Zhaikmunai LP

Interim Condensed Consolidated Financial Statements (Unaudited)

For the nine months ended September 30, 2012

CONTENTS

REPORT ON REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the participants and management of Zhaikmunai LP

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Zhaikmunai LP and its subsidiaries (“the Group") as at 30 September 2012 and the related interim condensed consolidated statements of comprehensive income three and nine-month periods, changes in equity and cash flows for the nine-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Ernst & Young LLP

Paul Cohn
Audit Partner

Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP

Auditor Qualification Certificate № 0000553
dated 24 December 2003

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

16 November 2012

Interim Condensed Consolidated Statement of Financial Position

In thousands of US dollars

	Note	September 30, 2012 (unaudited)	December 31, 2011 (audited)
ASSETS			
Non-Current Assets			
Property, plant and equipment	3	**1,183,425**	1,120,453
Restricted cash		**3,527**	3,076
Advances paid for equipment and construction works		**14,624**	3,368
		1,201,576	1,126,897
Current Assets			
Inventories		**18,415**	14,518
Trade receivables		**36,521**	12,640
Prepayments and other current assets		**28,147**	23,279
Income tax prepayment		–	3,453
Cash and cash equivalents		**185,989**	125,393
		269,072	179,283
TOTAL ASSETS		**1,470,648**	1,306,180
EQUITY AND LIABILITIES			
Partnership Capital and Reserves			
Partnership capital	4	**370,666**	368,203
Additional paid-in capital	4	**5,300**	1,677
Retained earnings and translation reserve		**292,989**	215,351
		668,955	585,231
Non-Current Liabilities			
Long-term borrowings	5	**437,795**	438,082
Abandonment and site restoration provision		**9,795**	8,713
Due to Government of Kazakhstan		**6,122**	6,211
Employee share option plan		**10,609**	11,734
Deferred tax liability	11	**152,298**	146,674
		616,619	611,414
Current Liabilities			
Current portion of long-term borrowings	5	**21,263**	9,450
Trade payables		**50,518**	81,914
Advances received		**387**	3,154
Income tax payable		**35,592**	–
Current portion of Due to Government of Kazakhstan		**1,031**	1,031
Dividends payable		**59,599**	–
Other current liabilities		**16,684**	13,986
		185,074	109,535
TOTAL EQUITY AND LIABILITIES		**1,470,648**	1,306,180

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

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

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

Interim Condensed Consolidated Statement of Comprehensive Income

In thousands of US dollars

	Notes	Three months ended September 30, 2012 (unaudited)	Three months ended September 30, 2011 (unaudited)	Nine months ended September 30, 2012 (unaudited)	Nine months ended September 30, 2011 (unaudited)
Revenues:					
Revenues from export sales	**6**	**169,952**	62,022	**442,924**	183,647
Revenues from domestic sales	**6**	**29,887**	1,671	**80,324**	5,953
		199,839	63,693	**523,248**	189,600
Cost of sales	**7**	**(60,138)**	(11,231)	**(155,114)**	(39,634)
Gross profit		**139,701**	52,462	**368,134**	149,966
General and administrative expenses	**8**	**(23,260)**	(6,315)	**(51,721)**	(21,958)
Selling and transportation expenses	**9**	**(27,629)**	(7,975)	**(72,265)**	(23,412)
Finance costs	**10**	**(8,705)**	(432)	**(27,685)**	(1,221)
Foreign exchange gain / (loss), net		**305**	(7)	**641**	(33)
Gain on derivative financial instrument	**12**	–	189	–	–
Interest income		**289**	61	**458**	182
Other expenses, net		**(359)**	(2,700)	**(197)**	(4,203)
Profit before income tax		**80,342**	35,283	**217,365**	99,321
Income tax expense	**11**	**(29,754)**	(16,817)	**(80,128)**	(44,844)
Profit for the period		**50,588**	18,466	**137,237**	54,477
Other comprehensive income		–	–	–	–
Total comprehensive income, net of tax		**50,588**	18,466	**137,237**	54,477

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

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

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

Interim Condensed Consolidated Statement of Cash Flows

In thousands of US dollars

	Notes	Nine months ended September 30, 2012 (unaudited)	2011 (unaudited)
Cash flow from operating activities:			
Profit before income tax		**217,365**	99,321
Adjustments for:			
Depreciation and amortization	**7, 8**	**74,846**	9,935
Accrual of share option expenses		**2,498**	(543)
Finance costs	**10**	**27,685**	1,221
Interest income		**(458)**	(182)
Foreign exchange loss on investing and financing activities		**–**	78
Operating profit before working capital changes		**321,936**	109,830
Changes in working capital:			
Increase in inventories		**(3,897)**	(403)
Increase in trade receivables		**(23,881)**	(4,405)
Increase in prepayments and other current assets		**(4,868)**	(3,821)
(Decrease) / increase in trade payables		**(11,495)**	8,518
Decrease in advances received		**(2,767)**	(4,512)
Payment of obligation to Government of Kazakhstan		**(772)**	(771)
(Decrease) / increase in other current liabilities		**(1,107)**	1,553
Cash generated from operations		**273,149**	105,989
Income tax paid		**(31,837)**	(921)
Payments under Employee Share Option Plan		**(3,623)**	(1,915)
Net cash flows from operating activities		**237,689**	103,153
Cash flow from investing activities:			
Interest income		**458**	182
Purchases of property, plant and equipment		**(153,910)**	(72,782)
Net cash used in investing activities		**(153,452)**	(72,600)
Cash flow from financing activities:			
Finance costs paid		**(29,276)**	(25,292)
Transfer (to) / from restricted cash		**(451)**	667
Realized loss on derivative financial instrument	**12**	–	(372)
Treasury shares sold		**6,086**	2,939
Net cash used in financing activities		**(23,641)**	(22,058)
Net increase in cash and cash equivalents		**60,596**	8,495
Cash and cash equivalents at the beginning of period		**125,393**	144,201
Cash and cash equivalents at the end of period		**185,989**	152,696

NON-CASH TRANSACTIONS

During the nine month period ended September 30, 2012, the Partnership offset Corporate Income Tax liability for the amount of US$3,622 thousand with Value Added Tax receivable.

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

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

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

Interim Condensed Consolidated Statement of Changes in Equity

In thousands of US dollars

	Partnership capital	Treasury Shares	Additional paid-in capital	Retained earnings and reserves	Total
As at December 31, 2010 (audited)	**366,942**	**–**	**–**	**133,727**	**500,669**
Profit for the period	–	–	–	54,477	54,477
Total comprehensive income for the period	**–**	**–**	**–**	**54,477**	**54,477**
Issuance of treasury shares (GDRs)	7,048	(7,048)	–	–	–
Transaction costs	–	–	(238)	–	(238)
Sale of treasury shares (Note 4)	–	1,261	1,915	–	3,176
As at September 30, 2011 (unaudited)	**373,990**	**(5,787)**	**1,677**	**188,204**	**558,084**
As at December 31, 2011 (audited)	**373,990**	**(5,787)**	**1,677**	**215,351**	**585,231**
Profit for the period	–	–	–	137,237	137,237
Total comprehensive income for the period	**–**	**–**	**–**	**137,237**	**137,237**
Issuance of treasury capital (GDRs) (Note 4)	6,884	(6,884)	–	–	–
Sale of treasury shares (Note 4)	–	2,463	3,623	–	6,086
Dividends (Note 4)	–	–	–	(59,599)	(59,599)
As at September 30, 2012 (unaudited)	**380,874**	**(10,208)**	**5,300**	**292,989**	**668,955**

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

Chief Executive Officer of 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 Interim Condensed Consolidated Financial Statements (unaudited) (continued)

In thousands of US dollars

1. GENERAL

Zhaikmunai LP is a Limited Partnership formed on August 29, 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.

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

These interim condensed consolidated financial statements were authorized for issue by Kai-Uwe Kessel, Chief Executive Officer of the General Partner of Zhaikmunai LP and by Jan-Ru Muller, Chief Financial Officer of the General Partner of Zhaikmunai LP on November 16, 2012.

These interim condensed consolidated financial statements include the results of the operations of Zhaikmunai LP ("Zhaikmunai LP") and its wholly owned subsidiaries Zhaikmunai Netherlands B.V. (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 General Partner of Zhaikmunai LP is Zhaikmunai Group Limited, which is responsible for the management of the Group (Note 4).

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 between the State Committee of Investments of the Republic of Kazakhstan and the Partnership, in accordance with the license MG No. 253D (the "License") for the exploration and production of hydrocarbons in Chinarevskoye oil and gas condensate field.

Licence terms

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

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.

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.

Asset purchase agreements

On August 17, 2012 the Partnership signed Asset Purchase Agreements to acquire 100% of the subsoil use rights related to three oil & gas fields, Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye, all located in the Western Kazakhstan region. Completion of the acquisitions is subject to the approval of the relevant authorities in Kazakhstan, including the Ministry of Oil & Gas and the Anti-Monopoly Agency.

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

In thousands of US dollars

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements for the nine months ended September 30, 2012 have been prepared in accordance with *IAS 34 Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's consolidated annual financial statements for the year ended December 31, 2011.

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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2011, except for the adoption of new standards and interpretations as at January 1, 2012, noted below.

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

IAS 12 **-** *Deferred Tax: Recovery of Underlying Assets (Amendment)*

This amendment to IAS 12 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. Effective implementation date is for annual periods beginning on or after January 1, 2012.

IFRS 7 **-** *Disclosures - Transfers of financial assets (Amendment)*

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Effective implementation date is for annual periods beginning on or after July 1, 2011 with no comparative requirements.

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

Seasonality of operations

The Group's operating expenses are subject to seasonal fluctuations, with higher expenses for various maintenance and other oil field services usually performed in the warmer months.

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

In thousands of US dollars

3. PROPERTY, PLANT AND EQUIPMENT

During the nine months ended September 30, 2012, the Group had additions of property, plant and equipment of US$ 137,818 thousand (nine month period ended September 30, 2011: US$ 146,564 thousand). These additions are mostly associated with drilling costs and included capitalised interest of US$ 14,594 thousand (nine month period ended September 30, 2011: US$ 41,737 thousand), abandonment and site restoration assets of US$ 471 thousand (nine month period ended September 30, 2011: US$ 3,263 thousand).

4. 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.

As at September 30, 2012 Zhaikmunai LP had issued 188,182,958 common units, all but 10 of which were represented by GDRs, which includes 3,182,958 common units (represented by GDRs) issued by Zhaikmunai LP to support its obligations to employees under the Employee Share Option Plan (ESOP) (1,421,076 of these common units were issued during the nine months ended September 30, 2012). The trust in which these GDRs are held for the ESOP constitutes a special purpose entity under IFRS and therefore, these GDRs are recorded as treasury shares of Zhaikmunai LP. During the nine month period ended September 30, 2012 upon share options being exercised by employees under the ESOP, Ogier Employee Benefit Trustee Limited ("the Trustee") sold 615,471 GDRs on the market and settled the respective obligations under the ESOP (nine month period ended September 30, 2011: 315,341 GDRs).

In September 2012, the Board of Directors of the General Partner approved the payment of Zhaikmunai LP's inaugural distribution of U.S.$ 0.32 per Common Unit to the holders of Zhaikmunai LP Common Units, representing a cash distribution of U.S.$ 59,599 thousand (equal to 20% of retained earnings at June 30, 2012). The distribution was paid on October 2, 2012 to Common Unit holders on the register of partners and interests at the close of business on October 1, 2012.

5. BORROWINGS

In thousands of US dollars	**September 30, 2012 (unaudited)**	December 31, 2011 (audited)
Notes payable	**459,058**	447,532
Less amounts due within 12 months	**(21,263)**	(9,450)
Amounts due after 12 months	**437,795**	438,082

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 October 19, 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 110.50% 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.

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

In thousands of US dollars

5. BORROWINGS (continued)

In addition, the Notes may be redeemed, in whole or in part, at any time prior to October 19, 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 at 19 October 2013 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such Note through October 19, 2013 computed using a discount rate equal to the interest rate on the United States treasury notes 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 September 30, 2012 is US$ 450,000 thousand, which is presented net of the unamortized transaction costs of US$ 12,205 thousand and increased by the amount of interest payable of US$ 21,263 thousand (December 31, 2011: US$ 450,000 thousand, US$ 11,918 thousand, and US$ 9,450 thousand, respectively).

6. REVENUES

	Three months ended September 30,		**Nine months ended September 30,**	
In thousands of US Dollars	**2012 (unaudited)**	2011 (unaudited)	**2012 (unaudited)**	2011 (unaudited)
Oil and gas condensate	**159,491**	63,693	**410,362**	189,600
Gas and liquefied petroleum gas ("LPG")	**40,348**	–	**112,886**	–
	199,839	63,693	**523,248**	189,600

In November 2011 the Partnership started recording revenue from sales of products from the gas treatment unit, which allows the Partnership to produce gas condensate, LPG and gas. As a result the Partnership's revenues during the nine months ended September 30, 2012 include revenues from these products.

7. COST OF SALES

	Three months ended September 30,		**Nine months ended September 30,**	
In thousands of US Dollars	**2012 (unaudited)**	2011 (unaudited)	**2012 (unaudited)**	2011 (unaudited)
Depreciation and amortization	**28,287**	1,219	**73,918**	9,492
Repair, maintenance and other services	**11,124**	2,911	**33,470**	6,925
Payroll and related taxes	**5,279**	2,474	**14,059**	5,812
Materials and supplies	**4,192**	735	**11,675**	2,220
Royalties	**4,690**	260	**11,545**	5,532
Well workover costs	**2,685**	744	**4,333**	2,747
Other transportation services	**1,247**	673	**4,114**	1,615
Government profit share	**956**	580	**2,539**	1,778
Management fees	**483**	486	**1,433**	1,254
Environmental levies	**384**	34	**1,187**	611
Change in stock	**(44)**	1,001	**(6,478)**	522
Other	**855**	114	**3,319**	1,126
	60,138	11,231	**155,114**	39,634

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

In thousands of US dollars

8. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US Dollars	**Three months ended September 30, 2012 (unaudited)**	2011 (unaudited)	**Nine months ended September 30, 2012 (unaudited)**	2011 (unaudited)
Social program	**10,415**	436	**21,732**	586
Management fees	**4,431**	2,122	**10,115**	6,078
Payroll and related taxes	**1,450**	1,156	**3,759**	3,087
Business trip	**908**	1,121	**3,108**	3,317
Training	**871**	1,409	**2,729**	2,370
Employee share option plan	**2,475**	(1,863)	**2,498**	(543)
Professional services	**554**	1,049	**2,348**	3,992
Insurance fees	**369**	215	**1,036**	531
Depreciation and amortization	**349**	180	**928**	443
Bank charges	**248**	159	**711**	401
Communication	**183**	199	**590**	548
Sponsorship	**309**	95	**553**	424
Materials and supplies	**126**	174	**396**	393
Other taxes	**79**	130	**294**	232
Lease payments	**96**	91	**285**	261
Other	**397**	(358)	**639**	(162)
	23,260	6,315	**51,721**	21,958

9. SELLING AND TRANSPORTATION EXPENSES

In thousands of US Dollars	**Three months ended September 30, 2012 (unaudited)**	2011 (unaudited)	**Nine months ended September 30, 2012 (unaudited)**	2011 (unaudited)
Transportation costs	**19,345**	4,095	**50,394**	16,407
Loading and storage costs	**5,707**	968	**15,970**	1,250
Payroll	**736**	302	**1,776**	976
Management fees	**470**	210	**1,378**	865
Other	**1,371**	2,400	**2,747**	3,914
	27,629	7,975	**72,265**	23,412

10. FINANCE COSTS

In thousands of US Dollars	**Three months ended September 30, 2012 (unaudited)**	2011 (unaudited)	**Nine months ended September 30, 2012 (unaudited)**	2011 (unaudited)
Interest expense on borrowings	**8,244**	–	**26,391**	–
Unwinding of discount on Due to Government	**257**	256	**683**	692
Unwinding of discount on Abandonment and Site Restoration Provision	**204**	176	**611**	529
	8,705	432	**27,685**	1,221

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

In thousands of US dollars

11. INCOME TAX EXPENSE

The income tax expense consisted of the following:

In thousands of US Dollars	**Three months ended September 30, 2012 (unaudited)**	Three months ended September 30, 2011 (unaudited)	**Nine months ended September 30, 2012 (unaudited)**	Nine months ended September 30, 2011 (unaudited)
Income tax expenses comprise:				
- current income tax expense	**28,987**	9,992	**74,504**	26,958
- deferred income tax expense	**767**	6,825	**5,624**	17,886
Total income tax expense	**29,754**	16,817	**80,128**	44,844

The Group's profits are assessed for income taxes only in the Republic of Kazakhstan. A reconciliation between tax expense and the product of accounting profit multiplied by the Kazakhstani tax rate, applicable to the license for the nine month period ended 30 September, is as follows:

In thousands of US Dollars	**Three months ended September 30, 2012 (unaudited)**	Three months ended September 30, 2011 (unaudited)	**Nine months ended September 30, 2012 (unaudited)**	Nine months ended September 30, 2011 (unaudited)
Profit before income tax	**80,342**	35,283	**217,365**	99,321
Statutory tax rate	**30%**	30%	**30%**	30%
Expected tax provision	**24,103**	10,585	**65,210**	29,796
Non-deductible interest expense on borrowings	**5,406**	5,759	**16,236**	16,759
Change of the tax base	**(434)**	1,737	**(1,451)**	332
Foreign exchange gain	**520**	145	**370**	42
Non-assessable income	**(228)**	(1,583)	**(2,576)**	(4,271)
Other	**387**	174	**2,339**	2,186
Income tax expense reported in the statements of comprehensive income	**29,754**	16,817	**80,128**	44,844

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

In thousands of US Dollars	**September 30, 2012 (unaudited)**	December 31, 2011 (audited)
Deferred tax asset:		
Accounts payable and provisions	**2,690**	2,289
Deferred tax liability:		
Property, plant and equipment	**(154,988)**	(148,963)
Net deferred tax liability	**(152,298)**	(146,674)

The movements in the deferred tax liability were as follows:

In thousands of US Dollars	**2012 (unaudited)**	2011 (unaudited)
Balance at January 1	**(146,674)**	(100,823)
Current period charge to statement of comprehensive income	**(5,624)**	(17,886)
Balance at September 30	**(152,298)**	(118,709)

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

In thousands of US dollars

12. 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 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 expired 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 new hedging contract the Partnership bought a put at $85/bbl, sold a call at $125/bbl and bought a call at $134/bbl.

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

	Nine months ended September 30,	
In thousands of US Dollar	**2012 (unaudited)**	2011 (unaudited)
Hedging contract fair value at January 1	–	(372)
Realized hedging loss	–	372
Hedging loss	–	–
Hedging contract at fair value at September 30	–	–

13. RELATED PARTY TRANSACTIONS

For the purpose of these interim condensed consolidated financial statements related parties transactions include mainly balances and transactions between the Group and the participants and/or their affiliated companies.

Accounts payable to related parties as at September 30, 2012 and December 31, 2011 consisted of the following:

In thousands of US Dollars	**September 30, 2012 (unaudited)**	December 31, 2011 (audited)
Trade payables		
Probel Capital Management B.V.	**374**	242
Prolag BVBA	**192**	18
Amersham Oil LLP	**39**	39
	605	299

During the nine month period ended September 30, 2012 and 2011 the Group had the following transactions with related parties:

	Three months ended September 30,		**Nine months ended September 30,**	
In thousands of US Dollars	**2012 (unaudited)**	2011 (unaudited)	**2012 (unaudited)**	2011 (unaudited)
Management fees and consulting services				
Probel Capital Management B.V.	**4,350**	2,130	**10,231**	6,366
Prolag BVBA	**523**	464	**1,596**	1,551
Amersham Oil LLP	**507**	480	**1,098**	1,064
	5,380	3,074	**12,925**	8,981

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

Remuneration of members of key management personnel amounted to US$ 486 thousand for the nine month period ended September 30, 2012 (nine month period ended September 30, 2011: US$ 376 thousand). Other key management personnel were employed and paid by Amersham Oil LLP and Probel Capital Management and whose remuneration forms part of management fees and consulting services above.

All related parties are companies, indirectly controlled by Frank Monstrey.

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

In thousands of US dollars

14. CONTINGENT LIABILITIES AND COMMITMENTS

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at September 30, 2012. As at September 30, 2012 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Partnership's tax positions will be sustained.

Abandonment and site restoration (decommissioning)

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

Environmental obligations

The Partnership may also be subject to loss contingencies relating to regional environmental claims that may arise from the past operations of the related fields in which it operates. As Kazakh laws and regulations evolve concerning environmental assessments and site restoration, the Partnership may incur future costs, the amount of which is currently indeterminable.

Capital commitments

As at September 30, 2012 the Partnership had contractual capital commitments in the amount of US$ 48,258 thousand (31 December 2011: US$ 17,880 thousand) mainly in respect to the Partnership's oil field development activities and the asset purchase agreements for the acquisition of the subsoil use rights for the neighbouring oil & gas fields Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye.

Operating leases

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

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, Addendum #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 the 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.

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

In thousands of US dollars

15. EVENTS AFTER THE REPORTING PERIOD

In November 2012 Zhaikmunai International B.V., a subsidiary of Zhaikmunai L.P., has successfully placed US$ 560 million aggregate principal amount of Senior Notes with a seven-year maturity with a fixed coupon of 7.125% per annum ("the New Notes"). The New Notes are jointly and severally guaranteed on a senior basis by Zhaikmunai LP and all of its subsidiaries other than Zhaikmunai International B.V. The transaction was closed on November 13, 2012.

Zhaikmunai International B.V. intends to use part of the net proceeds from the issuance of the New Notes to fund the repurchase of 10.5% Senior Notes due 2015 ("the Existing Notes") pursuant to the Tender Offer published on October 19, 2012. On November 2, 2012 Zhaikmunai International B.V. announced that approximately US$ 348 million aggregate principal amount of the Existing Notes had been tendered into the Tender Offer, representing approximately 77% of the outstanding Existing Notes. Of the noteholders that accepted the Tender Offer approximately 58% have subscribed to the New Notes. Settlement of the Tender Offer is expected to take place on November 23, 2012.