Zhaikmunai L.P.
(the "Company")

Zhaikmunai LP – EBITDA FIRST NINE MONTHS UP TO US$ 71.24 MM (+86.3 % YoY)

London – 16 December 2010 - Zhaikmunai LP (LSE: ZKM) ("Zhaikmunai"), the oil and gas exploration and production business based in northwestern Kazakhstan, today announces its full financial results for the three and nine months ended 30 September 2010.

THIRD QUARTER SUMMARY

All figures in US$ millions unless otherwise stated

	Q3 2010	Q3 2009	Change YoY
Revenues from oil sales	53.126	32.750	+62.2%
EBITDA	26.027	20.377	+27.7%
Net income	10.636	(357)	
Production (bopd)	8,972	6,979	+28.6%
Debt	381.677	381.677	Unch.
Average Realised oil price (US$ per bbl)	78.64	71.67	+9.7%
Discount (US$ per bbl)	12.24	14.91	-17.9%
Weighted average netback (US$ per bbl)	66.40	56.76	+17.0%

NINE MONTHS ENDED 30 SEPTEMBER 2010 SUMMARY

All figures in US$ millions unless otherwise stated

	9M 2010	9M 2009	Change YoY
Revenues from oil sales	127.780	77.430	+65.0%
EBITDA	71.238	38.234	+86.3%
Net income	30.213	(20.458)	
Production (bopd)	7,683	7,239	+6.1%
Debt	381.677	381.677	Unch.
Average Realised oil price (US$ per bbl)	78.33	57.42	+36.4%
Discount (US$ per bbl)	13.44	15.29	-12.1%
Weighted average netback (US$ per bbl)	64.89	42.11	+54.1%

FINANCIAL HIGHLIGHTS

Revenue

The company has realized higher netback prices as the Brent price recovered to a level above US$ 80 per barrel late in the third quarter. Zhaikmunai was also able to reduce its discount thanks to better rail tariffs and further diversification in its customer base. In July 2010, Zhaikmunai made 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 and sold loaded on a tanker on a Free on Board (FOB-sale) basis.

Cost of Sales

Cost of sales increased by US$6.9 million, or 21.83%, to US$38.2 million in the nine months ended 30 September 2010 from US$31.4 million in the nine months ended 30 September 2009, due primarily to an increase in depreciation, royalties and government profit share.

Cash

Zhaikmunai ended the third quarter of 2010 with US$ 80.88 million of cash and cash equivalents, of which US$ 21.601 million was restricted cash. As a result of the refinancing of its senior debt through the issuance of a bond in October 2010, there is no longer any obligation for Zhaikmunai to retain any of its cash in a restricted cash account.

OPERATIONAL HIGHLIGHTS

	Q3 2010	Q3 2009	Change YoY
Average daily oil production (bopd)	8,972	6,979	+28.6%
Weighted Average Netback for crude oil sales	US$66.40/bbl	US$56.76/bbl	+17.0%

	9M 2010	9M 2009	Change YoY
Average daily oil production (bopd)	7,683	7,239	+6.1%
Weighted Average Netback for crude oil sales	US$64.89/bbl	US$42.11/bbl	+54.1%

The increase in production during the first nine months of 2010 (compared to the first nine months of 2009) was driven primarily by the surge in test production experienced during Q3 2010 in conjunction with the completion of new gas-condensate production wells in that period.

As a result, production jumped in the third quarter to a daily rate of 8,972 bbl. This compares with a daily production of 6,979 bbl during the same period last year; an increase of 28.6%.

As at 30 September 2010, inventory comprised 4.4% of the Group's current assets compared to 1.9% as at 30 September 2009.

GAS TREATMENT FACILITY

The commencement of liquid and gas production from Zhaikmunai's Gas Treatment Facility is imminent. Following the achievement of Mechanical Completion on September 30th 2010, Zhaikmunai and its contractors KSS and Exterran have been commissioning the Gas Treatment Facility during the months of October and November. Black Start (the process whereby reverse gas from the gas pipeline is brought into the system) has taken place and the Gas Treatment Facility has been powered up, as part of a comprehensive ongoing commissioning and testing schedule. An extensive fire safety testing program is also currently under way. The State Acceptance Committee review (the process whereby the Kazakh authorities conduct a final technical and safety inspection) is currently ongoing.

The Gas Treatment Facility will enable Zhaikmunai to process associated gas and gas condensate up to 48,000 boe per day from its current levels of 7.400 boe per day. The Gas Treatment Facility consists of two Gas Treatment Units each with a capacity of 850 mmcm per year. Zhaikmunai's management expects to bring the first unit ("Train 1") on stream before year-end and the second unit ("Train 2") shortly thereafter.

POST 9 MONTHS UPDATE

- On 30 September 2010 Zhaikmunai achieved mechanical completion of its Gas Treatment Facility.

- On 14 October 2010 Zhaikmunai placed a US$ 450 million bond due 2015.

- On 15 November 2010 Zhaikmunai announced the successful test of new well 115.

Kai-Uwe Kessel, Chief Executive Officer, commented:

"Zhaikmunai realized operational growth and further improvement in margins and financial performance during the third quarter of the year. We ended the quarter with the mechanical completion of our Gas Treatment Facility and this will bring further growth in 2011.

During the first months of the fourth quarter, market conditions have continued to be favourable. The Brent crude oil price remained firm but did not reach the upper level of the price in our hedging contract, that is set at US$ 89.25. The hedging contract will end on December 31st.

The refinancing of the company's senior debt in October 2010 has put Zhaikmunai in a stronger financial position. Looking ahead we plan for accelerated production growth in coming years with the objective to reach a daily production of 120,000 boe in 2016. With a strong focus on financial and operational efficiency we intend to drill 6 new production wells in 2011 to reach this long-term target."

For further information please visit www.zhaikmunai.com.

CONFERENCE CALL

Zhaikmunai's management team will give a presentation, followed by a Q&A session for analysts and investors on Thursday 16 December 2010 at 2 pm GDT (=UK time).

If you would like to participate in this call, please register by e-mail: investor_relations@zhaikmunai.com. After registration you will receive dial-in details.

Further enquiries

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

MANAGEMENT'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 nine months ended 30 September 2010, the audited consolidated financial statements as at and for the years ended 31 December 2009 and 2008 and the 2007 Combined Financial Statements, including the accompanying notes, included elsewhere in this Offering Memorandum. The consolidated financial statements and the accompanying notes have been prepared in accordance with IFRS.

Some of the information in the discussion and analysis set forth below and elsewhere in this Offering Memorandum includes forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements" and "Risk Factors" for a discussion of important factors that could cause actual results to differ materially from the results described in the forward-looking statements contained in this Offering Memorandum.

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 (see "*—Primary Factors Affecting Results of Operations*").

As at the date of this Offering Memorandum, the Group has borrowings of US$382 million under the Syndicated Facility, which will be repaid in full with the proceeds from this offering. These funds have been used to repay previous financing, which was primarily used for drilling operations and the Group's capital investment programme, including the construction of its crude oil pipeline, rail loading terminal and the Gas Treatment Facility (see "*—Liquidity and Capital Resources—Capital Expenditures*" and "*Business—Capital Investments*"). As a result of lower than anticipated EBITDA at 31 December 2008, the Group was in breach of the Syndicated Facility covenants relating to its EBITDA to interest expense and total indebtedness to EBITDA ratios and such breaches were subsequently waived under an amendment agreement to the Syndicated Facility. See "*Description of Other Indebtedness and Certain Financial Arrangements—Syndicated Facility*".

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 nine months ended 30 September 2010 and 2009 and the years ended 31 December 2009, 2008 and 2007:

	Years ended 31 December			Nine months ended 30 Sept	
	2009	2008	2007	2010	2009
		(US$ millions)		(US$ millions)	
Sales of crude oil	116.033	135.912	108.490	127.780	77.430
Cost of sales	(44.035)	(44.610)	(37.401)	(38.249)	(31.395)
Gross profit	71.998	91.302	71.089	89.531	46.035
Profit before income tax	8.840	98.666(1)	51.980	56.257	(158)
Net income/(loss)	(18.768)	63.478	36.330	30.213	(20.458)

(1) Profit before income tax in 2008 includes a significant hedging gain of US$64.8 million.

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 (see "*Business—Strengths*"), the discount to the market price of Brent crude oil is smaller. However, Zhaikmunai began to sell its crude oil on the basis of DAF (delivery at frontier) Solovey/Topoli terms at the end of H1 2010 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 nine months ended 30 September 2010 and 2009 and the years ended 31 December 2009, 2008 and 2007:

	Years ended 31 December			Nine months ended 30 Sept	
	2009	2008	2007	2010	2009
		(US$/bbl)		(US$/bbl)	
Average Brent crude oil price on which Zhaikmunai based its sales (US$/bbl)	62.02	98.11	72.43	78.33	57.42

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 before falling to US$71 per barrel in August 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 expired 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). See "*—Summary of Critical Accounting Policies—Derivative Financial Instruments and Hedging*" and "*Description of Other Indebtedness and Certain Financial Arrangements—Hedging Contracts*". These hedging contracts may be novated or terminated upon repayment of the Syndicated Facility and if such contracts are novated or terminated, Zhaikmunai will have to pay certain unwinding/termination costs or similar amounts under such contracts.

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 (see "*Business—Sales and Marketing*" for a description of these sales and 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. In 2007 and 2008 transportation costs rose as rail tariffs increased with increases in the commodity price of crude oil and rail car leasing rates. The Group's sales contract stipulates that any increase in rail tariffs is borne by the Group. 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. These contracts require increased upfront costs from Zhaikmunai given the company's responsibilities to deliver the shipments to a farther point of sale. Increased costs arise in the form of rail car leases, insurance, etc. The costs will be negated by the higher netback realized from these sales.

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 nine months ended 30 September 2010 was US$13.44 per barrel, compared to US$15.29 per barrel for the nine months ended 30 September 2009, and for the year 2009 was US$15.21 per barrel, compared to US$15.58 per barrel for the year 2008 and US$13.72 per barrel for the year 2007. The decrease in discount for the nine months ended 30 September 2010 compared to the nine months ended 30 September 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 decrease in discount from 2008 to 2009 was a result of lower transportation costs due to decreased rail tariffs and a decrease in rail car lease rates. The increase in discount from 2007 to 2008 was the result of higher transportation costs due to increased rail tariffs and increased rail car lease rates.

The table below sets out Zhaikmunai's average Netback for crude oil sales for the nine months ended 30 September 2010 and 2009 and the years ended 31 December 2009, 2008 and 2007.

	Years ended 31 December			Nine months ended 30 Sept	
	2009	2008	2007	2010	2009
		(US$/bbl)		(US$/bbl)	
Average Netback for crude oil sales	46.81	82.53	58.71	64.89	42.13

Crude oil production

All crude oil produced by Zhaikmunai is sold. As at 30 September 2010, inventory comprised 4.4% of the Group's current assets compared to 1.9% as at 30 September 2009. As at 31 December 2009, inventory comprised less than 0.2% of the Group's current assets compared to 5.0% as at 31 December 2008 and 0.6% as at 31 December 2007. Consequently, the volume of crude oil produced by the Group directly affects its revenues. The table below illustrates Zhaikmunai's production for the nine months ended 30 September 2010 and 2009 and the years ended 31 December 2009, 2008 and 2007.

	Years ended 31 December			Nine months ended 30 Sept	
	2009	2008	2007	2010	2009
Total crude oil production (bbl)	2,697,980	1,749,066	1,719,153	2,097,371	1,969,026
Average crude oil production (bpd)	7,442	5,095	5,063	7,683	7,239
Increase (decrease) in production from previous period (bpd)	2,347	32	2,163	704	—
Increase (decrease) in production from previous period (%)	46.1	0.6	74	10.1	—

Zhaikmunai's production growth in 2007, 2008 and 2009 has been primarily driven by its growing drilling programme. The increase in production during the first nine months of 2010 (compared to the first nine months of 2009) was driven primarily by the surge in test production experienced during Q3 2010 in conjunction with the completion of delayed work over in that period. 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 34.3% and 40.2% for the nine months ended 30 September 2010 and 2009, respectively, and 36.8%, 17.7% and 16.4% for the years ended 31 December 2009, 2008 and 2007, 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 (see "—*Summary of Critical Accounting Policies*" below for an explanation of this accounting policy). 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 9.0% and 0.0% for the nine months ended 30 September 2010 and 2009, respectively, and 0.3%, 14.2% and 19.0% for the years ended 31 December 2009, 2008 and 2007, respectively. The increase in well workover costs as a percentage of cost of sales in the first nine months of 2010 compared to the first nine 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 (1.4%) and 0.0% for the nine months ended 30 September 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 nine months ended 30 September 2010 compared to the nine months ended 30 September 2009, and by 61.0% during 2009 compared to 2008 due to reduction of flared gas volumes, and increased by 201.4% during 2008 compared to 2007, due to higher levies charged by the Government relating to an increase of flared gas volumes, as well as management costs (which have been paid pursuant to management services agreements with related parties (see "*Related Parties and Related Party Transactions*")), labour costs and rent and operation of oil separation units costs. 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. Rent and operation of oil separation units costs have significantly dropped in 2009 due to the release of the oil separation units following completion of the oil treatment unit and management does not expect those costs to increase in the near future.

Finance costs

Finance costs in the nine months ended 30 September 2010 and 2009 and in the years ended 31 December 2009 and 2008 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 (in 2008 and 2009).

Interest expense consisted of interest on Zhaikmunai's Syndicated Facility. In December 2007, the Group entered into the Syndicated Facility under which its previous fixed rate borrowings were refinanced. The amounts available under the Syndicated Facility were drawn down starting from March 2008. As a result of lower than anticipated EBITDA at 31 December 2008, the Group was in breach of the Syndicated Facility covenants relating to its EBITDA to interest expense and total indebtedness to EBITDA ratios and such breaches were subsequently waived under an amendment agreement to the Syndicated Facility. See "*Description of Other Indebtedness and Certain Financial Arrangements—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.Zhaikmunai incurred no interest expenses for the nine months ended 30 September 2010 compared to US$5.4 million in the same period in 2009. The interest charges in 2010 were all capitalized as these expenses during 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$ 20 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. See "*Business—Licences and Contracts*" for a description of these amounts. 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 nine months ended 30 September 2010, 15.3% and 3.3%, respectively compared to 12.0% and 2.4%, respectively, for the nine months ended 30 September 2009, for the year ended 31 December 2009, 13.0% and 2.5%, respectively, for the year ended 31 December 2008, 12.8% and 2.5%, respectively and for the year ended 31 December 2007, 14.1% and 2.7%, respectively.

Summary of Critical Accounting Policies

The Group's significant accounting policies are more fully described in note 3 to the audited consolidated financial statements for 2009, 2008 and the 2007 Combined Financial Statements, and note 2 to the unaudited condensed consolidated financial statements for the nine months ended 30 September 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 nine months ended 30 September 2010, the audited consolidated financial statements as at and for the years ended 31 December 2009 and 2008 and the 2007 Combined Financial Statements included in this Offering Memorandum 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 (see "*—Government profit share*" below). 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. See "*Business—Subsoil Licences and Contracts—State Share*".

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 (see "*Primary Factors Affecting Results of Operations—Royalties, Government Share and Taxes payable pursuant to the PSA*"); (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 (see "*Related Parties and Related Party Transactions—Services Agreements*") and (x) Government profit share, (see "*—Primary Factors Affecting Results of Operations—Royalties, Government Share and Taxes payable pursuant to the PSA*").

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 nine months ended 30 September 2010 and 2009

The table below sets forth the line items of the Group's income statement for the periods ended 30 September 2010 and 2009 in US Dollars and as a percentage of sales of crude oil.

	Nine months ended 30 Sept 2010	% of sales of crude oil	Nine months ended 30 Sept 2009	% of sales of crude oil
	(US$ millions)		(US$ millions)	
Sales of crude oil	127.780	100.0	77.430	100.0
Cost of sales	(38.249)	(29.9)	(31.395)	(40.5)
Gross Profit	**89.531**	70.1	**46.035**	59.5
General and administrative expenses	(22.167)	(17.3)	(18.102)	(23.4)
Selling and oil transportation expenses	(9.182)	(7.2)	(4.020)	(5.2)
Gain/(loss) on financial instrument	(387)	(0.3)	(15.872)	(20.5)
Interest income	62	0.0	7	0.0
Finance costs	(983)	(0.8)	(6.510)	(8.4)
Foreign exchange (loss)/gain	(365)	(0.3)	(2.135)	(2.8)
Other (expenses)/income	(252)	(0.2)	439	0.6
Profit/(loss) before income tax	**56.257**	44.0	**(-158)**	(0.2)
Income tax expense	(26.044)	(20.4)	(20.300)	(26.2)
Net Loss/Income	**30.213**	23.6	**(20.458)**	(26.4)

Sales of crude oil increased by US$50.4 million, or 65.0%, to US$127.8 million in the nine months ended 30 September 2010 from US$77.4 million in the nine months ended 30 September 2009 due primarily to a 55.5% increase in average crude oil Netback prices in the nine months ended 30 September 2010 because of an increase in the average Brent crude oil price of 35.7% and a decrease in the weighted average transportation discount of 18.62% compared to the nine months ended 30 September 2009.

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

	Nine months ended 30 September	
	2010	2009
Sales of crude oil (US$ millions)	127.780	77.430
Sales volumes (gross of Cost Oil) (bbl)	2,219,473	1,753,586

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 September 2010 and 2009.

	Nine months ended 30 September	
	2010	2009
Average Brent crude oil price on which Zhaikmunai based its sales (US$/bbl)	77.96	57.42

Average discount to Brent (US$/bbl)........	13.47	15.29
Average Netback (US$/bbl)........	65.50	42.11

Cost of sales increased by US$6.9 million, or 21.83%, to US$38.2 million in the nine months ended 30 September 2010 from US$31.4 million in the nine months ended 30 September 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$2.1 million, or 54.6%, to US$5.9 million in the nine months ended 30 September 2010 from US$3.8 million in the nine months ended 30 September 2009 due to an increase in Brent crude prices. Costs for government profit share also increased by US$0.5 million, or 65.2%, to US$1.2 million in the nine months ended 30 September 2010 from US$0.8 million in the nine months ended 30 September 2009 due to the release of the oil separation units following completion of the first phase of the oil treatment unit during the nine months ended 30 September 2009. Well workover costs accounted for US$3.5 million in the first nine months of 2010 while these were not incurred in 2009 given delays in workover activities. On a per barrel basis, primarily due to costs calculated based on Brent crude prices, cost of sales declined by US$0.67, or 3.7%, to US$17.23 in the nine months ended 30 September 2010 from US$17.90 in the nine months ended 30 September 2009 and cost of sales net of depreciation costs increased by US$0.50, or 4.6%, to US$11.51 in the nine months ended 30 September 2010 from US$11.00 in the nine months ended 30 September 2009.

General and administrative expenses increased by US$4.1 million, or 22.5%, to US$22.2 million in the nine months ended 30 September 2010 from US$18.1 million in the nine months ended 30 September 2009 due primarily to the increase in fees and business trip expenses partially offset by the adjustment of the equity option plan. Professional fees increased by 28.2% from US$3.8 million in the nine months ended 30 September 2009 to US$4.9M in the nine months ended 30 Sepetember 2010. Management fees increased by US$1.1 million to US$6.7 million in the nine months ended 30 September 2010 from US$5.6 million in the nine months ended 30 September 2009 driven by the increase in headcount to additional management personnel hired during the year.

Selling and oil transportation expenses increased by US$5.2 million, or 128.4%, to US$9.2 million in the nine months ended 30 September 2010 from US$4.0 million in the nine months ended 30 September 2009 due, primarily, to the increased volumes in the period and 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$5.5 million, or 84.9%, to US$01.0 million in the nine months ended 30 September 2010 from US$6.5 million in the nine months ended 30 September 2009 mainly due to the fact that a greater portion of overall interest expense was capitalised in the later period (US$24.6 million in the first nine months ended 30

September 2010 compared to US$11.9 million in the nine months ended 30 September 2009). Cash interest expense on the Syndicated Facility actually increased by US$7.4 million to US$24.6 million in the nine months ended 30 September 2010 from US$17.2 million in the nine months ended 30 September 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 nine months ended 30 September 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 3.44% during in the nine months ended 30 September 2009 on the outstanding balance of US$381.7 million. Although the interest expense on the Syndicated Facility increased by US$7.4 million during the nine months ended 30 September 2010, finance costs decreased by US$5.5 million during the same period due to the fact that all interest expenses during the nine months ended 30 September 2010 were capitalised and therefore, not included in finance costs.

Loss on derivative financial instruments amounted to US$0.39 million compared to a loss of US$15.87 million in the nine months ended 30 September 2009. The loss of US$0.39 million consisted of the fair value of the hedging contract as at 30 September 2010 (in a positive amount of US$0.59 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 loss amounted to US$0.4 million compared to a loss of US$2.1 million in the nine months ended 30 September 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$56.3 million in the nine months ended 30 September 2010 compared to a loss of US$.2 million in the nine months ended 30 September 2009 due primarily to higher Brent crude oil prices.

Income tax expense increased by US$5.7 million, to US$26.0 million in the nine months ended 30 September 2010 from an expense of US$20.3 million in the nine months ended 30 September 2009 due to the difference in income due to higher oil prices.

Net income amounted to US$30.2 million in the nine months ended 30 September 2010 from a net loss of US$20.5 million in the nine months ended 30 September 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 prior to the offering and under the

Notes following the offering) 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 nine months ended 30 September 2010 and 2009 and the years ended 31 December 2009, 2008 and 2007.

	Year ended 31 December			Nine months ended 30 September	
	2009	2008	2007	2010	2009
				(unaudited)	
			(US$ millions)		
Net cash flow from operating activities	45.934	44.223	48.233	61.408	50.044
Net cash used in investing activities	(200.673)	(195.196)	(173.105)	(114.625)	(152.287)
Net cash provided by/(used in) financing activities	279.418	155.627	129.166	(24.877)	303.544
Cash and cash equivalents at the end of period	137.375	11.887	7.360	59.281	214.428

Net cash flows from operating activities

Net cash flows from operating activities were US$61.4 million for the nine months ended 30 September 2010 and US$50.0 million for the nine months ended 30 September 2009. Before changes in working capital, cash flow from operating activities for the nine months ended 30 September 2010 increased by 96.3% as compared to the nine months ended 30 September 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$56.3 million in the nine months ended 30 September 2010 as compared to a US$0.2 million net loss before income tax in the nine months ended 30 September, and (ii) an increase in trade receivables of US$2.3 million in the nine months ended 30 September 2010 as compared to an increase in trade receivables of US$5.9 million in the nine months ended 30 September 2009. Part of the increase in net cash flows from operating activities was offset by: (i) a decrease in trade payables of US$1.1 million in the nine months ended 30 September 2010 as compared to an increase in trade payables of US$17.9 million in the nine months ended 30 September 2009 and (ii) an increase in other current liabilities of US$0.2 million in the nine months ended 30 September 2010 as compared to an increase in other current liabilities of US$2.0 million in the nine months ended 30 September 2009.

Net cash flows from operating activities were US$45.9 million for the year ended 31 December 2009 and US$44.2 million for the year ended 31 December 2008. Before changes in working capital, cash flow from operating activities for the year ended 31 December 2009 remained relatively constant as compared to the year ended 31 December 2008. The decrease of US$89.8 million in profit before income tax for the year ended 31 December 2009 was offset by (i) an increase in depreciation and amortisation of US$8.6 million, (ii) a decrease in finance costs of US$5.4 million, (iii) an increase in accrual of share option expenses of US$6.0 million relating to changes in the employee stock option plan, and (iv) a change in hedging gain/(loss) of US$81.7 million. Changes in working capital for the year ended 31 December 2009 were primarily a result of (i) increases in trade receivables of US$12.8 million and in trade payables of US$3.7 million, (ii) decreases in prepayments for "long lead" contracts requiring advance payments for drilling materials and supplies, (iii) payments made to the Government of Kazakhstan under the PSA and (iv) decrease in prepayments made to service providers of US$5.4 million.

Net cash flows from operating activities were US$44.2 million for the year ended 31 December 2008 and US$48.2 million for the year ended 31 December 2007. Before changes in working capital, for the year ended 31 December 2008, cash flow from operating activities increased principally due to an increase in profit before income tax. This was adjusted with an unrealised gain of US$64.8 million made by the Group pursuant to a hedging contract entered into by Zhaikmunai which came into effect during March 2008 (see "*—Summary of Critical Accounting Practices—Derivative Financial Instruments and Hedging*"). Changes in working capital for the year ended 31 December 2008 were primarily a result of increases in (i) prepayments and other current assets, including VAT prepayments of US$20.6 million and, to a lesser extent, a number of "long lead" contracts requiring advance payments for drilling materials and supplies, (ii) decreases in trade receivables and (iii) payments made to the Government of Kazakhstan under the PSA.

Net cash used in investing activities

Net cash used in investing activities was US$114.6 million in the nine months ended 30 September 2010. The decline was due primarily to the payments for trade payables made for the investment in the Gas Treatment Facility in 2009.

Net cash used in investing activities was US$200.7 million in 2009. The increase was due primarily to higher investment in the Gas Treatment Facility (US$163.8 million), in drilling of new wells, workover and flowlines (US$59.0 million), in the oil pipeline and rail terminal (US$25.3 million), in the gas pipeline (US$5.1 million) and the oil treatment unit (US$3.5 million).

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

Net cash used in investing activities was US$173.1 million in 2007. This amount was due primarily to the drilling of new wells (US$79.2 million), the construction of facilities and new infrastructure (US$46.0 million) and scheduled prepayments of long lead items (US$25.0 million).

Net cash provided by financing activities

Net cash used in financing activities was US$24.9 million in the nine months ended 30 September 2010 compared to net cash provided from financing activities of US$303.5 million in the nine months ended 30 September 2009. This difference was primarily due to (i) an inflow of US$300 million related to the issuance of GDR's in 2009, (ii) in interest paid from US$17.2 million for the nine months ended 30 September 2009 to

US$24.6 million for the nine months ended 30 September 2010 and (ii) no hedging proceeds or gains realised in the nine months ended 30 September 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 nine months ended 30 September 2009.

Net cash provided by financing activities was US$279.4 million in 2009 compared to US$155.6 million in 2008. This increase was primarily due to (i) the settlement of the Group's commodity hedging positions in March 2009, (ii) the proceeds from the issue of 75,000,000 GDRs, and (iii) the fees paid on the arrangement of the Syndicated Facility.

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

Net cash provided by financing activities was US$129.2 million in 2007, which was funded principally by a drawdown under Group's then existing facility with BTA to fund the Group's capital expenditure programme.

Indebtedness

See "*Description of Other Indebtedness and Certain Financial Arrangements*".

Commitments

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 based on contractual undiscounted payments:

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

The Group had contractual capital commitments of US$40.2 million as of 30 September 2010 mainly relating to the construction of the Gas Treatment Facility. This amount includes US$4.9 million to be paid to KSS for construction, plus US$22.7 million to be paid post commissioning.

Capital Expenditures

In the years ended 2009 and 2008, Zhaikmunai's capital expenditures were approximately US$210.6 million and US$218.0 million respectively, reflecting primarily drilling costs and infrastructure and development costs for items such as the crude oil pipeline, the gas pipeline, the oil treatment unit and the Gas Treatment Facility. This represented 182% and 160% of revenue respectively. The Group has implemented a capital expenditure programme budgeted to approximately US$356 million between 2010 and 2018 (excluding the effects of inflation) as set out in the table below. Zhaikmunai's capital expenditure during the first quarter of 2010 was US$54.0 million compared to US$19.9 million during the first quarter of 2009. Zhaikmunai has only committed US$149.0 million of its capital expenditure plan out of which US$41.8 million is related to the completion of the first phase of the Gas Treatment Facility. Zhaikmunai plans to fund its existing capital expenditure plan entirely from the revenues generated from sales of its oil and gas products.

Following the successful implementation of the first phase of the Gas Treatment Facility, Zhaikmunai is expected to build a third unit which is the second phase of the Gas Treatment Facility. This will depend on a number of factors such as the ability of Zhaikmunai to convert probable reserves into proved reserves, the oil price environment and the cash flow being generated from phase one. Management estimates that the construction of the second phase will cost approximately US$362 million. Currently, Zhaikmunai is purely focused on implementing phase one of the Gas Treatment Facility.

Zhaikmunai plans to fund future capital expenses with the revenues generated from sales of its oil and gas products.

Drilling Expenditures

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

Gas Treatment Facility

On 10 August 2007, Zhaikmunai entered into an agreement with KSS for the construction of the Gas Treatment Facility that is expected to process associated gas and gas condensate. Construction of the first phase of the Gas Treatment Facility involves the construction of two gas treatment units. Payments made to KSS in relation to the construction of the Gas Treatment Facility amounted to US$17.6 million in 2008 and US$100.1 million in 2009. As of the date of this Offering Memorandum, outstanding payments to be made to KSS in relation to the construction of the Gas Treatment Facility amount to approximately US$[19.2] million.

See "*Risk Factors—Risk Factors Relating to the Group's Business—The Group's planned development projects, including its Gas Treatment Facility and increased capacity in the oil treatment facility, are subject to risks related to delay, non-completion and cost* *overruns which could result in a suspension of crude oil production and delayed commercial production of gas, condensate and LPG*", "*Business—Operations—Gas Treatment Facility*" and "*Business—Contracts Material to Our Business—Gas Treatment Facility Agreement*".

Oil treatment units

Currently Zhaikmunai operates a first crude oil treatment unit, which was built and commissioned at the beginning of 2006. The Group expects to complete a second oil treatment unit in 2011 in order to double its oil and gas treatment capacity. Total capital expenditure for the oil treatment unit is expected to be approximately US$20 million.

Oil Pipeline and rail loading terminal

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

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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, December 16, 2010
Zhaikmunai L.P.

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

Kai-Uwe Kessel	**Jan-Ru Muller**
CEO and Director	Group CFO

10 December 2010

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5 clients

Zhaikmunai LP

Interim Condensed Consolidated Financial Statements (Unaudited)

For the nine months ended September 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 September 2010 and the related interim condensed consolidated statements of comprehensive income for the three and nine months then ended, statements of changes in equity and cash flows for the nine months 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

9 December 2010

Interim Condensed Consolidated Statement of Financial Position

In thousands of US dollars

	Note	September 30, 2010 (unaudited)	December 31, 2009 (audited)
ASSETS			
Non-Current Assets			
Property, plant and equipment	3	**904,536**	770,953
Restricted cash		**21,601**	21,358
Advances for equipment and construction works		**13,301**	27,399
Derivative financial instrument	10	**–**	98
		939,438	819,808
Current Assets			
Inventories		**4,456**	3,477
Trade receivables		**16,163**	13,878
Prepayments and other current assets		**18,765**	22,663
Income tax prepayment		**3,012**	5,599
Cash and cash equivalents		**59,281**	137,375
		101,677	182,992
TOTAL ASSETS		**1,041,115**	1,002,800
EQUITY AND LIABILITIES			
Partnership Capital and Reserves			
Partnership capital	12	**366,942**	366,942
Retained earnings and translation reserve		**141,040**	110,827
		507,982	477,769
Non-Current Liabilities			
Long term borrowings	4	**361,555**	356,348
Abandonment and site restoration liabilities		**3,618**	3,373
Due to Government of Kazakhstan		**6,296**	6,363
Employee share option plan		**7,237**	7,025
Derivative financial instrument	10	**289**	–
Deferred tax liability	8	**91,734**	76,659
		470,729	449,768
Current Liabilities			
Trade payables	9	**53,481**	66,381
Current portion of Due to Government of Kazakhstan		**1,031**	1,028
Other current liabilities		**7,892**	7,854
		62,404	75,263
TOTAL EQUITY AND LIABILITIES		**1,041,115**	1,002,800

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 September 30, 2010 (unaudited)	Three months ended September 30, 2009 (unaudited)	Nine months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2009 (unaudited)
Sales of crude oil:					
Export sales		**51,036**	30,779	**123,111**	73,863
Domestic sales		**2,090**	1,971	**4,669**	3,567
		53,126	32,750	**127,780**	77,430
Cost of sales	5	**(17,516)**	(12,690)	**(38,249)**	(31,395)
Gross profit		**35,610**	20,060	**89,531**	46,035
General and administrative expenses	6	**(8,496)**	(3,918)	**(22,167)**	(18,102)
Selling and oil transportation expenses		**(5,677)**	(1,173)	**(9,182)**	(4,020)
Finance costs	7	**(329)**	(3,012)	**(983)**	(6,510)
Foreign exchange (loss) / gain		**(491)**	10,489	**(365)**	(2,135)
Loss on derivative financial instrument	10	**(327)**	(439)	**(387)**	(15,872)
Interest income		**4**	7	**62**	7
Other income / (expenses)		**143**	673	**(252)**	439
Profit / (loss) before Income Tax		**20,437**	22,687	**56,257**	(158)
Income tax expense	8	**(9,801)**	(23,044)	**(26,044)**	(20,300)
Net income / (loss) for the period		**10,636**	(357)	**30,213**	(20,458)
Total comprehensive income / (loss), net of tax		**10,636**	(357)	**30,213**	(20,458)

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

	Notes	Nine months ended September 30 2010 (unaudited)	2009 (unaudited)
Cash flow from operating activities:			
Profit / (loss) before income tax		**56,257**	(158)
Adjustments for:			
Depreciation and amortization		**13,123**	12,606
Finance costs	7	**983**	6,510
Interest income		**(62)**	(7)
Accrual of share option expenses	6	**185**	1,276
Loss on derivative financial instrument	10	**387**	15,872
Operating profit before working capital changes		**70,873**	36,099
Changes in working capital:			
(Increase) / decrease in inventories		**(979)**	386
Increase in trade receivables		**(2,285)**	(5,884)
(Increase) / decrease in prepayments and other current assets		**(2,754)**	2,501
(Decrease) / increase in trade payables		**(1,095)**	17,904
Increase in other current liabilities		**163**	1,959
Payment of obligation to Government of Kazakhstan		**(785)**	(516)
Cash generated from operations		**63,138**	52,449
Income tax paid		**(1,730)**	(2,405)
Net cash flows from operating activities		**61,408**	50,044
Cash flow from investing activities:			
Interest received		**62**	7
Purchases of property, plant and equipment	3	**(114,687)**	(152,294)
Net cash used in investing activities		**(114,625)**	(152,287)
Cash flow from financing activities:			
Proceeds from sale of derivative financial instrument	10	**–**	48,200
Purchase of derivative financial instrument		**–**	(7,700)
Interest paid		**(24,634)**	(17,242)
Realized gain on derivative financial instrument	10	**–**	5,416
Proceeds from issue of Global Depositary Receipts	1,12	**–**	300,000
Transaction costs paid	1,12	**–**	(25,130)
Transfer to restricted cash		**(243)**	–
Net cash (used in) / provided by financing activities		**(24,877)**	303,544
Effects of exchange rate changes on cash and cash equivalents		**–**	1,240
Net increase in cash and cash equivalents		**(78,094)**	201,301
Cash and cash equivalents at the beginning of period		**137,375**	11,887
Cash and cash equivalents at the end of period		**59,281**	214,428

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
As of January 1, 2009 (audited)	**92,072**	**126,296**	**3,299**	**221,667**
Net loss for the period	–	(20,458)	–	(20,458)
Total comprehensive loss for the period	–	**(20,458)**	–	**(20,458)**
Issue of Global Depositary Receipts (Notes 1 and 12)	300,000	–	–	300,000
Transaction costs (Notes 1 and 12)	(25,130)	–	–	(25,130)
As of September 30, 2009 (unaudited)	**366,942**	**105,838**	**3,299**	**476,079**
As of December 31, 2009 (audited)	**366,942**	**107,528**	**3,299**	**477,769**
Net income for the period	–	30,213	–	30,213
Total comprehensive income for the period	–	**30,213**	–	**30,213**
As of September 30, 2010 (unaudited)	**366,942**	**137,741**	**3,299**	**507,982**

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

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 December 9, 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 Tournasian horizons, was extended for an additional 3 year period with a new expiry on May 26, 2011.

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

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements for the nine months ended September 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)

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

Improvements to IFRS

In May 2008, the Board issued its first omnibus of amendments to its standards. All amendments issued are effective for the Group as at 31 December 2009, apart from the following:

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

In April 2009 the Board issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- *IFRS 8 Operating Segment Information*;
- *IAS 7 Statement of Cash Flows;*
- *IAS 36 Impairment of Assets.*

Notes to the Interim Condensed Consolidated Financial Statements (continued)

2. BASIS OF PREPARATION (continued)

Significant accounting policies (continued)

Improvements to IFRS (continued)

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

- *IFRS 2 Share-based Payment;*
- *IFRS 5 Non-current Assets Held for Sale and Discontinued operations ;*
- *IAS 1 Presentation of Financial Statements;*
- *IAS 17 Leases;*
- *IAS 38 Intangible Assets;*
- *IAS 39 Financial Instruments: Recognition and Measurement;*
- *IFRIC 9 Reassessment of Embedded Derivatives;*
- *IFRIC 16 Hedge of a Net Investment in a Foreign Operation.*

The Group has not early adopted any other standard, interpretation or amendment that was issued but is 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 nine months ended September 30, 2010, the Group had additions of property, plant and equipment of US$ 146,706 thousand (Nine months ended September 30, 2009: US$ 128,253 thousand) which primarily related to construction of the gas utilisation plant. These additions included capitalised interest of US$ 31,044 thousand (Nine months ended September 30, 2009: US$ 11,664 thousand) and abandonment and site restoration assets of US$ 17 thousand (Nine months ended September 30, 2009: US$ 708 thousand).

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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

4. BORROWINGS (continued)

Facility Agreement with BNP Paribas (continued)

The total outstanding principal balance of the liability under the loan facility as at September 30, 2010 is US$ 381,677 thousand which is presented net of the amount of the facility arrangement fees of US$ 20,122 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 September 30, 2010 and December 31, 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.

In October 2010 the Partnership has fully repaid the BNP Paribas Facility (Note 14).

5. COST OF SALES

	Three months ended September 30,		Nine months ended September 30,	
In thousands of US dollars	**2010 (unaudited)**	2009 (unaudited)	**2010 (unaudited)**	2009 (unaudited)
Depreciation and amortization	**4,447**	4,735	**12,712**	12,097
Royalties	**2,587**	1,478	**5,847**	3,781
Payroll and related taxes	**1,960**	1,630	**4,960**	3,905
Repair, maintenance and other services	**1,313**	2,491	**4,168**	4,809
Well workover costs	**2,392**	–	**3,452**	–
Materials and supplies	**616**	668	**2,058**	1,523
Other transportation services	**744**	281	**1,515**	1,016
Management fees	**265**	483	**1,253**	1,475
Government profit share	**482**	313	**1,247**	755
Environmental levies	**479**	235	**980**	779
Change in oil stock	**1,781**	124	**(534)**	552
Other	**450**	252	**591**	703
	17,516	12,690	**38,249**	31,395

Notes to the Interim Condensed Consolidated Financial Statements (continued)

6. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US dollars	Three months ended September 30, 2010 (unaudited)	2009 (unaudited)	Nine months ended September 30, 2010 (unaudited)	2009 (unaudited)
Professional services	**1,317**	(1,400)	**4,905**	3,827
Management fees	**2,014**	1,525	**6,735**	5,606
Equity option plan	**1,218**	9	**185**	1,276
Training	**630**	1,258	**1,800**	2,323
Payroll and related taxes	**415**	947	**2,611**	2,286
Business trip	**815**	34	**1,357**	104
Provision for tax claims	**723**	–	**723**	–
Insurance fees	**281**	57	**685**	222
Communication	**209**	106	**466**	301
Sponsorship	**208**	69	**390**	147
Bank charges	**112**	189	**360**	347
Other taxes	**4**	460	**322**	460
Social program	**75**	95	**225**	225
Lease payments	**78**	60	**241**	188
Materials and supplies	**39**	22	**103**	75
Other	**358**	487	**1,059**	715
	8,496	3,918	**22,167**	18,102

7. FINANCE COSTS

In thousands of US dollars	Three months ended September 30, 2010 (unaudited)	2009 (unaudited)	Nine months ended September 30, 2010 (unaudited)	2009 (unaudited)
Interest expense on borrowings	**–**	2,355	**–**	5,391
Unwinding of discount on Due to Government	**242**	549	**721**	796
Unwinding of discount on Abandonment and Site Restoration Liability	**87**	108	**262**	323
	329	3,012	**983**	6,510

8. INCOME TAX

The income tax expense consisted of the following:

In thousands of US dollars	Three months ended September 30, 2010 (unaudited)	2009 (unaudited)	Nine months ended September 30, 2010 (unaudited)	2009 (unaudited)
Income tax expenses comprise:				
- adjustments in respect of current income tax of previous year	**3,154**	–	**1,119**	–
- current income tax expense / (benefit)	**6,026**	(3,168)	**10,969**	5,714
- deferred income tax expense	**621**	26,212	**13,956**	14,586
Total income tax expense	**9,801**	23,044	**26,044**	20,300

Notes to the Interim Condensed Consolidated Financial Statements (continued)

8. INCOME TAX (continued)

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

	Three months ended September 30,		Nine months ended September 30,	
In thousands of US Dollar	**2010 (unaudited)**	2009 (unaudited)	**2010**	2009
Profit / (loss) before income tax	**20,437**	22,687	**56,257**	(158)
Statutory tax rate	**30%**	30%	**30%**	30%
Expected tax provision	**6,131**	6,807	**16,877**	(47)
Non-deductible interest expense on borrowings	**3,387**	615	**9,717**	2,861
Income taxed at different rate	**(3,104)**	(290)	**(2,158)**	(4,340)
Foreign exchange loss / (gain)	**90**	(4,354)	**206**	641
Adjustments in respect of current income tax of previous year	**3,154**	–	**1,119**	–
Change of the tax base	**10**	20,266	**(893)**	20,266
Other non-deductible expenses	**133**	–	**1,176**	919
Income tax expense reported in the interim condensed consolidated statement of comprehensive income	**9,801**	23,044	**26,044**	20,300

Deferred tax balances are calculated by applying the Kazakhstani statutory tax rates in effect at the respective reporting dates to the temporary differences between the tax and the amounts reported in the financial statements and are comprised of the following at September 30, 2010 and December 31, 2009:

In thousands of US Dollar	**September 30, 2010 (unaudited)**	December 31, 2009 (audited)
Deferred tax asset:		
Accounts payable and provisions	**1,712**	1,567
	1,712	1,567
Deferred tax liability:		
Crude oil inventory	–	(448)
Property, plant and equipment	**(93,446)**	(77,778)
Net deferred tax liability	**(91,734)**	(76,659)

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

In thousands of US Dollar	**September 30, 2010 (unaudited)**	September 30, 2009 (unaudited)
Balance at January 1,	**(76,659)**	(56,940)
Current period charge to profit and loss	**(15,075)**	(14,586)
Balance at September 30, 2010 and 2009	**(91,734)**	(71,526)

9. TRADE PAYABLES

In thousands of US Dollars	**September 30, 2010 (unaudited)**	December 31, 2009 (audited)
Tenge denominated trade payables	**12,529**	8,556
US dollar denominated trade payables	**37,946**	52,930
Trade payables denominated in other currencies	**3,006**	4,895
	53,481	66,381

Notes to the Interim Condensed Consolidated Financial Statements (continued)

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 September 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.

In thousands of US Dollar	**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 loss	**289**	6,565
Loss on hedging contract	**387**	15,872
Purchase of hedging contract	**98**	7,700
Unrealized hedging loss	**(387)**	(6,565)
Hedging contract at fair value at September 30	**(289)**	1,135

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.

In thousands of US dollars	**September 30, 2010 (unaudited)**	December 31, 2009 (audited)
Trade payables		
Probel Capital Management B.V.	**68**	394
Amersham Oil LLP	**–**	498
Prolag BVBA	**–**	129
Total	**139**	1,021

	Nine months ended September 30,	
In thousands of US dollars	**2010 (unaudited)**	2009 (unaudited)
Cost of sales		
Probel Capital Management B.V.	**5,493**	4,349
Prolag BVBA	**1,445**	1,657
Amersham Oil LLP	**912**	831
Total	**7,850**	6,837

All related parties are companies indirectly controlled by Frank Monstrey.

Remuneration of four key managers amounted to US$ 165 thousand for the nine month period ended September 30, 2010 (2009: four, US$ 150 thousand). Other key management personnel were employed and paid by Amersham Oil LLP and Probel Capital Management and whose remuneration forms part of management fees and consulting services above.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

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 September 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 September 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 nine month periods ended September 30, 2010.

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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

13. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at September 30, 2010. As at September 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.

In 2010, a comprehensive tax audit was performed on the Partnership' tax accounts for 2006, 2007 and 2008 which resulted in tax claims being made. Management believes that these claims contradict the terms of the Contract and the relevant tax codes. The Partnership appealed to the court to resolve these claims. A provision of US$ 723 thousand (Note 6) has been made in these interim condensed consolidated financial statements in respect to the claims where the likelihood of the Partnership being required to pay additional tax, fines and penalties is probable. In addition, the Partnership assesses that the likelihood of the remaining US$ 9,363 thousand of claims is possible and therefore, no provision has been made for this amount.

Abandonment and site restoration (decommissioning)

As Kazakh laws and regulations concerning site restoration and cleanup evolve, the 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.

Capital commitments

As at September 30, 2010 the Group had contractual capital commitments in amount of US$ 40,208 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.

14. SUBSEQUENT EVENTS

On October 19, 2010 Zhaikmunai Finance BV, a subsidiary of Zhaikmunai L.P, placed a US$450 million senior bond with an October 19, 2015 maturity and a fixed coupon of 10.50% per annum. Proceeds from the bond issue will be used to repay BNP Paribas facility and financing further exploration and development of the field.