Zhaikmunai LP

Consolidated Financial Statements

Year ended December 31, 2011

With Independent Auditors' Report

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Independent Auditors' Report

To the participants of Zhaikmunai LP:

We have audited the accompanying consolidated financial statements of Zhaikmunai LP (the "Partnership") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' responsibility

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

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

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

Conclusion

In our opinion, the consolidated financial statements of Zhaikmunai LP for the year ended 31 December 2011 are prepared, in all material respects, in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Paul Cohn
Audit Partner

Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP

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

Auditor Qualification Certificate
No. 0000553 dated 24 December 2003

12 March 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2011

In thousands of US Dollars

	Note	2011	2010
ASSETS			
Non-Current Assets			
Property, plant and equipment	**4**	**1,120,453**	955,911
Restricted cash	**8**	**3,076**	2,743
Advances for equipment and construction works		**3,368**	6,479
		1,126,897	965,133
Current Assets			
Inventories	**5**	**14,518**	5,639
Trade receivables	**6**	**12,640**	1,635
Prepayments and other current assets	**7**	**23,279**	16,759
Income tax prepayment		**3,453**	3,200
Restricted cash	**8**	**–**	1,000
Cash and cash equivalents	**8**	**125,393**	144,201
		179,283	172,434
TOTAL ASSETS		**1,306,180**	1,137,567
EQUITY AND LIABILITIES			
Partnership capital and Reserves			
Partnership capital	**9**	**368,203**	366,942
Additional paid-in capital		**1,677**	–
Retained earnings and translation reserve		**215,351**	133,727
		585,231	500,669
Non-Current Liabilities			
Long term borrowings	**10**	**438,082**	434,931
Abandonment and site restoration liabilities	**11**	**8,713**	4,543
Due to Government of Kazakhstan	**12**	**6,211**	6,290
Employee share option plan	**23**	**11,734**	10,104
Deferred tax liability	**20**	**146,674**	100,823
		611,414	556,691
Current Liabilities			
Current portion of long term borrowings	**10**	**9,450**	9,450
Trade payables	**13**	**81,914**	49,213
Advances received		**3,154**	11,693
Derivative financial instrument	**21**	**–**	372
Current portion of Due to Government of Kazakhstan	**12**	**1,031**	1,031
Other current liabilities	**14**	**13,986**	8,448
		109,535	80,207
TOTAL EQUITY AND LIABILITIES		**1,306,180**	1,137,567

The accounting policies and explanatory notes on pages 6 through 29 are an integral part of these consolidated financial statements.

Chief Executive Officer of the General Partner of Zhaikmunai LP

Kai-Uwe Kessel

Chief Financial Officer of the General Partner of Zhaikmunai LP

Jan-Ru Muller

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011

In thousands of US Dollars

	Note	2011	2010
Revenue :			
Revenue from export sales		**284,548**	172,102
Revenue from domestic sales		**16,289**	6,057
	15	**300,837**	178,159
Cost of sales	**16**	**(70,805)**	(53,860)
Gross profit		**230,032**	124,299
General and administrative expenses	**17**	**(36,405)**	(27,265)
Selling and transportation expenses	**18**	**(35,395)**	(17,014)
Loss on derivative financial instruments	**21**	**–**	(470)
Finance costs	**19**	**(4,717)**	(21,296)
Foreign exchange (loss) / gain, net		**(389)**	46
Interest income		**336**	239
Other expenses	**22**	**(7,855)**	(1,054)
Other income		**3,365**	3,288
Profit before income tax		**148,972**	60,773
Income tax expense	**20**	**(67,348)**	(37,873)
Profit for the year		**81,624**	22,900
Total comprehensive profit for the year		**81,624**	22,900

The accounting policies and explanatory notes on pages 6 through 29 are an integral part of these consolidated financial statements.

Chief Executive Officer of the General Partner of Zhaikmunai LP

Kai-Uwe Kessel

Chief Financial Officer of the General Partner of Zhaikmunai LP

Jan-Ru Muller

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2011

	Note	2011	2010
Cash flow from operating activities:			
Profit before income tax		**148,972**	60,773
Adjustments for:			
Depreciation and amortization	**16, 17**	**19,843**	15,695
Finance costs	**19**	**4,717**	21,296
Interest income		**(336)**	(239)
Loss on derivative financial instruments	**21**	**–**	470
Foreign exchange gain on investing and financing activities		**202**	–
Provision for tax claims		**(728)**	728
Accrual of share option expenses		**3,545**	3,079
Loss on disposal of property, plant and equipment		**–**	920
Operating profit before working capital changes		**176,215**	102,722
Changes in working capital:			
(Increase)/decrease in inventories		**(8,879)**	(2,162)
(Increase)/decrease in trade receivables		**(11,004)**	12,243
Increase in prepayments and other current assets		**(6,519)**	(3,916)
Increase/(decrease) in trade payables		**10,497**	(18,622)
(Decrease)/increase in advances received		**(8,539)**	11,693
Payment of obligation to Government of Kazakhstan	**12**	**(1,033)**	(1,029)
Decrease in other current liabilities		**(3,390)**	(134)
Cash generated from operations		**147,348**	100,795
Income tax paid		**(13,210)**	(1,840)
Payments under Employee share option plan		**(1,915)**	–
Net cash flows from operating activities		**132,223**	98,955
Cash flow from investing activities:			
Interest income		**336**	239
Purchases of property, plant and equipment		**(104,017)**	(132,428)
Net cash used in investing activities		**(103,681)**	(132,189)
Cash flow from financing activities:			
Repayment of borrowings		**–**	(381,677)
Finance costs paid		**(50,583)**	(30,478)
Issue of notes	**10**	**–**	450,000
Transfer from restricted cash		**667**	17,615
Treasury capital sold		**2,938**	–
Realized gain on derivative financial instrument		**(372)**	–
Fees paid on arrangement of notes and borrowings		**–**	(15,750)
Net cash (used in)/provided by financing activities		**(47,350)**	39,710
Effects of exchange rate changes on cash and cash equivalents		**–**	350
Net increase/(decrease) in cash and cash equivalents		**(18,808)**	6,826
Cash and cash equivalents at the beginning of the year	**8**	**144,201**	137,375
Cash and cash equivalents at the end of the year	**8**	**125,393**	144,201

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
For the year ended December 31, 2011

NON-CASH TRANSACTIONS

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

Offset of Corporate Income Tax with Value Added Tax

During the year ended December 31, 2011, the Partnership offset Tax liabilities in the amount of US$ 16,744 thousand, including Corporate Income Tax Liability of US$ 8,541 thousand with Value Added Tax Receivables

The accounting policies and explanatory notes on pages 6 through 29 are an integral part of these consolidated financial statements.

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2011

	Partner-ship capital	Treasury Capital	Additional paid-in capital	Retained earnings and reserves	Total
As of December 31, 2009	**366,942**	**–**	**–**	**110,827**	**477,769**
Profit for the year	–	–	–	22,900	22,900
Total comprehensive income for the year	**–**	**–**	**–**	**22,900**	**22,900**
As of December 31, 2010	**366,942**	–	–	**133,727**	**500,669**
Profit for the year	–	–	–	81,624	81,624
Total comprehensive income for the period	**–**	**–**	**–**	**81,624**	**81,624**
Issuance of treasury capital (GDRs)	7,048	(7,048)	–	–	–
Transaction costs	–	–	(238)	–	(238)
Sale of treasury capital	–	1,261	1,915	–	3,176
As of December 31, 2011	**373,990**	**(5,787)**	**1,677**	**215,351**	**585,231**

The accounting policies and explanatory notes on pages 6 through 29 are an integral part of these consolidated financial statements.

Chief Executive Officer of the General Partner of Zhaikmunai LP

Kai-Uwe Kessel

Chief Financial Officer of the General Partner of Zhaikmunai LP

Jan-Ru Muller

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2011

1. GENERAL

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

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

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

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

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

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

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

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

These consolidated financial statements were authorized for issue by Kai-Uwe Kessel, Chief Executive Officer of the General Partner of Zhaikmunai LP and by Jan-Ru Muller, Chief Financial Officer of the General Partner of Zhaikmunai LP on March 12, 2012.

Licence terms

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

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

Royalty Payments

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

Royalty rates depend on recovery levels and the phase of production and can vary from 2% to 7% of produced petroleum and from 4% to 9% of produced natural gas.

1. GENERAL (continued)

Government "profit share"

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

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared based on a historical cost basis, except for financial instruments which are carried at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires from management to exercise its judgment in the process of applying the Partnership's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

New standards, interpretations and amendments thereof, adopted by the Group

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2010, except for the adoption of new standards and interpretations as of January 1, 2011, noted below:

IAS 24 *Related Party Transactions* (Amendment)

The IASB has issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 *Financial Instruments: Presentation* (Amendment)

The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group.

IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as pension asset. The amendment to the interpretation had no effect on the financial position or performance of the Group.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* - IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The Group adopted the standard and has concluded that the amendment had no impact on the financial position or performance of the Group.

2. BASIS OF PREPARATION (continued)

Improvements to IFRSs (issued May 2010)

In May 2010, the IASB issued its third 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 3 *Business Combinations*: the measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments. proportionate share of the acquire 's identifiable net assets. All other components are to be measured at their acquisition date fair value.

IFRS *7 Financial Instruments* Disclosures: the amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. As a result of this amendment, the Group financial position and performance were not affected.

IAS 1 *Presentation of Financial Statements*: the amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements. The amendment had no material impact on the financial position and the Group's performance results IAS 34 *Interim Financial Statements*: the amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements. As a result of this amendment, the Group financial position and performance were not affected.

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 3 *Business Combinations* – Clarification that contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008) are accounted for in accordance with IFRS 3 (2005);
- IFRS 3 *Business Combinations* – Un-replaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination;
- IAS 27 *Consolidated and Separate Financial Statements* – applying the IAS 27 (as revised in 2008) transition requirements to consequentially amended standards;
- IFRIC 13 *Customer Loyalty Programs* – in determining the fair value of award credits, an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty program).

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

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

2. BASIS OF PREPARATION (continued)

Standards issued but not yet effective (continued)

IAS 12 Income Taxes – Recovery of Underlying Assets
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

IAS 19 Employee Benefits (Amendment)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The group had made a voluntary change in accounting policy to recognise actuarial gains and losses in OCI in the current period (see note 2.4). The Group is currently assessing the full impact of the remaining amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will have no impact the financial position of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2011

2. BASIS OF PREPARATION (continued)

Standards issued but not yet effective (continued)

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimation and Assumptions

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

Oil and gas reserves

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

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

Impairment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. The time value of money is determined based on weighted average cost of capital of the Group of 18.4% and 21.02% for 2011 and 2010, respectively. There were no impairment losses recognized by the Group during the years ended December 31, 2011 and 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation and Assumptions (continued)

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Abandonment and site restoration liabilities

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

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

The long term inflation and discount rates used to determine the balance sheet obligation at December 31, 2011were 7% and 10% respectively. Movements in the provision for decommissioning liability are disclosed in Note 10.

Foreign Currency Translation

Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. The functional currency of both, Zhaikmunai Finance B.V. and the Partnership is the United States Dollar (the “US Dollar” or “US$”).

Transactions and balances denominated in foreign currencies

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

Consolidation

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

Subsidiaries

Subsidiaries are all entities over which the Partnership has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and the effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Partnership controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Partnership and continue to be consolidated until the date that such control ceases.

Purchases of controlling interests in subsidiaries from entities under common control

Purchases of controlling interests in subsidiaries from entities under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these consolidated financial statements at the historical cost of the controlling entity. Any difference between the total book value of net assets and the consideration paid is accounted for the consolidated financial statements as an adjustment to the shareholders' equity.

These consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the controlling entity.

Property, Plant and Equipment

Exploration expenditure

Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with exploration wells are capitalized within property, plant and equipment (construction work-in-progress) until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration and materials and fuel used, rig costs and payments made to contractors and asset retirement obligation fees. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development, the costs continue to be carried as an asset. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. There was no exploration expenditure expensed during 2011 (2010: Nil).

Oil and gas properties

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

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

Oil and Gas Reserves

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

The Group assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Partnership makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

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

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

Other Properties

All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the year in which they are incurred.

Depreciation is calculated on a straight–line basis over the estimated useful lives of the assets as follows:

	Years
Buildings and Improvements	7-15
Vehicles	8
Machinery and Equipment	3-13
Other	3-10

Borrowing Costs

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

Inventories

Inventories are stated at the lower of cost or net realizable value ("NRV"). Cost of oil, gas condensate and LPG is determined on the weighted-average method based on the production cost including the relevant expenses on depreciation, depletion and impairment and overhead costs based on production volume. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Abandonment and site restoration (decommissioning)

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

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

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

(b) if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Partnership tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss in accordance with IAS 36.

Financial assets

Initial recognition and measurement

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

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

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

The Group's financial assets include cash and short-term deposits, trade and other receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Financial assets carried at amortized cost (continued)

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

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

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

Derecognition

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

Offsetting of financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2011

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Fair value of financial instruments

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 26.

Derivative financial instruments and hedging

The Partnership from time to time uses hedging contracts 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 premeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

Taxation

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

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

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

Revenue Recognition

The Partnership sells crude oil, gas condensate and LPG under short-term agreements priced by reference to Platt's and/or Argus' index quotations and adjusted for freight, insurance and quality differentials where applicable.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2011

4. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the year ended December 31, 2010 and 2011 was as follows:

	Oil and gas properties			Non oil and gas properties					
In thousand of US Dollar	Working assets	CIP	Total oil and gas properties	Buildings	Machi-nery & Equip-ment	Vehicles	Others	Total non oil gas properties	Total
Balance at December 31, 2009, net of accumulated depreciation	**365,679**	**396,310**	**761,989**	**2,614**	**3,434**	**1,519**	**1,397**	**8,964**	**770,953**
Additions	990	198,047	199,037	139	948	32	1,417	2,536	201,573
Transfers	103,156	(103,532)	(376)	259	501	273	(657)	376	–
Disposal	–	–	–	–	(705)	–	(215)	(920)	(920)
Depreciation charge	(13,820)	–	(13,820)	(398)	(853)	(320)	(304)	(1,875)	(15,695)
Balance at December 31, 2010, net of accumulated depreciation	**456,005**	**490,825**	**946,830**	**2,614**	**3,325**	**1,504**	**1,638**	**9,081**	**955,911**
Additions	6,318	180,042	186,360	2,714	789	40	1,360	4,903	191,263
Transfers	464,860	(465,625)	(765)	765	–	–	–	765	–
Disposal	(38)	–	(38)	(123)	(98)	(234)	(181)	(636)	(674)
Depreciation charge	(23,967)	–	(23,967)	(482)	(1,097)	(204)	(297)	(2,080)	(26,047)
Balance at December 31, 2011, net of accumulated depreciation	**903,178**	**205,242**	**1,108,420**	**5,488**	**2,919**	**1,106**	**2,520**	**12,033**	**1,120,453**
At cost at December 31, 2010	539,607	490,825	1,030,432	4,237	5,122	2,819	2,839	15,017	1,045,449
Accumulated depreciation	(83,602)	–	(83,602)	(1,623)	(1,797)	(1,315)	(1,201)	(5,936)	(89,538)
Balance at December 31, 2010, net of accumulated depreciation	**456,005**	**490,825**	**946,830**	**2,614**	**3,325**	**1,504**	**1,638**	**9,081**	**955,911**
At cost at December 31, 2011	1,010,746	205,242	1,215,988	7,594	5,813	2,625	4,017	20,049	1,236,037
Accumulated depreciation	(107,568)	–	(107,568)	(2,106)	(2,894)	(1,519)	(1,497)	(8,016)	(115,584)
Balance at December 31, 2011, net of accumulated depreciation	**903,178**	**205,242**	**1,108,420**	**5,488**	**2,919**	**1,106**	**2,520**	**12,033**	**1,120,453**

The category "Oil and Gas properties" represents mainly wells, oil and gas treatment facilities, oil transportation and other related assets.

The depletion rate for oil and gas working assets was 4.8% and 3.36% in 2011 and 2010, respectively. The unamortized costs of proved oil and gas properties include all capitalized costs net of accumulated amortization.

The Partnership engaged independent petroleum engineers to perform a reserves evaluation as at December 31, 2010. Depreciation has been calculated using the unit of production method based on these reserves estimates.

In 2011 the Partnership capitalized net proceeds from sale of gas treatment unit test production of US$ 9,314 thousand.

The Partnership incurred borrowing costs including amortization of arrangement fee of US$ 54,647 thousand, and US$ 88,587 thousand for the years ended December 31, 2011 and 2010. For the same periods, the Partnership capitalized borrowing costs totaling US$ 51,590 thousand and US$ 51,687 thousand, at capitalization rates of 11.73% and 12.26%, respectively.

As of December 31,2011 the Partnership's property, plant and equipment of US$ 1,086,250 thousand are pledged as security for the loans due to ZKMNL.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2011

5. INVENTORIES

As at December 31, inventories comprised the following:

In thousands of US Dollars	**2011**	2010
Crude oil	**2,081**	2,946
Gas condensate	**2,161**	–
Liquefied petroleum gas	**297**	–
Materials and supplies	**9,979**	2,693
	14,518	5,639

As of 31 December 2011 and 2010 inventories are carried at cost.

6. TRADE RECEIVABLES

As at December 31, 2011 and 2010 trade receivables were denominated in US$, were less than 30 days and were not impaired.

7. PREPAYMENTS AND OTHER CURRENT ASSETS

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

In thousands of US Dollars	**2011**	2010
VAT receivable	**12,500**	11,090
Advances paid	**9,356**	5,146
Other	**1,423**	523
	23,279	16,759

Advances paid consist primarily of prepayments made to service providers.

8. CASH AND CASH EQUIVALENTS

In thousands of US Dollars	**2011**	2010
Current accounts in US Dollars	**123,112**	143,452
Current accounts in Tenge	**692**	543
Cash accounts in other currencies	**1,589**	206
	125,393	144,201

No interest was accrued on current accounts during the years ended December 31, 2011 and 2010.

In addition the Partnership has restricted cash accounts. As of December 31, 2011 the restricted cash consisted of a liquidation fund deposit of US$ 3,066 thousand with Kazkommertsbank JSC in Kazakhstan (December 31, 2010: US$ 2,743 thousand), which is kept as required by the license for abandonment and site restoration liabilities of the Partnership. As of December 31, 2010, restricted cash included money held by Citibank in the amount of US$ 1,000 thousand under the hedging contract with Citibank.

9. PARTNERSHIP CAPITAL

The ownership interests in Zhaikmunai LP consist of (a) Common Units, which represent a fractional entitlement in respect of all of the limited partner interests in Zhaikmunai LP and (b) the interest of the General Partner. At any general meeting every holder of Common Units shall have one vote for each Common Unit of which he or she is the holder. Under the Partnership Agreement, distributions to limited partners will be made either as determined by the General Partner in its sole discretion or following the approval of a majority of limited partners provided such amount does not exceed the amount recommended by the General Partner. Any distributions to Zhaikmunai LP's limited partners will be made on a pro rata basis according to their respective partnership interests in Zhaikmunai LP and will be paid only to the recorded holders of Common Units. There were no distributions declared for the years ended December 31, 2011 and 2010.

As at December 31, 2010 Zhaikmunai LP had issued 185,000,000 common units, all but 10 of which are represented by GDRs. During the year ended December 31, 2011 Zhaikmunai LP issued 1,761,882 new common units (represented by GDRs) to support its obligations to employees under the Employee Share Option Plan (ESOP). The issued GDRs are held by Ogier Employee Benefit Trustee Limited ("the Trustee") and upon request from employees to exercise options, sells GDRs on the market and settles respective obligations under the ESOP. This trust constitutes a special purpose entity under IFRS and therefore, these newly issued GDRs are recorded as treasury capital of Zhaikmunai LP. During the year ended December 31, 2011 630,487 share options were exercised by employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2011

9. PARTNERSHIP CAPITAL (continued)

The movements in GDR's during the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Balance at January 1,	**185,000,000**	185,000,000
Issued during the year	**1,761,882**	–
Balance at December 31,	**186,761,882**	185,000,000

10. BORROWINGS

Borrowings comprise the following as at December 31:

In thousands of US Dollar	2011	2010
Notes payable	**447,532**	444,381
Less amounts due within 12 months	**9,450**	9,450
Amounts due after 12 months	**438,082**	434,931

Notes payable

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

On February 28, 2011 Zhaikmunai LLP (the "Issuer") replaced the Initial Issuer of the Notes, whereupon it assumed all of the obligations of the Initial Issuer under the Notes.

The Notes bear interest at the rate of 10.50% per year. Interest on the Notes is payable on April 19 and October 19 of each year, beginning on April 19, 2011. Prior to 19 October 2013, the Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more equity offerings at a redemption price of 10.50% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date; provided that(1) at least 65% of the original principal amount of the Notes (including Additional Notes) remains outstanding after each such redemption; and(2) the redemption occurs within 90 days after the closing of the related equity offering.

In addition, the Notes may be redeemed, in whole or in part, at any time prior to 19 October 2013 at the option of the Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of Notes at its registered address, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Applicable Premium means, with respect to any Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such Note at19 October 2013 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such Note through 19 October 2013 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such Note.

The Notes are jointly and severally guaranteed (the "Guarantees") on a senior basis by Zhaikmunai LP and all of its subsidiaries other than the Issuer (the "Guarantors"). The Notes are the Issuer's and the Guarantors' senior obligations and rank equally with all of the Issuer's and the Guarantors' other senior indebtedness. The Notes and the Guarantees have the benefit of first-priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

The total outstanding principal balance of the liability under the Notes payable as at December 31, 2011 is US$ 450,000 thousand, which is presented net of the unamortized transaction costs of US$ 12,860 thousand and increased by the amount of interest payable of US$ 9,450 thousand (December 31, 2010: US$ 450,000 thousand, US$ 15,069 thousand, and US$ 9,450 thousand, respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2011

11. ABANDONMENT AND SITE RESTORATION LIABILITIES

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

In thousands of US Dollar	**2011**	2010
Abandonment and site restoration liability as at January 1,	**4,543**	3,373
Unwinding of discount (Note 19)	**706**	397
Additional provision	**952**	308
Change in estimates	**2,512**	465
Abandonment and site restoration liability as at December 31	**8,713**	4,543

The long-term inflation and discount rates used to determine the abandonment and site restoration liabilities at December 31, 2011 were 7% and 10% respectively (2010: 5.0% and 10.35%). The decrease in the discount rate and increase in inflation rate used for estimation of the liability was treated as a change in estimate.

12. DUE TO GOVERNMENT OF KAZAKHSTAN

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

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

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

In thousands of US Dollar	**2011**	2010
Due to Government of Kazakhstan as at January 1,	**7,321**	7,391
Unwinding of discount	**954**	959
Paid during the year	**(1,033)**	(1,029)
	7,242	7,321
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,031)
Due to Government of Kazakhstan at December 31	**6,211**	6,290

13. TRADE PAYABLES

In thousands of US Dollars	**2011**	2010
Tenge denominated trade payables	**79,424**	12,786
US dollar denominated trade payables	**1,367**	35,548
Trade payables denominated in other currencies	**1,123**	879
	81,914	49,213

Accounts payable to KazStroyService JSC for construction of the gas treatment unit amounted to US$ 37,016 thousand as of December 31, 2011 (2010: US$ 24,118 thousand). Other payables for PPE and purchase of other non-current assets amounted to US$ 17,411 thousand as of December 31, 2011 (2010: US$ 8,952 thousand).

14. OTHER CURRENT LIABILITIES

In thousands of US Dollars	**2011**	2010
Training liability accrual	**7,398**	5,552
Taxes payable, other than corporate income tax	**3,459**	1,266
Due to employees	**973**	255
Provision for tax claims	**–**	728
Pension Obligation	**138**	–
Production Bonus	**232**	–
Other	**1,786**	647
	13,986	8,448

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2011

15. REVENUE

In thousands of US Dollars	**2011**	2010
Oil and gas condensate	**289,947**	178,159
Gas products	**10,890**	–
	300,837	178,159

16. COST OF SALES

In thousands of US dollars	**2011**	2010
Depreciation and amortization	**19,448**	15,183
Repair, maintenance and other services	**16,637**	7,617
Payroll and related taxes	**9,233**	6,629
Royalties	**8,684**	8,863
Materials and supplies	**4,952**	2,239
Well workover costs	**4,000**	5,871
Other transportation services	**2,737**	1,985
Government profit share	**1,825**	1,676
Management fees	**1,789**	1,947
Environmental levies	**817**	1,631
Change in stock	**(1,592)**	(1,529)
Other	**2,275**	1,748
	70,805	53,860

Depreciation capitalized as a result of test production of the gas treatment unit amounted to US$ 6,484 thousand.

17. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US Dollars	**2011**	2010
Management fees	**9,949**	6,423
Business travel	**4,114**	725
Employee share option plan (Note 23)	**3,545**	3,079
Professional services	**5,973**	5,080
Payroll and related taxes	**4,295**	3,469
Training	**3,215**	2,642
Social program	**1,064**	300
Insurance fees	**743**	898
Communication	**718**	651
Bank charges	**625**	517
Depreciation and amortization	**395**	512
Other taxes	**261**	426
Sponsorship	**525**	419
Lease payments	**352**	316
Materials and supplies	**624**	316
Provision for tax claims (Note 25)	**(728)**	728
Other	**735**	764
	36,405	27,265

18. SELLING AND TRANSPORTATION EXPENSES

In thousands of US Dollar	**2011**	2010
Transportation costs	**29,655**	11,844
Loading and storage costs	**1,441**	357
Payroll and related taxes	**1,413**	1,173
Management fees	**1,071**	1,500
Other	**1,815**	2,140
	35,395	17,014

During 2011 a significant portion of oil sales was made at the Ukrainian and Russian border as opposed to the Kazakhstan and Russian border in 2010. This resulted in higher transportation costs as the Partnership paid the transportation costs through to the point of sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2011

19. FINANCE COSTS

In thousands of US Dollar	**2011**	2010
Interest expense on borrowing	**3,057**	19,940
Unwinding of discount on amounts Due to Government	**954**	959
Unwinding of discount on Abandonment and Site Restoration Liability	**706**	397
	4,717	21,296

20. INCOME TAX EXPENSES

The provision for income taxes consisted of the following:

In thousands of US Dollar	**2011**	2010
Income tax expenses comprise:		
- current income tax expense	**21,497**	13,709
- deferred income tax expense	**45,851**	24,164
Total income tax expense	**67,348**	37,873

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 financial statements for the year ended December 31 is as follows:

In thousands of US Dollar	**2011**	2010
Profit before income tax	**148,972**	60,77[illegible]
Statutory tax rate	**30%**	30%
Expected tax provision	**44,692**	18,23[illegible]
Non-deductible interest expense on borrowings	**22,385**	19,281
Non-assessable income	**(4,755)**	(2,299[illegible]
Change of the tax base	**704**	964
Difference arising on Abandonment and Site Restoration Liability and payables Due to Government	**1,309**	277
Adjustment of current income tax of prior periods	**1,663**	–
Foreign exchange loss	**30**	206
Effect of income taxed at different rate	**6**	6
Other non-deductible expenses	**1,314**	1,20[illegible]
Income tax expense reported in the financial statements	**67,348**	37,87[illegible]

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

In thousands of US Dollar	**2011**	2010
Deferred tax asset:		
Derivative financial instrument	**–**	112
Accounts payable and provisions	**2,289**	1,943
	2,289	2,055
Deferred tax liability:		
Property, plant and equipment	**(148,963)**	(102,878)
	(148,963)	(102,878)
Net deferred tax liability	**(146,674)**	(100,823)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2011

20. INCOME TAX EXPENSES (continued)

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

In thousands of US Dollar	**2011**	2010
Balance at January 1, 2010 and 2009	**(100,823)**	(76,659)
Current year charge to profit or loss	**(45,851)**	(24,164)
Balance at December 31, 2011 and 2010	**(146,674)**	(100,823)

21. DERIVATIVE FINANCIAL INSTRUMENT

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

On October 19, 2010, after prepayment in full of the BNP Paribas Facility all the rights, liabilities, duties and obligations of the Partnership under and in respect of each of the hedging agreements were transferred by novation to Citibank, N.A. (“Citibank”). The contract was settled in January 2011.

On March 29, 2011, in accordance with its hedging policy, the Partnership entered, at nil upfront cost, into a new hedging contract covering oil sales of 2,000 bbls/day, or a total of 556,000 bbls running through December 31, 2011. The counterparty to the hedging agreement was Citibank. Based on the hedging contract the Partnership bought a put at $85/bbl, which protected it against any fall in the price of oil below $85/bbl. As part of this contract it also sold a call at $125/bbl and bought a call at $134/bbl which further allowed the Partnership to benefit from oil prices up to $125/bbl and above $134/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	**2011**	2010
Hedging contract fair value at January 1	**(372)**	98
Realized hedging gain	**372**	–
Hedging loss	**–**	(470)
Hedging contract at fair value at December 31	**–**	(372)

22. OTHER EXPENSES

During the year ended December 31, 2011, the Partnership incurred losses in the amount of US$ 6,279 thousand on the lease of railway wagons. Although the Partnership has been leasing these wagons since June 30, 2010 for the purposes of transportation of GTU production, the wagons were not extensively utilised until October 2011.

23. EMPLOYEE SHARE OPTION PLAN

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

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

The equity-based payment plan is described below. There have been no cancellations or modifications to the plan during 2011.

During 2008 – 2011, 3,002,762 equity appreciation rights (SARs) were granted to senior employees and executive directors of members of the Group, which can only be settled in cash. These generally vest over a five year period from the date of grant, so that one fifth of granted SARs vests on each of the five anniversaries from the date of grant. The contractual life of the SARs is ten years. The fair value of the SARs is measured at the grant date using a binomial option pricing model taking into account the terms and conditions upon which the instruments were granted. SARs are exercisable at any time after vesting (but not before July 1, 2011) till the end of the contractual life and give its holder a right to a difference between the market value of the Group’s GDRs at the date of exercise and a stated base value. The services received and a liability to pay for those services are recognised over the expected vesting period. Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss as part of the employee benefit expenses arising from cash-settled share-based payment transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2011

23. EMPLOYEE SHARE OPTION PLAN (continued)

The carrying amount of the liability relating to 2,867,617 of SARs at December 31, 2011 is US$ 11,734 thousand (2010: US$ 10,104 thousand). During the year ended December 31, 2011, 474 455 were fully vested (2010: 654,695).

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

	December 31, 2011		December 31, 2010	
	No.	**EP, US Dollar**	No.	EP, US Dollar
Outstanding at the beginning of period	**2,982,958**	**4**	2,732,958	4
Granted	**200,000**	**10**	250,000	4
Exercised	**(315,341)**	**4**	–	–
Outstanding at the end of period	**2,867,617**		2,982,958	4
Exercisable at the end of period	**1,476,711**	**4**	–	–

The following table lists the inputs to the models used for the plan for the year ended December 31, 2010:

In thousands of US Dollars	**2011**	2010
Dividend yield (%)	**0**	0
Expected volatility (%)	**86**	86
Risk -free interest rate (%)	**3.2**	3.2
Expected life (years)	**3.5**	3.5
Option turnover (%)	**10**	10
Price trigger	**2**	2

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

24. RELATED PARTY TRANSACTIONS

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

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

In thousands of US Dollars	**2011**	2010
Trade receivables and advances	**-**	
Probel Capital Management N.V.	**-**	223
Total		223

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

In thousands of US Dollars	**2011**	2010
Trade payables		
Amersham Oil LLP	**39**	–
Prolag BVBA	**18**	106
Probel Capital Management N.V.	**242**	–
Total	**299**	106

During the year ended December 31, 2011 and 2010 the Group had the following transactions with related parties:

In thousands of US Dollars	**2011**	2010
Management fees and consulting services		
Probel Capital Management N.V.	**10,293**	8,508
Amersham Oil LLP	**1,360**	1,186
Prolag BVBA	**1,892**	1,378
Total	**13,545**	11,072

24. RELATED PARTY TRANSACTIONS (continued)

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

Key management personnel were employed and paid by Amersham Oil LLP and Probel Capital Management and whose remuneration forms part of management fees and consulting services above.

All related parties are companies indirectly controlled by Frank Monstrey.

25. CONTINGENT, COMMITMENTS AND OPERATING RISKS

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2011. As at December 31, 2011 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

In 2010, a comprehensive tax audit was performed on the Partnership's tax accounts for 2006, 2007 and 2008 which resulted in tax claims being made. Management believed that those claims contradicted the terms of the Contract and the relevant tax codes. The Partnership appealed to the court to resolve these claims. A provision of US$ 728 thousand was made in Group's consolidated financial statements for the year ended December 31, 2010 in respect to the claims where the likelihood of the Partnership being required to pay additional tax, fines and penalties was probable.

By the Court decision as of April 7, 2011 the tax claims were cancelled in full. The Tax authorities appealed the Court's decision. The Partnership therefore continued to provide for the US$ 728 thousand as the risk of loss remained substantially unchanged. On July 28, 2011 by unanimous resolution of the court of cassation of West Kazakhstan oblast the Court decision dated April 7, 2011 was affirmed. The Partnership therefore reversed the US$ 728 thousand provision.

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 December 31, 2011 the Group had contractual capital commitments in amount of US$ 17,880 thousand (2010: US$ 23,638 thousand) mainly in respect to the Partnership's oil field development activities and construction of a gas utilisation plant.

25. CONTINGENT, COMMITMENTS AND OPERATING RISKS (continued)

Operating lease

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

In March 2010 the Partnership entered into an agreement on lease of 200 railway tank wagons for transportation of liquefied hydrocarbon gases and other hydrocarbon products for a period of 7 years for KZT 6,989 (equivalent of US$ 47) per day per one wagon.

Social and education commitments

As required by the Contract (as amended by, inter alia, amendment number 9), the Partnership is obliged to:

(i) spend US$ 300 thousand per annum to finance social infrastructure;
(ii) perform repair and reconstruction of state automobile roads for the amount of US$ 12,000 thousand in 2012;
(iii) make an accrual of one percent of capital expenditure per annum for the purposes of educating Kazakh citizens; and
(iv) adhere to a spending schedule on education which lasts until (and including) 2020.

Domestic oil sales

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

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk, liquidity risk, commodity price risk and credit risk. The Group's management reviews and agrees policies for managing each of these risks are which are summarized below.

Interest Rate Risk

The Group is not exposed to the interest rate risk in 2011 and 2010 as the Group had no floating-rate borrowings as of December 31, 2011 and 2010.

Foreign Currency Risk

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

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollars exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Change in Tenge to US$ exchange rate	Effect on profit before tax
2011		
US thousand dollar		
US thousand dollar	**+10,72%**	**(29)**
	-10,72%	**29**
2010		
US thousand dollar	+11.56%	(78)
US thousand dollar	-11.56%	78

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
For the year ended December 31, 2011

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity Risk

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

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

The table below summarizes the maturity profile of the Group's financial liabilities at December 31, 2011 and 2010 based on contractual undiscounted payments:

Year ended December 31, 2011	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	**–**	**13,271**	**53,375**	**663,063**	**–**	**729,709**
Trade payables	**81,902**	**–**	**–**	**–**	**–**	**81,902**
Other current liabilities	**1,630**	**–**	**–**	**–**	**–**	**1,630**
Due to Government of Kazakhstan	**–**	**258**	**773**	**4,124**	**14,689**	**19,844**
	83,532	**13,529**	**54,148**	**667,187**	**14,689**	**833,085**

Year ended December 31, 2010	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	–	13,125	53,229	716,292	–	782,646
Trade payables	47,911	–	–	–	–	47,911
Other current liabilities	2,897	–	–	–	–	2,897
Due to Government of Kazakhstan	–	258	773	4,124	15,721	20,876
	50,808	13,383	54,002	720,416	15,721	854,330

Commodity Price Risk

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

Other than the hedge arrangements described in Note 21 the Group does not hedge its exposure to the risk of fluctuations in the price of crude oil.

Credit risk

Financial instruments, which potentially subject the Group to credit risk, consist primarily of accounts receivable and cash in banks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. The Group considers that its maximum exposure is reflected by the amount of trade accounts receivable and advances.

The Group places its Tenge denominated cash with Sberbank, which has a credit rating of Baa1 (stable) from Moody's rating agency and its US Dollar denominated cash with ING Belgium with a credit rating of Aa3 (negative) from Moody's rating agency at December 31, 2011. The Group does not guarantee obligations of other parties.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended December 31, 2011

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair values of financial instruments

Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between knowledgeable willing parties according to arm's length conditions, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is needed to arrive at a fair value, based on current economic conditions and the specific risks attributable to the instrument.
The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates. The Group's borrowings are at market rates of interest specific to those instruments and as such are stated at fair value. The Group's derivative is valued with a reference to a quoted market price in an active market. The fair value of other financial assets has been calculated using market interest rates.

Fair value hierarchy

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

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly. The Group does not have any financial instruments valued using Level 2 hierarchy.

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

Management believes that the Group's carrying value of financial assets and liabilities consisting of cash and cash equivalents, trade accounts receivable, trade and other payables are not significantly different from their fair values at December 31, 2011 and 2010.