444 bbl was transported by rail to Feodosia on a Free on Board sale (FOB-sale) where it was loaded on a tanker. As such the company has successfully tested a new destination that it can use for its future crude and condensate production.
- Construction of the Company's gas treatment facility remains on schedule. Mechanical completion is expected before September 30<sup>th</sup>.

### **Kai-Uwe Kessel, Chief Executive Officer, commented:**

*"In the first half of 2010 we have continued to focus on completing the gas treatment facility. We worked intensively with our contractors - KSS and Exterran - to make sure this new milestone for the company will be reached before year-end. Our drilling program was focused on drilling the necessary wells to feed the plant. Our financial results in the first half were impressive with an EBITDA of US\$43.35 million thanks to favorable oil prices. In the coming weeks we will reach the completion of the gas treatment facility and Zhaikmunai will enter into a new growth phase in which we will also produce condensate, LPG and dry sales gas."*

For further information please visit [www.zhaikmunai.com](http://www.zhaikmunai.com).



## CONFERENCE CALL

Zhaikmunai's management team will give a presentation, followed by a Q&A session for analysts and investors on **Monday 6 September 2010 at 2 pm GDT (=UK time).**

Please confirm your attendance with Zhaikmunai's Investor Relations Department on +44 1624 682179 or email on [investor\\_relations@zhaikmunai.com](mailto:investor_relations@zhaikmunai.com).

Telephone: + 44 (0) 1452 561 263  
Conference ID: 98300876

Teleconference replay until Tuesday 14 September 2010 :

International: + 44 (0) 1452 550 000 (access code: 98300876#)  
UK Free Call: 0800 953 1533  
USA Free Call: 1866 247 422

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## About Zhaikmunai

Zhaikmunai is an independent oil and gas enterprise currently engaging in the exploration and development and production of oil and gas. It is listed on the London Stock Exchange (Ticker symbol: ZKM). Its principal producing asset is the Chinarevskoye Field located in northwestern Kazakhstan. Zhaikmunai L.L.P., a wholly-owned subsidiary of Zhaikmunai L.P., holds a 100% interest in and is the operator of the Production Sharing Agreement for the Chinarevskoye Field.

## Forward-Looking Statements

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis should be read together with the unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2010, including the accompanying notes. The consolidated financial statements and the accompanying notes have been prepared in accordance with IFRS.*

### Overview

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

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

The following table sets forth the Group's sales of crude oil, cost of sales, gross profit, profit before income tax and net income/(loss) for the six months ended 30 June 2010 and 2009:

	<u>Six months ended 30 June</u>	
	<u>2010</u>	<u>2009</u>
	(US\$ millions)	
Sales of crude oil.....	74.654	44.680
Cost of sales.....	(20.733)	(18.705)
Gross profit.....	53.921	25.975
Profit before income tax.....	35.820	(22.845)
Net income/(loss).....	19.577	(20.101)

### Primary Factors Affecting Results of Operations

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

*Crude oil prices and Netback*

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

Most of Zhaikmunai’s crude oil was delivered on a FCA (free carrier) Uralsk shipment basis and due to the high quality thereof, the discount to the market price of Brent crude oil is smaller. However, Zhaikmunai recently started to sell its crude oil on the basis of DAF (delivery at frontier) Solovey/Topoli terms in order to reduce its overall transportation costs. The table below sets out the average price for Brent crude oil on which Zhaikmunai has based its sales for the six months ended 30 June 2010 and 2009:

	Six months ended 30	
	June	
	2010	2009
	(US\$/bbl)	
Average Brent crude oil price on which Zhaikmunai based its sales (US\$/bbl).....	77.85	51.62

During the periods under review, the price of Brent crude oil experienced significant fluctuations. After reaching highs of up to US\$147.0 per barrel in mid-2008, international oil prices fell dramatically in late 2008 with an average closing price in December 2008 of US\$43.10 per barrel. Brent crude oil prices recovered in the first half of 2009, reaching US\$70 per barrel in June 2009 and US\$87 per barrel in April 2010. These fluctuations have affected the Group’s revenues directly, as the price Zhaikmunai receives for its crude oil is based on the price of Brent crude oil. However, in March 2008, the Group entered into a hedging contract offering it partial protection against a drop in international oil prices. The contract was sold in March 2009, and the Group subsequently entered into a hedging agreement that expires in June 2010 covering oil export sales of 99,461 barrels per month in 2010 (pursuant to which the floor price is fixed at US\$50 per barrel). Following the restructuring of the Syndicated Facility, the Group entered into a new hedging contract in March 2010 covering oil export sales of 4,000 barrels per day running from March 2010 through December 2010 (pursuant to which the floor price is fixed at US\$60 per barrel).

Until recently, crude oil was sold and delivered from Uralsk to Zhaikmunai’s customer(s), one or more oil traders, on a FCA (free carrier) Uralsk shipment basis who then on-sell(s) the crude oil to their ultimate customers. During 2007, 2008 and 2009, the oil trader(s) contracted to purchase the Group’s production has/have sold and delivered Zhaikmunai’s crude oil to customers located in Finland, the Ukraine and other countries. The price Zhaikmunai receives for its crude oil is based on the market price for Brent crude oil, less a discount for the trader’s transportation costs of the crude oil from Uralsk to its ultimate destination, including certain quality differentials and the trader’s fee. The discount, which is negotiated on an annual basis, is a fixed amount per barrel, comprising rail transportation tariffs in Kazakhstan and Russia and the cost of leasing railcars to transport the crude oil and, to a lesser extent, the discount takes into account quality differentials in the oil and the profit margin retained by the particular trader. Zhaikmunai

recently started to sell its crude oil on the basis of DAF (delivery at frontier) Solovey/Topoli terms in order to reduce its overall transportation costs.

In addition, Russian rail tariffs are priced in Swiss francs and Kazakh rail tariffs are priced in Tenge, whereas Zhaikmunai's oil prices are quoted and settled in US Dollars. Consequently, if the US Dollar depreciates or appreciates against the Swiss franc or the Tenge, Zhaikmunai's Netback is reduced or increased, respectively. Zhaikmunai's discount for crude oil sales generated for the six months ended 30 June 2010 was US\$14.26 per barrel, compared to US\$15.40 per barrel for the six months ended 30 June 2009. The decrease in discount for the six months ended 30 June 2010 compared to the six months ended 30 June 2009 was a result of a decrease in the amount of discount retained by the trader(s) for oil sold at FCA (free carrier) Uralsk (due to decreased rail tariffs) and the fact that the Group started to sell on DAF (delivery at frontier) Solovey/Topoli terms (which carries much lower traders' transportation costs).

The table below sets out Zhaikmunai's average Netback for crude oil sales for the six months ended 30 June 2010 and 2009.

	Six months ended 30 June	
	2010	2009
	(US\$/bbl)	
Average Netback for crude oil sales		
.....	63.59	36.22

#### *Crude oil production*

All crude oil produced by Zhaikmunai is sold. As at 30 June 2010, inventory comprised 6.6% of the Group's current assets compared to 4.5% as at 30 June 2009. Consequently, the volume of crude oil produced by the Group directly affects its revenues. The table below illustrates Zhaikmunai's production for the six months ended 30 June 2010 and 2009.

	Six months ended 30 June	
	2010	2009
Total crude oil production (bbl)		
.....	1,314,256	1,316,051
Average crude oil production (bpd)		
.....	7,261	7,271
Increase (decrease) in production from previous period (bpd)		
.....	(10)	—
Increase (decrease) in production from previous period (%)		
.....	0.1	—

Zhaikmunai's production growth since 2007 has been primarily driven by its growing drilling programme. The slight decrease in production during the first half of 2010 (compared to the first half of 2009) was mainly due to minor delays in workover and rig mobilisation in the first half of 2010. In 2009, the Group successfully completed six new wells. Two wells are currently being drilled. Management intends to drill an average of 13 new production wells per year between 2011 and 2014 which it believes will significantly increase crude oil production in the future.



### *Cost of sales*

As crude oil prices are based on quotation pricing, Zhaikmunai's ability to control costs is critical to its profitability. Zhaikmunai's cost of sales comprise various costs including depreciation for oil and gas properties, repair, maintenance and other services, royalties, payroll and related taxes, materials and supplies, management fees, other transportation services, government profit share, environmental levies, well workover costs, rent and operation of oil separation units.

Depreciation costs, during the periods under review, have represented as a percentage of total cost of sales 38.5% and 39.4% for the six months ended 30 June 2010 and 2009, respectively. Such costs fluctuate according to the level of Zhaikmunai's proved developed reserves, the volume of crude oil it produces and the net book value of its oil and gas properties. As the Group continues with its capital investment programme, management expects depreciation costs to increase (in particular, following completion and commissioning of the Gas Treatment Facility) as the Group's proved developed reserves are expected to remain broadly constant while its production and the value of its oil and gas properties increase. Well workover costs are related to ongoing repair and maintenance of production and exploration wells. These costs, during the periods under review, have represented as a percentage of total cost of sales 5.1% and 0.0% for the six months ended 30 June 2010 and 2009, respectively. The increase in well workover costs as a percentage of cost of sales in the first six months of 2010 compared to the first six months of 2009 was a result of starting previously postponed workover activities.

Change in oil stock, during the periods under review, have represented as a percentage of total cost of sales (17.4%) and 2.3% for the six months ended 30 June 2010 and 2009, respectively. This temporary increase in oil stock is due to the transition from FCA Uralsk marketing to DAF and FOB sales to different locations.

Other cost of sales during the periods under review have included environmental levies, which decreased by 7.9% during the six months ended 30 June 2010 compared to the six months ended 30 June 2009. Management fees increased as a result of increases in remuneration while the increase in labour costs resulted from an increase in the number of personnel contracted and/or employed by Zhaikmunai as well as through increases in salaries. Management expects that labour costs will increase faster than overall growth in Kazakhstan, although any consequent increases in these costs are expected to be partially offset by productivity growth. Costs for repairs and maintenance and material and supplies are expected to fluctuate in line with changes in the market price of oil.

### *Finance costs*

Finance costs in the six months ended 30 June 2010 and 2009 consisted of interest expenses in relation to the Syndicated Facility, commitment fees on the Syndicated Facility, unwinding at discount on the trade payables to KSS, finance charges on trade payables to KSS, unwinding of discount on amounts due to the Government, loan review fees (only in 2009), unwinding of discount on abandonment and site relocation liability and amortization of fees incurred on arrangement of the Syndicated Facility.

Interest expense consisted of interest on Zhaikmunai's Syndicated Facility. A portion of the finance costs are capitalised based on the average construction in progress.

Capitalized interest (including withholding tax paid by Zhaikmunai) amounted to US\$19.6 million in 2008 and US\$25.0 million in 2009. Non-capitalized interest (including withholding tax paid by Zhaikmunai) amounted to US\$11.5 million in 2008 and US\$6.0 million in 2009. All interest expenses for the six months ended 30 June 2010 have been capitalized compared to the same period in 2009 due to the fact that all interest expenses during that period related to Zhaikmunai's capital expenditure programme.

*Royalties, Government Share and Taxes payable pursuant to the PSA*

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

Under the PSA, the Kazakh tax regime that was in place in 1997 applies to the Group for the entire term of the PSA and the Licence (as to VAT and social tax, the regime that was in place as of 1 July 2001 applies). As of 1 January 2009, the new Tax Code became effective and introduced a new tax regime and taxes applicable to subsoil users (including oil mineral extraction tax and historical cost). However, the Tax Code did not supersede the previous tax regime applicable to PSAs entered into before 1 January 2009, which continue to be effective under Article 308 of the Tax Code. Despite the stabilization clauses (providing for general and tax stability) provided for by the PSA, in 2008 Zhaikmunai was required to pay new crude oil export duties introduced by the Government. Despite Zhaikmunai's efforts to show that the new export duties were not applicable to it under the PSA, the State authorities did not accept this and Zhaikmunai was required to pay the export duties. However, during January 2009, the Government revised and established the rate of the export duties at US\$ nil per tonne of crude oil which applied to Zhaikmunai until the end of the period under review.

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

Under the PSA, Zhaikmunai is obliged to pay to the State royalties on the volumes of crude oil and gas produced, with the royalty rate increasing as the volume of hydrocarbons produced increases. In addition, Zhaikmunai is required to deliver a share of its monthly production to the State (or make a payment in lieu of such delivery). The share to be delivered to the State also increases as annual production levels increase. Pursuant to the PSA, the Group is currently able to effectively deduct a significant

proportion of production from the sharing arrangement (known as Cost Oil) that it would otherwise have to share with the Government. Cost oil reflects the deductible capital and operating expenditures incurred by the Group in relation to its operations. During the periods under review, royalties and government profit share have represented, as a percentage of total cost of sales, for the six months ended 30 June 2010, 15.7% and 3.7%, respectively compared to 12.3% and 2.4%, respectively, for the six months ended 30 June 2009.

### **Summary of Critical Accounting Policies**

The Group's significant accounting policies are more fully described in note 2 of the unaudited condensed consolidated financial statements for the six months ended 30 June 2010. However, certain of the Group's accounting policies are particularly important to the presentation of the Group's results of operations and require the application of significant judgment by its management.

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

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

#### ***Estimations and Assumptions***

##### ***Oil and gas reserves***

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

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

due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A.

### ***Property, Plant and Equipment***

#### *Abandonment and site restoration (decommissioning)*

Provision for decommissioning is recognised in full, on a discounted cash flow basis, when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long term interest rates for emerging market debt adjusted for risks specific to the Kazakhstan market. The unwinding of the discount related to the obligation is recorded in finance costs. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. This asset is subsequently depreciated as part of the capital costs of the oil and gas properties on a unit of production basis.

Changes in the measurement of an existing decommissioning liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or changes to the discount rate:

- (a) are added to, or deducted from, the cost of the related asset in the current period. If deducted from the cost of the asset the amount deducted shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognised immediately in the income statement; and
- (b) if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss in accordance with IAS 36.

#### *Borrowing Costs*

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

### ***Derivative Financial Instruments and Hedging***

The Group uses a hedging contract for oil export sales to cover part of its risks associated with oil price fluctuations. Such derivative financial instruments are initially

recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

### **Description of key financial terms**

*Sales of crude oil* during the period under review is affected by the Group's volume of crude oil production, the market price for crude oil and the discount to the market price incurred by the Group for its crude oil. The Group expects to generate further revenue from sales of condensate, gas and LPG following the completion of the Gas Treatment Facility. The unaudited condensed consolidated financial statements as at and for the six months ended 30 June 2010 present sales of crude oil gross of any portion required to be delivered to the State under the terms of the PSA since, during the periods under review, it has elected to settle its obligations to the State in cash. Consequently, the incurrence of any such obligation is reported as an expense in cost of sales. If it elects, in the future, to settle such obligation by the delivery of crude oil to the State, its sales of crude oil, and therefore revenue, will be affected.

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

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

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

### Comparison of the six months ended 30 June 2010 and 2009

The table below sets forth the line items of the Group's income statement for the periods ended 31 March 2010 and 2009 in US Dollars and as a percentage of sales of crude oil.

	Six months ended 30 June 2010 (US\$ millions)	% of sales of crude oil	Six months ended 30 June 2009 (US\$ millions)	% of sales of crude oil
Sales of crude oil .....	74.654	100.0	44.680	100.0
Cost of sales .....	(20.733)	(27.8)	(18.705)	(41.9)
<b>Gross Profit</b> .....	<b>53.921</b>	<b>72.2</b>	<b>25.975</b>	<b>58.1</b>
General and administrative expenses .....	(13.671)	(18.3)	(14.184)	(31.7)
Selling and oil transportation expenses .....	(3.505)	(4.7)	(2.847)	(6.4)
Gain/(loss) on hedging contract .....	(0.060)	(0.1)	(15.433)	(34.5)
Interest income .....	0.058	0.1	—	0.0
Finance costs .....	(0.654)	(0.9)	(3.498)	(7.8)
Foreign exchange (loss)/gain .....	0.126	0.2	(12.624)	(28.3)
Other (expenses)/income .....	(0.395)	(0.5)	(0.234)	(0.5)
<b>Profit/(loss) before income tax</b> .....	<b>35.820</b>	<b>48.0</b>	<b>(22.845)</b>	<b>51.1</b>
Income tax expense .....	(16.243)	(21.8)	2.744	6.1
<b>Net Loss/Income</b> .....	<b>19.577</b>	<b>26.2</b>	<b>(20.101)</b>	<b>(45.0)</b>

Sales of crude oil increased by US\$30.0 million, or 67.1%, to US\$74.7 million in the six months ended 30 June 2010 from US\$44.7 million in the six months ended 30 June 2009 due primarily to a 75.6% increase in average crude oil Netback prices in the six months ended 30 June 2010 because of an increase in the average Brent crude oil price of 50.8% and a decrease in the weighted average transportation discount of 7.4% compared to the six months ended 30 June 2009.

The following table shows the Group's sales of crude oil and sales volumes for the six months ended 30 June 2010 and 2009:

	Six months ended 30 June	
	2010	2009
<b>Sales of crude oil (US\$ millions)</b> .....	74.654	44.680
<b>Sales volumes (gross of Cost Oil) (bbl)</b> .....	1,314,256	1,316,051

The table below shows changes in the commodity price of Brent crude oil and changes in the discount and the Netback received by the Group for its crude oil for the periods ended 30 June 2010 and 2009.

	Six months ended 30 June	
	2010	2009
<b>Average Brent crude oil price on which Zhaikmunai based its sales (US\$/bbl)</b> .....	77.85	51.62
<b>Average discount to Brent (US\$/bbl)</b> .....	14.26	15.40
<b>Average Netback (US\$/bbl)</b> .....	63.59	36.22

*Cost of sales* increased by US\$2.0 million, or 10.8%, to US\$20.7 million in the six months ended 30 June 2010 from US\$18.7 million in the six months ended 30 June 2009 due primarily to an increase in depreciation, royalties and government profit share, as well as increases in material and supply costs and repair and maintenance costs. Royalty costs increased by US\$1.0 million, or 41.6%, to US\$3.3 million in the six months ended 30 June 2010 from US\$2.3 million in the six months ended 30 June 2009 due to an increase in Brent crude prices. Costs for government profit share also increased by US\$0.3 million, or 73.1%, to US\$0.8 million in the six months ended 30 June 2010 from US\$0.4 million in the six months ended 30 June 2009 due to the release of the oil separation units following completion of the first phase of the oil treatment unit during the six months ended 30 June 2009. Depreciation costs increased by US\$0.6 million, or 8.4%, to US\$8.0 million in the six months ended 30 June 2010 from US\$7.4 million in the six months ended 30 June 2009 due, primarily, to the further advancement of Zhaikmunai's drilling programme over the course of 2009. On a per barrel basis, primarily due to costs calculated based on Brent crude prices, cost of sales increased by US\$1.56, or 11.0%, to US\$15.78 in the six months ended 30 June 2010 from US\$14.21 in the six months ended 30 June 2009 and cost of sales net of depreciation costs increased by US\$1.09, or 12.6%, to US\$9.71 in the six months ended 30 June 2010 from US\$8.62 in the six months ended 30 June 2009.

*General and administrative expenses* decreased by US\$0.5 million, or 3.6%, to US\$13.7 million in the six months ended 30 June 2010 from US\$14.2 million in the six months ended 30 June 2009 due primarily to the adjustment of the equity option plan and the decrease of professional fee expenses. Management fees increased by US\$0.6 million to US\$4.7 million in the six months ended 30 June 2010 from US\$4.1 million in the six months ended 30 June 2009 due to additional management personnel hired by the Group.

*Selling and oil transportation expenses* increased by US\$0.7 million, or 23.1%, to US\$3.5 million in the six months ended 30 June 2010 from US\$2.8 million in the six months ended 30 June 2009 due, primarily, to the change of sale terms from FCA (free carrier) Uralsk to DAF (delivery at frontier) and FOB (free on board) Solovey/Topoli/Feodosia. The benefit for the Group to sell on DAF/FOB terms is that the transportation discount per barrel is significantly reduced (and therefore the Netback is higher) even though transportation costs for the Group increase as the Group has to pay for transportation costs from the terminal to the point of sale. The Group plans to continue this transition from sales on FCA terms to FOB/DAF terms as management believes the Group will benefit from a net decrease in overall transportation costs.

*Finance costs* decreased by US\$2.8 million, or 81.3%, to US\$0.7 million in the six months ended 30 June 2010 from US\$3.5 million in the six months ended 30 June 2009 mainly due to the fact that a greater portion of overall interest expense was capitalised in the later period (US\$20.8 million in the first six months ended 30 June 2010 compared to US\$9.3 million in the six months ended 30 June 2009). Cash interest expense on the Syndicated Facility actually increased by US\$7.9 million to US\$16.5 million in the six months ended 30 June 2010 from US\$8.6 million in the six months ended 30 June 2009. The higher interest expense followed the amendment of the Syndicated Facility agreement in September 2009. According to the restated Syndicated Facility agreement, Zhaikmunai paid Libor plus 7% during the six months ended 30 June 2010 on the outstanding balance of US\$381.7 million. Under the original Syndicated Facility agreement, Zhaikmunai paid Libor plus 3% for the first tranche of US\$200 million, Libor plus 4% for the second tranche

of US\$200 million and Libor plus 5% for the third tranche of US\$150 million. Effectively, Zhaikmunai paid Libor plus 3.48% during in the six months ended 30 June 2009 on the outstanding balance of US\$381.7 million. Although the interest expense on the Syndicated Facility increased by US\$7.9 million during the six months ended 30 June 2010, finance costs decreased by US\$2.8 million during the same period due to the fact that all interest expenses during the six months ended 30 June 2010 were capitalised and therefore, not included in finance costs.

*Loss on derivative financial instruments* amounted to US\$0.06 million compared to a loss of US\$15.43 million in the six months ended 30 June 2009. The loss of US\$0.06 million consisted of the fair value of the hedging contract as at 30 June 2010 (in a positive amount of US\$0.04 million) less the fair value of the hedging contract as at 31 December 2009 (in a positive amount of US\$0.98 million).

*Foreign exchange gain* amounted to US\$0.1 million compared to a loss of US\$12.6 million in the six months ended 30 June 2009 due, primarily, to a change in the Group's functional currency to US Dollars.

*Profit before income tax* amounted to a profit of US\$35.8 million in the six months ended 30 June 2010 compared to a loss of US\$22.8 million in the six months ended 30 June 2009 due primarily to higher Brent crude oil prices.

*Income tax expense* increased by US\$19.0 million, to US\$16.2 million in the six months ended 30 June 2010 from a benefit of US\$2.7 million in the six months ended 30 June 2009 due to the change in functional currency to US dollars and the difference in income due to higher oil prices.

*Net income* amounted to US\$19.6 million in the six months ended 30 June 2010 from a net loss of US\$20.1 million in the six months ended 30 June 2009 as a result of the foregoing.

## Liquidity and Capital Resources

### General

Historically, during the periods under review, Zhaikmunai's principal sources of funds are cash from operations and amounts raised under the Syndicated Facility, the initial public offering of GDRs in April 2008 and the additional offering of GDRs in September 2009. Its liquidity requirements primarily relate to meeting ongoing debt service obligations under our Syndicated Facility and to funding capital expenditures and working capital requirements.

### Cash Flows

The following table sets forth the Group's cash flow statement data for the six months ended 30 June 2010 and 2009 and the years ended 31 December 2009.

<u>Six months ended 30 June</u>	
<u>2010</u>	<u>2009</u>



	(unaudited) (US\$ millions)	
Net cash flow from operating activities.....	24.672	13.836
Net cash used in investing activities.....	(71.316)	(24.918)
Net cash provided by/(used in) financing activities.....	(16.586)	39.391
Cash and cash equivalents at the end of period.....	74.192	40.196

### ***Net cash flows from operating activities***

Net cash flows from operating activities were US\$24.7 million for the six months ended 30 June 2010 and US\$13.8 million for the six months ended 30 June 2009. Before changes in working capital, cash flow from operating activities for the six months ended 30 June 2010 increased by 870.3% as compared to the six months ended 30 June 2009. The increase in net cash flows from operating activities was primarily due to (i) a US\$58.6 million increase in profit before income tax to US\$35.8 million in the six months ended 30 June 2010 as compared to a US\$22.8 million net loss before income tax in the six months ended 30 June 2009 and (ii) a US\$15.4 million decrease in loss on the hedging contract to US\$0.1 million in the six months ended 30 June 2010 as compared to US\$15.4 million in the six months ended 30 June 2009. Part of the increase in net cash flows from operating activities was offset by: (i) a decrease in trade payables of US\$19.9 million in the six months ended 30 June 2010 as compared to an increase in trade payables of US\$10.5 million in the six months ended 30 June 2009 and (ii) a decrease in trade receivables of US\$9.7 million in the six months ended 30 June 2010 as compared to an increase in trade receivables of US\$6.6 million in the six months ended 30 June 2009.

### ***Net cash used in investing activities***

Net cash used in investing activities was US\$71.3 million in the six months ended 30 June 2010. The increase was due primarily to investment in the Gas Treatment Facility (US\$35.4 million), in the drilling of new wells (US\$32.3 million) and in the water injection programme (US\$3.3 million).

### ***Net cash provided by financing activities***

Net cash used in financing activities was US\$16.6 million in the six months ended 30 June 2010 compared to net cash provided from financing activities of US\$39.4 million in the six months ended 30 June 2009. This difference was primarily due to (i) an increase in interest paid from US\$7.9 million for the six months ended 30 June 2009 to US\$16.5 million for the six months ended 30 June 2010 and (ii) no hedging proceeds or gains realised in the six months ended 30 June 2010 compared to proceeds from the sale of hedging contracts of US\$48.2 million, and realized hedging gains of US\$5.4 million in the six months ended 30 June 2009.



## **RESPONSIBILITY STATEMENT**

To the best of our knowledge, and in accordance with the applicable reporting principles, the attached consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Douglas, September 2, 2010  
Zhaikmunai L.P.

Zhaikmunai Group Limited acting as the General Partner of Zhaikmunai L.P.

**Kai-Uwe Kessel**

CEO and Director

**Jan-Ru Muller**

Group CFO

**Zhaikmunai LP**

Interim Condensed Consolidated Financial Statements (Unaudited)

*For the six months ended June 30, 2010*

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## Report On Review Of Interim Condensed Consolidated Financial Statements

To the participants of Zhaikmunai LP:

We have reviewed the accompanying interim condensed consolidated statement of financial position of Zhaikmunai LP and its subsidiaries ("the Group") as at 30 June 2010 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes.

Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

*Ernst & Young LLP*

2 September 2010

**Interim Condensed Consolidated Statement of Financial Position***In thousands of US dollars*

	Note	June 30, 2010 (unaudited)	December 31, 2009 (audited)
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	3	864,952	770,953
Restricted cash		21,486	21,358
Advances for equipment and construction works		21,259	27,399
Derivative financial instrument	10	38	98
		<b>907,735</b>	<b>819,808</b>
<b>Current Assets</b>			
Inventories		7,447	3,477
Trade receivables		4,133	13,878
Prepayments and other current assets		18,009	22,663
Income tax prepayment		9,040	5,599
Cash and cash equivalents		74,192	137,375
		<b>112,821</b>	<b>182,992</b>
<b>TOTAL ASSETS</b>		<b>1,020,556</b>	<b>1,002,800</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Partnership Capital and Reserves</b>			
Partnership capital	12	366,942	366,942
Retained earnings and translation reserve		130,404	110,827
		<b>497,346</b>	<b>477,769</b>
<b>Non-Current Liabilities</b>			
Long term borrowings		359,817	356,348
Abandonment and site restoration liabilities		3,777	3,373
Due to Government of Kazakhstan		6,323	6,363
Employee share option plan		5,992	7,025
Deferred tax liability		87,959	76,659
		<b>463,868</b>	<b>449,768</b>
<b>Current Liabilities</b>			
Trade payables	9	51,219	66,381
Current portion of Due to Government of Kazakhstan		1,017	1,028
Other current liabilities		7,106	7,854
		<b>59,342</b>	<b>75,263</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,020,556</b>	<b>1,002,800</b>

*The accounting policies and explanatory notes on pages 5 through 13 are an integral part of these interim condensed consolidated financial statements*

Chief Executive Officer of Zhaikmunai Group Ltd.  
Acting as the General Partner of Zhaikmunai LP

*Kai Uwe Kessel*

Chief Financial Officer of Zhaikmunai Group Ltd.  
Acting as the General Partner of Zhaikmunai LP

*Jan-Ru Muller*

## Interim Condensed Consolidated Statement of Comprehensive Income

In thousands of US dollars

	Notes	Three months ended June 30,		Six months ended June 30,	
		2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
<b>Sales of crude oil:</b>					
Export sales		32,885	25,006	72,075	43,085
Domestic sales		1,153	1,357	2,579	1,595
		34,038	26,363	74,654	44,680
Cost of sales	5	(9,661)	(8,814)	(20,733)	(18,705)
<b>Gross profit</b>		<b>24,377</b>	<b>17,549</b>	<b>53,921</b>	<b>25,975</b>
General and administrative expenses	6	(7,901)	(10,747)	(13,671)	(14,184)
Selling and oil transportation expenses		(1,186)	(1,528)	(3,505)	(2,847)
Finance costs	7	(310)	(2,265)	(654)	(3,498)
Foreign exchange gain / (loss)		(304)	(10,940)	126	(12,624)
Gain / (loss) on derivative financial instrument	10	1,816	(6,126)	(60)	(15,433)
Interest income		43	–	58	–
Other expenses		(84)	(130)	(395)	(234)
<b>Profit / (loss) before Income Tax</b>		<b>16,451</b>	<b>(14,187)</b>	<b>35,820</b>	<b>(22,845)</b>
Income tax (expense) / benefit	8	(10,325)	19,995	(16,243)	2,744
<b>Total comprehensive income / (loss), net of tax</b>		<b>6,126</b>	<b>5,808</b>	<b>19,577</b>	<b>(20,101)</b>

The accounting policies and explanatory notes on pages 5 through 13 are an integral part of these interim condensed consolidated financial statements

Chief Executive Officer of Zhaikmunai Group Ltd.  
Acting as the General Partner of Zhaikmunai LP

Kai Uwe Kessel

Chief Financial Officer of Zhaikmunai Group Ltd.  
Acting as the General Partner of Zhaikmunai LP

Jan-Ru Muller

## Interim Condensed Consolidated Statement of Cash Flows

In thousands of US dollars

		Six months ended June 30	
	Notes	2010 (unaudited)	2009 (unaudited)
<b>Cash flow from operating activities:</b>			
Profit / (loss) before income tax		35,820	(22,845)
Adjustments for:			
Depreciation and amortization		8,248	7,162
Finance costs	7	654	3,498
Interest income		58	–
(Reversal) / accrual of share option expenses		(1,033)	1,267
Loss on hedging contract at fair value	10	60	15,433
<b>Operating profit before working capital changes</b>		<b>43,807</b>	<b>4,515</b>
Changes in working capital:			
(Increase) / decrease in inventories		(3,970)	269
Decrease / (increase) in trade receivables		9,745	(6,593)
(Increase) / decrease in prepayments and other current assets		(1,998)	5,947
(Decrease) / increase in trade payables		(19,855)	10,503
(Decrease) / increase in other current liabilities		(748)	477
Payment of obligation to Government of Kazakhstan		(530)	(258)
<b>Cash generated from operations</b>		<b>26,451</b>	<b>14,860</b>
Income tax paid		(1,779)	(1,024)
<b>Net cash flows from operating activities</b>		<b>24,672</b>	<b>13,836</b>
<b>Cash flow from investing activities:</b>			
Interest received		(58)	–
Purchases of property, plant and equipment	3	(71,258)	(24,918)
<b>Net cash used in investing activities</b>		<b>(71,316)</b>	<b>(24,918)</b>
<b>Cash flow from financing activities:</b>			
Proceeds from sale of derivative financial instrument	10	–	48,200
Purchase of derivative financial instrument		–	(7,700)
Interest paid		(16,458)	(8,526)
Realized hedging gain		–	5,417
Transfer (to) / from restricted cash		(128)	2,000
<b>Net cash (used in) / provided by financing activities</b>		<b>(16,586)</b>	<b>39,391</b>
Effects of exchange rate changes on cash and cash equivalents		47	–
Net increase in cash and cash equivalents		(63,230)	28,309
Cash and cash equivalents at the beginning of period		137,375	11,887
<b>Cash and cash equivalents at the end of period</b>		<b>74,192</b>	<b>40,196</b>

*The accounting policies and explanatory notes on pages 5 through 13 are an integral part of these interim condensed consolidated financial statements*

Chief Executive Officer of Zhaikmunai Group Ltd.  
Acting as the General Partner of Zhaikmunai LP

*Kai Uwe Kessel*

Chief Financial Officer of Zhaikmunai Group Ltd.  
Acting as the General Partner of Zhaikmunai LP

*Jan-Ru Muller*



**Interim Condensed Consolidated Statement of Changes in Equity***In thousands of US dollars*

	Partnership capital	Retained earnings	Translation reserve	Total
<b>As of January 1, 2009 (audited)</b>	92,072	126,296	3,299	221,667
Total comprehensive loss for the period (unaudited)	–	(20,101)	–	(20,101)
<b>As of June 30, 2009 (unaudited)</b>	92,072	106,195	3,299	201,566
<b>As of December 31, 2009 (audited)</b>	366,942	107,528	3,299	477,769
Total comprehensive income for the period (unaudited)	–	19,577	–	19,577
<b>As of June 30, 20010 (unaudited)</b>	366,942	127,105	3,299	497,346

*The accounting policies and explanatory notes on pages 5 through 13 are an integral part of these interim condensed consolidated financial statements*

Chief Executive Officer of Zhaikmunai Group Ltd.  
Acting as the General Partner of Zhaikmunai LP

*Kai Uwe Kessel*

Chief Financial Officer of Zhaikmunai Group Ltd.  
Acting as the General Partner of Zhaikmunai LP

*Jan-Ru Muller*

## Notes to the Interim Condensed Consolidated Financial Statements

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### 1. GENERAL

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

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

The Partnership was established in 1997 for the purpose of exploration and development of the Chinarevskoye oil and gas condensate field in the Western Kazakhstan Region. The Partnership carries out its activities in accordance with the Contract for Additional Exploration, Production and Production-Sharing of Crude Hydrocarbons in the Chinarevskoye oil and gas condensate field (the "Contract") dated October 31, 1997, as amended, in accordance with the license MG No. 253D (the "License") for the exploration and production of hydrocarbons in Chinarevskoye oil and gas condensate field between the State Committee of Investments of the Republic of Kazakhstan and the Partnership.

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

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

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

These interim condensed consolidated financial statements were authorized for issue by Kai-Uwe Kessel, Chief Executive Officer of the General Partner of Zhaikmunai LP and by Jan-Ru Muller, Chief Financial Officer of the General Partner of Zhaikmunai LP on September 2, 2010.

#### Licence terms

The term of the license of the Partnership originally included a 5 year exploration period and a 25 year production period. The exploration period was initially extended for additional 4 years and then for further 2 years according to the supplements to the Contract dated January 12, 2004 and June 23, 2005, respectively. In accordance with the supplement dated June 5, 2008, Tournaisian North reservoir entered into production period as at January 1, 2007. Following additional commercial discoveries during 2008, the exploration period under the license, other than for the Tournaisian horizons, was extended for an additional 3 year period with a new expiry on May 26, 2011.

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

### 2. BASIS OF PREPARATION

These interim condensed consolidated financial statements for the six months ended June 30, 2010 have been prepared in accordance with IAS 34 and on a historical cost basis, except for financial instruments, and should be read in conjunction with the Group's consolidated annual financial statements for the year ended December 31, 2009.

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

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### 2. BASIS OF PREPARATION (continued)

#### Significant accounting policies

The accounting policies applied in preparation of these interim condensed consolidated financial statements are consistent with those applied in preparation of the annual consolidated financial statements for the year ended December 31, 2009, except for the adoption of new standards and interpretations as of January 1, 2010, noted below:

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning January 1, 2010:

- IFRS 3R Business Combinations

The Group has adopted the revised standard. The adoption of the revised standard did not have a material impact on the financial position and performance of the Group.

- IAS 27 Consolidated and Separate Financial Statements – amendment

The Group has adopted the revised standard. The adoption of the revised standard did not have any impact on the financial position and performance of the Group.

The following new standards, amendments to standards and IFRIC are mandatory for the first time for the financial year beginning January 1, 2010, but are not currently relevant for the Group.

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters
- IFRS 2 Group Cash-settled Share-based Payment Transactions
- IAS 39 Eligible hedged items
- IFRIC 17 Distributions of Non-cash Assets to Owners

The Group has not early adopted any other standard, interpretation or amendment that were issued but are not yet effective.

#### Seasonality of operations

The Group's operating expenses are subject to seasonal fluctuations, with higher expenses for various field repair and maintenance services, in the latter part of the year. These fluctuations are mainly due to the fact that these services are usually performed in warmer months of the year.

### 3. PROPERTY, PLANT AND EQUIPMENT

During the six months ended June 30, 2010, the Group had net additions of property, plant and equipment of US\$ 102,247 thousand (Six months ended June 30, 2009: US\$ 138,029 thousand). These additions included capitalised interest of US\$ 20,790 thousand (Six months ended June 30, 2009: US\$ 9,269 thousand) and abandonment and site restoration assets of US\$ 229 thousand (Six months ended June 30, 2009: US\$ 1,851 thousand).

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

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### 4. BORROWINGS

#### Facility Agreement with BNP Paribas

On December 12, 2007 the Partnership entered into a US\$ 550 million senior secured facility agreement between BNP Paribas (Suisse) S.A. ("BNP Paribas Facility"), as a facility agent, and the Partnership, as a borrower, and Zhaikmunai LP as a guarantor. Initially, the BNP Paribas Facility comprised three tranches of US\$ 200 million, US\$ 200 million and US\$ 150 million.

On August 27, 2009, an amendment agreement was concluded to reduce the size of the syndicated facility to US\$382 million and increasing the rate of interest (over LIBOR and mandatory costs) to 7% from 3%, 4% and 5% for tranches one, two and three, respectively. The amendment was treated as a non-substantial change to the existing Facility and the related amendment arrangement fees of US\$14,480 thousand were added to the initial Facility arrangement fees.

The total outstanding principal balance of the liability under the loan facility as at June 30, 2010 is US\$ 381,677 thousand which is presented net of the amount of the facility arrangement fees of US\$ 21,860 thousand (December 31, 2009: US\$ 381,677 thousand and US\$ 25,329 thousand, respectively). The outstanding balance is repayable commencing September 30, 2011 in semi-annual instalments with the final payment being made on March 31, 2014. This is subject to further adjustment to reflect any changes to the borrowing base amount. In addition, the BNP Paribas Facility is mandatorily prepayable to the extent of the proceeds of any material disposals, and a cash sweep of 50% of debt or new equity issuance and 50% of the balance (in excess of US\$ 25 million in aggregate) of the Partnership's account held with a member of the syndicate (the Collection Account) and the Partnership's account held with a member of the syndicate into which the proceeds of the equity issue (Note 1) were paid. The Partnership is also entitled to voluntarily prepay the amounts outstanding. The Partnership is required to give customary representations and warranties, repeated periodically and maintain certain financial covenants relating to profitability. Further, all export sale proceeds are paid into the Collection Account, and withdrawals from such account may only be made in accordance with the agreed banking case.

In accordance with the BNP Paribas Facility, the Partnership maintains a hedging programme under which it hedges a fixed volume of production at Brent crude oil price of US\$ 60 per bbl until December 31, 2010 (Note 10). The Partnership is additionally required to maintain and fund a debt service reserve account with a balance equal to at least 5% of the amount outstanding under the BNP Paribas Facility. From completion of the gas treatment unit, 100% of gas production and no less than 50% of projected LPG production are also required to be covered by off-take contracts. The Partnership's obligations under the BNP Paribas Facility are secured by various forms of security, including, (i) a pledge over 100% of the participatory interests in the Partnership; (ii) pledges over its bank accounts; (iii) the assignment of rights under the off-take contracts; (iv) assignment of all guarantees or performance bonds issued in connection with the contract with KSS for the gas treatment facility; (v) assignment of the benefit of the Partnership's relevant existing and future insurance policies; (vi) pledges over all of its property, plant and equipment; and (vii) pledges over all of the issued capital of FVDS, Claydon and Jubilata.

The total Partnership's debt service reserve account, classified as restricted cash under the terms of the BNP Paribas Facility amounted to US\$ 19,078 thousand as at June 30, 2010 and 2009.

Further, all export sale proceeds are paid into the Partnership's account held with a member of the syndicate, and withdrawals from such account may be made in accordance with the Partnership's approved cashflow plan.

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

### 5. COST OF SALES

<i>In thousands of US dollars</i>	Three months ended June 30,		Six months ended June 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
Depreciation and amortization	3,897	3,108	7,978	7,362
Royalties	1,794	1,241	3,260	2,303
Payroll and related taxes	1,456	974	3,000	2,275
Repair, maintenance and other services	1,189	851	2,855	2,318
Other transportation services	1,687	310	2,055	735
Well workover costs	1,059	—	1,059	—
Materials and supplies	765	398	1,442	855
Management fees	498	716	988	992
Environmental levies	254	223	501	544
Government profit share	386	264	765	442
Change in oil stock	(3,514)	650	(3,599)	428
Other	190	79	429	451
	<b>9,661</b>	<b>8,814</b>	<b>20,733</b>	<b>18,705</b>

### 6. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of US dollars</i>	Three months ended June 30,		Six months ended June 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
Management fees	2,956	3,084	4,721	4,081
Professional services	2,938	4,643	3,588	5,227
Equity option plan	(1,612)	1,379	(1,033)	1,267
Payroll and related taxes	1,361	657	2,196	1,339
Training	583	462	1,170	1,065
Business trip	479	9	542	70
Insurance fees	238	80	404	165
Other taxes	—	—	318	—
Communication	142	92	257	195
Bank charges	105	91	248	158
Lease payments	92	63	163	128
Sponsorship	119	55	182	78
Social program	75	65	150	130
Materials and supplies	34	31	64	53
Other	391	36	701	228
	<b>7,901</b>	<b>10,747</b>	<b>13,671</b>	<b>14,184</b>

### 7. FINANCE COSTS

<i>In thousands of US dollars</i>	Three months ended June 30,		Six months ended June 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
Interest expense on borrowings	—	2,072	—	3,036
Unwinding of discount on Due to Government	97	4	175	247
Unwinding of discount on Abandonment and Site Restoration Liability	213	189	479	215
	<b>310</b>	<b>2,265</b>	<b>654</b>	<b>3,498</b>

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

### 8. INCOME TAX

The income tax expense / (benefit) consisted of the following:

<i>In thousands of US dollars</i>	Three months ended June 30,		Six months ended June 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
Income tax expenses comprise:				
- current income tax expense	1,998	(71)	4,943	8,882
- deferred income tax expense / (benefit)	8,327	(19,924)	11,300	(11,626)
<b>Total income tax expense / (benefit)</b>	<b>10,325</b>	<b>(19,925)</b>	<b>16,243</b>	<b>(2,744)</b>

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

<i>In thousands of US Dollar</i>	Three months ended June 30,		Six months ended June 30,	
	2010 (unaudited)	2009 (unaudited)	2010	2009
Profit / (loss) before income tax	16,451	(14,187)	35,820	(22,845)
Statutory tax rate	30%	30%	30%	30%
<b>Expected tax provision</b>	<b>4,935</b>	<b>(4,257)</b>	<b>10,746</b>	<b>(6,854)</b>
Non-deductible interest expense on borrowings	3,464	773	6,330	2,246
Income taxed at different rate	946	393	946	(4,050)
Foreign exchange loss	209	3,282	116	3,787
Adjustments in respect of current income tax of previous year	(2,035)	-	(2,035)	-
Change of the tax base	1,925	(21,934)	(903)	-
Difference arising on Abandonment and Site Restoration liability and payables Due to Government	325	325	325	325
Other non-deductible expenses	556	1,423	718	1,802
Income tax expense / (benefit) reported in the interim condensed consolidated statement of comprehensive income	10,325	(19,995)	16,243	(2,744)

Deferred tax balances are calculated by applying the Kazakhstani 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 June 30, 2010 and December 31, 2009:

<i>In thousands of US Dollar</i>	June 30, 2010 (unaudited)	December 31, 2009 (audited)
<b>Deferred tax asset:</b>		
Accounts payable and provisions	1,601	1,567
	1,601	1,567
<b>Deferred tax liability:</b>		
Crude oil inventory	-	(448)
Property, plant and equipment	(89,560)	(77,778)
<b>Net deferred tax liability</b>	<b>(87,959)</b>	<b>(76,659)</b>

As at June 30, 2010 and 2009 the movements in the deferred tax liability were as follows:

<i>In thousands of US Dollar</i>	June 30, 2010 (unaudited)	June 30, 2009 (unaudited)
Balance at January 1,	(76,659)	(56,940)
Current year (charge) / benefit to statement of comprehensive income	(11,300)	11,626
Balance at June 30, 2010 and 2009	(87,959)	(45,314)

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

### 9. TRADE PAYABLES

<i>In thousands of US Dollars</i>	June 30, 2010 (unaudited)	December 31, 2009 (audited)
Tenge denominated trade payables	9,703	8,556
US dollar denominated trade payables	39,132	52,930
Trade payables denominated in other currencies	2,384	4,895
	<b>51,219</b>	<b>66,381</b>

### 10. DERIVATIVE FINANCIAL INSTRUMENT

Pursuant to the terms of the BNP Paribas facility (Note 4) in 2008 the Partnership entered, at nil cost, into a hedging contract covering oil export sales commencing March 2008 through till December 2013 which was sold before expiration on March 31, 2009 and entered into a new hedging contract at cost of US\$ 7,700 thousand covering oil export sales of 967,058 bbl and 596,766 bbl in 2009 and 2010, respectively. The floor price for Brent crude oil under this hedging contract was fixed at price of US\$ 50 per bbl. The contract expired on June 30, 2010.

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

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

<i>In thousands of US Dollar</i>	2010 (unaudited)	2009 (unaudited)
Hedging contract fair value at January 1	98	62,923
Proceeds from sale of hedging contract	-	(48,200)
Realized hedging gain	-	(5,416)
Unrealized hedging (gain) / loss	(38)	6,127
<b>Loss on hedging contract</b>	<b>60</b>	<b>15,433</b>
Purchase of hedging contract	-	7,700
Unrealized hedging gain / (loss)	38	(6,127)
<b>Hedging contract at fair value at June 30</b>	<b>38</b>	<b>1,573</b>

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

### 11. RELATED PARTY TRANSACTIONS

For the purpose of these interim condensed consolidated financial statements related parties transactions include mainly balances and transactions between the Group 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 periods follow.

<i>In thousands of US dollars</i>	June 30, 2010 (unaudited)	December 31, 2009 (audited)
<b>Trade payables</b>		
Probel Capital Management B.V.	–	394
Amersham Oil LLP	82	498
Prolag BVBA	37	129
<b>Total</b>	<b>119</b>	<b>1,021</b>

<i>In thousands of US dollars</i>	Six months ended June 30,	
	2010 (unaudited)	2009 (unaudited)
<b>Cost of sales</b>		
Probel Capital Management B.V.	5,493	4,349
Prolag BVBA	1,018	1,180
Amersham Oil LLP	639	555
<b>Total</b>	<b>7,149</b>	<b>6,084</b>

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

### 12. PARTNERSHIP CAPITAL

The ownership interests in Zhaikmunai LP consist of (a) Common Units, which represent a fractional entitlement in respect of all of the Limited Partner interests in Zhaikmunai LP and (b) the interest of the General Partner. At any general meeting every holder of Common Units shall have one vote for each Common Unit of which he or she is the holder. Under the Partnership Agreement, distributions to Limited Partners will be made either as determined by the General Partner in its sole discretion or following the approval of a majority of Limited Partners provided such amount does not exceed the amount recommended by the General Partner. Any distributions to Zhaikmunai LP's limited partners will be made on a pro rata basis according to their respective partnership interests in Zhaikmunai LP and will be paid only to the recorded holders of Common Units. There were no distributions declared for the periods ended June 30 2010 and 2009.

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

As at June 30, 2010 and 2009, Zhaikmunai LP had 115,000,000 and 40,000,000 of GDR's issued, respectively. No new GDR's were issued during the six month periods ended June 30, 2010.



## Notes to the Interim Condensed Consolidated Financial Statements (continued)

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### 13. CONTINGENT LIABILITIES AND COMMITMENTS

#### Operating environment

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

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

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

#### Legal actions

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 consolidated financial statements only where it is probable that actual events giving rise to a liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these condensed interim consolidated financial statements 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 June 30, 2010. As at June 30, 2010 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.

#### Abandonment and site restoration (decommissioning)

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

#### Environmental obligations

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

## Notes to the Interim Condensed Consolidated Financial Statements (continued)

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### 13. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

#### Capital commitments

As at June 30, 2010 the Partnership had contractual capital commitments in amount of US\$ 25,761 thousand.

#### Operating leases

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

#### Social and education commitments.

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