

**Zhaikmunai LP**

Interim condensed consolidated financial statements

*For the nine months ended September 30, 2013*

*with Independent auditors' report*

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## **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 statements of Zhaikmunai LP and its subsidiaries ("the Group") as at 30 September 2013, which comprise the interim condensed consolidated statement of financial position as at 30 September 2013 and the related interim condensed consolidated statements of comprehensive income for the three and nine-month periods then ended, statements of 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 condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

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

*Ernst & Young LLP*

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Paul Cohn  
Audit Partner

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Alexander Nazarkulov  
Auditor

Auditor Qualification Certificate  
No. 0000059 dated 6 January 2012

15 November 2013

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Evgeny Zhemaletdinov  
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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at September 30, 2013**

<i>In thousands of US dollars</i>	<b>Notes</b>	<b>September 30, 2013 (unaudited)</b>	December 31, 2012 (audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Exploration and evaluation assets	4	17,859	–
Property, plant and equipment	5	1,300,523	1,222,665
Restricted cash		4,181	3,652
Advances for non-current assets		9,031	25,278
Non-current investments	6	30,000	–
		<b>1,361,594</b>	1,251,595
<b>Current assets</b>			
Inventories		21,853	24,964
Trade receivables		123,855	54,004
Prepayments and other current assets		29,558	24,369
Short-term investments	6	31,500	50,000
Cash and cash equivalents		159,316	197,730
		<b>366,082</b>	351,067
<b>TOTAL ASSETS</b>		<b>1,727,676</b>	1,602,662
<b>EQUITY AND LIABILITIES</b>			
<b>Partnership capital and reserves</b>			
Partnership capital	7	357,337	371,147
Additional paid-in capital		7,046	6,095
Retained earnings and reserves		416,449	317,862
		<b>780,832</b>	695,104
<b>Non-current liabilities</b>			
Long-term borrowings	8	619,577	615,742
Abandonment and site restoration liabilities		12,687	11,064
Due to Government of Kazakhstan		6,021	6,122
Employee share option plan		14,290	9,788
Deferred tax liability		148,228	148,932
		<b>800,803</b>	791,648
<b>Current liabilities</b>			
Current portion of long term borrowings		19,462	7,152
Trade payables		57,702	58,390
Advances received		1,619	60
Income tax payable		21,913	11,762
Current portion of Due to Government of Kazakhstan		1,031	1,031
Other current liabilities		44,314	37,515
		<b>146,041</b>	115,910
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,727,676</b>	1,602,662

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*

*The accounting policies and explanatory notes on pages 5 through 16 are an integral part of these interim condensed consolidated financial statements*

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended September 30, 2013

<i>In thousands of US dollars</i>		Three months ended September 30,		Nine months ended September 30,	
	Notes	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
<b>Revenue:</b>					
Revenue from export sales		187,318	169,952	565,408	442,924
Revenue from domestic sales		27,373	29,887	91,782	80,324
	9	214,691	199,839	657,190	523,248
Cost of sales	10	(71,213)	(60,138)	(206,544)	(155,114)
<b>Gross profit</b>		<b>143,478</b>	<b>139,701</b>	<b>450,646</b>	<b>368,134</b>
General and administrative expenses	11	(20,682)	(24,093)	(48,644)	(54,221)
Selling and transportation expenses	12	(26,817)	(27,629)	(87,631)	(72,265)
Finance costs	13	(7,117)	(7,872)	(32,739)	(25,185)
Foreign exchange (loss) / gain, net		(226)	305	(436)	641
Interest income		182	289	731	458
Other expenses		(7,148)	(1,069)	(17,794)	(3,224)
Other income		601	710	2,955	3,027
<b>Profit before Income tax</b>		<b>82,271</b>	<b>80,342</b>	<b>267,088</b>	<b>217,365</b>
Income tax expense	14	(32,203)	(29,754)	(105,322)	(80,128)
<b>Profit for the period</b>		<b>50,068</b>	<b>50,588</b>	<b>161,766</b>	<b>137,237</b>
<b>Total comprehensive income for the period</b>		<b>50,068</b>	<b>50,588</b>	<b>161,766</b>	<b>137,237</b>

Chief Executive Officer of the General Partner of Zhaikmunai LP

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*Kai-Uwe Kessel*

Chief Financial Officer of the General Partner of Zhaikmunai LP

\_\_\_\_\_  
*Jan-Ru Muller*

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**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS****For the nine months ended September 30, 2013**

<i>In thousands of US dollars</i>	<b>Notes</b>	<b>Nine months ended September 30,</b>	
		<b>2013 (unaudited)</b>	<b>2012 (unaudited)</b>
<b>Cash flow from operating activities:</b>			
Profit before income tax		267,088	217,365
Adjustments for:			
Depreciation, depletion and amortization	10, 11	92,190	74,846
Employee share option plan accrual		5,433	2,498
Finance costs		32,739	25,185
Interest income		(731)	(458)
Foreign exchange gain on investing and financing activities		(32)	–
<b>Operating profit before working capital changes</b>		<b>396,687</b>	<b>319,436</b>
Changes in working capital:			
Change in inventories		3,111	(3,897)
Change in trade receivables		(69,851)	(23,881)
Change in prepayments and other current assets		(5,326)	(4,868)
Change in trade payables		967	(11,495)
Change in advances received		1,559	(2,767)
Change in due to Government of Kazakhstan		(877)	(772)
Change in other current liabilities		845	1,393
<b>Cash generated from operations</b>		<b>327,115</b>	<b>273,149</b>
Income tax paid		(95,738)	(31,837)
Payments under Employee share option plan		(931)	(3,623)
<b>Net cash flows from operating activities</b>		<b>230,446</b>	<b>237,689</b>
<b>Cash flow from investing activities:</b>			
Interest received		731	458
Purchases of property, plant and equipment		(154,136)	(153,910)
Purchase of exploration and evaluation assets		(2,470)	–
Placement of long-term bank deposits		(30,000)	–
Redemption of short-term bank deposits		18,500	–
<b>Net cash used in investing activities</b>		<b>(167,375)</b>	<b>(153,452)</b>
<b>Cash flow from financing activities:</b>			
Finance costs paid		(24,918)	(29,276)
Transfer to restricted cash		(529)	(451)
Repurchase of GDRs		(14,290)	–
GDRs sold for Employee share option plan		1,431	6,086
Distributions paid	7	(63,179)	–
<b>Net cash used in financing activities</b>		<b>(101,485)</b>	<b>(23,641)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(38,414)</b>	<b>60,596</b>
Cash and cash equivalents at the beginning of the period		197,730	125,393
<b>Cash and cash equivalents at the end of the period</b>		<b>159,316</b>	<b>185,989</b>

Chief Executive Officer of the General Partner of Zhaikmunai LP

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*Kai-Uwe Kessel*

Chief Financial Officer of the General Partner of Zhaikmunai LP

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*Jan-Ru Muller*

*The accounting policies and explanatory notes on pages 5 through 16 are an integral part of these interim condensed consolidated financial statements*

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****For the nine months ended September 30, 2013**

<i>In thousands of US dollars</i>	Partnership capital	Treasury capital	Additional paid-in capital	Retained earnings and reserves	Total
<b>As at December 31, 2011 (audited)</b>	<b>373,990</b>	<b>(5,787)</b>	<b>1,677</b>	<b>215,351</b>	<b>585,231</b>
Net income for the period	–	–	–	137,237	137,237
<b>Total comprehensive income for the period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>137,237</b>	<b>137,237</b>
Issuance of GDRs for Employee share option plan	6,884	(6,884)	–	–	–
Sale of GDRs for Employee share option plan	–	2,463	3,623	–	6,086
Distributions	–	–	–	(59,599)	(59,599)
<b>As at September 30, 2012 (unaudited)</b>	<b>380,874</b>	<b>(10,208)</b>	<b>5,300</b>	<b>292,989</b>	<b>668,955</b>
<b>As at December 31, 2012 (audited)</b>	<b>380,874</b>	<b>(9,727)</b>	<b>6,095</b>	<b>317,862</b>	<b>695,104</b>
Net income for the period	–	–	–	161,766	161,766
<b>Total comprehensive income for the period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>161,766</b>	<b>161,766</b>
Buyback of GDRs	–	(14,290)	–	–	(14,290)
Sale of GDRs for Employee share option plan	–	480	951	–	1,431
Distributions	–	–	–	63,179	63,179
<b>As at September 30, 2013 (unaudited)</b>	<b>380,874</b>	<b>(23,537)</b>	<b>7,046</b>	<b>416,449</b>	<b>780,832</b>

Chief Executive Officer of the General Partner of Zhaikmunai LP

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*Kai-Uwe Kessel*

Chief Financial Officer of the General Partner of Zhaikmunai LP

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*Jan-Ru Muller*

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**For the nine months ended September 30, 2013

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**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 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 15, 2013. The Partnership does not have an ultimate controlling party.

These interim condensed consolidated financial statements include the results of the operations of Zhaikmunai LP ("Partnership") and its wholly owned subsidiaries Zhaikmunai Netherlands B.V. (formerly Frans Van Der Schoot B.V.), Zhaikmunai Finance B.V., Zhaikmunai International B.V., Claydon Industrial Limited ("Claydon"), Jubilata Investments Limited ("Jubilata"), Zhaikmunai LLP and Condensate-Holding 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 7).

Zhaikmunai LLP 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 Zhaikmunai LLP in accordance with the license MG No. 253D (the "License") for the exploration and production of hydrocarbons in Chinarevskoye oil and gas condensate field.

On August 17, 2012 Zhaikmunai LLP signed Asset Purchase Agreements to acquire 100% of the subsoil use rights related to three oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye – all located in the Western Kazakhstan region. On March 1, 2013 Zhaikmunai LLP has acquired the subsoil use rights related to these three oil and gas fields in Kazakhstan following the signing of the respective supplementary agreements related thereto by the Ministry of Oil and Gas of the Republic of Kazakhstan ("MOG").

*Licence terms*

The term of the License 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. A further extension to 26 May 2014 was made under supplementary agreement number 10 dated October 28, 2013 (Note 18). The extensions to the exploration periods have not changed the License term, which will expire in 2031.

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated February 8, 2008 originally included a 3-year exploration period and a 12-year production period. On April 27, 2009 the exploration period was extended so as to have a total duration of 6 years. In January 2012 the MOG made the decision to extend the exploration period until February 8, 2015 and the corresponding supplementary agreement between MOG and the Partnership was signed on August 9, 2013.

The contract for exploration and production of hydrocarbons from Darjinskoye field dated July 28, 2006 originally included a 6-year exploration period and a 19-year production period. On October 21, 2008 the exploration period was extended for 6 months so as to expire on January 28, 2013. On April 27, 2009 the exploration period was extended until January 28, 2015. Upon receipt of the ownership rights the Zhaikmunai LLP started the process of application for further extension of the exploration period.

The contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field dated July 28, 2006 originally included a 5-year exploration period and a 20-year production period. On April 27, 2009 the exploration period was extended until July 28, 2012. On July 8, 2011 the exploration period was further extended until July 28, 2014. Upon receipt of the ownership rights the Zhaikmunai LLP started the process of application for further extension of the exploration period.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)**

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**1. GENERAL (continued)***Royalty payments*

Zhaikmunai LLP is required to make monthly royalty payments throughout the entire production period, at the rates specified in the Contract. Royalty rates depend on hydrocarbon recovery levels and the phase of production and can vary from 3% to 7% of produced crude oil and from 4% to 9% of produced natural gas.

*Government “profit share”*

Zhaikmunai LLP 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.

**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 incurred in the warmer months.

**2. BASIS OF PREPARATION****Basis of preparation**

These interim condensed consolidated financial statements for the nine months ended September 30, 2013 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, 2012.

**3. CHANGES IN GROUP ACCOUNTING POLICIES****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, 2012, except for the adoption of new standards and interpretations as of January 1, 2013, noted below.

The nature and the impact of each new standard/amendment is described below:

**Improvements to IFRSs 2009-2011***IAS 1 Clarification of the requirement for comparative information (Amendment)*

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

The opening statement of financial position (known as the ‘third balance sheet’) must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for interim condensed financial statements do not include a third balance sheet. The amendment did not have an impact on the interim condensed consolidated financial statements of the Group.

*IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)*

The amendment to IAS 32 Financial Instruments: Presentation removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim condensed consolidated financial statements of the Group, as there are no tax consequences attached to cash or non-cash distribution.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(continued)****3. CHANGES IN GROUP ACCOUNTING POLICIES (continued)****New standards, interpretations and amendments thereof, adopted by the Group (continued)***IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)*

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. The Group provides this disclosure as total segment assets were reported to the chief operating decision maker (CODM). The amendment did not have an impact on the disclosures in the interim condensed consolidated financial statements for the Group.

*IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment had no impact on the Group's financial position or performance.

*IAS 19 Employee Benefits (Revised 2011) (IAS 19R)*

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The amendment had no impact on the Group's financial position or performance.

*IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7*

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

*IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements*

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)****3. CHANGES IN GROUP ACCOUNTING POLICIES (continued)****New standards, interpretations and amendments thereof, adopted by the Group (continued)***IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures*

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 under IFRS 11 must be accounted for using the equity method. As the Group does not have JCEs, hence IFRS 11 had no impact on the Group.

*IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period require that they are provided. Accordingly, the Group has not made such disclosures.

*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 application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required for financial instruments by IAS 34.16 A (j), thereby affecting the interim condensed consolidated financial statements period. The Group provides these disclosures in Note 17.

In addition to the above-mentioned amendments and new standards, IFRS 1 First-time Adoption of International Financial Reporting Standards was amended with effect for reporting periods starting on or after 1 January 2013. The Group is not a first-time adopter of IFRS, therefore, this amendment is not relevant to the Group.

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

**4. EXPLORATION AND EVALUATION ASSETS**

During the nine months ended September 30, 2013 the Group had additions of exploration and evaluation assets of US\$ 17,859 thousand (nine months ended September 30, 2012: US\$ nil), which includes capitalized contingent consideration under the acquisition agreements for the Darinskoye and Yuzhno-Gremyachenskoye oil and gas fields in the amount of US\$ 5,300 thousand. The liabilities related to consideration were recognized as other current liabilities and are payable upon registration with the MOG of the supplementary agreements incorporating the proposed new work programs for those fields.

The additions are related to the acquisition of subsoil use rights of three oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye and seismic works done. There was no capitalized interest.

There was no exploration expenditure expensed during the nine months ended September 30, 2013 (2012: Nil).

**5. PROPERTY, PLANT AND EQUIPMENT**

During the nine months ended September 30, 2013, the Group had additions of property, plant and equipment of US\$ 170,048 thousand (nine months ended September 30, 2012: US\$ 137,133 thousand). These additions are mostly associated with drilling costs, capitalised interest of US\$ 10,458 thousand (nine months ended September 30, 2012: US\$ 13,734 thousand), and abandonment and site restoration assets of US\$ 844 thousand (nine months ended September 30, 2012: US\$ 471 thousand).

**6. NON-CURRENT AND SHORT-TERM INVESTMENTS**

As at September 30, 2013 long-term investments were represented by an interest bearing deposit placed for a twelve-month period.

As at September 30, 2013 short-term investments were represented by an interest bearing short-term deposit placed on September 30, 2013 for a six-month period.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 7. 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.

In September 2012, the Board of Directors of the General Partner approved the payment of Zhaikmunai LP's inaugural distribution of US\$ 0.32 per Common Unit to the holders of Zhaikmunai LP Common Units, representing a cash distribution of US\$ 60,219 thousand (equal to approximately 20% of retained earnings at June 30, 2012). The distribution (in the amount of US\$ 59,498 thousand, since the ESOP Trustee referenced in the following paragraph declined 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.

On June 28, 2013 the limited partners of Zhaikmunai duly passed all proposed resolutions at the Annual General Meeting ("AGM") of limited partners. Such resolutions included approval by the limited partners at the AGM of the distribution to Zhaikmunai's limited partners of US\$ 0.34 per common unit, payable by Zhaikmunai on July 26, 2013 to common unit holders on the register of partners and interests at the close of the business on July 19, 2013.

As at December 31, 2012 Zhaikmunai LP had issued authorized, fully paid 188,182,958 common units, which do not have par value, all but 10 of which are represented by GDRs, including 1,421,076 new common units (represented by GDRs) issued 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"), which upon request from employees to exercise options, sells GDRs on the market and settles respective obligations under the ESOP. This trust constitutes a consolidated structured entity under IFRS and therefore, these newly issued GDRs are recorded as treasury capital of Zhaikmunai LP. During the nine months ended September 30, 2013 no new common units were issued and 120,325 share options were exercised by employees (nine months ended September 30, 2012: 615,471 share options). The aggregate number of GDRs in respect of which share options may be outstanding under the ESOP must not exceed 5,000,000. There are no common units held by Partnership's subsidiaries, except for the treasury shares held to support the ESOP.

The movements in the number of GDR's during the nine months ended September 30, 2013 and 2012 were as follows:

<i>Number of GDRs</i>	<b>2013</b>	2012
Balance at January 1 (audited)	<b>188,182,958</b>	186,761,882
Issued during the period	–	1,421,076
<b>Balance at September 30 (unaudited)</b>	<b>188,182,958</b>	188,182,958

Additional paid-in capital includes excess of the sale price of GDRs at the transaction date over their base value, less transaction costs incurred for issuance of GDRs.

Retained earnings and reserves include foreign currency translation reserve accumulated before 2009, when the functional currency of the Group was Kazakhstani Tenge.

### 8. BORROWINGS

Borrowings comprise the following as at September 30, 2013 and December 31, 2012:

<i>In thousands of US dollars</i>	<b>September 30, 2013 (unaudited)</b>	December 31, 2012 (audited)
Notes payable with maturity in 2019	<b>543,590</b>	530,425
Notes payable with maturity in 2015	<b>95,449</b>	92,469
	<b>639,039</b>	622,894
Less: amounts due within 12 months	<b>(19,462)</b>	(7,152)
Amounts due after 12 months	<b>619,577</b>	615,742

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(continued)****8. BORROWINGS (continued)****2015 Notes**

On October 19, 2010 Zhaikmunai Finance B.V. (the “2015 Initial Issuer”) issued US\$ 450,000 thousand notes (the “2015 Notes”).

On February 28, 2011 Zhaikmunai LLP (the “2015 Issuer”) replaced the 2015 Initial Issuer of the 2015 Notes, whereupon it assumed all of the obligations of the 2015 Initial Issuer under the 2015 Notes.

The 2015 Notes bear interest at the rate of 10.50% per year. Interest on the 2015 Notes is payable on April 19 and October 19 of each year, beginning on April 19, 2011. Prior to October 19, 2013, the 2015 Issuer could, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2015 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 (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2015 Notes (including Additional Notes as defined in the indenture relating to the 2015 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 2015 Notes could have been redeemed, in whole or in part, at any time prior to October 19, 2013 at the option of the 2015 Issuer upon not less than 30 nor more than 60 days’ prior notice mailed by first-class mail to each holder of 2015 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2015 Notes redeemed plus the Applicable Premium (as defined below) 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 2015 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2015 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2015 Note at October 19, 2013 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2015 Note through October 19, 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 2015 Note.

The 2015 Notes are jointly and severally guaranteed (the “2015 Guarantees”) on a senior basis by Zhaikmunai LP and all of its subsidiaries other than the 2015 Issuer (the “2015 Guarantors”). The 2015 Notes are the 2015 Issuer’s and the 2015 Guarantors’ senior obligations and rank equally with all of the 2015 Issuer’s and the 2015 Guarantors’ other senior indebtedness. The 2015 Notes and the 2015 Guarantees have the benefit of first-priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

On October 19, 2012, Zhaikmunai International B.V. commenced a cash tender offer (the “Tender Offer”) to purchase any and all of the 2015 Notes. US\$ 347,604 thousand aggregate principal amount of the 2015 Notes had been tendered into the Tender Offer, representing approximately 77% of the outstanding 2015 Notes, by the time the Tender Offer for 2015 Notes expired on November 19, 2012. The holders of US\$ 200,732 thousand 2015 Notes that accepted the Tender Offer have subscribed to the 2019 Notes of the same amount. Also premium was paid to the holders of 2015 Notes for early repayment of notes in the amount of US\$ 38,409 thousand.

**2019 Notes**

On November 13, 2012, Zhaikmunai International B.V. (the “2019 Initial Issuer”) issued US\$ 560,000 thousand notes (the “2019 Notes”).

On April 24, 2013 Zhaikmunai LLP (the “2019 Issuer”) replaced the 2019 Initial Issuer of the 2019 Notes, whereupon it assumed all of the obligations of the 2019 Initial Issuer under the 2019 Notes.

The 2019 Notes bear interest at the rate of 7.125% per year. Interest on the 2019 Notes is payable on May 14 and November 13 of each year, beginning on May 14, 2013. Prior to November 13, 2016, the 2019 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2019 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 107.125% of the principal amount thereof, plus accrued and unpaid interest, if any, to the 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); provided that (1) at least 65% of the original principal amount of the 2019 Notes (including Additional Notes as defined in the indenture relating to the 2019 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 (continued)

### 8. BORROWINGS (continued)

#### 2019 Notes (continued)

In addition, the 2019 Notes may be redeemed, in whole or in part, at any time prior to November 13, 2016 at the option of the 2019 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2019 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2019 Notes redeemed plus the Applicable Premium (as defined below) 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 2019 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2019 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2019 Note at November 13, 2016 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2019 Note through November 13, 2016 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 2019 Note.

The 2019 Notes are jointly and severally guaranteed (the "2019 Guarantees") on a senior basis by Zhaikmunai LP and all of its subsidiaries other than the 2019 Issuer (the "2019 Guarantors"). The 2019 Notes are the 2019 Issuer's and the 2019 Guarantors' senior obligations and rank equally with all of the 2019 Issuer's and the 2019 Guarantors' other senior indebtedness. The 2019 Notes and the 2019 Guarantees do not have the benefit of first-priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

### 9. REVENUE

	Three months ended September 30,		Nine months ended September 30,	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
<i>In thousands of US dollars</i>				
Oil and gas condensate	171,771	159,491	525,157	410,362
Gas and LPG	42,920	40,348	132,033	112,886
	<b>214,691</b>	199,839	<b>657,190</b>	523,248

During nine months ended September 30, 2013 the revenue from sales to five major customers amounted to US\$ 142,257 thousand, US\$ 140,218 thousand, US\$ 77,522 thousand, US\$ 77,508 thousand and US\$ 51,832 thousand respectively (nine months ended September 30, 2012 three major customers: US\$ 200,581 thousand, US\$ 53,994 thousand, and US\$ 118,780 thousand, respectively).

### 10. COST OF SALES

	Three months ended September 30,		Nine months ended September 30,	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
<i>In thousands of US dollars</i>				
Depreciation, depletion and amortization	27,883	28,287	91,096	73,918
Repair, maintenance and other services	15,296	11,124	40,066	33,470
Royalties	9,140	4,690	27,168	11,545
Government profit share	9,956	956	14,205	2,539
Payroll and related taxes	5,104	5,279	12,908	14,059
Materials and supplies	3,987	4,192	10,266	11,675
Other transportation services	1,188	1,247	3,544	4,114
Management fees	863	483	2,450	1,433
Well workover costs	589	2,685	2,334	4,333
Environmental levies	269	384	843	1,187
Change in stock	(3,223)	(44)	624	(6,478)
Other	161	855	1,040	3,319
	<b>71,213</b>	60,138	<b>206,544</b>	155,114

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 11. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of US dollars</i>	Three months ended September 30,		Nine months ended September 30,	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
Management fees	3,834	4,431	11,460	10,115
Professional services	3,671	554	5,997	2,348
Payroll and related taxes	2,806	1,450	5,717	3,759
Employee share option plan	2,896	2,475	5,433	2,498
Other taxes	805	912	4,184	2,794
Training	1,282	871	3,831	2,729
Business travel	1,175	908	3,365	3,108
Sponsorship	2,084	309	2,709	553
Insurance fees	526	369	1,525	1,036
Depreciation and amortization	376	349	1,094	928
Bank charges	294	248	882	711
Communication	313	183	780	590
Lease payments	149	96	434	285
Materials and supplies	140	126	416	396
Social program	75	10,415	225	21,732
Other	256	397	592	639
	<b>20,682</b>	<b>24,093</b>	<b>48,644</b>	<b>54,221</b>

### 12. SELLING AND TRANSPORTATION EXPENSES

<i>In thousands of US dollars</i>	Three months ended September 30,		Nine months ended September 30,	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
Transportation costs	16,477	19,345	55,962	50,394
Loading and storage costs	9,364	5,707	25,354	15,970
Payroll and related taxes	749	736	1,948	1,776
Management fees	165	470	640	1,378
Other	62	1,371	3,727	2,747
	<b>26,817</b>	<b>27,629</b>	<b>87,631</b>	<b>72,265</b>

### 13. FINANCE COSTS

<i>In thousands of US dollars</i>	Three months ended September 30,		Nine months ended September 30,	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
Interest expense on borrowings	6,600	7,411	31,291	23,891
Unwinding of discount on Abandonment and Site Restoration Liability	259	257	776	683
Unwinding of discount on Due to Government of Kazakhstan	258	204	672	611
	<b>7,117</b>	<b>7,872</b>	<b>32,739</b>	<b>25,185</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 14. INCOME TAX EXPENSES

The income tax expense consisted of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
<i>In thousands of US dollars</i>				
Current income tax expense	29,208	28,987	106,026	74,504
Deferred income tax expense/(benefit)	2,995	767	(704)	5,624
<b>Total income tax expense</b>	<b>32,203</b>	<b>29,754</b>	<b>105,322</b>	<b>80,128</b>

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 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2013 (unaudited)	2012 (unaudited)	2013 (unaudited)	2012 (unaudited)
<i>In thousands of US dollars</i>				
Profit before income tax	82,271	80,342	267,088	217,365
Statutory tax rate	30%	30%	30%	30%
<b>Expected tax provision</b>	<b>24,681</b>	<b>24,103</b>	<b>80,126</b>	<b>65,210</b>
Non-deductible interest expense on borrowings	3,293	5,406	14,568	16,236
Change of the tax base	2,293	(434)	2,846	(1,451)
Foreign exchange (gain)/loss	(345)	520	566	370
Non-assessable income	(1,194)	(228)	–	(2,576)
Other	3,475	387	7,216	2,339
<b>Income tax expense reported in the financial statements</b>	<b>32,203</b>	<b>29,754</b>	<b>105,322</b>	<b>80,128</b>

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:

<i>In thousands of US dollars</i>	September 30, 2013 (unaudited)	December 31, 2012 (audited)
<b>Deferred tax asset:</b>		
Accounts payable and provisions	3,468	2,690
<b>Deferred tax liability:</b>		
Property, plant and equipment	(151,696)	(151,622)
<b>Net deferred tax liability</b>	<b>(148,228)</b>	<b>(148,932)</b>

The movements in the deferred tax liability were as follows:

<i>In thousands of US dollars</i>	2013	2012
Balance at January 1 (audited)	(148,932)	(146,674)
Current period charge to profit or loss	704	(5,624)
<b>Balance at September 30 (unaudited)</b>	<b>(148,228)</b>	<b>(152,298)</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 15. RELATED PARTY TRANSACTIONS

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

Accounts payable to related parties as at September 30, 2013 and December 31, 2012 represented by entities indirectly controlled by shareholder with significant influence over the Group consisted of the following:

<i>In thousands of US dollars</i>	<b>September 30, 2013 (unaudited)</b>	December 31, 2012 (audited)
<b>Trade payables</b>		
Probel Capital Management B.V.	<b>268</b>	288
Amersham Oil LLP	<b>49</b>	48
Prolag BVBA	<b>35</b>	298

During the nine months ended September 30, 2013 and 2012 the Group had the following transactions with related parties represented by entities indirectly controlled by shareholder with significant influence over the Group:

<i>In thousands of US dollars</i>	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2013 (unaudited)</b>	2012 (unaudited)	<b>2013 (unaudited)</b>	2012 (unaudited)
<b>Management fees and consulting services</b>				
Probel Capital Management B.V.	<b>3,966</b>	4,350	<b>8,197</b>	10,231
Prolag BVBA	<b>391</b>	523	<b>842</b>	1,596
Amersham Oil	<b>325</b>	507	<b>650</b>	1,098

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

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US\$ 107 thousand for nine months ended September 30, 2013 (nine months ended September 30, 2012: US\$ 331 thousand). Other key management personnel were employed and paid by Amersham Oil LLP and Probel Capital Management B.V. and whose remuneration forms part of management fees and consulting services above.

### 16. CONTINGENT LIABILITIES, 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 September 30, 2013. As at September 30, 2013 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.

#### Abandonment and site restoration (decommissioning)

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

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 16. CONTINGENT LIABILITIES, COMMITMENTS AND OPERATING RISKS (continued)

#### Environmental obligations

The Group 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 Group may incur future costs, the amount of which is currently indeterminable due to such factors as the ultimate determination of responsible parties associated with these costs and the Government's assessment of respective parties' ability to pay for the costs related to environmental reclamation.

However, depending on any unfavorable claims or penalties assessed by the Kazakh regulatory agencies, it is possible that the Partnership's future results of operations or cash flow could be materially affected in a particular period.

#### Capital commitments

As at September 30, 2013 the Group had contractual capital commitments in the amount of US\$ 39,139 thousand (December 31, 2012: US\$ 23,088 thousand) mainly in respect to the Partnership's oil and gas field development activities.

#### Operating lease

Zhaikmunai LLP 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 2010 Zhaikmunai LLP entered into several agreements on lease of 650 railway tank wagons for transportation of hydrocarbon products for a period of up to 7 years for KZT 6,989 (equivalent of US\$ 47) per day per one wagon. The lease agreements may be early terminated either upon mutual agreement of the parties, or unilaterally by one of the parties if the other party does not fulfil its obligations under the contract.

<i>In thousands of US dollars</i>	<b>September 30, 2013 (unaudited)</b>	December 31, 2012 (audited)
No later than 1 year	<b>12,878</b>	12,585
Later than 1 year and not later than five years	<b>26,997</b>	17,112
Later than five years	–	–

Lease expenses of railway tank wagons for the nine months ended September 30, 2013 amounted to US\$ 9,368 thousand (the nine months ended September 30, 2012: US\$ 8,200 thousand).

#### Social and education commitments

As required by the Contract (as amended by, inter alia, Supplement #9), Zhaikmunai LLP is obliged to:

- (i) spend US\$ 300 thousand per annum to finance social infrastructure;
- (ii) make an accrual of one percent of the capital expenditure per annum for the purposes of educating Kazakh citizens; and
- (iii) adhere to a spending schedule on education which lasts until (and including) 2020.

The contracts for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields require fulfillment of several social and other obligations. However, these obligations have been amended (in the case of Rostoshinskoye) or are in the process of being amended (in the case of Darinskoye and Yuzhno-Gremyachinskoye).

The current contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on August 9, 2013) requires the subsurface user to:

- (i) spend at least 1% of investments for education of personnel engaged to work under the contract during the exploration stage;
- (ii) transfer to the local budget during the exploration period the amount of US\$ 600 thousand for social programmes of the region and for RoK WK infrastructure development programmes;
- (iii) invest at least US\$ 20,750 thousand for exploration of the field during the exploration period; and
- (iv) create a liquidation fund (special deposit account with local bank) equal to 1% of investment during the exploration stage and 0.1% of operational costs during the production stage.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)****16. CONTINGENT LIABILITIES, COMMITMENTS AND OPERATING RISKS (continued)****Social and education commitments (continued)**

The current contract for exploration and production of hydrocarbons from Darjinskoye field requires the subsurface user to:

- (i) spend at least US\$ 200 thousand for education of personnel engaged to work under the contract during the exploration stage;
- (ii) spend US\$ 18,850 thousand to finance social infrastructure of the region (including US \$1,000 thousand for funding of development of Astana city in case of commercial discovery);
- (iii) invest at least US\$ 20,000 thousand for exploration of the field during the exploration period;
- (iv) reimburse historical costs of US\$ 6,499 thousand to the Government, including US\$ 195 thousand for right to use geological information; and
- (v) create a liquidation fund (special deposit account with local bank) equal to 1% of capital expenditures during the exploration stage and 0.1% of operational costs during the production stage.

The current contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field requires the subsurface user to:

- (i) spend 1% of the annual amount of investments on training;
- (ii) spend US\$ 18,950 thousand to finance social infrastructure of the region (including US\$ 1,000 thousand for funding of development of Astana city in case of commercial discovery);
- (iii) invest at least US\$ 23,050 thousand for exploration of the field during the exploration period;
- (iv) reimburse historical costs of US\$ 3,194 thousand to the Government, including US\$ 96 thousand for right to use geological information; and
- (v) create a liquidation fund (special deposit account with local bank) equal to 1% of capital expenditures during the exploration stage and 0.1% of operational costs during the production stage.

**Domestic oil sales**

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

**17. 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 fair value of other financial assets has been calculated using market interest rates.

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 September 30, 2013 and December 31, 2012.

**18. EVENTS AFTER THE REPORTING PERIOD**

On October 28, 2013 supplementary agreement #10 to the Contract was signed extending the exploration period until May 26, 2014.