

**JSC KMK Munai**

**Financial Statements**

*Year ended December 31, 2009  
with Independent Auditor's Report*

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## INDEPENDENT AUDITORS' REPORT

To the shareholder of KMK Munai JSC:

We have audited the accompanying financial statements of KMK Munai JSC ("the Company"), which comprise the balance sheet as at 31 December 2009 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. Except for the matter described in the Basis for Qualified Opinion paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

### *Basis for Qualified Opinion*

For the purposes of calculation of depreciation of its oil and gas properties under the unit of production method the Company used proved developed reserve estimates that were based on the reserve appraisal prepared by independent engineering consultants as of 30 June 2006. However, proved developed reserves may have change significantly since 30 June 2006. In the absence of updated reserve appraisal we were unable to satisfy ourselves as to the correctness of the depreciation charge on property, plant and equipment for 2009 and the balance of accumulated depreciation as of 31 December 2009 as well as the related current and deferred tax effects.

**Qualified Opinion**

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLP*

*Aisulu Narbayeva*

Aisulu Narbayeva  
Auditor / Acting General Director  
Ernst & Young LLP



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

Auditor Qualification Certificate No. 0000137 dated 21 October 1994

28 June 2010

**STATEMENT OF FINANCIAL POSITION**

As at December 31, 2009

<i>In thousands of Tenge</i>	Notes	2009	2008
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets		69,282	67,388
Property, plant and equipment	6	5,380,736	5,568,246
Other non-current assets	7	322,658	491,015
Deferred tax assets	25	33,881	–
<b>Total non-current assets</b>		<b>5,806,557</b>	<b>6,126,649</b>
<b>Current assets</b>			
Inventories	8	331,374	441,201
Trade receivables	9	479,881	129
Due from related parties	27	–	1,793,044
Advances paid	10	135,941	287,969
Prepayment for corporate income tax		49	54,164
Excess profit tax recoverable	25	541,071	–
Other current assets	11	380,371	632,572
Bank deposits	12	485	1,201
Cash and cash equivalents	13	1,122,935	188,929
<b>Total current assets</b>		<b>2,992,107</b>	<b>3,399,209</b>
Assets of disposal group classified as held for sale	5	–	4,639,751
<b>TOTAL ASSETS</b>		<b>8,798,664</b>	<b>14,165,609</b>

**STATEMENT OF FINANCIAL POSITION (continued)**

As at December 31, 2009

<i>In thousands of Tenge</i>	Notes	2009	2008
<b>Equity</b>			
Charter capital	14	1,500,000	1,500,000
Treasury shares	14	(195,437)	(150,000)
Retained earnings		4,839,914	4,334,514
<b>Total equity</b>		<b>6,144,477</b>	<b>5,684,514</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Abandonment and site restoration liabilities	15	756,355	189,848
Deferred tax liability	25	—	89,035
<b>Total non-current liabilities</b>		<b>756,355</b>	<b>278,883</b>
<b>Current liabilities</b>			
Short-term financial obligations	16	1,261,919	—
Short-term interest-bearing loans	16	—	3,810,797
Trade payables	17	130,377	601,333
Corporate income tax payable	25	32,811	—
Excess profits tax payable	25	—	440,376
Other taxes payables	18	371,449	384
Other current liabilities	19	101,276	69,950
<b>Total current liabilities</b>		<b>1,897,832</b>	<b>4,922,840</b>
Liabilities directly associated with the assets classified as held for sale	5	—	3,279,372
<b>Total liabilities</b>		<b>2,654,187</b>	<b>8,481,095</b>
<b>TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES</b>		<b>8,798,664</b>	<b>14,165,609</b>

*The accounting policies and explanatory notes on pages 7 through 32 form an integral part of these financial statements.*

Signed and authorized for release on behalf of the Board of Directors of the Company:

President

A. Shovkoplyas

S. Sarbopryeva

Chief Accountant

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2009

<i>In thousands of Tenge</i>	Notes	2009	2008
Revenue from sale of crude oil		5,865,138	8,237,228
Cost of sales	20	(2,207,135)	(1,984,408)
Gross profit		3,658,003	6,252,820
Dry hole expense		(93,435)	(1,078,347)
Geological and geophysical expenses	21	(49,767)	(90,294)
General and administrative expenses	22	(938,303)	(1,383,515)
Selling expenses	23	(1,568,431)	(1,366,889)
Loss on disposal of property, plant and equipment		(7,745)	(105,739)
Gain on disposal of North Karpovskiy	5	520,703	-
Other operating (income) / loss		2,207	(43,563)
Profit from operating activities		1,523,232	2,184,473
Finance income	24	15	3,326
Finance costs	24	(329,598)	(494,039)
Foreign exchange loss		(810,117)	(35,889)
Profit before income tax		383,532	1,657,871
Income tax expense	25	(198,660)	(611,997)
Excess profit tax benefit / (expenses)	25	981,448	(486,652)
Profit for the year from continuing operations		1,166,320	559,222
Loss from discontinued operations, net of tax	5	(660,920)	-
Net profit for the year		505,400	559,222
Other comprehensive income		-	-
Total comprehensive income for the year		505,400	559,222
Earnings per share	26		
Basic and diluted earnings per share (thousands of Tenge per share)		0.38	0.41
Earnings per share for continuing operations			
Basic and diluted earnings per share (thousands of Tenge per share)		0.38	0.41

The accounting policies and explanatory notes on pages 7 through 32 form an integral part of these financial statements.

Signed and authorized for release on behalf of the Board of Directors of the Company:

President



A. Shovkoplyas

Chief Accountant

Sh. Sarbopeyeva

**STATEMENT OF CASH FLOWS**

For the year ended December 31, 2009

<i>In thousands of tenge</i>	Notes	2009	2008
<b>Cash flows from operating activities:</b>			
Profit before income tax from continuing operations		383,532	1,657,871
Loss income tax from discontinued operations		(826,074)	–
Adjustments for:			
Depreciation and amortization	20, 22	817,461	614,559
Dry hole expense	6	93,435	1,078,347
Provision charge	22	165,285	18,038
Usage of the liquidation fund	15	(14,437)	(77,685)
Provision for obsolete inventories	8	–	(5,547)
Finance costs, net	24	329,583	490,713
Impairment of property, plant and equipment	22	29,359	–
Loss on disposal of property, plant and equipment	6	7,745	105,739
Gain on disposal of North Karpovskyi	5	(520,703)	–
Unrealized foreign exchange gain, net		1,678,610	25,124
<b>Operating profit before working capital changes</b>		<b>2,143,796</b>	<b>3,907,159</b>
<i>(increase) / decrease in operating assets:</i>			
Inventories		109,827	(216,759)
Trade receivables		(479,752)	720,981
Advances paid		–	(60,347)
Due from related parties		(201,487)	(426,910)
Other current assets		72,622	(213,482)
Other non-current assets		168,357	(157,738)
<i>Increase / (decrease) in operating liabilities:</i>			
Due to related parties		–	(26,416)
Trade and other payables		(470,956)	59,098
Other current liabilities		797,791	(115,506)
<b>Cash generated from operations</b>		<b>2,140,198</b>	<b>3,470,080</b>
Interest paid		(628,242)	(924,268)
Interest received		–	3,028
Income tax paid		(164,080)	(1,466,879)
<b>Net cash flows provided by operating activities</b>		<b>1,347,876</b>	<b>1,081,961</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment		(414,820)	(2,072,539)
Purchase of intangible assets		–	(33,415)
Proceeds from sale of intangible assets		827	–
Placement of bank deposits		–	(477,126)
Withdrawal of bank deposit		228	537,406
Other		–	2,536
<b>Net cash used in investing activities</b>		<b>(413,765)</b>	<b>(2,043,138)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from loans received		53,068	3,415,802
Dividends paid		–	(362,987)
Repayment of loans		(53,173)	(1,952,723)
<b>Net cash provided by financing activities</b>		<b>(105)</b>	<b>1,100,092</b>
Net increase in cash and cash equivalents		934,006	138,915
Cash and cash equivalents at the beginning of the year		188,929	50,014
<b>Cash and cash equivalents at the end of the year</b>		<b>1,122,935</b>	<b>188,929</b>



**STATEMENT OF CASH FLOWS (continued)**

For the year ended December 31, 2009

**NON-CASH TRANSACTIONS – SUPPLEMENTAL DISCLOSURE:**

Non-cash transactions, including the following, have been excluded from the statement of cash flows:

**Capitalization of interest charge**

During 2008 the Company capitalized borrowing costs of KZT 490,445 thousand related to the capital expenditures of North Karpovskiy field. No such non-cash transaction occurred in 2009.

**Transfer of corporate income tax prepayment to other tax assets**

In 2009, the Company has transferred KZT 63,398 thousand of prepayment for corporate income tax for settlement of liabilities under other taxes (2008: KZT 159,960 thousand).

**Transfer of VAT refund to prepayment for corporate income tax**

In 2009, the Company was eligible to receive VAT refund from tax authorities in amount of KZT 113,251 thousand, however, instead of receiving cash the Company decided to transfer this refund receivable to prepayment for corporate income tax (2008: KZT 61,337 thousand). Also, the company offset VAT recoverable against to the other Taxes for the amount of KZT 28,051 thousands.

**Dividends**

Dividends of KZT 1,199,971 thousand were declared on April 30, 2008. Shareholders agreed to offset a portion of dividends payable net of withholding tax against related party receivables. No such offset occurred in 2009.

**Advances paid for non-current assets**

In 2008, the additions to property, plant and equipment of KZT 20,171 thousand were financed by advance payments made in 2007. No such non-cash transaction occurred in 2009.

**Return of damaged equipment**

In 2009, the Company has returned certain damaged property items to a supplier costing KZT 1,150 thousand and decreased the payable for that amount (2008: KZT 25,965 thousand).

**Discharge of borrowing to Lancaster Energy PTE Ltd. and North Karpovskiy JSC**

In 2009, the Company discharged liabilities in the amount of KZT 5,505,123 thousand and KZT 3,267,931 thousand under the KKB Credit Facility to North Karpovskiy JSC and Lancaster Energy PTE Ltd., respectively.

**Transfer of receivable from Lancaster Group Kazakhstan JSC to Lancaster Energy PTE Ltd.**

In 2009, the Company transferred receivables in the amount of KZT 1,802,389 thousand from Lancaster Group Kazakhstan JSC to Lancaster Energy PTE Ltd.

The accounting policies and explanatory notes on pages 7 through 32 form an integral part of these financial statements.

Signed and authorized for release on behalf of the Board of Directors of the Company:

President

Chief Accountant



**STATEMENT OF CHANGES IN EQUITY**

For the year ended December 31, 2009

<i>In thousands of tenge</i>	Charter capital	Treasury shares	Retained earnings	Total Equity
As at December 31, 2007	1,500,000	(150,000)	5,360,014	6,710,014
Net profit for the year	-	-	559,222	559,222
Total comprehensive Income for the period	-	-	559,222	559,222
Dividends (Note 14)	-	-	(1,584,722)	(1,584,722)
As at December 31, 2008	1,500,000	(150,000)	4,334,514	5,684,514
Net profit for the year	-	-	505,400	505,400
Total comprehensive Income for the period	-	-	505,400	505,400
Acquisition of treasury shares	-	(45,437)	-	(45,437)
As at December 31, 2009	1,500,000	(195,437)	4,839,914	6,144,477

*The accounting policies and explanatory notes on pages 7 through 32 form an integral part of these financial statements.*

Signed and authorized for release on behalf of the Board of Directors of the Company:

President

Chief Accountant



«КМК Мұнай» Ш.Шевкopyeva

Sh.Sarbopeyeva

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2009

**1. CORPORATE INFORMATION**

JSC Lancaster Petroleum was renamed on September 2, 2007 as an assignee of JSC KKM Operating Company, which was established on April 4, 2004 as a joint stock company through merger of Kumsai Munay LLP, Mortuk Munay LLP and Kokzhide Munay LLP, which were fully owned by JSC KKM Holding at the date of the merger. The Company is engaged in exploration and production of oil from properties within the Republic of Kazakhstan.

JSC Lancaster Petroleum was renamed to JSC KMK Munai (the "Company") on March 10, 2010.

The Company signed a subsoil use contract with the Government of Kazakhstan on December 25, 1995 and holds licenses for hydrocarbon exploration and production (the "Licenses") on Kokzhide, Kumsai and Mortuk fields; along with these Licenses the Company concluded agreements with the Government of Kazakhstan on exploration and development of these oil fields (the "Agreements"). These Agreements were amended in December 2004, April 2005 and July 2007, and as the result, the rights to explore and produce oil for the Mortuk field were extended till mid 2026, and for Kokzhide and Kumsai fields till mid 2027. On December 29, 2006 the Company signed a subsoil use contract with the Government of Kazakhstan on North Karpovsky field.

During 2009 the Company signed the following addendums to the subsurface use contracts with the Ministry of Energy and Mineral Resources:

- On 8 April 2009, the Company signed Addendum No.6 to the Kokzhide subsurface use contract and Addendum No.4 to the Martuk subsurface use contract;
- On 30 September 2009, the Company signed Addendum No.6 to the Kumsai subsurface use contract;
- On 2 October 2009, the Company signed Addendum No.7 to the Kokzhide subsurface use contract;
- On 9 December 2009, the Company signed Addendum No.8 to the Kokzhide subsurface use contract.

On 2 March 2009, Lancaster Energy PTE Ltd purchased its entire 0.5% interest of the total issued common shares of the Company from Oman CPC, becoming a sole shareholder of the Company.

On 27 August, 2009, Lancaster Energy PTE Ltd sold 100% of the total outstanding common shares of the Company to Yukon Energy Holding S.A.

Yukon Energy Holding S.A. is a wholly owned subsidiary of Xingjiang Zhongxin Resources Co. Ltd, a joint venture entity held 50%:50% by CITIC Guoan Group and Suntime International Economic and Techno Cooperation ("Suntime Group"). Suntime Group is a state owned company incorporated the People's Republic of China ("PRC"). CITIC Guoan Group is owned by CITIC Group, a state owned corporation in the PRC.

The Company's registered legal address is: 4A Levitan Street, Aktobe, Republic of Kazakhstan.

The financial statements of the Company for the year ended December 31, 2009 were authorized for issue by the Board of Directors of the Company on June 28, 2010.

**Political and economic environment**

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

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in a decline in the gross domestic product, capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Kazakhstan. While the Kazakhstan Government has introduced a range of stabilization measures aimed at providing liquidity to Kazakhstan banks and companies, there continues to be uncertainty regarding the access to capital and cost of

Capital for the Partnership and its counterparties, which could affect the Partnership's financial position, results of operations and business prospects.

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended December 31, 2009

**2. BASIS OF PREPARATION**

The financial statements have been prepared under the historical cost convention, except as described in the accounting policies and the notes to these financial statements. The Company maintains its accounting records in Kazakhstan Tenge ("Tenge" or "KZT"). All values in these financial statements are rounded to the nearest thousand, except when otherwise indicated.

**Statement of compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standard Board ("IASB").

**Functional currency**

Based on the economic substance of the underlying events and circumstances relevant to the Company the functional currency of the Company has been determined to be Tenge. Transactions in other currencies are treated as transactions in foreign currencies.

**Foreign currency**

The Company maintains its accounting records and prepares its financial statements in Tenge. Tenge is not a fully convertible currency outside the Republic of Kazakhstan. Transactions in foreign currencies are recorded at the rates ruling at the date of the transaction, fixed by the National Bank of Kazakhstan/Kazakhstan Stock Exchange ("KASE").

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. All differences arising from a change in exchange rates subsequent to the date of a transaction are taken to the statement of comprehensive income.

The following table summarizes the foreign currency exchange rates for the Tenge at:

	June 28, 2010	December 31, 2009	December 31, 2008
US dollar	147.30	148.36	120.77
Euro	180.88	212.84	170.89

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

*Adopted accounting standards and interpretations*

The Company has adopted the following new and amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations during the year. Adoption of these revised standards and interpretations did not have any significant effect on financial performance or position of the Company. They did, however, give rise to additional disclosures.

- IFRS 2 "Share-based Payments – Vesting Conditions and Cancellations";
- IFRS 7 "Financial Instruments: Disclosures";
- IFRS 8 "Operating Segments";
- IAS 1R and Amendment "Presentation of Financial Statements";
- IAS 23 Revised "Borrowing Costs";
- IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation – amendments;
- IFRIC 9 "Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement";
- IFRIC 13 "Customer Loyalty Programmes";

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended December 31, 2009

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***Adopted accounting standards and interpretations (continued)*

- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”; and
- Improvements to IFRSs (May 2008)

The principal effects of these changes are as follows:

**IAS 1 Presentation of Financial Statements**

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Company has elected to present one single statement.

*Improvements to IFRSs*

**IAS 1 Presentation of Financial Statements:** Assets and liabilities classified as held for trading in accordance with **IAS 39 Financial Instruments: Recognition and Measurement** are not automatically classified as current in the statement of financial position. The Company analysed whether the expected period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any reclassification of financial instruments between current and non-current in the statement of financial position.

**IAS 16 Property, Plant and Equipment:** Replaces the term “net selling price” with “fair value less costs to sell”. This amendment had no immediate impact on the consolidated financial statements of the Company because the recoverable amount of its cash generating units is currently estimated using “value in use”.

**IAS 36 Impairment of Assets:** When discounted cash flows are used to estimate “fair value less cost to sell” additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate “value in use”. This amendment had no immediate impact on the consolidated financial statements of the Company because the recoverable amount of its cash generating units is currently estimated using “value in use”. The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in **IFRS 8** before aggregation for reporting purposes. The amendment has no impact on the Company as it has one single reportable segment.

**IAS 38 Intangible Assets:** Expenditure on advertising and promotional activities is recognised as an expense when the Company either has the right to access the goods or has received the service. This amendment has no impact on the Company because it does not enter into such promotional activities.

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

*New accounting developments*

The following IFRS, IFRIC interpretations and improvements to IFRS are not yet in effect for the year ended December 31, 2009:

- IFRS 3R “Business Combinations”;
- IAS 27R Consolidated and Separate Financial Statements - amendment
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 14, IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended December 31, 2009

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***New accounting developments (continued)*

- IFRS 9 Financial Instruments
- IAS 24 Related Party Disclosures – amendment
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters
- IFRS 2 Group cash-settled share-based payments transactions
- IAS 39 Eligible hedged items
- IFRIC 18 “Transfers of Assets from Customers”;
- IAS 32 Classifications of rights issues
- Improvements to IFRSs (April 2009)

Management does not expect the above standards and interpretations to have a material impact on the Group’s financial position or results of operations.

In May 2008 and April 2009 the Board issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Company adopted those amendments and improvements to IFRSs which are applicable to its operating activities in 2009.

**Intangible assets**

Intangible assets include licenses for subsurface use and computer software recorded at initial cost less accumulated amortization and impairment loss. Licenses are amortized on a unit of production basis. Amortization of other intangible assets are calculated on a straight-line basis over the estimated useful lives of the assets, within a range of 1 to 10 years.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to definite is made on a prospective basis.

*Licenses*

License expenses associated with exploration, development and production of oil and gas reserves are capitalized as intangible assets and amortized on a unit of production basis from the date the relevant field commences commercial production stage.

*Oil and Gas assets**Exploration expenditure*

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

When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to property, plant and equipment (oil and gas properties).

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended December 31, 2009

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***Oil and Gas assets (continued)**Development expenditure*

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells is capitalized within oil and gas properties.

*Oil and Gas Properties*

Oil and gas properties are initially stated at cost less accumulated depreciation, depletion and impairment. The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of overheads directly related to construction.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of any decommissioning obligation, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Oil and natural gas properties are depreciated using a unit-of-production method over proved developed reserves.

*Other Property, Plant and Equipment*

Property, plant and equipment are initially stated at cost and subsequently accounted at this cost less accumulated depreciation, depletion and impairment. The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of overheads directly related to construction.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of any decommissioning obligation, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Property, plant and equipment, other than oil and gas properties, are carried at cost less accumulated depreciation and depreciated on a straight-line basis over the estimated useful lives set out in the following table:

Buildings and constructions	10-50 years
Machinery and equipment	15-30 years
Vehicles	7-11 years
Other	3-10 years

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Repair and maintenance expenditures are expensed as incurred. Major renewals and improvements are capitalised, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of comprehensive income as incurred.

When each major repair is performed, its cost is recognised as a component in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

All assets under construction are classified as "Capital Work in Progress" and are not depreciated. Once projects are completed and put into use they are transferred to in service assets and become subject for depreciation.

**Inventories**

Inventories are stated at the lower of cost and net realizable value on a weighted average basis. Cost includes all costs incurred in the normal course of business in bringing each item to its present location and condition. The cost of crude oil is the cost of production, including the appropriate proportion of depreciation, depletion and amortization and overheads based on normal capacity. Net realizable value of crude oil is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to complete the sale. Materials and supplies inventories are carried at amounts that do not exceed the expected amounts recoverable in the normal course of business.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended December 31, 2009

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Impairment of non-financial assets**

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

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

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

**Financial assets**

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, held to maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

***Held-to-maturity investments***

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method.

***Trade and other receivables***

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade accounts receivable are generally have a short-term and are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.



**NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended December 31, 2009

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Impairment of financial assets**

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired.

*Assets carried at amortised cost*

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

**Derecognition of financial assets and liabilities***Financial asset*

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

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

*Financial liabilities*

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

**Cash and cash equivalents**

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term and highly liquid investments with original maturity of not more than three months readily convertible to known amounts of cash, are subject to insignificant risk of change in value and are carried at cost.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended December 31, 2009

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Non-current assets classified as held for sale and discontinued operations**

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through the continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment once classified as held for sale are not depreciated/amortized.

In the statement of comprehensive income of the reporting period, and of the comparable period of the previous year, incomes and expenses from discontinued operations are reported separate from normal income and expenses down to the level of profit after taxes, even when the Company retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income.

**Interest bearing loans and borrowings**

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as through the amortization process.

Interest relating to qualifying assets is capitalised to that asset. All other interest is expensed as finance costs in the statement of comprehensive income.

**Treasury shares**

Own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

**Deferred income tax**

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences:

- except where the deferred income tax liability arises from goodwill amortization or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended December 31, 2009

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Deferred income tax (continued)**

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

**Other taxes**

Kazakhstan also has various taxes that are assessed on a Company's activities. These taxes are included as a component of cost of sales and general and administrative expenses in the statement of comprehensive income.

**Trade and other payables**

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

**Provisions**

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

***Abandonment and Site Restoration (decommissioning)***

Provision for decommissioning is recognized in full, on a discounted basis, at the commencement of oil and natural gas production. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. This asset is subsequently depreciated as part of the capital costs of the production and transportation facilities on a unit-of-production basis.

Changes in the measurement of an existing decommissioning liability that results from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required settling the obligation, or change in the discount rate is reflected as an adjustment to the provision and the fixed asset.

The long-term inflation and discount rates used to determine the balance sheet obligation at December 31, 2008 were 5.2% and 7.46%, respectively (2008: 5% and 16%). Movements in the provision for asset retirement obligations are disclosed in Note 15.

**Revenue recognition**

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be reliably measured. Revenue from sale of crude oil is recognized when delivery has taken place and risks and rewards of ownership of the goods have passed to the customer. Crude oil shipped but not yet delivered to the customer is recorded as inventory in the reporting date.

**Expense recognition**

Expenses are accounted for at the time the actual flow of the related goods or services occur, regardless of when cash or its equivalent is paid, and are reported in the financial statements in the period to which they relate.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended December 31, 2009

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**4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities during the reporting period. The most significant estimates are discussed below:

*Oil and gas reserves*

The cost of oil and gas properties is amortized at the field level using the unit-of-production method using proved developed reserves. Unit of production rates are based on oil and gas reserves estimated to be recoverable from existing facilities based on expected terms of the respective production agreements. The Company's reserve estimates include only crude oil and natural gas which management believes can be reasonably produced within the expected terms of the respective production agreements. The Company uses reserve estimates provided by internationally recognized petroleum engineers to assess the oil and gas reserves of its oilfields. In interim periods between external evaluations, the Company uses its in house petroleum engineers to estimate to assess the oil and gas reserves of its oil fields.

Proved oil and gas reserves cannot be measured exactly. Reserves estimates are based on many factors related to reservoir performance that requires evaluation by the engineers interpreting the available data, as well as price and other economic factors. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data, and the production performance of the reservoirs as well as engineering judgment. Consequently, reserve estimates are subject to revision as additional data become available during the producing life of reservoir.

When a commercial reservoir is discovered, proved reserves are initially determined based on limited data from the first well or wells. Subsequent data may better define the extent of the reservoir and additional production performance, well tests and engineering studies will likely improve the reliability of the reserve estimate. The evolution of technology may also result in the application of improved recovery techniques such as supplemental or enhanced recovery projects, or both, which have the potential to increase the reserves beyond those envisioned during the early years of reservoir's producing life.

Proved oil and gas are the estimated quantities of crude oil, natural gas and natural gas liquids, which geological and engineering data demonstrate with reasonable certainty to be recoverable in the future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Proved developed reserves are those reserves, which can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are those reserves, which are expected to be recovered from new wells on undrilled acreages or from existing wells where relatively major expenditure is required.

When determining oil and gas reserves, assumptions that were valid at the time of estimation may change when new information becomes available. Any changes could affect prospective depreciation and depletion rates and assets carrying values.

The calculation of the units of production rate of depreciation and depletion could be impacted to the extent that actual production in the future is different from current forecast production based on proved developed mineral reserves, which would generally arise as a result of significant changes in any of factors or assumptions used in estimating oil reserves.

These factors could include:

- Changes to proved developed oil reserves;
- The grade of oil reserves varying significantly from time to time;
- Differences between actual commodity prices and commodity price assumptions used in the estimation of oil reserves;
- Unforeseen operational issues at oil fields; and
- Changes in capital, operating oil producing, processing and reclamation costs, discounts rates and foreign exchange rates possibly adversely affecting the economic viability of oil reserves.



**NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended December 31, 2009

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**4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)***Oil and gas reserves (continued)*

The majority of other property, plant and equipment are depreciated on straight line basis over their useful economic lives. Management reviews the appropriateness of assets useful economic lives at least annually; any changes could affect prospective depreciation and depletion rates and asset carrying values.

*Abandonment and Site Restoration (decommissioning)*

The Company estimates future dismantlement and site restoration cost for oil and gas properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement and the extent of site restoration required in accordance with current legislation and industry practice. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Company reviews site restoration provisions at each balance sheet date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities".

*Allowances*

The Company makes allowances for doubtful accounts receivable, advances paid and other assets. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the financial statements. As of 31 December 2009 and 31 December 2008 allowances for doubtful accounts have been created for the amount of 165,285 thousand Tenge and 18,038 thousand Tenge, respectively (*Notes 10, 11 and 22*).

*Deferred tax assets*

Deferred tax assets are recognized for all provisions for doubtful debts, allowances for slow-moving inventories and other liabilities to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved, as well as on the successful implementation of tax planning strategies. The amount of recognized deferred tax assets as of 31 December 2009 was 33,881 thousand Tenge (deferred tax liabilities as of 31 December 2008 was 89,035 thousand Tenge) (*Note 25*).

*Tax Provisions*

In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Company would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Company, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities.

Significant management judgment is required to estimate the amount the Company may be liable for and the amount is subject to change depending on the outcome of the legal proceedings.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended December 31, 2009

**5. DISPOSAL GROUP**

On December 23, 2008 the previous shareholder of the Company made a decision to separate the subsoil use contract on North Karpovskiy field ("North Karpovskiy") and all related assets and liabilities (the portion of its borrowings from Kazkommertsbank directly associated with the North Karpovskiy contract) to North Karpovskiy JSC. The disposal was completed on June 4, 2009:

Property, plant and equipment	4,889,038
Taxes recoverable	165,154
Other current assets	5,926
Borrowings	(4,030,778)
Other current liabilities	(30,261)
<b>Carrying amount of net assets disposed</b>	<b>999,079</b>

In consideration for the disposal the Company acquired 45,437 of own common shares held by Lancaster Energy PTE Ltd. and transferred to North Karpovskiy JSC the portion of its borrowings from Kazkommertsbank not associated with the North Karpovskiy contract. Disposal consideration was as follows:

Fair value of transferred liability	1,474,345
Nominal value of treasury shares acquired	45,437
<b>Total consideration</b>	<b>1,519,782</b>

The Company has recognized a gain on disposal of 520,703 thousand Tenge.

The results of North Karpovskiy for the period from January 1, 2009 till the disposal date are as follows:

General and administrative expenses	(29,892)
Other operating income	164
Foreign exchange loss	(796,346)
Income tax benefit	165,154
<b>Loss from discontinued operations, net of tax</b>	<b>660,920</b>

The net cash flows incurred by North Karpovskiy for the period from January 1, 2009 till the disposal date are as follows:

Operating	(297)
Financing	297
<b>Net cash flows</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended December 31, 2009

**6. PROPERTY, PLANT AND EQUIPMENT**

The movement on property, plant, and equipment for the years ended December 31, 2009 and 2008 was as follows:

	Oil and gas properties	Buildings and constructions	Machine-ry and equipment	Vehicles	Other assets	Construc-tion in progress	Total
<b>Cost</b>							
31-Dec-07	3,672,646	269,394	56,665	478,137	88,916	6,893,071	11,458,829
Additions	42,883	12,114	29,749	37,507	10,439	2,455,963	2,588,655
Transfer to Disposal group	(5,272)	-	(2,184)	(7,359)	(859)	(4,623,008)	(4,638,682)
Transfers	1,862,749	-	3,940	-	3,221	(1,869,910)	-
Disposals	(94,630)	(146,081)	(10,506)	(48,314)	(40,246)	(1,079,006)	(1,418,783)
31-Dec-08	5,478,376	135,427	77,664	459,971	61,471	1,777,110	7,990,019
Additions	557,342	-	-	-	-	205,869	763,211
Transfers	454,521	5,348	4,664	-	5,977	(470,510)	-
Transfer to Intangibles	-	-	-	-	-	(14,070)	(14,070)
Disposals	(54,062)	-	(1,347)	(24,193)	(5,210)	(76,401)	(161,213)
31-Dec-09	6,436,177	140,775	80,981	435,778	62,238	1,421,998	8,577,947
<b>Accumulated depreciation and impairment:</b>							
31-Dec-07	(1,588,392)	(26,557)	(18,327)	(219,067)	(24,566)	-	(1,876,909)
Charge	(504,453)	(9,773)	(22,361)	(56,090)	(12,510)	-	(605,187)
Transfer to disposal group	140	-	833	5,894	159	-	7,026
Disposals	1,555	10,185	8,411	17,773	15,373	-	53,297
31-Dec-08	(2,091,150)	(26,145)	(31,444)	(251,490)	(21,544)	-	(2,421,773)
Charge	(723,191)	(7,839)	(15,337)	(51,599)	(8,146)	-	(806,112)
Disposals	34,604	-	734	22,407	2,288	-	60,033
Impairment	-	-	-	-	-	(29,359)	(29,359)
31-Dec-09	(2,779,737)	(33,984)	(46,047)	(280,682)	(27,402)	(29,359)	(3,197,211)
<b>Net book value:</b>							
31-Dec-08	3,387,226	109,282	46,220	208,481	39,927	1,777,110	5,568,246
31-Dec-09	3,656,440	106,791	34,934	155,096	34,836	1,392,639	5,380,736

As at December 31, 2008 the Company pledged the property, plant and equipment with net book value of KZT 1,234,059 thousand to secure borrowings. No such collateral occurred as at December 31, 2009.

During 2009 the Company capitalized borrowing costs of KZT 265,275 thousand related to the capital expenditures of North Karpovskiy field (2008: KZT 490,445 thousand). The weighted average rate used to determine the amount of borrowing costs eligible for capitalization was 16% (2008: 16%).

Write-off of dry exploratory wells and other exploration costs during the period amounted to KZT 93,435 thousand (2008: KZT 1,078,347 thousand).

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended December 31, 2009

**7. OTHER NON-CURRENT ASSETS**

As at December 31, other non-current assets consisted of the following:

	2009	2008
Production spare parts	236,410	220,158
Technological crude oil	50,125	235,644
Advances to vendors for property, plant and equipment, net	36,123	35,213
	<b>322,658</b>	<b>491,015</b>

As at December 31, 2009 technological crude oil represents oil in MunaiTas and KTO pipelines (2008: CPC and KTO pipelines).

Advances to vendors represent advances given for capital construction works.

**8. INVENTORIES**

As at December 31, inventories comprised:

	2009	2008
Spare parts	267,247	271,555
Crude oil	25,586	101,505
Fuel	16,291	18,100
Construction materials	3,382	2,085
Other materials	53,751	82,839
Total inventory	366,257	476,084
Less: provision for obsolescence and impairment	(34,883)	(34,883)
Total inventory net of provisions	331,374	441,201

No inventory was pledged as at December 31, 2009 and 2008 against bank loans.

The movements in obsolescence and impairment provision for the years ended December 31, were as follows:

	2009	2008
Provision as at January 1	34,883	73,447
Reverse	-	(44,111)
Additional provision for the year	-	5,547
Provision as at December 31	34,883	34,883

**9. TRADE RECEIVABLES**

Trade and other receivables comprised the following at December 31:

<i>In thousands of Tenge</i>	2009	2008
Trade receivables in US dollars	479,881	-
Trade receivables in Tenge	-	129
	<b>479,881</b>	<b>129</b>

As at December 31, the aging analysis of trade and other receivables, except for related party receivable, is as follows:

<i>In thousands of Tenge</i>	Total	Past due, but not impaired			
		Neither past due nor impaired (0 – 30 days)	30 – 180 days	180 – 270 days	270 days – 1 year
2008	129	-	129	-	-
2009	479,881	479,881	-	-	-



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended December 31, 2009

**9. TRADE RECEIVABLES (continued)**

Trade receivables are interest free and normally receivable within 30 days. All trade receivables are current as at December 31, 2009 and 2008 and represent amounts due from sales of crude oil.

As at December 31, 2009 trade receivables denominated in US dollars include 479,881 thousand Tenge due from Titan Oil Trading GmbH for December 2009 crude oil sales.

**10. ADVANCES PAID**

As at December 31, advances paid comprised:

	2009	2008
Advances for raw materials	166,092	170,217
Advances for services	99,725	127,424
Less: provision for non-performance	(129,876)	(9,672)
	<u>135,941</u>	<u>287,969</u>

Movements in the provision for non-performance were as follows:

<i>In thousands of Tenge</i>	2009	2008
Provision as at January 1	9,672	9,672
Charge	120,204	-
Provision as at December 31	<u>129,876</u>	<u>9,672</u>

**11. OTHER CURRENT ASSETS**

As at December 31, other current assets comprised:

	2009	2008
VAT recoverable	216,148	491,036
Receivable from North Karpovskiy	145,008	-
Property tax prepaid	4,667	15,148
Customs duty prepaid	4,025	81,815
Other	55,604	44,573
Less: Provision for non-recoverable VAT and other receivables	(45,081)	-
	<u>380,371</u>	<u>632,572</u>

As at December 31, 2009 and 2008 VAT recoverable consists of Tenge denominated VAT paid on local services provided and goods supplied by Kazakhstani suppliers.

**12. BANK DEPOSITS**

Bank deposits represent short-term deposits with original maturities greater than 3 months. The deposits with banks as at December 31, 2009 and 2008 had an interest rate of 1% and 6.5%, respectively. All deposits were denominated in Tenge.

**13. CASH AND CASH EQUIVALENTS**

As at December 31, cash and cash equivalents comprised the following:

	2009	2008
US dollar bank account	1,119,256	187,521
EUR bank account	2,099	-
KZT bank account	1,493	1,379
Cash on hand	87	29
	<u>1,122,935</u>	<u>188,929</u>

As at December 31, 2009 and 2008 current accounts with banks were interest free.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended December 31, 2009

**14. EQUITY**

At December 31, 2009 the Company's authorized, issued and paid-in share capital comprised 1,304,563 common shares with a par value of 1,000 Tenge per share (2008: 1,350,000 common shares).

At December 31, 2009 treasury shares comprise 150,000 own shares purchased back from KKM Holding JSC in December 2005 and 45,437 common shares acquired in consideration for disposal of North Karpovskiy in April 2009 (Note 5).

Following is a list of shareholders:

	2009		2008	
	Share	Number of Shares	Share	Number of Shares
Yukon Energy Holding S.A.	87%	1,304,563	-	-
Lancaster Energy Pte. Ltd.	-	-	89.5%	1,342,500
Oman CPC Company	-	-	0.5%	7,500
Treasury shares	13%	195,437	10%	150,000
	100%	1,500,000	100%	1,500,000

In 2008 the Company declared dividends of KZT 1,199,972 thousand for 2007 and KZT 384,750 thousand for first half of 2008. No dividends were declared in 2009.

**15. ABANDONMENT AND SITE RESTORATION LIABILITY**

The abandonment and site restoration liability has been recorded in the financial statements to reflect the cost of restoring well sites to their original condition. The cost has been estimated based on management's best estimates and available historical data.

The movements in the abandonment and site restoration liability for the years ended December 31, were as follows:

	2009	2008
Abandonment and site restoration liability as at January 1	189,848	241,048
Unwinding of discount (Note 24)	13,816	20,985
Revision of estimates	571,780	(7,023)
Disposal to North Karpovskiy (Note 5)	(4,652)	-
Used during the year	(14,437)	(77,685)
Additional provision for the year	-	12,523
<b>Abandonment and site restoration liability as at December 31</b>	<b>756,355</b>	<b>189,848</b>

During 2009 the Company adopted site restoration program for Kokzhide field and revised its abandonment and restoration liability.

As Kazakh laws and regulations concerning environmental assessments and cleanups evolve, the Company 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.

**16. SHORT-TERM FINANCIAL OBLIGATIONS AND INTEREST-BEARING LOANS**

At December 31, interest-bearing loans comprised:

	Original Currency	Date of Issue	Maturity Date	Interest rate	Frequency of payments	2009	2008
KazKommertsBank	USD	July, 2006	April, 2009	till March 3, 2008 - 14%; from March 3, 2008 - 16%	interest - monthly; principal - at maturity	-	3,810,797

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended December 31, 2009

**16. SHORT-TERM FINANCIAL OBLIGATIONS AND INTEREST-BEARING LOANS (continued)****Kazkommertsbank**

On July 17, 2006 the Company opened a credit line of USD 80,000 thousand with Kazkommertsbank for two years. Under this credit line Kazkommertsbank provided a number of short-term and long-term loans to the Company for capital investments and to replenish its working capital. Original interest on the loans was 10.7% per annum. Interest rate was increased by the bank in March 2008 from 14% to 16%. As at December 31, 2008 the Company pledged the movable and real property and right for subsurface usage on North Karpovskiy for the total amount of KKZT 1,234,059 thousand.

On June 4, 2009 along with disposal of North Karpovskiy, the Company disposed portion of liabilities to Kazkommertsbank in the amount of KKZT 1,474,345 thousand North Karpovsky JSC (Note 5). The remaining portion of liabilities to Kazkommertsbank was transferred to Lancaster Energy PTE Ltd., a previous shareholder, prior to sales of the Company out of the previous shareholder's group. Accordingly, as of December 31, 2009 the Company's liability to Lancaster Energy PTE Ltd. totalled to KKZT 1,261,919 thousand. Amount due to Lancaster Energy PTE Ltd. Was fully repaid in 2010 (Note 33).

**17. TRADE PAYABLES**

Trade payables comprised the following at December 31:

<i>In thousands of Tenge</i>	2009	2008
Due to third parties	128,831	601,333
Due to related parties	1,546	–
	<b>130,377</b>	<b>601,333</b>

Trade payables are mainly due for repair and maintenance services. Accounts payable are non-interest bearing, normally settled on 30-day terms and denominated in Tenge.

**18. OTHER TAXES PAYABLE**

	2009	2008
Rent tax	284,682	–
Mineral extraction tax	79,036	–
Other Taxes payable	7,731	384
	<b>371,449</b>	<b>384</b>

**19. OTHER CURRENT LIABILITIES**

	2009	2008
Accounts payable reserve	66,599	–
Accrued vacation reserve	18,750	18,090
Dividends payable	9,249	7,529
Other	6,678	44,331
	<b>101,276</b>	<b>69,950</b>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended December 31, 2009

**20. COST OF SALES**

The composition of cost of sales for the years ended December 31, was as follows:

	2009	2008
Depreciation and amortization	770,202	568,348
Salaries and related costs	398,088	546,672
Mineral extraction tax	281,301	-
Repair and maintenance	95,603	55,469
Services	67,982	163,138
Fuel and electricity	66,987	72,333
Security	66,186	204,276
Taxes and fees	61,117	32,002
Materials	47,178	48,685
Royalty	-	231,622
Transportation expenses	-	16,845
Other	108,031	185,191
<b>Total</b>	<b>1,962,675</b>	<b>2,124,581</b>
Change in work in progress, finished goods and technological oil:		
Work in progress, finished goods and technological oil at 1 January	320,171	196,976
Work in progress, finished goods and technological oil at 31 December	(75,711)	(337,149)
Net changes in work in progress and finished goods	244,460	(140,173)
<b>Total cost of sales</b>	<b>2,207,135</b>	<b>1,984,408</b>

**21. GEOLOGICAL AND GEOPHYSICAL EXPENSES**

Geological and geophysical expenses for the year ended December 31, were divided between fields as follows:

	2009	2008
Kumsai field	32,352	-
Mortuk field	10,178	2,400
Kokzhide field	7,237	87,894
	<b>49,767</b>	<b>90,294</b>

Geological and geophysical expenses for the years ended December 31, 2009 and 2008 represent costs related to exploration, except for seismic works and drilling.

**22. GENERAL AND ADMINISTRATIVE EXPENSES**

The composition of general and administrative expenses for the year ended December 31, was as follows:

	2009	2008
Salaries and related costs	306,217	520,142
Provision charge	165,285	18,038
Operating taxes	86,186	34,979
Charity	67,951	4,469
Professional services	64,285	333,011
Depreciation and amortization	47,259	46,211
Business trips	32,564	43,852
Impairment reserve	29,359	-
Communication	26,368	44,974
Operational expenses	21,792	21,500
Rent and office maintenance	15,088	74,482
Bank commissions	13,033	30,117
Fines and penalties	12,233	31,604
Training	7,968	22,315
Insurance	813	51,947
Reverse of provision for inventory obsolescence	-	(38,564)
Other expenses	41,902	144,438
<b>Total</b>	<b>938,303</b>	<b>1,383,515</b>

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended December 31, 2009

**23. SELLING EXPENSES**

The composition of selling expenses for the year ended December 31, was as follows:

	2009	2008
Rent tax	775,107	-
Transportation	678,214	725,957
Custom duties	79,057	625,532
Salaries and related expenses	18,592	8,871
Other expenses	17,461	6,529
<b>Total</b>	<b>1,568,431</b>	<b>1,366,889</b>

Transportation expenses in 2009 represent costs related to transportation of oil through the pipelines, which is owned by MunaiTas JSC and KazTransOil JSC that provide oil pipeline transportation services throughout Kazakhstan. In March 2009 the Company ceased use of the Caspian Pipeline Consortium ("CPC") pipeline system following the sale by Oman CPC of its interest in the Company.

Starting from January 1, 2009 export custom duties were cancelled and rent tax was introduced. Custom duties incurred in 2009 represent custom charges paid in January 2009 for crude oil sold in late 2008.

**24. FINANCE INCOME AND COSTS**

The composition of finance income / (costs) for the year ended December 31, was as follows:

	2009	2008
<b>Finance income</b>		
Interest income	15	3,326
	15	3,326
<b>Finance costs</b>		
Interest expenses – bank loans	(315,782)	(440,436)
Interest expenses – advance payments from customers	-	(32,618)
Unwinding of discount – asset retirement obligation (Note 15)	(13,816)	(20,985)
	(329,598)	(494,039)

In 2008 interest on advance payments from customers mostly represents interest charged on the advance from KazMunayGas Trade House, a subsidiary of National Company "KazMunayGas". The Company sells oil to its major customers KazMunayGas Trade House on a prepayment basis. According to the contract the Company is obliged to pay interest for prepayment from the date of payment till the bill of lading date in amount of LIBOR+2.5%.

**25. INCOME TAXES**

The Company is subject to income tax of 20% on taxable profit as determined under the laws of the Republic of Kazakhstan. Income tax expense consisted of the following for the year ended December 31:

	2009	2008
Corporate income tax	321,576	461,946
Excess profit tax	(981,448)	440,376
<b>Current income tax (benefit) / expense</b>	<b>(659,872)</b>	<b>902,322</b>
Corporate income tax	(122,916)	150,051
Excess profit tax	-	46,276
<b>Deferred income tax (benefit) / expense</b>	<b>(122,916)</b>	<b>196,327</b>
<b>Income tax (benefit) / expense</b>	<b>(782,788)</b>	<b>1,098,649</b>



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended December 31, 2009

**25. INCOME TAXES (continued)**

A reconciliation of the income tax expense applicable to profit before income tax at the statutory income tax rate against current income tax expense was as follows for the year ended December 31:

	2009	2008
<b>Accounting (loss) / profit before income tax</b>	<b>383,532</b>	<b>1,657,871</b>
Corporate income tax expense at statutory rate	76,706	497,361
Excess profit tax	(981,448)	348,153
Foreign exchange loss of North Karpovskiy	160,056	-
Effect of change in income tax rate	47,089	(21,049)
Other non-temporary differences	(85,191)	274,184
<b>Income tax (benefit) / expense reported in the accompanying financial statements</b>	<b>(782,788)</b>	<b>1,098,649</b>

In November 2009 the Government of the Republic of Kazakhstan passed the legislation deferring the initially adopted gradual reduction of CIT rates in 2010 and 2011 down to 17.5% and 15%, respectively. According to the amendments introduced CIT rates will be reduced to 17.5% in 2013 and to 15% in 2014 onwards. The above legislation also deferred the initially adopted increase of the mineral extraction tax rates by 1% in 2010 and another 1% in 2011. As a result, the 2009 rates will remain in force through 2012, while the increase will take place in 2013 and 2014, respectively. The impact of the changes in the corporate income tax rate resulted in an increase in the deferred tax asset in the amount of 47,089 thousand Tenge.

Deferred tax balances calculated by applying the statutory tax rates in effect at the respective balance sheet dates plus the estimated excess profit tax rates the Company is expected to incur against temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements, consisted of the following at December 31:

	2009	2008
<b>Deferred tax assets:</b>		
Losses carried forward	60,029	89,854
Accrued expenses	158,379	45,959
Inventory	6,977	7,577
	<b>225,385</b>	<b>143,390</b>
<b>Deferred tax liabilities:</b>		
Property, plant and equipment	(186,387)	(209,091)
Deferred expenses	(5,117)	(14,409)
Disposal group assets (Note 5)	-	(18,179)
Intangible assets	-	(8,925)
	<b>(191,504)</b>	<b>(250,604)</b>
<b>Net deferred tax asset / (liability)</b>	<b>33,881</b>	<b>(107,214)</b>

As at December 31, 2009 losses carried forward amounted to 300,144 thousand Tenge according to Tax Inspection #616 dated December 4, 2009.

In 2009 the Company signed with the Ministry of Energy and Mineral Resources the Addendum No.8 that applies the excess profit tax computation methodology which is close to the methodology of excess profit tax calculation as stipulated in the Tax Code effective 1 January 2009, retrospectively starting from the date of signing the Kokzhide subsurface agreement dated 30 December 1996.

Management concluded that submitted excess profit tax computation methodology provided best available estimate of the Company's excess profit tax liability at the reporting date, and, therefore, during 2009 the Company reduced total excess profit tax liability for years 1997-2008 recognised in 2007 and 2008 financial statements in the amount of 666,677 thousand Tenge and 440,376 thousand Tenge, respectively and increased by 22,117 thousand Tenge and 63,769 thousand Tenge for 2006 and 2004, respectively. As a result, the Company recorded decrease in excess profit tax liability of 981,448 thousand Tenge (after excluding excess profit tax penalty in the amount of 39,720 thousand Tenge) as excess profit tax credit during 2009. As at December 31, 2009 the Company had excess profit tax recoverable in the amount of 541,071 thousand Tenge. The Company plans to resubmit excess profit tax returns for years 1997-2008 in 2010.

At 31 December 2009, the Company recognized deferred income tax benefit in the amount of 122,916 thousand Tenge, which represents the difference arising from net deferred tax asset of 33,881 thousand Tenge in 2009 and net deferred tax liability of 107,214 thousand Tenge in 2008, except for the effect of deferred tax liability related to Disposal group in the amount of 18,179 thousand Tenge.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended December 31, 2009

**26. BASIC EARNINGS PER SHARE**

Earnings per share is calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period, excluding the average number of ordinary shares purchased by the Company and held as treasury shares (Note 14).

The following reflects the income and share data used in the basic earnings per share computation:

	2009	2008
Weighted average number of ordinary shares outstanding	1,323,858	1,350,000
Profit for the year attributable to equity holders	505,400	559,222
Basic earnings per share, KZT	382	414

**27. RELATED PARTY TRANSACTIONS**

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Balances and transactions with related parties of the Company as at and for the year ended December 31, 2009 and 2008 consisted of the following:

**Revenues**

	Nature of Transactions	2009	2008
Lancaster Group Kazakhstan	Sale of equipment	-	155,435
		-	155,435

**Expenses**

	Nature of Transactions	2009	2008
Lancaster Group Kazakhstan	Consulting services and cost of equipment sold	-	316,880
		-	316,880

**Trade and other receivables**

	Nature of Transactions	2009	2008
Lancaster Group Kazakhstan	Interest free, consulting fee and sales of property, plant and equipment	-	1,605,664
LFK Arlan	Interest free loan	-	12,380
Syrymbet	Interest free loan	-	151,000
Mr. Kaniyev (Shareholder)	Interest free loan	-	24,000
		-	1,793,044

**Accounts payable**

	Nature of Transactions	2009	2008
Oman CPC Company	Dividends / Transportation	-	7,529
		-	7,529

Accounts receivable are unsecured, interest free with no fixed terms of repayment.

Accounts payable are interest free and normally payable within 30 days.

**Compensation to key management personnel**

Key management personnel totaled 5 and 4 persons as at December 31, 2009 and 2008. Total compensation to key management personnel included in personnel costs in the accompanying statement of income amounted to KZT 79,054 thousand and KZT 66,522 thousand for the years ended December 31, 2009 and December 31, 2008, respectively. Compensation to key management personnel consists of contractual salary.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended December 31, 2009

**28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company, in connection with its activities, is exposed to various financial risks associated with its financial instruments. Financial instruments are comprised primarily of cash and cash equivalents, trade receivables, other receivables, accounts payable and loans.

**Interest rate risk**

The Company's interest rate risk relates to interest payable associated with its loans. The Company does not enter into any hedging instruments to mitigate any potential risk, as management does not believe the interest rate risk associated with the loan obligation is significant. The interest rates on the loans are fixed subject to variation at the discretion of the bank in the event the bank's cost of capital changes. All loans were settled in 2009.

**Liquidity risks**

Liquidity risk arises from the possibility that customers may not be able to settle obligations to the Company within the normal terms of trade. To manage this risk the Company enters into prepayment contracts with the majority of its customers.

Cash flow requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. The management of the Company believes that any possible fluctuations of future cash flows associated with a monetary financial instrument will not have a material impact on the Company's operations.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2009 and 2008 based on contractual undiscounted payments:

December 31, 2009	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Short-term financial obligations	–	–	1,261,919	–	–	1,261,919
Trade and other payables	114,815	3,345	3,219	8,997	–	130,376
	114,815	3,345	1,265,138	8,997	–	1,392,295
December 31, 2008	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Interest-bearing loans	19,188	152,432	3,861,608	–	–	4,033,228
Interest-bearing loans on disposal group	24,678	129,562	3,282,238	–	–	3,436,478
Trade and other payables	41,081	608,862	–	–	–	649,943
	84,947	890,856	7,143,846	–	–	8,119,649

**Commodity price risk**

The Company is exposed to commodity price risk, since oil prices are determined by world market. The Company does not hedge this risk.



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended December 31, 2009

**28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Credit risks**

Credit risks or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. The extent of the Company's credit exposure is represented by the balance of accounts receivable. While the Company may be subject to losses up to the contract value of the instruments in the event of non-performance by its counterpart, it does not expect such losses to occur.

*Short-term deposits*

Banks	Location	Rating		2009	2008
		2009	2008		
BTA Bank JSC	Kazakhstan	D/Not observed	B+/Watch developing	485	713
Kazkommertsbank JSC	Kazakhstan	B/Negative	BB/Negative/B	—	152
Kazkommertsbank JSC	Kazakhstan	B/Negative	BB/Negative/B	—	336
				485	1,201

*Bank accounts*

Banks	Location	Rating		2009	2008
		2009	2008		
Kazkommertsbank JSC	Kazakhstan	B/Negative	BB/Negative/B	1,122,848	188,835
				1,122,848	188,835

**Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company has transactional currency exposures. Such exposure arises from revenues in US Dollars. Almost 100% of the Company's revenue is denominated in the US Dollars, whilst almost none of cost of sales is denominated in US Dollars.

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

	Increase / decrease in US dollar rate	Effect on profit before tax
2009	+10%	50,902
	-15%	(76,353)
2008	+40%	(2,785,090)
	+25%	(1,740,681)

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

For the year ended December 31, 2009

**28. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Fair value of financial instruments**

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the balance sheet:

	Carrying amount		Fair value	
	2009	2008	2009	2008
<b>Financial assets:</b>				
Trade and other receivables	479,881	2,767,878	479,881	2,767,878
Cash and cash equivalents and Bank deposits	1,123,420	190,130	1,123,420	190,130
<b>Financial liabilities:</b>				
Short term interest bearing loans	–	7,049,848	–	7,049,848
Trade and other payables	130,377	1,134,185	130,377	1,134,185

The fair value of borrowings is based on cash flows discounted using the market interest rates. Fair values of available-for-sale investments, bank deposits, trade and other receivables, cash and cash equivalents and trade and other payables approximate their carrying amounts due to their short maturity.

**29. COMMITMENTS AND CONTINGENCIES****Commitment under minimal work program**

As at December 31, 2009 Company had commitments for a minimal work program in an amount of 2,995,744 thousand Tenge (2008: 9,786,914 thousand Tenge).

**Contractual commitments**

The Company had 162,395 thousand Tenge contractual commitments (2008: 155,918 thousand Tenge) as at December 31, 2009 relating to purchase of oil and gas equipment and construction materials.

**Social and education commitments**

As required by the Contract with the Government, the Company is obliged to spend: (i) 110 thousand Tenge per annum to finance social infrastructure and (ii) 1 percent from the operating expenditures incurred during the year for education purposes of the citizens of Kazakhstan on an annual basis until the end of the Mortuk, Kokzhide and Kumsai Contracts.

**Legal actions and claims**

The Company is subject to various legal proceedings related to business operations, such as property damage claims. The Company does not believe that pending or threatened claims of these types, individually or in aggregate, are likely to have any material adverse effect on the Company's financial position or results of operations.

The Company assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated.

No provision has been made in these financial statements for any of the contingent liabilities mentioned above.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended December 31, 2009

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**29. COMMITMENTS AND CONTINGENCIES (continued)****Tax contingencies**

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 fines and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Fines 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, fines and interest can amount to multiples of any assessed taxes.

The Company believes that it has paid or accrued all taxes that are applicable. Where practice concerning tax application is unclear, the Company has accrued tax liabilities based on management's best estimate. The Company's policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, fines and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2009. Although, such amounts are possible and may be material, it is the opinion of Company management that these amounts are either not probable, not reasonably determinable, or both.

The Company's operations and financial position may be affected by Kazakhstan political developments, including the application of existing and future legislation and tax regulations. The Company does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in Kazakhstan.

The new tax code, effective since January 1, 2009, have eliminated stability for tax regimes of subsurface use contracts, that are not approved by the President of Kazakhstan and that are not production sharing agreements concluded prior to 2009. According to new tax code, the major changes in taxes in the comparison with Foundation Agreement are:

- Introduction of new mineral extraction tax instead of royalty, calculated based on annual production and oil price quotations (Note 20);
- Introduction of new rent export tax, calculated based on export oil sales and oil price quotations (Note 23);
- Introduction of new methodology of excess profits tax calculation, where taxable income is taxed at progressive rates;
- Corporate income tax rate will be 20% from 2009 to 2012, 17.5% in 2013, and 15% in subsequent years (Note 25);
- Social tax reduced to 11% of staff payroll cost less allowable deductions, social insurance will be 4%;
- Value added tax equals to 12%.

As at December 31, 2009 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax positions will be sustained.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**For the year ended December 31, 2009

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**29. COMMITMENTS AND CONTINGENCIES (continued)****Tax contingencies (continued)***Transfer Pricing*

Under the Kazakhstan transfer pricing law, which was introduced from January 1 2001, transactions between related parties, international trade operations, and operations with entities, which have tax preferences, are subject to the state control. In case of deviation of transaction price from market price the tax authorities have the right to adjust taxable items with imposition of additional tax assessments plus fines and interest penalties. The transfer pricing law lacks detailed guidance as to how these rules should be applied in practice, and determination of the Company's tax liabilities within the context of the transfer pricing regulations requires an interpretation of transfer pricing law.

The Company conducts transactions subject to state transfer pricing control. It is possible, with the evolution of the interpretation of tax and transfer pricing law in Kazakhstan and the changes in the approach of the Kazakhstan tax authorities, that such transactions could be challenged in the future. The impact of any such challenge cannot be estimated; however, it may be significant.

Whilst there is a risk that Kazakhstan tax authorities may challenge the transfer pricing policies applied, the Company's management believes that they would be successful in defending any such challenge. Further management maintains that the extent of any potential claim by the tax authorities, which may be significant, cannot be reliably estimated.

**Environmental matters**

The Company 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 Kazakhstani laws and regulations evolve concerning environmental assessments and site restoration, the Company 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. The calculation of abandonment and site restoration is considered in Note 15. It is the opinion of management that such costs will not have a material effect on the financial condition of the Company and accordingly no provisions for future environmental claims or penalties are included in the accompanying financial statements.

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

**30. SUBSEQUENT EVENTS**

On March 10, 2010, in accordance with the decision of the Sole Shareholder, Yukon Energy Holding S.A., the Company changed its name "Lancaster Petroleum" JSC to "KMK Munai" JSC.

In April 2010 the Company fully repaid it's liabilities to the previous shareholder, Lancaster Energy PTE Ltd (Note 16).

By the date of issuance of these financial statements the Company received 20 million US Dollars from the Sole Shareholder, Yukon Energy Holding S.A. under the loan agreement dated May 19, 2010. The loan is at call and is bearing interest of 8% per annum.

In 2010 the Company paid bonuses to the former management in the amount of 3,855 thousand US Dollars.