

**TRISTAN OIL LTD.**

**Interim Report  
For the Nine Months Ended September 30, 2009**

Management's Discussion and Analysis of the Financial Condition and Results of Operations..... 2

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# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Overview

We are engaged in the exploration and development of oil and gas fields and the production of oil, condensate and gas in the Pre-Caspian basin of Western Kazakhstan. We operate two fields. Kazpolmunay LLP ("KPM") operates the Borankol field and Tolkyneftegaz LLP ("TNG") operates the Tolkyne field, each pursuant to subsoil use contracts with the government of Kazakhstan. The combined proved reserve base of the Borankol and Tolkyne fields as of January 1, 2009 is 81.0 MMboe, 41.1% of which is liquids<sup>1</sup> and 58.9% of which is gas.

We produced approximately 87.2% of our oil from the Borankol field during the nine months ended September 30, 2009. Once oil is extracted from the wells, it is separated from the associated gas and impurities at a treatment facility located on site at the Borankol field. For the nine months ended September 30, 2009, we delivered 85.1% of our oil DDU Odessa and 6.7% FOB Novorossiysk to export markets through a pipeline network pursuant to an agreement with KazTransOil, the operator of the network in Kazakhstan. This pipeline network extends through Kazakhstan, Russia and Ukraine to the port of Odessa, Ukraine. The price of the oil we export is benchmarked against the international market price for Urals oil. For the same period, we delivered 8.2% of our oil to the domestic market in Kazakhstan.

We produced 98.1% of our condensate and 96.1% of our gas from the Tolkyne field during the nine months ended September 30, 2009. Once extracted from wells, the gas is transported to the Borankol field where it is treated in a processing facility where condensate is separated from the gas. The price of the condensate we export is benchmarked against the international market prices for Brent oil and Oman/Dubai oil. For the nine months ended September 30, 2009, we delivered 100.0% of our condensate FCA Opornaya and our buyer transported the condensate by rail to Finland. Our gas produced during the nine months ended September 30, 2009 was sold through supply and purchase agreements with MAEK and AktauGazServise, 72.8% and 22.4%, respectively, and the remaining 4.8% to local Kazakhstan end-users. We delivered the gas we sold to MAEK and AktauGazServise FCA Opornaya, and they transported the gas through the Central Asia-Center pipeline.

KPM and TNG began exploration of the Borankol and Tolkyne fields in 2000 and 2001, respectively. TNG is also engaged in exploration activity on the Tabyl Block. Since 2000, approximately \$977.3 million has been invested in exploration and development work of the Borankol field, Tolkyne field and Tabyl Block collectively. Production testing began from the Borankol and Tolkyne fields in 2001 and 2003, respectively. During the nine months ended September 30, 2009, we had 82 operational wells. During the nine months ended September 30, 2009 we produced 30.5 mboed on average. We commenced the drilling of 2 wells during the same period.

## Events During the Nine Months Ended September 30, 2009

### ***New Notes Issuance***

See "New Notes Issuance" below for a description of the additional 10<sup>1</sup>/<sub>2</sub>% Senior Secured Notes due 2012 (the "Senior Secured Notes") issued by Tristan Oil Ltd. ("Tristan Oil").

### ***Rating***

See "Rating" below for a discussion of rating actions on Tristan Oil by Fitch Ratings ("Fitch") and Moody's Investors Service ("Moody's").

### ***Excess Profits Tax***

KPM and TNG were subject to excess profits tax for the year ended December 31, 2008 amounting to \$11.2 million and \$20.8 million, respectively. According to the Kazakhstan legislation, the excess profits tax was due April 15, 2009, but neither KPM nor TNG were able to meet the deadline because of cash constraints due to reduced sales. As a result, KPM and TNG's bank accounts in Kazakhstan were seized by the Tax Committee of the Republic of Kazakhstan Ministry of Finance (the

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<sup>1</sup> Liquids include oil, condensate, and LPG volumes of C3, C4, and C5+.

"TCMF"). On June 19, 2009, KPM and TNG paid the excess profits tax and any penalty associated with it in full and their bank accounts were subsequently released.

### ***Resignations***

Two directors of Tristan Oil resigned, Mr. Ennio Sganzerla on June 12, 2009, and Mr. Ion Popa on June 20, 2009. Tristan Oil is currently seeking two independent directors.

### ***Updated Independent Engineer's Report***

We retained Miller and Lents Ltd. ("Miller and Lents") to estimate the net oil, condensate, gas and liquefied petroleum gas (LPG) reserves and future net revenues as of January 1, 2009 attributable to the interests of KPM and TNG in the Borankol and Tolkyng fields, respectively. Miller and Lents also estimated the initial in-place and recoverable contingent resources in the East Munaibay Prospect located in the Tabyl Block as a result of the successful drilling and testing of the Munaibay No. 1 exploration well in 2008. The reserve report was delivered on April 27, 2009.

Comparing the January 1, 2009 reserve report to the January 1, 2008 reserve report, also prepared by Miller and Lents, our total proved reserves decreased to 81.0 MMboe from 117.5 MMboe and our total probable reserves increased to 25.0 MMboe from 23.8 MMboe. The respective decrease in proved reserves is primarily attributable to 18.9 MMboe production during 2008, the decrease in the gas recovery factor assigned to the volumetric estimates of original gas in place at the Tolkyng field to 65% in 2008 from 70% in 2007, the decrease in the volumetric estimates of original oil in place at the Borankol field and the decrease in the number of expected exploitation wells because of the reduction in oil prices.

### ***Oil Sale Contracts***

The vast majority of our oil and condensate is exported through sale arrangements with Vitol S.A. ("Vitol"). For the nine months ended September 30, 2009 we sold 2.1 MMbbls of our oil and condensate to Vitol, which represented 95.1% of our sales. Our remaining sales of oil and condensate were made to domestic customers.

*TNG crude oil marketing services agreement.* Pursuant to the agreement between Montvale Invest Ltd. ("Montvale"), our affiliated trading company, and Vitol (the "TNG COMSA"), Montvale sells all of TNG's exported oil and condensate to Vitol, or its nominee, and Vitol provides transportation and marketing services to Montvale. The term of the TNG COMSA is through December 31, 2012.

The TNG COMSA currently allows Montvale to request from Vitol prepayments of up to \$20.0 million. Prepayments bear interest of LIBOR plus 4.0%. At the beginning of 2008, the maximum permitted outstanding prepayment amount under the TNG COMSA was \$30.0 million. This amount was increased to \$75.0 million in March 2008 and to \$80.0 million in December 2008 through March 2009. In April 2009, this period was extended through June 30, 2009. On June 29, 2009, the maximum permitted outstanding prepayment amount was decreased to \$20.0 million. As of September 30, 2009, \$56.3 million in prepayments had been advanced to Montvale and remained outstanding. No amounts will be advanced by Vitol to TNG in connection with oil and condensate deliveries by TNG until the outstanding prepayment amount is reduced below \$20.0 million.

*KPM crude oil marketing services agreement.* Pursuant to the agreement between Montvale and Vitol (the "KPM COMSA"), Montvale sells all of KPM's exported oil and condensate to Vitol, or its nominee, and Vitol provides transportation and marketing services to Montvale. The term of the KPM COMSA is through December 31, 2012.

The KPM COMSA currently allows Montvale to request from Vitol prepayments of up to \$20.0 million. Prepayments bear interest of LIBOR plus 4.0%. At the beginning of 2008, the maximum permitted outstanding prepayment amount under the KPM COMSA was \$30.0 million. In July 2008, this amount was increased to \$40.0 million through 2012. On June 29, 2009, the maximum permitted outstanding prepayment amount was decreased to \$20.0 million. As of September 30, 2009, \$20.0 million in prepayments had been advanced to Montvale and remained outstanding.

## **Gas Sale Contracts**

All our gas for the nine months ended September 30, 2009 was sold domestically. Sales to MAEK and AktauGazServise accounted for 95.2% of our gas sales.

Under a supply and purchase agreement (the "SPA") between TNG and MAEK, TNG supplied 25.5 bcf of gas at a price of \$1.24 per mcf during the nine months ended September 30, 2009. The SPA is valid through December 2009. On August 27, 2009, TNG and MAEK entered into a new supply and purchase agreement (the "New SPA"). Under the New SPA, TNG will supply 44.6 bcf of gas, which TNG expects will represent 70% of its production in 2010, at a price of \$1.25 per mcf during 2010. The new SPA is valid through December 2010.

Under a SPA between TNG and AktauGazServise, TNG supplied 7.8 bcf of gas at a price of \$0.68 per mcf during the nine months ended September 30, 2009. The SPA is valid through December 2009.

## **Exploration**

TNG commenced the drilling of one exploratory well in the East Munaibay structure of the Tabyl block in February 2008. On July 20, 2008, as a result of development survey work and well testing, oil and gas deposits were discovered at the depth of 4,000 to 4,050 meters. Additionally, gas and condensate deposits were discovered in the Lower Permian Carbonatic reservoir (at the depth of 4,280 to 4,600 meters), which have been proved through testing. The well was stopped at 4,697 meters, and we are now testing the various rock strata for productivity.

Testing to assess the productivity of this exploratory well shows a commercial flow of 120,000 cm/day and 150,000 cm/day of rich gas in the Asselian and Artinskian strata, respectively (without any treatment to enhance productivity).

In addition to the well data, the Munaibay structure is currently under evaluation work using 3D seismic interpretation.

We commenced drilling one well in the Bahyt structure of the Tabyl Block in October 2008, which reached the depth of 3,972 meters by the end of March 2009. There is evidence of gas in the Lower Triassic stratus and we will continue drilling to the total depth of 4,450 meters, targeting the Lower Permian Carbonatic reservoirs.

On March 9, 2009, TNG declared geological discovery of oil and gas fields on the Munaibay and Bahyt structures of the Tabyl Block.

On April 9, 2009, the Ministry of Energy and Mineral Resources of Kazakhstan (the "MEMR") made the decision to further extend by two years TNG's exploration rights for the Tabyl Block. The respective addendum to the contract No. 302 dated July 31, 1998 was submitted by TNG to the MEMR. However, TNG has yet to receive the MEMR's signature to the addendum extending TNG's exploration rights.

## **Business Strategy**

Consistent with our policy of periodically evaluating our strategic options, we continue to actively explore the opportunity of a trade sale and are presently conducting negotiations with interested parties. To date, no binding bids have been received. We believe that the ongoing issues we face in Kazakhstan have delayed the bidding process and the interested bidders are consulting with Kazakh officials prior to submitting binding bids. No deadline has been set by which binding bids must be submitted and there are no assurances that any binding bids will be submitted. In the event of a sale that constitutes a change of control or asset sale (as defined in the Indenture), we will offer to repurchase our Senior Secured Notes to the extent required by, and subject to the terms set forth in the Indenture the Senior Secured Notes were issued under.

## **Litigation**

See "Litigation" below for a discussion of KPM and TNG's ongoing disputes with the Customs Department of Kazakhstan (the "Customs Department"), the MEMR, the Department for Fighting

Economic Offences and Corruption of the Mangistau Region of Kazakhstan (the "Department") and the TCMF.

### Key Factors Affecting our Results of Operations and Financial Condition

The following key factors affected our results of operations and financial condition during the periods presented in the financial statements included herein.

#### International Oil and Gas Prices

##### Oil Prices

Sales of oil and condensate accounted for approximately 68.9% of our combined sales for the nine months ended September 30, 2009. The price of the oil we export is benchmarked against the international market price for Urals oil. The price at which we export condensate has been benchmarked against the international market prices for Brent oil and Oman/Dubai oil. Oil prices have been, and are expected to continue to be, volatile and can fluctuate substantially in response to many factors beyond our control. International prices for Urals oil, Brent oil and Oman/Dubai oil have fluctuated for the periods as indicated in the table below.

	Year Ended December 31,		Nine Months Ended September 30,	
	2007	2008	2008	2009
<i>Average for the periods indicated</i>	(US\$/bbl)			
Urals .....	\$69.53	\$94.25	\$107.58	\$56.37
Oman/Dubai .....	\$68.50	\$94.51	\$107.58	\$57.22
Brent .....	\$72.39	\$97.26	\$111.02	\$57.16

Source: Platts

All of our export sales of oil and condensate are priced at the average spot rates for the agreed quotation period. For the nine months ended September 30, 2009, our average realized price for oil and condensate exports was \$40.86 per bbl compared to \$101.16 per bbl for the nine months ended September 30, 2008.

##### Gas Prices

Sales of gas accounted for approximately 31.0% of our combined sales for the nine months ended September 30, 2009. The price of the gas we sell is subject to local market conditions and is substantially lower than the international market price for gas. Gas prices have been, and are expected to continue to be, volatile and can fluctuate substantially in response to many factors beyond our control. The contractual prices for the gas we sell have changed for the periods as indicated in the table below.

	Year Ended December 31,		Nine Months Ended September 30,	
	2007	2008	2008	2009
<i>Average for the periods indicated</i>	US\$/mcf			
Gas .....	\$1.04	\$1.36	\$1.38	\$1.12

Source: Management

## Sales Volume

The following table sets forth certain information regarding our sales volumes, average realized sales price per unit and average production costs associated with our operations for the periods indicated.

	<b>Nine Months Ended September 30,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Sales Volume:</b>			
Oil and condensate (MMbbls) .....	2.49	3.33	2.19
Gas (bcf).....	23.33	64.93	34.96
Oil equivalent (MMboe).....	6.38	14.15	8.02
<b>Average realized sales price per unit:</b>			
Oil and condensate (dollar per bbl).....	\$56.00	\$101.10	\$39.58
Gas (dollar per mcf).....	\$0.98	\$1.38	\$1.12
<b>Average production cost (per boe).....</b>	<b>\$8.08</b>	<b>\$7.74</b>	<b>\$9.55</b>

## Production

Our sales are dependent on our level of production of oil, condensate and gas. Our daily production during the nine months ended September 30, 2009 was 30.5 mboe compared to 52.2 mboe for the same period of 2008. The table below shows our oil, condensate and gas production for the nine months ended September 30, 2007, 2008 and 2009, respectively.

<b>Borankol Field</b>	<b>Nine Months Ended September 30,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
<i>Average for the periods indicated</i>			
Oil (mbopd).....	5.4	5.3	4.2
Condensate (mbopd).....	0.1	0.1	0.1
Gas (MMcfd).....	4.7	5.2	5.1
Total (mboed).....	6.3	6.2	5.1

<b>Tolkyn Field</b>	<b>Nine Months Ended September 30,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
<i>Average for the periods indicated</i>			
Oil (mbopd).....	0.3	0.2	0.6
Condensate (mbopd).....	3.3	7.2	3.5
Gas (MMcfd).....	86.1	231.7	127.6
Total (mboed).....	18.0	46.1	25.4

## Gas Market in Kazakhstan

The only major network of gas pipelines servicing the region in which our fields are located is the Central Asia-Center pipeline network. There are a number of parties with rights to access the Central Asia-Center pipeline network in Kazakhstan, including MAEK and AktauGazServise. During the nine months ended September 30, 2009, the majority of our gas production was sold under supply and purchase agreements with MAEK and AktauGazServise at prices significantly less than those available on the international market. Our remaining gas production during this period was sold to local Kazakhstan

end-users.

### **Taxes Paid Under the New Tax Code and Subsoil Use Contracts**

Under the provisions of Kazakhstan's new tax code, which became effective January 1, 2009, KPM and TNG are required to pay corporate income tax, excess profits tax, mineral extraction tax, export rental tax and certain other taxes at rates and under calculation methods that vary according to the contract.

The corporate income tax rate for KPM and TNG is 20.0%. Pursuant to the new tax code, KPM and TNG are required to calculate and pay excess profits tax if the ratio of annual income for the accounting year to annual tax deductions for the accounting year, as calculated for corporate income tax purposes, exceeds 1.25.

KPM's operations on the Borankol field are subject to mineral extraction taxes ("MET"), which rates are determined by production volumes, sales destination and types of sales. MET rates applied to export sales of oil and condensate range from 5.0% for production under 250 thousand tonnes per annum to 20.0% for production exceeding 10 million tonnes per annum. Revenues from domestic oil and condensate sales are taxed at half the international sales rates. We expect a 5% MET to be applied to KPM's operations and a 7% MET to TNG's operations in 2009. MET rates applied to gas sales range from 0.5% to 1.5% for domestic deliveries, the export sales being subject to a fixed 10% MET rate.

KPM and TNG are also required to pay export rental tax ("ERT") on exported oil and condensate, which rates are determined by the level of international oil prices. The rates range from 7% when the international oil price is higher than \$40.0/bbl but lower than, or equal to, \$50.0/bbl to 32% of export sales when the oil price is higher than \$190.0/bbl.

### **Results of Operations for the Nine Months Ended September 30, 2007, 2008 and 2009**

	<b>Nine Months Ended September 30,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Results of Operations</b>			
Sales.....	100%	100%	100%
Cost of sales.....	(31.7%)	(25.8%)	(60.8%)
<b>Gross profit.....</b>	<b>68.3%</b>	<b>74.2%</b>	<b>39.2%</b>
Other income.....	2.3%	0.6%	1.3%
Distribution costs.....	(4.5%)	(2.4%)	(20.5%)
Administrative expenses.....	(9.0%)	(5.5%)	(24.3%)
Other operating income/(expenses).....	0.0%	(0.0%)	7.6%
Total operating expenses net.....	(11.2%)	(7.3%)	(36.0%)
<b>Operating profit.....</b>	<b>57.1%</b>	<b>66.9%</b>	<b>3.2%</b>
Financial income.....	20.7%	31.0%	12.3%
Financial expense.....	(9.2%)	(2.8%)	(101.4%)
<b>Net profit before taxes.....</b>	<b>68.5%</b>	<b>95.1%</b>	<b>(85.9)%</b>
Income tax expense.....	(33.2%)	(28.0%)	(6.9)%
<b>Net profit.....</b>	<b>35.3%</b>	<b>67.1%</b>	<b>(79.0)%</b>

## Components of Sales

Components of our sales are as follows:

	Nine Months Ended September 30,			
	2008	%	2009	%
<b>Sales</b>				
Sales of crude oil and gas condensate.....	\$336,630	79.4%	\$86,841	68.9%
Sales of gas.....	\$87,069	20.5%	\$39,114	31.0%
Sales of self produced electricity.....	\$388	0.1%	\$75	0.1%
Total Sales.....	\$424,087	100%	\$126,030	100%

The discussion and analysis below further explains our results of operations for the nine months ended September 30, 2008 and 2009.

## Results of Operations for the Nine Months Ended September 30, 2009 Compared to the Nine Months Ended September 30, 2008

### Sales

Sales decreased to \$126.0 million for the nine months ended September 30, 2009 from \$424.1 million for the nine months ended September 30, 2008, a decrease of 70.3%. Sales of oil and condensate decreased to \$86.8 million for the nine months ended September 30, 2009 from \$336.6 million for the nine months ended September 30, 2008, a decrease of 74.2%. The decrease in sales of oil and condensate was primarily due to a 60.8% decrease in the average realized price per bbl to \$39.58 for the nine months ended September 30, 2009 from \$101.10 for the nine months ended September 30, 2008 and a 34.1% decrease in oil and condensate volumes to 2.19 MMbbls for the nine months ended September 30, 2009 from 3.33 MMbbls for the nine months ended September 30, 2008.

Gas sales decreased to \$39.1 million for the nine months ended September 30, 2009 from \$87.1 million for the nine months ended September 30, 2008, a decrease of 55.1%. The decrease in gas sales was due to a 46.2% decrease in the volumes of gas sold to 34.96 bcf for the nine months ended September 30, 2009 from 64.93 bcf for the nine months ended September 30, 2008 and a 19.2% decrease in the average realized sales price per unit to \$1.12 per mcf for the nine months ended September 30, 2009 from \$1.38 per mcf for the nine months ended September 30, 2008. Gas sales volumes decreased because TNG was forced to reduce its daily production of gas by approximately 30% in March and 50% in May and June compared to the average daily production levels for the same periods in 2008 because of the shortage of demand for gas from MAEK and AktauGazService. In August, TNG was forced to halt its production of gas and condensate for an estimated 15-day period because of an oversupply of gas by TNG during the previous periods. Our average realized price decreased to \$15.70 per boe for the nine months ended September 30, 2009 from \$29.94 per boe for the nine months ended September 30, 2008.

### Cost of Sales

Cost of sales includes depreciation and amortization, maintenance services, mineral extraction tax, salaries and related costs, material costs, transportation expenses, security services, dry wells costs and other expenses. Cost of sales decreased to \$76.6 million for the nine months ended September 30, 2009 from \$109.5 million for the nine months ended September 30, 2008, a decrease of 30.0%. This decrease was primarily due to (i) lower depreciation and amortization costs, as a result of the lower volume of sales and adjustments to the rate of depreciation / amortization, (ii) lower mineral extraction tax payments, which replaced royalty tax payments, (iii) lower salaries and related costs, (iv) lower material costs, and (v) lower security costs. On a per boe basis, however, the cost of sales increased to \$9.55 for the nine months ended September 30, 2009 from \$7.74 for the nine months ended September 30, 2008, an increase of 23.4%.

### ***Other Income***

Other income includes rental income, sales of materials, gain on sales of property, plant and equipment and other income. Other income decreased to \$1.6 million for the nine months ended September 30, 2009 from \$2.6 million for the nine months ended September 30, 2008. On a per boe basis, however, other income increased to \$0.20 for the nine months ended September 30, 2009 from \$0.18 for the nine months ended September 30, 2008.

### ***Distribution Costs***

Distribution costs include export rental tax on oil and gas condensate, the write off of customs duties paid on exported crude oil from June 2008 to September 2008, pipeline transportation of oil and gas costs, commission services and other distribution costs. Distribution costs increased to \$25.8 million for the nine months ended September 30, 2009 from \$10.3 million for the nine months ended September 30, 2008, an increase of 151.4%. This increase is related to the introduction of the export rental tax on oil and gas condensate from January 1, 2009 and a one-time write off of the customs duties paid on exported crude oil from June 2008 to September 2008.

### ***Administrative Expenses***

Administrative expenses include taxes and duties, salaries and related costs, audit and consulting, depreciation and amortization, personnel training, communication, transportation, travel allowances, material costs, banking services, charitable donations and other administrative costs. Administrative expenses increased to \$30.7 million for the nine months ended September 30, 2009 from \$23.2 million for the nine months ended September 30, 2008. This increase was primarily due to the increase in taxes and duties and expenses related to audit and consulting services. Administrative expenses increased to \$3.82 per boe for the nine months ended September 30, 2009 from \$1.64 per boe for the nine months ended September 30, 2008.

### ***Other Operating Income / Expenses***

Other operating income for the nine months ended September 30, 2009 was \$9.5 million compared to other operating expenses of \$0.07 million for the nine months ended September 30, 2008. Other operating income for the nine months ended September 30, 2009 is primarily attributable to a one-time reversal of property tax accrual.

### ***Financial Income and Expense***

Net financial expense for the nine months ended September 30, 2009 was \$112.3 million compared to a net financial income of \$119.6 million for the nine months ended September 30, 2008. Net financial expense for the nine months ended September 30, 2009 is primarily attributable to the increase in the fair value of our financial liabilities, lower amounts of borrowing costs included in the cost of qualifying assets and higher foreign exchange losses.

### ***Income Tax Benefit / Expense***

Income tax benefit for the nine months ended September 30, 2009 was \$8.7 million compared to an income tax expense of \$118.8 million for the nine months ended September 30, 2008. The income tax benefit for the nine months ended September 30, 2009 is primarily attributable to deferred corporate income tax and excess profits tax benefits due to the reduction of the income tax rate starting January 1, 2009.

### ***Loss / Profit for the Period***

Loss for the nine months ended September 30, 2009 was \$99.5 million compared to a profit of \$284.4 million for the nine months ended September 30, 2008. The loss for the period was primarily attributable to substantially lower sales volumes, lower oil and gas prices and higher distribution, administrative and financial expenses for the nine months ended September 30, 2009.

## Liquidity and Capital Resources

For the periods presented in the financial statements included herein, we have funded our oil, condensate and gas operations with funds from our operating and financing activities. As of September 30, 2009 our cash and cash equivalents balance was \$0.3 million.

The table below shows our net cash flows from operating, investing and financing activities for the nine months ended September 30, 2008 and 2009.

	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2009</b>
	(dollars in thousands)	
Net cash generated by operating activities.....	\$167,770	\$26,003
Net cash used in investing activities.....	\$(110,740)	\$(65,021)
Net cash (used)/generated by financing activities.....	\$(68,099)	\$30,000

### Cash Flow from Operating Activities

Net cash flow provided by operating activities decreased to \$26.0 million for the nine months ended September 30, 2009 from \$167.8 million for the nine months ended September 30, 2008. The decrease in net cash provided by operating activities was primarily due to substantially lower oil prices for the period and lower sales volumes.

### Cash Flow from Investing Activities

Net cash flow used in investing activities decreased to \$65.0 million for the nine months ended September 30, 2009 from \$110.7 million for the nine months ended September 30, 2008.

### Cash Flow from Financing Activities

Net cash provided by financing activities was \$30.0 million for the nine months ended September 30, 2009 compared to the net cash used in financing activities of \$68.1 million for the nine months ended September 30, 2008. The \$30.0 million related to the issuance of an additional \$111.11 million principal amount of Senior Secured Notes by Tristan Oil at an aggregate purchase price of \$30.0 million.

The table below shows our levels of cash, current assets and current liabilities as at December 31, 2008 and as at September 30, 2009:

	<b>As at December 31,</b>	<b>As at September 30,</b>
	<b>2008</b>	<b>2009</b>
	(dollars in thousands)	
Cash and cash equivalents.....	\$9,269	\$251
Total current assets (excl. cash and cash equivalents).....	\$211,479	\$186,862
Total current liabilities.....	\$78,174	\$81,145

### Contractual Borrowings

The following table shows all contractual borrowings as at December 31, 2008 and as at September 30, 2009.

	<u>As at December 31, 2008</u>	<u>As at September 30, 2009</u>
	(dollars in thousands)	
From one to five years.....	\$156,521	\$281,488
Total.....	\$156,521	\$281,488

## Capital Expenditures

We currently expect to incur the following capital expenditures by the end of 2009:

**Drilling.** We are currently reviewing our drilling program, which may be reduced to zero for the remainder of 2009.

**LPG Plant.** TNG is currently building a new LPG processing facility for liquid petroleum gas. As of September 30, 2009, TNG had invested approximately \$245.0 million in the LPG project. TNG halted construction on and investment in the LPG plant in May 2009 and will restart construction when its cash position improves.

## Litigation

### *Export Duty*

On July 3, 2008, the Customs Department submitted a formal letter to KPM, requesting KPM to pay oil export duty on the oil and condensate it exports starting on August 18, 2008. The amount of the export duty was \$109.91 per tonne. On August 12, 2008, KPM initiated legal proceedings against the Customs Department, as the submitted request to pay the oil export duty contravened the terms of the subsoil use contract between KPM and the Kazakh State Agency on Investments. Without prejudice to its contractual rights and upon the request of the Customs Department, KPM paid the oil export duty for June, July, August and September amounting to a total of approximately \$9.6 million. On September 24, KPM received a favourable ruling from the Specialized Inter-Regional Economic Court of the Mangistau Oblast (the "Inter-Regional Court") stating that the oil exported by KPM is not subject to the export duty.

On October 6, 2008, the Customs Department appealed the ruling of the Inter-Regional Court with the Regional Court of the Mangistau Oblast (the "Regional Court"). On October 28, the Civil Collegium of the Regional Court (the "Civil Collegium") recorded the appeal, voided the ruling of the Inter-Regional Court and remitted the case back to the Inter-Regional Court for reconsideration.

On November 19, 2008, the Inter-Regional Court upheld its ruling of September 24, 2008, stating that the oil exported by KPM is not subject to the export duty. The Customs Department re-appealed the ruling of the Inter-Regional Court with the Civil Collegium, which on December 23, 2008 recorded the appeal, voided the ruling of the Inter-Regional Court and ruled against KPM. KPM appealed the ruling of the Civil Collegium with the Supervisory Collegium of the Regional Court (the "Supervisory Collegium"). On February 18, 2009, the Supervisory Collegium rejected KPM's appeal.

KPM appealed the ruling of the Civil Collegium with the Supervisory Collegium of the Supreme Court in Astana. On April 23, 2009, the Supervisory Collegium of the Supreme Court rejected KPM's appeal.

The export duty was replaced by a new tax regime effective January 1, 2009. See "*Taxes Paid Under the New Tax Code and Subsoil Use Contracts*" above for further details.

### *Pre-emptive Right Waiver*

On December 18, 2008, the MEMR submitted a formal letter to TNG informing TNG that the MEMR had cancelled its previously issued waiver of the MEMR's pre-emptive rights in connection with the transfer of ownership of TNG in 2003. At such time, the current shareholder of TNG acquired TNG from an affiliated entity. At the request of the MEMR, in 2007 TNG applied for, and was granted, a waiver of the MEMR's pre-emptive rights in connection with the ownership transfer in 2003. The MEMR cancelled its decision to waive its pre-emptive rights because it claimed it did not receive all the pertinent

information regarding the date of the transfer at the time the waiver was granted.

The formal letter provided that TNG had to submit all necessary documentation to the MEMR by January 23, 2009 and that any failure by TNG to obtain a favorable resolution with respect to this matter, would result in the MEMR cancelling TNG's subsoil use contract with respect to the Tolkyin field and Tabyl block. TNG submitted the required documentation to the MEMR.

On February 27, 2009, the MEMR submitted a formal notification to TNG informing TNG that the transfer of ownership of TNG in 2003 violated the Government of Kazakhstan's pre-emptive rights. The MEMR requested that another application regarding the transfer of ownership be submitted within one month from the date of the notification in order to afford the State of Kazakhstan the opportunity to exercise or waive its pre-emptive rights in connection with TNG's change of ownership in 2003. The formal notification provided that any failure by TNG to resubmit the application would result in the MEMR cancelling TNG's subsoil use contract with respect to the Tolkyin field and Tabyl block.

On March 25, 2009, TNG submitted the requested application to the MEMR. The MEMR acknowledged the receipt of the application and did not request any further information from TNG.

### ***Criminal Investigation***

On December 24, 2008, the Department submitted a formal letter to KPM and TNG informing both entities that KPM was the subject of a criminal investigation. While the formal letter did not state a basis for the investigation, KPM believes it relates to the oil pipeline built by KPM to transport its oil from the Borankol field to the delivery point at the KazTransOil pipeline.

On April 24, 2009, in connection with the ongoing criminal investigation of KPM, the General Director of KPM was arrested by the financial police officers of Aktau town. On April 27, 2009, the Town Court of Aktau ruled to keep him under arrest until May 20, 2009. On May 19, 2009 the criminal investigation was completed by the Department and a report regarding its findings in connection with the criminal investigation was filed with the prosecutor's office, the Town Court of Aktau and KPM's counsel for consideration prior to commencement of the criminal hearing.

On February 2, 2009, the Department submitted a letter to TNG informing TNG that it is the subject of a criminal investigation. The letter stated that the criminal investigation relates to two gas pipelines and one condensate pipeline built by TNG to transport its gas and condensate from the company's gas processing facility to the delivery point at the Central Asia Center pipeline for gas and the Opornaya condensate storage facilities for condensate but did not provide further details. TNG has requested that the Department provide details regarding the basis for the investigation.

In connection with the criminal investigations of KPM and TNG, the Department alleges that both companies operated a main pipeline without obtaining a state license and all income earned by KPM and TNG in connection with production that was transported via this pipeline was done so illegally. The Department's view on this matter is inconsistent with its and other Kazakh governmental entities' characterization and treatment of this pipeline.

On May 15, 2009, the Department notified KPM and TNG that it was seizing the assets of KPM and TNG and their shareholders' equity interest in KPM and TNG. The effect of such seizure is that KPM and TNG, as well as their shareholders, shall refrain during the investigation from selling and/or transferring the assets of KPM and TNG and the equity interest in KPM and TNG to third parties, but may use the assets in their normal business operations.

On June 17, 2009 the Department announced that it finalized its criminal investigations of KPM, TNG and their senior managers.

On September 18, 2009, after having held a number of court hearings the Aktau Town Court (the "ATC") ruled that the General Director of KPM was guilty of allowing KPM to operate a main pipeline without obtaining a state license and sentenced him to 4 years of imprisonment and KPM was ordered to pay to the Republic of Kazakhstan approximately US\$ 145.0 million in fines. The General Director of KPM appealed the respective decisions of the ATC with the Mangistau Regional Court (the "MRC").

On November 12, 2009, the MRC upheld the ruling of ATC. KPM and its General Director will appeal the ruling and will continue to pursue all legal remedies available to defend against the charges

brought forward under the criminal investigation.

As of November 30, 2009, there have been no court hearings or material developments in connection with the ongoing criminal investigations of TNG and its former General Director.

### **Tax Audit**

The TCMF, in connection with an audit of KPM and TNG, has alleged that KPM and TNG failed to pay a total of approximately \$24 million and \$45 million, respectively, in taxes and interest. The TCMF claims that KPM and TNG incorrectly deducted expenses in 2005, 2006 and 2007 in connection with their drilling activities, which is inconsistent with the view taken by TCMF in the past regarding the accounting treatment of such expenses.

KPM and TNG challenged the tax assessment imposed by the TCMF in the Specialized Inter-district Economic Court of Astana (the "CIECA"), which on September 8 and September 9, 2009 ruled against KPM and TNG and found that the tax assessment had been properly imposed. KPM and TNG appealed the ruling in the Civil Collegium of Astana Court (the "CCAC"), which on October 29, 2009 cancelled the decision of the CIECA and sent the matter back down to the CIECA for a renewed review and hearing. The CCAC ruled that the judges who previously ruled on this matter at the CIECA should not hear that matter again and that a different set of judges should preside.

As previously indicated, KPM and TNG strongly believe that the TCMF tax assessment violates Kazakhstan law, and they will continue to dispute the TCMF tax assessment in the local Kazakh courts.

Despite the ongoing difficulties facing KPM and TNG in Kazakhstan, and the fact that neither company has any assurance that their legal challenges will ultimately prevail, KPM and TNG continue their efforts to resolve the ongoing claims and litigation matters with the Kazakh authorities.

### **Rating**

On January 13, 2009, Fitch placed Tristan Oil Long-term foreign currency Issuer Default Rating ("IDR") and senior unsecured rating of B+ on Rating Watch Negative ("RWN"). Tristan Oil's recovery rating remained RR4.

On January 15, 2009, Moody's placed on review for possible downgrade the B2 corporate family rating of Tristan Oil and B2 rating of its Senior Secured Notes.

On February 18, 2009, Moody's downgraded to B3 the B2 corporate family rating of Tristan Oil and B2 rating of its Senior Secured Notes. Both ratings remained on review for further possible downgrade.

On March 5, 2009, Moody's downgraded to Caa2 the B3 corporate family and Probability of Default ratings of Tristan Oil as well as the B3 rating of its Senior Secured Notes. The outlook on the ratings was changed to negative.

On June 30, 2009, Moody's downgraded to Caa3 the Caa2 corporate family and Probability of Default ratings on Tristan Oil as well as the Caa2 rating of its Senior Secured Notes. The outlook on the ratings remained negative.

On July 10, 2009, Fitch downgraded Tristan Oil's Long-term foreign currency IDR to CC from B+ and senior unsecured rating to C from B+ with a recovery rating of RR5. Fitch has simultaneously maintained the RWN on the Long-term foreign currency IDR and placed the senior unsecured debt class rating on Rating Watch Evolving ("RWE").

On July 23, 2009, Fitch maintained the RWN on Tristan Oil's Long-term foreign currency IDR to CC. Fitch has simultaneously affirmed the senior unsecured debt rating of C of Tristan Oil's Senior Secured Notes and removed it from RWE. At the same time, Fitch has revised the recovery rating applied to the Senior Secured Notes to RR6 from RR5.

On October 16, 2009, Fitch downgraded Tristan Oil's Long-term foreign currency IDR to C from CC and affirmed its senior unsecured rating at C with a recovery rating of RR6. Fitch has simultaneously maintained the RWN on the Long-term foreign currency IDR.

## **Gas and Condensate Production**

Starting March 2009, TNG was forced to reduce its daily production of gas and the corresponding condensate by approximately 30.0% compared to the average daily production levels of 2008, because of the shortage of demand for gas from MAEK and AktauGazServise.

On April 22, 2009, TNG entered into a new gas contract at prices significantly higher than those offered by MAEK and AktauGazServise. However, the conditions precedent necessary for the contract to become effective were not satisfied and the contract is currently void.

In May 2009, TNG was forced to further reduce its daily production of gas and the corresponding condensate by approximately 50.0% compared to the average daily production levels of 2008, because of further reduction in demand for gas from MAEK and AktauGazServise.

On June 11, 2009 TNG offered to sell to KazRosGaz additional volumes of gas. KazRosGaz acknowledged receipt of the request, but gave no indication about their availability to buy any volumes of gas from TNG.

On August 24, 2009, TNG halted for an estimated 15-day period its production of gas and condensate because of gas oversupply during the previous periods and Intergaz's refusal to accept any further gas volumes in its pipeline until the oversupplied gas balance was reduced to nil.

TNG is currently producing gas and condensate at approximately 75% rate compared to the average daily production levels of 2008.

## **New Notes Issuance**

On June 19, 2009 Tristan Oil announced that it has issued an additional \$111,110,000 principal amount of its Senior Secured Notes (the "New Notes"). The New Notes were purchased by Laren Holdings Ltd ("Laren"), a BVI special purpose entity that is owned by a charitable trust, for an aggregate purchase price of \$30,000,000 million. The proceeds from the sale of the New Notes were used to pay a portion of the excess profit tax due by KPM and TNG and to pay for certain expenses incurred in connection with the issuance of the New Notes.

On June 16, 2009, Laren entered into a \$60 million Credit Facility (the "Credit Facility"), with a group of lenders, which was arranged by Renaissance Advisory Services Limited (the "Arranger"). Amounts borrowed under the Credit Facility are due within 6 months and bear interest at a rate of 35%. In addition, upon a change of control of KPM or TNG or an event of default under the Credit Facility, the full amount owing under the Credit Facility will be due and payable.

Laren used \$30.0 million from the Credit Facility to purchase the New Notes and the balance was loaned to Montvale.

Montvale used loan proceeds from Laren to pay certain accounts payable, through two intermediary entities (the "Intermediary Entities"). KPM and TNG used the funds to pay the balance of the excess profit tax due and for other general corporate purposes.

Laren's obligations under the Credit Facility are secured by, among other assets, the equity of the entities that own KPM and TNG.

KPM and TNG have agreed to guarantee Laren's obligations under the Credit Facility on a subordinated basis and, in the event Laren defaults on its obligations under the Credit Facility, KPM and TNG have agreed to buy the loans outstanding under the Credit Facility from the lenders, and pay all accrued interest due to the lenders.

Laren is currently in the process of renegotiating the payment terms of the \$60.0 million Credit Facility.

## **Forward-Looking Statements**

Statements in this report relating to future plans, projections, events or conditions are forward-looking statements. Actual results, including project plans and related expenditures, resource recoveries, timing and capacities, could differ materially due to changes in long-term oil or gas prices or other market conditions affecting the oil and gas industry; political events or disturbances; reserve performance; the outcome of commercial negotiations; potential liability resulting from future litigation; wars and acts of terrorism or sabotage; and changes in technical or operating conditions. We assume no duty to update these statements as of any future date.

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**Tristan Oil Ltd.**

Unaudited Interim Financial Statements  
for the three- and nine months ended  
September 30, 2009

**Tristan Oil Ltd.**  
*Interim Statement of Comprehensive Income for the three- and nine months ended September 30, 2009*  
*All amounts in USD, if not otherwise stated*

	Note	Three months ended September 30, 2009 <u>(Unaudited)</u>	Nine months ended September 30, 2009 <u>(Unaudited)</u>	Three months ended September 30, 2008 <u>(Unaudited)</u>	Nine months ended September 30, 2008 <u>(Unaudited)</u>
Interest revenue	7	13,202,503	41,097,368	14,190,124	42,253,379
Administrative expenses	8	(4,242,964)	(6,147,570)	(2,993,544)	(3,342,458)
Other finance (expense)/income	9	(95,599,800)	(94,966,900)	139,566,000	131,166,000
Finance expense	9	<u>(14,020,144)</u>	<u>(36,532,599)</u>	<u>(11,022,330)</u>	<u>(33,074,327)</u>
<b>(Loss)/profit before income tax</b>		<b>(100,660,405)</b>	<b>(96,549,701)</b>	<b>139,740,250</b>	<b>137,002,594</b>
Income tax expense	7	<u>(2,618,656)</u>	<u>(8,197,629)</u>	<u>(2,128,519)</u>	<u>(6,338,007)</u>
<b>(Loss)/profit and comprehensive income for the period</b>		<b><u>(103,279,061)</u></b>	<b><u>(104,747,330)</u></b>	<b><u>137,611,731</u></b>	<b><u>130,664,587</u></b>

These interim financial statements were approved by Management on December 7, 2009 and were signed on its behalf by:

\_\_\_\_\_  
Anatol Stati  
*President*

\_\_\_\_\_  
Artur Lungu  
*Chief Financial Officer*

	Note	September30, 2009 (Unaudited)	December31, 2008 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial assets	10	372,863,521	400,322,400
<b>Total non-current assets</b>		<b>372,863,521</b>	<b>400,322,400</b>
<b>Current assets</b>			
Interest and other receivables	11	60,873,025	80,481
Cash and cash equivalents	12	2,092	202,876
<b>Total current assets</b>		<b>60,875,117</b>	<b>283,357</b>
<b>Total assets</b>		<b>433,738,638</b>	<b>400,605,757</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	13	5,000	5,000
Retained earnings		137,207,396	241,954,726
<b>Total shareholder's equity</b>		<b>137,212,396</b>	<b>241,959,726</b>
<b>Non-current liabilities</b>			
Loans and borrowings	14	281,488,300	156,521,400
<b>Total non-current liabilities</b>		<b>281,488,300</b>	<b>156,521,400</b>
<b>Current liabilities</b>			
Interest and other payables	15	15,037,942	2,124,631
<b>Total current liabilities</b>		<b>15,037,942</b>	<b>2,124,631</b>
<b>Total liabilities</b>		<b>296,526,242</b>	<b>158,646,031</b>
<b>Total equity and liabilities</b>		<b>433,738,638</b>	<b>400,605,757</b>

**Tristan Oil Ltd.**  
*Interim Statement of Cash Flows for the nine months ended September 30, 2009*  
*All amounts in USD, if not otherwise stated*

	<b>Nine months ended September 30, 2009 (Unaudited)</b>	<b>Nine months ended September 30, 2008 (Unaudited)</b>
<b>Operating activities</b>		
(Loss)/profit for the period	(104,747,330)	130,664,587
<i>Adjustments for:</i>		
Change in fair value of financial liabilities designated at fair value through profit or loss	94,966,900	(131,166,000)
Interest revenue	(41,097,368)	(42,253,379)
Finance expense	36,532,599	33,074,327
Income tax expense	8,197,629	6,338,007
<b>Operating loss before changes in working capital</b>	<b>(6,147,570)</b>	<b>(3,342,458)</b>
Change in interest and other receivables	189,474	4,240
Change in interest and other payables	(1,037,493)	24,368
<b>Cash flows utilised by operations before interest paid</b>	<b>(6,995,589)</b>	<b>(3,313,850)</b>
Interest paid	(22,581,795)	(22,049,397)
Interest received	500,000	23,863,557
<b>Cash flows utilised by operating activities</b>	<b>(29,077,384)</b>	<b>(1,499,690)</b>
<b>Investing activities</b>		
Loans granted	(31,858,500)	-
Repayment of loans	30,735,100	-
<b>Cash flows utilised by investing activities</b>	<b>(1,123,400)</b>	<b>-</b>
<b>Financing activities</b>		
Proceeds from loans and borrowings	30,000,000	-
<b>Cash flows from financing activities</b>	<b>30,000,000</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(200,784)</b>	<b>(1,499,690)</b>
Cash and cash equivalents at the beginning of the period	202,876	1,642,600
<b>Cash and cash equivalents at the end of the period (Note 12)</b>	<b>2,092</b>	<b>142,910</b>

**Tristan Oil Ltd.**  
*Interim Statement of Changes in Equity for the nine months ended September 30, 2009*  
*All amounts in USD, if not otherwise stated*

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Balance at December 31, 2007 (Audited)</b>	<b>5,000</b>	<b>(1,212,096)</b>	<b>(1,207,096)</b>
Total comprehensive income for the period (Unaudited)	-	130,664,587	130,664,587
<b>Balance at September 30, 2008 (Unaudited)</b>	<b>5,000</b>	<b>129,452,491</b>	<b>129,457,491</b>
Total comprehensive income for the period (Unaudited)	-	112,502,235	112,502,235
<b>Balance at December 31, 2008 (Audited)</b>	<b>5,000</b>	<b>241,954,726</b>	<b>241,959,726</b>
Loss and total comprehensive income for the period (Unaudited)	-	(104,747,330)	(104,747,330)
<b>Balance at September 30, 2009 (Unaudited)</b>	<b>5,000</b>	<b>137,207,396</b>	<b>137,212,396</b>

## **1 Background**

### **(a) Organisation and operations**

Tristan Oil Ltd. (“the Company”) was established in the British Virgin Islands. All of the issued stock of the Company is owned by Anatol Stati. The Company’s registered office is P.O. Box 71, Craigmuir Chambers, Road Town, Tortola, British Virgin Islands. The Company was formed on October 24, 2006 for the purpose of the issuance of the Senior Secured Notes as described in Note 14.

### **(b) Business environment**

The Company’s operations are subject to country risk, being the economic, political and social risks inherent in doing business in Kazakhstan. These risks include matters arising from the policies of the government, economic conditions, the imposition of, or changes to, taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The interim financial statements reflect management’s assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Company. The future business environment may differ from management’s assessment.

## **2 Basis of preparation**

### **(a) Statement of compliance**

These interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 – *Interim Financial Reporting*.

### **(b) Basis of measurement**

The interim financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss are measured at fair value.

### **(c) Functional and presentation currency**

The Company’s functional and presentational currency is the US dollar (USD) and all financial information presented has been rounded to the nearest dollar.

### **(d) Going concern**

The accompanying interim financial statements have been prepared on going concern basis, which contemplates the realisation of assets and discharge of liabilities in the normal course of business. The recoverability of the Company’s assets, as well as the future operations of the Company, may be significantly affected by the current and future economic environment (Note 1(b)), the ability of related parties to overcome their financial difficulties and the outcome of related parties’ outstanding litigation and ongoing criminal investigation (Note 16(b)). As a result, there are material uncertainties which may cast significant doubt on the Company’s ability to continue as a going concern, and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The interim financial statements do not include any adjustments which may be necessary should the Company be unable to continue as a going concern.

## **2 Basis of preparation, continued**

### **(e) Use of judgments, estimates and assumptions**

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these interim financial statements in conformity with IFRSs. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the interim financial statements relate to the receivables from related party. Management believes that no impairment provisions are required for the receivables from related parties even for overdue amounts.

## **3 Significant accounting policies**

The significant accounting policies applied in the preparation of the interim financial statements are in Note 3(a) to 3(g). These accounting policies have been consistently applied except for the adoption of revised IAS 1 *Presentation of Financial Statements* (2007), which has become mandatory for the Company's 2009 financial statements. The adoption had no significant effect on these interim financial statements.

### **(a) Financial instruments**

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in Note 3(d) and (e).

#### *Financial liabilities at fair value through profit or loss*

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Certain financial instruments with embedded derivatives are designated at fair value through profit or loss. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

#### *Other*

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

### **3 Significant accounting policies, continued**

#### **(b) Impairment**

##### *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost that are debt securities, the reversal is recognised in profit or loss.

#### **(c) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of shares are recognised as a deduction from equity.

#### **(d) Interest revenue and expense**

Interest revenue comprises interest income on loans to related parties. Interest revenue is recognised as it accrues in profit or loss, using the effective interest method.

Interest expense comprises interest expense on borrowings.

#### **(e) Other finance income and expense**

Other finance income and expense comprise decreases and increases in the fair value of financial liabilities designated at fair value through profit or loss and impairment losses recognised on financial assets and negative changes in the fair value of financial liabilities designated at fair value through profit or loss.

#### **(f) Taxation**

The Company is not subject to taxation in the British Virgin Islands. The income tax expense represents the profit tax withheld on interest revenue.

#### **(g) Reclassification**

During the preparation of the Company's interim financial statements, management has changed classification of interest received in the statement of cash flows from investing activities to operating activities. Management believes that this presentation is more appropriate because interest received enters into the determination of profit or loss. Comparatives were reclassified accordingly.

## **4 Determination of fair values**

A number of the Company's accounting policies and disclosures require the determination of fair value for financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### **(a) Financial liabilities**

The fair value of financial liabilities at fair value through profit or loss is determined by reference to their quoted bid price at the reporting date.

### **(b) Trade and other receivables and payables**

The fair value of trade and other receivables and payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. For trade and other receivables and payables with a short maturity fair value is not materially different from the carrying value because the effect of time value of money is not material.

### **(c) Non-derivative financial instruments**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

## **5 Financial risk management**

### **(a) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans to related parties.

The Company's purpose is to issue debt to finance the operations of Tolkyneftegaz LLP and Kazpolmunay LLP ("the Operating Companies"); two companies which operate in Kazakhstan and which are controlled by the Company's ultimate controlling party. These Operating Companies also fully guarantee the debt issued by the Company. Thus the Company's credit risk is to the Operating Companies. As the Company's sole purpose is to act as a financing vehicle for the Operating Companies, the Company has not developed formal procedures for limiting credit risk to the Operating Companies.

### **(b) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Contractual maturities of financial liabilities of the Company are in general match contractual maturities of the Company's financial assets.

### **(c) Market risk**

The Company's financial assets and liabilities are denominated in USD.

## 5 Financial risk management, continued

### (c) Market risk, continued

#### (i) Interest rate risk

The Company's financial assets and liabilities bear fixed interest rate. Management does not have a formal policy of determining how much of the Company's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings, management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Company over the expected period until maturity.

#### (ii) Other market price risk

The Company has no significant exposure to other market price risk, including currency risk.

### (d) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. There were no changes to the Company's approach to capital management during the nine months ended September 30, 2009.

The Company is subject to special capital requirements and in particular under the terms of the Indenture between Tristan Oil Ltd., Kazpolmunay LLP, Tolkyneftegaz LLP and Wells Fargo Bank, N.A. dated December 20, 2006 relating to restrictions on (i) the declaration and payment of dividends and, (ii) the purchase, redemption, acquisition or retirement for value of any equity interests to comply with ratio based on fixed charge coverage and excess cash flows.

The Company has complied with the special capital requirements during the nine months ended September 30, 2009 and the year ended December 31, 2008.

## 6 Segment reporting

The Company operates in one segment.

## 7 Interest revenue

	Three months ended September 30, 2009 (Unaudited)	Nine months ended September 30, 2009 (Unaudited)	Three months ended September 30, 2008 (Unaudited)	Nine months ended September 30, 2008 (Unaudited)
Interest revenue	13,202,503	41,097,368	14,190,124	42,253,379

Interest revenue relates to the loans provided to related parties (Note 10). The Company is subject to withholding tax on interest revenue at rate of 20% (2008: 15%), which is presented as income tax expense in these interim financial statements.

## 8 Administrative expenses

	Three months ended September 30, 2009 (Unaudited)	Nine months ended September 30, 2009 (Unaudited)	Three months ended September 30, 2008 (Unaudited)	Nine months ended September 30, 2008 (Unaudited)
Salaries and related taxes	3,863,000	3,902,628	2,735,339	2,829,087
Audit and legal fees	90,534	1,949,729	255,807	486,141
Banking services	715	1,495	290	1,443
Other	288,715	293,718	2,108	25,787

<b>4,242,964</b>	<b>6,147,570</b>	<b>2,993,544</b>	<b>3,342,458</b>
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## 9 Other finance (expense)/income

	<b>Three months ended September 30, (Unaudited)</b>	<b>Nine months ended September 30, (Unaudited)</b>	<b>Three months ended September 30, (Unaudited)</b>	<b>Nine months ended September 30, (Unaudited)</b>
(Increase)/decrease in fair value of financial liabilities designated at fair value through profit or loss	(95,599,800)	(94,966,900)	139,566,000	131,166,000
<b>Other finance (expense)/income</b>	<b>(95,599,800)</b>	<b>(94,966,900)</b>	<b>139,566,000</b>	<b>131,166,000</b>
Interest expense	(14,020,144)	(36,532,599)	(11,022,330)	(33,074,327)
<b>Finance expense</b>	<b>(14,020,144)</b>	<b>(36,532,599)</b>	<b>(11,022,330)</b>	<b>(33,074,327)</b>

## 10 Financial assets

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
<b>Loans to related parties:</b>		
Tolkynneftegaz LLP	239,621,742	275,000,000
Terra Raf Trans Traiding Ltd.	101,545,800	75,322,400
Kazpolmunay LLP	31,695,979	50,000,000
	<b>372,863,521</b>	<b>400,322,400</b>

The loans to Tolkynneftegaz LLP and Kazpolmunay LLP are granted at fixed annual interest rates of 16% per annum for USD 60,317,721 and 17.65% per annum for USD 211,000,000 (before deduction of withholding tax).

The amounts mature in December 2011. Tolkynneftegaz LLP and Kazpolmunay LLP have the right to make early repayment of their outstanding loans in full or in part with accrued interest but without penalty at any time and without prior notice. The Company does not have an option to require early repayment.

During the three months ended September 30, 2009 Tolkynneftegas LLP and Kazpolmunay LLP partially repaid loans principal in the amount of USD 18,304,021 and USD 35,378,258, respectively. The repayment in the amount USD 13,300,000 was effected in cash, while repayment of USD 40,382,279 was effected by means of a concession agreement transferring rights to receivables from related parties (Note 11).

The loan to Terra Raf Trans Traiding Ltd. represents funds provided by the Company on a promissory note signed on December 20, 2006 amounting to USD 76,000,000, additional promissory note signed on June 17, 2009 amounting to USD 24,000,000, and additional promissory note signed July 28, 2009 amounting to USD 6,000,000. These loans are interest free and are repayable on demand.

## 11 Interest and other receivables

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
Interest receivable from related parties	32,290,517	-
Other receivables from related parties	28,582,279	-
Advances paid to third parties	229	80,481
	<b>60,873,025</b>	<b>80,481</b>

The interest on loans from related parties in the amount of USD 21,815,892 was due on June 20, 2009. However due to financial difficulties experienced by Tolkyneftegas LLC and Kazpolmunay LLC the repayment of the interest was extended until demanded without any penalties. The remaining amount is represented by interest accrued for the three months ended September 30, 2009, which is due on December 20, 2009.

Other receivables from related parties in the amount of USD 28,582,279 resulted from transfers of rights on receivables from related parties (Note 10) are repayable on demand.

## 12 Cash and cash equivalents

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
Cash at bank	2,092	202,876

The Company's exposure to interest rate risk is disclosed in Note 16.

## 13 Share capital

	<b>Ordinary shares September 30, 2009 (Unaudited)</b>	<b>Ordinary shares December 31, 2008 (Audited)</b>
Issued capital	5,000	5,000
Number of shares	50,000	50,000
<b>Par value per share</b>	<b>0.1</b>	<b>0.1</b>

The holder of the ordinary shares is entitled to receive dividends as declared from time to time.

The Company is subject to special capital requirements and in particular under the terms of the Indenture between Tristan Oil Ltd., Kazpolmunay LLP, Tolkyneftegaz LLP and Wells Fargo Bank, N.A. dated December 20, 2006 there are restrictions on (i) the declaration and payment of dividends and, (ii) the purchase, redemption, acquisition or retirement for value of any equity interests to comply with a ratio based on fixed charge coverage and excess cash flows.

## 14 Loans and borrowings

This note provides information about contractual terms of the Company's loans and borrowings which are measured at fair value. For more information about the Company's exposure to interest rate risk see Note 16.

	<u>September 30, 2009</u>	<u>December 31, 2008</u>	<u>September 30, 2008</u>
<b>Opening carrying amount</b>	<b>156,521,400</b>	<b>411,600,000</b>	<b>403,200,000</b>
Gross proceeds of issuance	30,000,000	-	-
	<b>186,521,400</b>	<b>411,600,000</b>	<b>403,200,000</b>
Fair value adjustment for the period	94,966,900	(255,078,600)	(131,166,000)
<b>Closing carrying amount</b>	<b>281,488,300</b>	<b>156,521,400</b>	<b>272,034,000</b>
<b>Cumulative fair value adjustment, net</b>	<b>(168,511,700)</b>	<b>(263,478,600)</b>	<b>(147,966,000)</b>

Fair values are determined directly by reference to published price quotations in an active market.

The cumulative fair value adjustment includes USD 236 million of fair value decrease attributable to a change in the credit risk of the liabilities (December 31, 2008: USD 323.7 million). During the nine months ended September 30, 2009 USD 87.6 million was recognised as an increase in fair value attributable to a change in the credit risk of the liability (nine months ended September 30, 2008: a decrease in fair value by USD 140.1 million; December 31, 2008: a decrease in fair value by USD 276.7).

The amount of the change in fair value of the Notes attributable to a change in the credit risk of the liability was calculated by reference to the change in Libor as a benchmark interest rate.

### Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

	<u>Currency</u>	<u>Nominal Interest rate</u>	<u>Year of maturity</u>	<u>September 30, 2009 (Unaudited)</u>		<u>December 31, 2008 (Audited)</u>	
				<u>Face value</u>	<u>Carrying amount</u>	<u>Face value</u>	<u>Carrying amount</u>
Secured notes	USD	10.5%	2012	531,110,000	281,488,300	420,000,000	156,521,400

The Company issued USD 300,000,000 of 10.5% Senior Secured Notes at par on December 20, 2006 and issued additional Notes on June 8, 2007 of USD 120,000,000. On June 17, 2009 the Company issued additional notes of USD 111,110,000, which were sold to Laren Holdings Ltd., for an aggregate purchase price of USD 30,000,000.

The Notes will mature on January 1, 2012. The Notes are secured by 100% of the share capital of the Company and of Kazpolmunay LLP and Tolkyneftegaz LLP, as guarantors, and all notes payable to the Company by Kazpolmunay LLP, Tolkyneftegaz LLP and Terra Raf Trans Trading Ltd.

The terms of the Notes include repayment options that are considered as embedded derivatives under IAS 39 *Financial Instruments: Recognition and measurement*.

## 14 Loans and borrowings, continued

At any time prior to July 1, 2009, the Company could have redeemed up to 35% of the aggregate principal amount of its Notes at a redemption price of 110.5% of the principal amount thereof plus accrued and unpaid interest with the proceeds of an initial public offering of common stock of Kazpolmunay LLP and Tolkynneftegaz LLP and, in accordance with the requirements of IAS 39 *Financial Instruments: Recognition and Measurement*, management has designated the Notes as a financial liability at fair value through profit or loss.

On or after July 1, 2009 the Company could have redeemed all or a part of its Notes at the redemption prices (expressed as percentage of principal amount) set forth below plus accrued and unpaid interest:

Year	Percentage
2009	105.250%
2010	102.625%
2011 and thereafter	100%

The Company is not required to make mandatory redemption or sinking fund payments with respect to its notes.

## 15 Interest and other payables

	September 30, 2009 (Unaudited)	December 31, 2008 (Audited)
Interest payable	13,941,356	-
Other payables	1,096,586	2,124,631
	<b>15,037,942</b>	<b>2,124,631</b>

## 16 Financial instruments

### (a) Credit risk

#### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	September 30, 2009 (Unaudited)	December 31, 2008 (Audited)
Financial assets	372,863,521	400,322,400
Interest and other receivables	60,872,796	-
Cash and cash equivalents	2,092	202,876
	<b>433,738,409</b>	<b>400,525,276</b>

## 16 Financial instruments, continued

### (a) Credit risk, continued

#### Exposure to credit risk, continued

The maximum exposure to credit risk for financial assets, trade receivables and cash at the reporting date by geographic region was:

	<b>Carrying amount</b>	
	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
CIS countries	303,608,238	325,000,000
Gibraltar	101,545,800	75,322,400
United Kingdom	28,582,279	-
Domestic	2,092	202,876
Other	-	80,481
	<b>433,738,409</b>	<b>400,605,757</b>

The Company's most significant debtors are related parties operating in Kazakhstan, which amount to USD 303,608,238 as at September 30, 2009 (December 31, 2008: USD 325,000,000).

Interest receivable in the amount of USD 21,815,892 relates to interest accrual for six months 2009 and should have been repaid on June 20, 2009. The repayment of the interest was extended until demanded without any penalties. The Company believes that no impairment allowance is necessary in respect of overdue receivables from related parties.

### (b) Liquidity risk

The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Company's liquidity is dependent upon the ability of Tolkyneftegaz LLP, Kazpolmunay LLP ("the Companies"), Terra Raf Trans Trading Ltd., General Affinity and Stadoil Ltd. to meet their obligations when they fall due.

Management of the Companies agreed to renegotiate the contractual payment terms of their largest customers, related parties, after they were informed by these customers that they would not be able to comply with the existing contractual payment terms.

Management of Tolkyneftegaz LLP and Kazpolmunay LLP has started negotiations with potentially new buyers of their products to have additional sales on a prepayment basis to allow Tolkyneftegaz LLP and Kazpolmunay LLP to have a sufficient cash to pay off its liability for interest on loans and borrowings falling due in December 2009.

## **16 Financial instruments, continued**

### **(b) Liquidity risk, continued**

A criminal investigation was opened against the Companies in connection with two gas pipelines, one condensate pipeline and one oil pipeline to transport gas, condensate and oil from a facility to the delivery points. In connection with this investigation, assets of the Companies and partners' equity interests in the Companies have been seized and restrictions have been placed upon the disposal of these. On April 24, 2009, the General Director of Kazpolmunay LLP was arrested in connection with this investigation. On September 18, 2009, Aktau Town Court ruled that the General Director of Kazpolmunay LLP was guilty of allowing Kazpolmunay LLP to operate the pipelines without obtaining a state license and sentenced him to four years imprisonment and ordered Kazpolmunay LLP to pay to the Republic of Kazakhstan approximately US\$ 145 million in fines. On November 12, 2009, the Mangistau Regional Court upheld the ruling of Aktau Town Court. Kazpolmunay LLP and its General Director will appeal the ruling. Despite the ongoing difficulties facing by the Companies in Kazakhstan, and the fact that neither management has any assurance that their legal challenges will ultimately prevail, the Companies continue their efforts to resolve the ongoing claims and litigation matters with the Kazakh authorities.

Furthermore, the Companies were subject to tax inspections during 2008 and have recently been notified that the tax authorities do not believe that the Companies are in compliance with the terms of their subsoil use contracts and applicable laws and, as a consequence, claims have been filed for additional taxes and penalties in the amount of USD 60,568,086. Management lodged a petition at the Specialised Regional Economic Court of Astana ("SREC") on July 1, 2009. On September 9, 2009 SREC refused the petition. On September 17, 2009 management appealed the decision to the Board on Civil Matters of the Astana Court. On October 28, 2009 the Board on Civil Matters of the Astana Court cancelled the Decisions of SREC and returned the case for further investigation. The ultimate outcome of the matter cannot presently be determined and, accordingly, no provision for any effects on the Company that may result has been made in the interim financial statements.

On September 23, 2009 the Ministry submitted a formal letter to Tolkyneftegaz LLP informing it that, depending on final results of the ongoing criminal investigation and tax inspection, the Ministry will consider revoking the Company's subsoil use contract with respect to the Tolkyne field and Tabyl block, and also informed Tolkyneftegaz LLP that the Ministry has started procedures for inclusion of Tolkyneftegaz LLP in the List of Strategic Objects which could further limit the partner's ability to control Tolkyneftegaz LLP. Management believes that Tolkyneftegaz LLP is in compliance with relevant legislation.

The Companies have guaranteed indebtedness of a related party, Montvale Invest Ltd., to a third party. At September 30, 2009, the amounts due by Montvale Invest Ltd. to the third party amounted to USD 76.3 million. In view of the cash flow difficulties being experienced by related parties, it is unclear whether the guarantees issued by the Companies will result in the outflow of economic resources.

The Companies have agreed to guarantee credit facility obligations of Laren Holdings Ltd., an entity formed by certain of Laren Holding Ltd.'s creditors, in the amount of USD 60 million on a subordinated basis; other related parties act as primary guarantors. Laren Holdings Ltd. had drawn down USD 60 million from the credit facility of which USD 10 million has been repaid by related parties subsequent to September 30, 2009. The remaining facility is due on December 18, 2009. Based on representations received from the ultimate controlling company, the related parties will not be able to repay the outstanding amount on the due date and has started negotiations with creditors of Laren Holdings Ltd. to extend the due date that would broadly match the expected cash flows for the next twelve months.

## 16 Financial instruments, continued

### (b) Liquidity risk, continued

The ultimate controlling company is reasonable confident that they will be successful in the negotiations and believes that it is unlikely that the Companies will be required to settle these liabilities.

The following are the contractual maturities of financial assets and liabilities, including estimated interest payments but excluding the impact of netting agreements.

September 30, 2009	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial liabilities</b>							
Financial assets	405,154,038	490,393,885	152,697,456	18,965,345	37,930,690	280,800,394	-
Other receivables	28,582,279	28,582,279	28,582,279	-	-	-	-
Secured notes	(281,488,300)	(670,526,093)	(41,824,630)	(27,883,275)	(55,766,550)	(545,051,638)	-
Other payables	(1,096,586)	(1,096,586)	(1,096,586)	-	-	-	-
	<b>151,151,431</b>	<b>(152,646,515)</b>	<b>138,358,519</b>	<b>(8,917,930)</b>	<b>(17,835,860)</b>	<b>(264,251,244)</b>	-
<b>December 31, 2008</b>							
	Carrying amount	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial liabilities</b>							
Financial assets	400,322,400	538,263,279	95,365,091	23,579,638	47,159,275	372,159,275	-
Secured notes	(156,521,400)	(552,300,000)	(22,050,000)	(22,050,000)	(44,100,000)	(464,100,000)	-
Other payables	(2,124,631)	(2,124,631)	(2,124,631)	-	-	-	-
	<b>241,676,369</b>	<b>(16,161,352)</b>	<b>71,190,460</b>	<b>1,529,638</b>	<b>3,059,275</b>	<b>(91,940,725)</b>	-

## 16 Financial instruments, continued

### (c) Interest rate risk

#### Profile

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was

	Carrying amount	
	September 30, 2009 (Unaudited)	December 31, 2008 (Audited)
<b>Fixed rate instruments</b>		
Financial assets	372,863,521	325,000,000
Financial liabilities	(281,488,300)	(156,521,400)
	<b>91,375,221</b>	<b>168,478,600</b>

#### Fair value sensitivity analysis for fixed rate instruments

The Company values certain financial liabilities at fair value through profit or loss. Based on the USD 281,488,300 (December 31, 2008: 156,521,400) of financial liabilities at fair value through profit and loss as at September 30, 2009 a decrease of 100 basis points in interest rates would have decreased profit and equity by USD 5,471,652 (December 31, 2008: decreased by USD 2,947,225). A corresponding increase in interest rates would have increased profit and equity by the same amount.

#### *Interest rate repricing risk*

At September 30, 2009 and December 31, 2008, there were no financial liabilities that mature or reprice within 12 months. Therefore, a change in interest rates at the reporting date would not affect profit or equity in the next 12 months.

### (d) Fair value

Management believes that the fair value of the Company's financial assets and liabilities approximates their carrying value.

The fair value of financial liabilities at fair value through profit or loss is determined by reference to their quoted bid price at the reporting date (level 1). Fair value of other financial assets and liabilities, which are not quoted on an active market, is measured using inputs available on a market or derived from market information for such financial assets and liabilities (level 2).

## 17 Related party transactions

Related parties are entities with common direct or indirect shareholders, directors or management. A significant proportion of the Company's business is conducted through transactions with related parties and the effect of these on the interim financial statements on the basis determined between the related parties is reflected below.

### (a) Control relationships

The Company's sole shareholder and ultimate controlling party is Anatol Stati.

#### *Management remuneration*

Key management received the following remuneration during the period, which is included in personnel costs:

	<b>Three months ended September 30, 2009 (Unaudited)</b>	<b>Nine months ended September 30, 2009 (Unaudited)</b>	<b>Three months Ended September 30, 2008 (Unaudited)</b>	<b>Nine months ended September 30, 2008 (Unaudited)</b>
Salaries	<u>3,863,000</u>	<u>3,902,628</u>	<u>2,735,339</u>	<u>2,829,087</u>

During three months ended September 30, 2009 the Company paid a bonus amounting to USD 3,863,000 to the Company's President, Anatol Stati, who is the owner of the Company (three months ended September 30, 2008: USD 2,735,339).

## 17 Related party transactions, continued

### (b) Transactions with other related parties

The Company's other related party transactions are disclosed below.

	Sales of goods and services, interest income				Purchases of goods and services, borrowing, interest expense			
	Three months ended September 30, 2009	Nine months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2008	Three months ended September 30, 2009	Nine months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2008
<b>Fellow subsidiaries:</b>								
Ascom S.A.	-	-	-	-	-	45,974	46,306	118,094
Tolkynneftegaz LLP	8,945,573	27,844,587	10,206,512	30,397,655	-	-	-	-
Kazpolmunay LLP	1,529,052	4,945,930	1,845,303	5,495,793	-	-	-	-
	<b>10,474,625</b>	<b>32,790,517</b>	<b>12,051,815</b>	<b>35,893,448</b>	<b>-</b>	<b>45,974</b>	<b>46,306</b>	<b>118,094</b>

The amounts shown for interest income are presented net of withholding tax.

**17 Related party transactions, continued****(b) Transactions with other related parties, continued**

	<b>Amounts owed by related parties</b>		<b>Amounts owed to related parties</b>		<b>Loans granted to related parties</b>	
	<b>As at September 30, 2009</b>	<b>As at December 31, 2008</b>	<b>As at September 30, 2009</b>	<b>As at December 31, 2008</b>	<b>Nine months ended September 30, 2009      September 30, 2008</b>	
<b>Fellow subsidiaries:</b>						
Tolkynneftegaz LLP	267,466,329	275,000,000	-	-	-	-
Kazpolmunay LLP	36,141,909	50,000,000	-	-	-	-
Terra Raf Trans Trading Ltd	101,545,800	75,322,400	-	-	31,858,500	-
Stadoil Ltd	18,304,021	-	-	-	-	-
General Affinity Ltd	10,278,258	-	-	-	-	-
Ascom S.A.	-	-	230,924	184,950	-	-
	<b>433,736,317</b>	<b>400,322,400</b>	<b>230,924</b>	<b>184,950</b>	<b>31,858,500</b>	<b>-</b>

The Company has received joint guarantees from Tolkynneftegaz LLP and Kazpolmunay LLP for the full amount of the Senior Secured Notes (Note 14).

## **18 Subsequent events**

### **Partial repayment of loans granted to related parties**

Subsequent to September 30, 2009 Tolkyneftegas LLP and Kazpolmunay LLP partially repaid loans principal in the amount of USD 14,584,519 and USD 5,600,869, respectively. The repayment in the amount of USD 11,185,388 was effected by means of a concession agreement transferring rights to receivables from related parties; the balance of the amount was settled in cash.

### **Partial repayment of credit facility by Montvale Invest Ltd.**

Subsequent to September 30, 2009, Montvale Invest Ltd. partially repaid credit facility obligations of Laren Holdings Ltd. in the amount of USD 10,000,000.

**Kazpolmunay LLP**

Unaudited Interim Financial Statements  
for the three- and nine months  
ended September 30, 2009

**Kazpolmunay LLP**  
*Interim Statement of Comprehensive Income for the three- and nine months ended September 30, 2009*  
*All amounts in USD, if not otherwise stated*

	Note	Three months ended September 30, 2009 <u>(Unaudited)</u>	Nine months ended September 30, 2009 <u>(Unaudited)</u>	Three months ended September 30, 2008 <u>(Unaudited)</u>	Nine months ended September 30, 2008 <u>(Unaudited)</u>
Sales	5	13,290,460	46,788,033	32,717,227	132,638,131
Cost of sales	6	<u>(10,103,036)</u>	<u>(33,347,836)</u>	<u>(15,225,519)</u>	<u>(48,389,689)</u>
<b>Gross Profit</b>		<b><u>3,187,424</u></b>	<b><u>13,440,197</u></b>	<b><u>17,491,708</u></b>	<b><u>84,248,442</u></b>
Other income	7	184,742	781,304	370,480	1,339,633
Distribution expenses	8	(3,564,644)	(19,957,657)	(3,577,699)	(11,324,185)
Administrative expenses	9	(1,922,194)	(7,242,189)	(3,368,346)	(9,436,972)
Other expenses	7	<u>(171)</u>	<u>4,810,152</u>	<u>-</u>	<u>(45)</u>
<b>Results from operating activities</b>		<b><u>(2,114,843)</u></b>	<b><u>(8,168,193)</u></b>	<b><u>10,916,143</u></b>	<b><u>64,826,873</u></b>
Finance income	10	3,098,481	7,159,599	51,967	1,355,763
Finance expenses	10	<u>(2,007,796)</u>	<u>(10,025,295)</u>	<u>(138,700)</u>	<u>(861,410)</u>
<b>(Loss)/profit before tax</b>		<b><u>(1,024,158)</u></b>	<b><u>(11,033,889)</u></b>	<b><u>10,829,410</u></b>	<b><u>65,321,226</u></b>
Income tax expense	12	<u>(4,965,047)</u>	<u>(2,868,112)</u>	<u>(7,176,333)</u>	<u>(34,024,485)</u>
<b>(Loss)/profit and comprehensive income for the period</b>		<b><u><u>(5,989,205)</u></u></b>	<b><u><u>(13,902,001)</u></u></b>	<b><u><u>3,653,077</u></u></b>	<b><u><u>31,296,741</u></u></b>

These interim financial statements were approved by Management on December 8, 2009 and were signed on its behalf by:

\_\_\_\_\_  
V. Oskolcov  
*Acting General Director*

\_\_\_\_\_  
V. Tsugulea  
*Chief Financial Officer*

	Note	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	13	3,370,190	3,832,399
Property, plant and equipment	14	117,125,798	127,315,419
<b>Total non-current assets</b>		<b>120,495,988</b>	<b>131,147,818</b>
<b>Current assets</b>			
Inventories	16	6,418,106	4,987,582
Trade and other receivables	17	70,784,110	92,873,923
Loan to related party	18	11,586,651	18,878,861
Cash and cash equivalents	19	94,319	2,362,438
<b>Total current assets</b>		<b>88,883,186</b>	<b>119,102,804</b>
<b>Total assets</b>		<b>209,379,174</b>	<b>250,250,622</b>
<b>LIABILITIES AND PARTNER'S EQUITY</b>			
<b>Partner's equity</b>			
Capital	20	50,000	50,000
Retained earnings		123,719,423	142,391,736
<b>Total partner's equity</b>		<b>123,769,423</b>	<b>142,441,736</b>
<b>Non-current liabilities</b>			
Loans and borrowings	21	31,695,979	50,000,000
Historical cost obligation	22	3,546,415	3,792,203
Deferred tax liabilities	15	14,620,793	18,929,163
Provision	23	3,908,290	2,755,328
<b>Total non-current liabilities</b>		<b>53,771,477</b>	<b>75,476,694</b>
<b>Current liabilities</b>			
Provision	23	360,000	504,000
Trade and other payables	24	15,383,430	5,555,025
Income tax payable		8,727,919	21,180,544
Taxes payable	25	7,366,925	5,092,623
<b>Total current liabilities</b>		<b>31,838,274</b>	<b>32,332,192</b>
<b>Total liabilities</b>		<b>85,609,751</b>	<b>107,808,886</b>
<b>Total liabilities and partner's equity</b>		<b>209,379,174</b>	<b>250,250,622</b>

**Kazpolmunay LLP**  
*Interim Statement of Cash Flows for the nine months ended September 30, 2009*  
*All amounts in USD, if not otherwise stated*

	Note	September 30, 2009 (Unaudited)	September 30, 2008 (Audited)
<b>Cash flows from operating activities</b>			
(Loss)/profit for the period		(13,902,001)	31,296,741
Adjustments for:			
Income tax expense	12	2,868,112	34,024,485
Depreciation and amortisation	13,14	15,443,724	25,265,095
Finance expenses, net	10	2,865,696	(494,353)
Loss on disposal of property, plant and equipment		13,697	-
		<b>7,289,228</b>	<b>90,091,968</b>
<b>Operating cash flow before changes in working capital and provisions</b>			
<b>Movements in working capital</b>			
Change in trade and other receivables	17	4,978,011	(32,288,436)
Change in inventories	16	(1,430,524)	(4,708,268)
Change in trade and other payables		6,350,569	2,015,789
		<b>17,187,284</b>	<b>55,111,053</b>
<b>Cash generated from operations before income taxes and interest paid</b>			
Income taxes paid	25, 12	(18,362,266)	(21,464,827)
Interest paid	10, 24	(500,000)	(5,161,556)
		<b>(1,674,982)</b>	<b>28,484,670</b>
<b>Cash flows (utilised)/generated by operating activities</b>			
<b>INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment		(3,890,552)	(22,660,449)
Acquisition of intangible assets		-	(47,501)
Interest received	10	4,490	119,799
Repayment of loans	18	3,522,543	-
Payment of historical cost obligation		(229,618)	-
		<b>(593,137)</b>	<b>(22,588,151)</b>
<b>Cash flows utilised by investing activities</b>			
<b>FINANCING ACTIVITIES</b>			
Repayment of borrowings	21	-	(14,250,579)
		<b>-</b>	<b>(14,250,579)</b>
<b>Cash flows utilised by financing activities</b>			
Net decrease in cash and cash equivalents		(2,268,119)	(8,354,060)
Cash and cash equivalents at beginning of period	19	2,362,438	9,662,243
<b>Cash and cash equivalents at the end of period</b>	19	<b>94,319</b>	<b>1,308,183</b>

**Kazpolmunay LLP**  
*Interim Statement of Changes in Equity for the nine months ended September 30, 2009*  
*All amounts in USD, if not otherwise stated*

	<u>Capital</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at 1 January 2008 (Audited)	50,000	75,606,202	75,656,202
Total comprehensive income for the period (Unaudited)	-	31,296,741	31,296,741
<b>Balance at September 30, 2008 (Unaudited)</b>	<b>50,000</b>	<b>106,902,943</b>	<b>106,952,943</b>
Loss and total comprehensive income for the period (Unaudited)	-	35,488,793	35,488,793
<b>Balance at December 31, 2008 (Audited)</b>	<b>50,000</b>	<b>142,391,736</b>	<b>142,441,736</b>
Total comprehensive income for the period (Unaudited)	-	(13,902,001)	(13,902,001)
Discount on financing provided to owners (Unaudited)	-	(4,770,312)	(4,770,312)
<b>Balance at September 30, 2009 (Unaudited)</b>	<b>50,000</b>	<b>123,719,423</b>	<b>123,769,423</b>

## 1 Background

### (a) Organisation and operations

Kazpolmunay LLP (“the Company”) is registered in the Republic of Kazakhstan. The Company was initially established as a Joint Stock Company (“JSC”). Following the introduction of Kazakhstan legislation that increased significantly the minimum share capital of JSCs, in May 2005 the Company changed its legal form of ownership from a JSC to a Limited Liability Partnership (“LLP”). This change had no impact on the Company’s tax position.

The Company’s registered office is at Building 5, Micro-district 3A, Aktau, Mangistau region, 130000, Republic of Kazakhstan.

The Company’s principal activities are oil and gas well drilling and extraction, exploration of promising oil and gas bearing terrains and construction of oil-field facilities, pipelines and reservoirs at plants located in the Caspian region. These products are sold in the Republic of Kazakhstan and abroad.

Exploration, development and production activities are carried out in Kazakhstan on one oil and gas field:

Field	Licence Number and date	Type of Licence	Period of exploitation
Borankol	# 309D dd.23.05.1997	Oil and gas	23 May 2022

The Company is wholly owned by Ascom S.A. (registered in the Republic of Moldova).

The Company is ultimately controlled by Anatol Stati, a citizen of the Republic of Moldova, who has the power to direct the transactions of the Company at his own discretion and for his own benefit. He has a number of other business interests outside of the Company. Related party transactions are detailed in Note 29.

### (b) Business environment

The Company’s operations are subject to country risk, being the economic, political and social risks inherent in doing business in Kazakhstan. These risks include matters arising from the policies of the government, economic conditions, the imposition of, or changes to, taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment.

The interim financial statements reflect management’s assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Company. The future business environment may differ from management’s assessment.

## 2 Basis of preparation

### (a) Statement of compliance

These interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 – *Interim Financial Reporting*.

## **2 Basis of preparation, continued**

### **(b) Basis of measurement**

The interim financial statements are prepared on the historical cost basis.

### **(c) Functional and presentation currency**

The national currency of the Republic of Kazakhstan is the Kazakhstan tenge (“KZT”). The functional currency of the Company is the United States dollar (“USD”). Management has determined the USD to be the functional currency as it considers that the USD reflects the economic substance of the underlying events and circumstances of the Company.

The USD is also the currency in which the interim financial statements are presented. All financial information presented in the USD has been rounded to the nearest dollar.

The KZT is not a convertible currency outside the Republic of Kazakhstan and, accordingly, any conversion of KZT amounts to USD should not be construed as a representation that KZT amounts have been, or will be in the future, convertible into USD at the exchange rate shown, or at any other exchange rate.

### **(d) Going concern**

The accompanying interim financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and discharge of liabilities in the normal course of business. The recoverability of the Company’s assets, as well as the future operations of the Company, may be significantly affected by the current and future economic environment (Note 1(b)), the outcome of outstanding litigation and ongoing criminal investigation (Notes 28(f) and (g)), on the timely settlement of receivables from related parties (Note 26(b)) and potential outflow of economic resources as a result of guarantees issued by the Company (Note 28(c), (d) and (e)). As a result, there are material uncertainties which may cast significant doubt on the Company’s ability to continue as a going concern, and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The interim financial statements do not include any adjustments which may be necessary should the Company be unable to continue as a going concern.

### **(e) Use of judgments, estimates and assumptions**

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these interim financial statements in conformity with IFRSs. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the interim financial statements is included in the following notes:

## 2 Basis of preparation, continued

### (e) Use of judgments, estimates and assumptions, continued

#### (i) *Site restoration and decommissioning*

The Company has site restoration and decommissioning obligations in respect of its producing interests in Kazakhstan. The extent to which a provision is required in respect of these obligations depends, inter alia, on the legal requirements at the time of site restoration and decommissioning, the cost and timing of any necessary site restoration and decommissioning works, and the discount rate to be applied to such costs.

In addition, the Kazakhstan authorities assume liability for such costs if they elect to continue production activities at the end of the licence. This will depend on the level of commercial reserves remaining at the time of expiry.

#### (ii) *Reserves*

Oil and gas producing assets which are included within property, plant and equipment are depreciated on a unit-of-production basis at a rate calculated by reference to proven developed reserves.

Reserves are determined using estimates of hydrocarbons in place, recovery factors and future hydrocarbon prices. The carrying amount of development and production assets at June 30, 2009 is shown in Note 14. Management uses established industry techniques to generate its estimates; however, the amount of reserves that will ultimately be recovered from the field cannot be known with certainty until the end of the field's life.

The level of estimated commercial reserves is also a key determinant in assessing whether an asset might be impaired.

#### (iii) *Tax*

The Company's accounting policy for income tax is disclosed in Note 3(1). The determination of tax provisions requires the application of judgment to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would result in a charge or credit to profit or loss in the period in which the change occurs.

Deferred tax assets are recognised only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the level of deferred tax assets recognised which can result in a charge or credit in the period in which the change occurs. Deferred excess profit tax is recorded at the rate of excess profit tax which is expected to apply on the reversal of applicable timing differences. This estimate involves a projection of expected future net taxable revenues, the cumulative internal rate of return and the timing of the reversal of timing differences.

Tax provisions are based on enacted or substantively enacted laws. To the extent that these change there would be a charge or credit to income both in the period of change, which would include any impact on cumulative provisions, and in future periods.

## **2 Basis of preparation, continued**

### **(e) Use of judgments, estimates and assumptions, continued**

#### **(iii) Tax, continued**

In addition to Kazakhstan corporate income tax the Company is exposed to excess profit tax (“EPT”). Excess profits tax is charged at rates of between 0% and 60% on income after income tax according to the ratio of aggregate annual income to deductions in that particular year as defined by Kazakhstan legislation. Liabilities for EPT arise for any year in which the ration exceeds 20%. In determining the EPT rate there is considerable judgment involved as to the nature of deductions, the timing of those deductions and future estimate of prices of oil and gas. Management believes its judgments are reasonable and in compliance with the legislation, although there is a risk that the tax authorities will have a difference interpretation of tax legislation and that the actual future prices of oil and gas will different from the management’s estimate.

#### **(iv) Receivables from related party**

Management believes that no impairment provisions are required for receivables from related party even for overdue amounts.

#### **(v) Financial guarantees**

The Company has issued a number of guarantees. A significant degree of uncertainty is involved in determination of likelihood of default occurrence and the amount of expenditure required to settle the obligation.

## **3 Significant accounting policies**

The significant accounting policies applied in the preparation of the interim financial statements are described below. These accounting policies have been consistently applied. During the three months ended 31 March 2009, the Company adopted revised IAS 1 *Presentation of Financial Statements* (2007), which is mandatory for the Company’s 2009 financial statements. The adoption of this revised standard had no significant effect on these interim financial statements.

### **(a) Foreign currency**

#### ***Foreign currency transactions***

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies are measured at amortised cost and are translated to the functional currency at the exchange rate at the date of acquisition. Foreign currency differences arising in translation are recognised in profit or loss.

### **(b) Financial instruments**

Non-derivative financial instruments comprise trade and other receivables, loan to related party, cash and cash equivalents, loans and borrowings, historical cost obligation and trade and other payables.

### **3 Significant accounting policies, continued**

#### **(b) Financial instruments, continued**

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and call deposits.

Accounting for finance income and expense is discussed in Note 3(k).

#### **(c) Capital**

##### *Capital contributions*

Capital contributions are classified as equity.

##### *Distributions*

Distributions are recognised as a liability in the period in which they were declared.

#### **(d) Property, plant and equipment**

##### **(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognised net in "other income" in profit or loss.

##### *Oil and gas exploration and evaluation expenditure*

Oil and gas exploration and evaluation expenditure is accounted for using the "successful efforts" method of accounting.

Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately in profit or loss. Expenditure incurred on the acquisition of a licence interest is capitalised as an intangible asset on a licence by licence basis. Other costs in respect of exploration and evaluation activities are held, undepleted, within exploration and evaluation assets until such time as the exploration phase on the licence area is complete or commercial reserves have been discovered. Borrowing costs that relate to qualifying assets are capitalised as part of the cost of such assets.

Exploration expenditure incurred in the process of determining exploration targets and exploration and appraisal drilling costs is capitalised on a field by field basis.

### **3 Significant accounting policies, continued**

#### **(d) Property, plant and equipment, continued**

##### **(i) Recognition and measurement, continued**

Following the determination of the commercial viability of a field, if commercial reserves are established and the technical feasibility for extraction is demonstrated, then the related capitalised costs are transferred to oil and gas producing assets in property, plant and equipment.

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated are capitalised within development/producing assets on a field by field basis. Subsequent expenditure is capitalised only where it enhances the economic benefits of the development / producing asset.

##### **(ii) Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

##### **(iii) Depreciation**

The Company depreciates its oil and gas producing assets on a unit-of-production basis that is calculated to write off the historic cost of each asset in line with the depletion of proven developed reserves. The net book values of producing assets are depreciated on a field by field basis by reference to the ratio of oil and gas production in the period to the estimated quantity of commercial reserves at the end of the period plus the production in the period.

The depreciation of oil and gas producing assets commences once the asset is put in into use.

Depreciation of other property, plant and equipment is recognised in the interim statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- buildings and constructions                      8-50 years
- vehicles    5-10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

#### **(e) Intangible assets**

##### **(i) Mineral rights**

Mineral rights are measured at cost less accumulated amortisation and accumulated impairment losses.

The cost of acquisition of mineral rights comprises the signature bonus, commercial discovery bonus, the cost of subsurface use rights and the reimbursement of liabilities for historical expenditures incurred by the state (historical cost obligation) as described in Note 22.

### **3 Significant accounting policies, continued**

#### **(e) Intangible assets, continued**

##### **(i) Mineral rights, continued**

The Company is committed to reimburse historical expenditures incurred by the Government of the Republic of Kazakhstan in respect of licensing areas prior to licences being issued. The contract between the state and the Company was signed and the amounts due are being paid from 2008 in quarterly instalments over the remaining period of the subsurface use rights.

Mineral rights are amortised using the units-of-production method based upon proven reserves commencing when oil or gas first starts to be extracted. The estimate of proven reserves is based on reserve reports which are prepared by independent engineers which are prepared once in a year.

##### **(ii) Other intangible assets**

Other intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

##### **(iii) Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

##### **(iv) Amortisation**

Amortisation for intangible assets other than mineral rights is recognised in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- Software and licences            2-15 years

#### **(f) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

#### **(g) Impairment**

##### **(i) Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

### **3 Significant accounting policies, continued**

**(g) Impairment, continued**

**(i) Financial assets, continued**

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment was recognised. For financial assets recognised at amortised cost, the reversal is recognised in profit or loss.

**(ii) Non-financial assets**

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(h) Employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**(i) Provisions**

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

### **3 Significant accounting policies, continued**

#### **(i) Provisions, continued**

##### ***Site restoration and decommissioning***

The Company has site restoration and decommissioning obligations in respect of its producing interests in Kazakhstan. A provision for site restoration and decommissioning in respect of contaminated land, and the related expense, is recognised upon identification of any contamination. The extent to which a provision is required in respect of these obligations depends, inter alia, on the legal requirements at the time of decommissioning, the cost and timing of any necessary decommissioning works, and the discount rate to be applied to such costs. This will depend on the level of commercial reserves remaining at the time of expiry.

#### **(j) Revenue**

Revenue from sales of oil, natural gas and all other products is recognised when the significant risks and rewards of ownership have been transferred, which is when the title passes to the customer. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism or at the point of receipt, depending upon contractual conditions.

Revenue is measured at the fair value of the consideration received or receivable, net of sales taxes, excise duties and similar levies but not royalty taxes.

#### **(k) Finance income and expense**

Finance income comprises interest income on funds invested, unwinding of discount on interest free financing to owners and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expense primarily comprises interest expense on borrowings, unwinding of discount on provisions and foreign currency losses. All borrowing costs are recognised in profit or loss using the effective interest method, except for borrowing costs relating to qualifying assets which are capitalised.

#### **(l) Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

According to the Kazakhstan tax legislation specific to the mineral extraction industry the Company's operations are subject to excess profit tax. Excess profit tax is charged at rates of between 0% and 30% on profit for the period according to the internal rate of return as defined by Kazakhstan legislation.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit.

### **3 Significant accounting policies, continued**

#### **(l) Income tax expense, continued**

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### **(m) Guarantees**

##### ***Financial guarantee***

Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder of the guarantee for a loss if it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies under common control, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

#### **(n) New Standards and interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at September 30, 2009, and have not been applied in preparing these interim financial statements. None of these pronouncements are expected to have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

### **4 Financial risk management**

#### **(a) Overview**

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these interim financial statements.

Management has overall responsibility for the establishment and oversight of the Company's risk management framework. Management monitors risks faced by the Company.

## **4 Financial risk management, continued**

### **(b) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and loans to related parties.

In the normal course of its business, the Company incurs credit risk on trade debts and on funds deposited with financial institutions. The amounts presented in the statement of finance position are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The Company does not require collateral in respect of trade and other receivables. The maximum exposure to credit risk is the amounts included in the statement of finance position for financial assets and the guarantee in Note 26(a) and 28(c), (d) and (e).

### **(c) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

### **(d) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

### **(i) Currency risk**

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currencies of the Company, which is the USD. The currencies in which these transactions primarily are denominated are KZT and Euro.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Company.

## 4 Financial risk management, continued

### (d) Market risk, continued

#### (ii) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Company's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Company over the expected period until maturity.

### (e) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company is subject to specific capital requirements under the terms of the Indenture Agreement between Tristan Oil Ltd., Kazpolmunay LLP, Tolkynneftegaz LLP and Wells Fargo Bank, N.A. dated December 20, 2006 relating to restrictions on (i) the declaration and payment of dividends, and (ii) the purchase, redemption, acquisition or retirement for value of any equity interests to comply with ratios based on fixed charge coverage and excess cash flows.

The Company complied with the specific capital requirements during the nine months ended September 30, 2009 and December 31, 2008.

## 5 Sales

	<b>Three months ended September 30, 2009 (Unaudited)</b>	<b>Nine months ended September 30, 2009 (Unaudited)</b>	<b>Three months ended September 30, 2008 (Unaudited)</b>	<b>Nine months ended September 30, 2008 (Unaudited)</b>
Sales of extracted products	13,290,460	46,788,033	32,717,227	132,638,131

Sales revenue classified by type of petroleum products sold is as follows:

	<b>Three months ended September 30, 2009 (Unaudited)</b>	<b>Nine months ended September 30, 2009 (Unaudited)</b>	<b>Three months ended September 30, 2008 (Unaudited)</b>	<b>Nine months ended September 30, 2008 (Unaudited)</b>
Sales of crude oil	13,106,445	45,946,163	32,337,234	131,390,427
Sales of gas	184,015	841,870	379,993	1,247,704
	<b>13,290,460</b>	<b>46,788,033</b>	<b>32,717,227</b>	<b>132,638,131</b>

## 5 Sales, continued

Sales of crude oil made in Kazakhstan in accordance with the requirements of local legislation amounted to USD 2,105,604 for three months ended September 30, 2009 and USD 2,108,282 for the nine months ended September 30, 2009 (three- and nine months ended September 30, 2008: USD 38,367 and USD 145,525). Export sales to related parties amounted to USD 11,000,841 for the three months ended September 30, 2009 and USD 43,837,881 for the nine months ended September 30, 2009 (three- and nine months ended September 30, 2008: USD 32,298,867 and USD 131,244,902 accordingly).

## 6 Cost of sales

	Three months ended September 30, 2009 (Unaudited)	Nine months ended September 30, 2009 (Unaudited)	Three months ended September 30, 2008 (Unaudited)	Nine months ended September 30, 2008 (Unaudited)
Depreciation and amortisation	5,867,019	15,191,352	9,776,813	25,013,007
Maintenance services	1,928,960	7,681,755	820,614	5,261,443
Mineral extraction tax	968,852	2,989,213	-	-
Royalty tax	-	-	3,501,393	9,605,362
Salaries and related costs	417,871	1,687,827	360,220	2,237,945
Transportation	170,393	987,778	75,558	694,990
Materials	133,196	988,910	338,428	892,947
Security	100,214	431,102	88,542	550,093
Dry wells	-	813,698	-	-
Other expenses	516,531	2,576,201	263,951	4,133,902
	<b>10,103,036</b>	<b>33,347,836</b>	<b>15,225,519</b>	<b>48,389,689</b>

Under the terms of the new Tax Code introduced in Kazakhstan and applied by the Company with effect from January 1, 2009, the royalty tax has been replaced by a mineral extraction tax. The mineral extraction tax is calculated on the value of the produced mineral extraction and is paid in cash on a quarterly basis. The mineral extraction tax for hydrocarbons is calculated based on the world price. The Company's operations are subject to 5% rate of mineral extraction tax on production of oil and condensate and 1.5% on production of natural gas.

Royalty was calculated on the value of the produced mineral resources and was payable in cash on a monthly basis. Royalty for hydrocarbons was calculated monthly on the average selling price, exclusive of indirect taxes and reduced by the cost of transportation expenses to the place of sale at a rate of 7.4%.

## 7 Other income and expenses

	Three months ended September 30, 2009 (Unaudited)	Nine months ended September 30, 2009 (Unaudited)	Three months ended September 30, 2008 (Unaudited)	Nine months ended September 30, 2008 (Unaudited)
Other income				
Rental income	66,816	169,034	120,651	294,288
Other	117,926	612,270	249,829	1,045,345
	<b>184,742</b>	<b>781,304</b>	<b>370,480</b>	<b>1,339,633</b>

## 7 Other income and expenses, continued

Other income comprises revenues other than from sale of hydrocarbons and mainly arises from transactions with related parties, as described in Note 29.

	Three months ended September 30, 2009 <u>(Unaudited)</u>	Nine months ended September 30, 2009 <u>(Unaudited)</u>	Three months ended September 30, 2008 <u>(Unaudited)</u>	Nine months ended September 30, 2008 <u>(Unaudited)</u>
Other expense				
Reversal of property tax accrual	-	4,835,912	-	-
Loss on disposal of property, plant, and equipment	-	(13,697)	-	-
Other	(171)	(12,063)	-	(45)
	<u>(171)</u>	<u>4,810,152</u>	<u>-</u>	<u>(45)</u>

Before 2009 the Company made accruals for property tax based on specific assumptions. As at March 31, 2009 based on the result of a detailed tax inspection it was concluded that the assumptions made previously were no longer valid. As a result, the Company has reversed property tax accruals of USD 4,835,912.

## 8 Distribution expenses

	Three months ended September 30, 2009 <u>(Unaudited)</u>	Nine months ended September 30, 2009 <u>(Unaudited)</u>	Three months ended September 30, 2008 <u>(Unaudited)</u>	Nine months ended September 30, 2008 <u>(Unaudited)</u>
Excise duty on oil and gas condensate	1,867,125	5,563,241	-	-
Pipeline transportation of oil and gas	1,641,172	6,216,319	3,471,916	10,984,911
Write off of customs duties on exported crude oil	-	8,031,250	-	-
Other distribution expenses	56,347	146,847	105,783	339,274
	<u>3,564,644</u>	<u>19,957,657</u>	<u>3,577,699</u>	<u>11,324,185</u>

An excise duty on oil and gas condensate has been introduced as a consequence of the new Tax Code effective from January 1, 2009. It is calculated on the value of exported hydrocarbons and is paid in cash on a quarterly basis. The excise duty is calculated based on the actual realised volume of exported hydrocarbons and the world price. The rate depends on the average world price for hydrocarbons during a quarter and varies from 7% for a minimum realised price of up to USD 50 per barrel to 32% for a maximum realised price of up to USD 200 and over per barrel. The Company's operations during the nine months ended September 30, 2009 were subject to rates between 7% and 14%.

## 8 Distribution expenses, continued

The Company paid customs duties from June 2008 to September 2008 at the rate of USD 109.91 per ton of exported oil. The Company disagreed with the customs authorities' position that the Company was liable to pay customs duties on oil exports. In 2009 the Supreme Court of Kazakhstan rejected the Company's appeal against the customs authorities' decision to levy customs duties on the Company's crude oil exports, and accordingly the amount paid has been written off.

The custom duties have been replaced by excise duty on export of oil and gas condensate effective January 1, 2009.

## 9 Administrative expenses

	Three months ended September 30, 2009 (Unaudited)	Nine months ended September 30, 2009 (Unaudited)	Three months ended September 30, 2008 (Unaudited)	Nine months ended September 30, 2008 (Unaudited)
Taxes and duties	713,898	2,216,672	659,117	2,055,122
Salaries and related costs	709,688	2,737,263	1,569,551	3,894,593
Depreciation and amortisation	83,448	252,372	79,630	252,088
Audit and consulting	78,825	526,487	138,524	503,065
Transportation	43,174	164,416	83,014	185,483
Travel allowances	19,452	74,434	52,089	168,293
Charitable donations	17,724	17,724	10,629	94,025
Materials	14,795	44,539	26,646	84,646
Communication	12,596	43,886	32,778	102,129
Banking services	6,751	26,789	32,205	66,348
Personnel training	5,511	105,179	83,791	545,973
Other expenses	216,332	1,032,428	600,372	1,485,207
	<b><u>1,922,194</u></b>	<b><u>7,242,189</u></b>	<b><u>3,368,346</u></b>	<b><u>9,436,972</u></b>

Included in taxes and duties is late payment interest in the amount of USD 459,951 incurred by the Company for the late payment of corporate income and excess profit taxes.

**10 Finance income and expenses**

	Three months ended September 30, 2009 <u>(Unaudited)</u>	Nine months ended September 30, 2009 <u>(Unaudited)</u>	Three months ended September 30 , 2008 <u>(Unaudited)</u>	Nine months ended September 30, 2008 <u>(Unaudited)</u>
Unwinding of discount on accounts receivable from related party	2,183,921	7,155,109	-	-
Foreign exchange gain	914,560	-	16,696	1,235,964
Interest income	-	4,490	35,271	119,799
<b>Financial income</b>	<b><u>3,098,481</u></b>	<b><u>7,159,599</u></b>	<b><u>51,967</u></b>	<b><u>1,355,763</u></b>
Interest expense	(1,907,057)	(6,206,712)	(2,170,945)	(7,006,859)
Unwinding of discount on historical obligation and provision	(100,739)	(313,112)	-	-
Foreign exchange loss	-	(3,505,471)	-	-
	<b><u>(2,007,796)</u></b>	<b><u>(10,025,295)</u></b>	<b><u>(2,170,945)</u></b>	<b><u>(7,006,859)</u></b>
Less: amounts included in the cost of qualifying assets	-	-	2,032,245	6,145,449
<b>Financial expenses</b>	<b><u>(2,007,796)</u></b>	<b><u>(10,025,295)</u></b>	<b><u>(138,700)</u></b>	<b><u>(861,410)</u></b>
<b>Financial income/(expenses), net</b>	<b><u>1,090,685</u></b>	<b><u>(2,865,696)</u></b>	<b><u>(86,733)</u></b>	<b><u>494,353</u></b>

There was no amount of borrowing costs eligible for capitalisation for the nine months ended September 30, 2009. The rate used to determine the amount of borrowing costs eligible for capitalisation for the period ended September 30, 2008 was on average 16.5%.

**11 Personnel costs**

	Three months ended September 30, 2009 <u>(Unaudited)</u>	Nine months ended September 30, 2009 <u>(Unaudited)</u>	Three months ended September 30, 2008 <u>(Unaudited)</u>	Nine months ended September 30, 2008 <u>(Unaudited)</u>
Salaries and bonuses	774,032	2,904,463	1,660,232	5,380,138
Social security	574,714	1,825,920	274,612	904,810
	<b><u>1,348,746</u></b>	<b><u>4,730,383</u></b>	<b><u>1,934,844</u></b>	<b><u>6,284,948</u></b>

Personnel costs are included in cost of goods sold, general and administrative expenses and finished goods.

**12 Income tax expense**

	Three months ended September 30, 2009 (Unaudited)	Nine months ended September 30, 2009 (Unaudited)	Three months ended September 30, 2008 (Unaudited)	Nine months ended September 30, 2008 (Unaudited)
<b>Current tax</b>				
Corporate income tax	(978,604)	(3,757,338)	(3,487,102)	(19,279,028)
Excess profits tax	(2,070,956)	(2,070,956)	(2,440,972)	(13,495,320)
Over/(under) provided in prior periods	2,119	(155,610)	-	-
	<u>(3,047,441)</u>	<u>(5,983,904)</u>	<u>(5,928,074)</u>	<u>(32,774,348)</u>
<b>Deferred tax</b>				
Corporate income tax	1,137,475	4,484,311	(734,270)	(735,375)
Excess profit tax	(3,055,081)	(1,368,519)	(513,989)	(514,762)
	<u>(1,917,606)</u>	<u>3,115,792</u>	<u>(1,248,259)</u>	<u>(1,250,137)</u>
	<u>(4,965,047)</u>	<u>(2,868,112)</u>	<u>(7,176,333)</u>	<u>(34,024,485)</u>

**Reconciliation of effective tax rate:**

	Three months ended September 30, 2009 (Unaudited)	%	Nine months ended September 30, 2008 (Unaudited)	%	Three months ended September 30, 2008 (Unaudited)	%	Nine months ended September 30, 2008 (Unaudited)	%
<b>(Loss)/profit before income tax</b>	<u>(1,024,158)</u>	100	<u>(11,033,889)</u>	100	<u>10,829,410</u>	100	<u>65,321,226</u>	100
Statutory tax rate	20%	20	20%	20	30%	30	30%	30
Calculated income tax benefit/ (expense)	204,832	20	2,206,778	(20)	(3,248,823)	(30)	(19,596,368)	(30)
Over/(under) provided in prior periods	2,119	-	(155,610)	1	-	-	-	-
Excess profits tax	(5,126,037)	501	(3,439,475)	31	(2,954,961)	(27)	(14,010,082)	(21)
Tax effect of (non- deductible)/non- taxable items	(45,961)	4	(1,479,805)	13	(972,549)	(9)	(418,035)	(1)
	<u>(4,965,047)</u>		<u>(2,868,112)</u>		<u>(7,176,333)</u>		<u>(34,024,485)</u>	

## 12 Income tax expense, continued

With effect from January 1, 2009, the income tax rate has been reduced to 20% for 2009, to 17.5% and to 15% for the years 2010 and 2011, respectively. These rates have been used in the calculation of deferred tax assets and liabilities.

According to the Kazakhstan tax legislation specific to the mineral extraction industry the Company's operations are subject to excess profits tax. Excess profits tax is charged at rates of between 0% and 60% on income after income tax according to the ratio of aggregate annual income to deductions in that particular year as defined by Kazakhstan legislation.

## 13 Intangible assets

<i>Cost</i>	<u>Software</u>	<u>Mineral rights</u>	<u>Total</u>
Balance as at January 1, 2008 (Audited)	127,390	7,113,655	7,241,045
Additions (Unaudited)	47,501	-	47,501
<b>Balance as at September 30, 2008 (Unaudited)</b>	<b>174,891</b>	<b>7,113,655</b>	<b>7,288,546</b>
Additions (Unaudited)	57,237	-	57,237
<b>Balance as at December 31, 2008 (Audited)</b>	<b>232,128</b>	<b>7,113,655</b>	<b>7,345,783</b>
Additions (Unaudited)	-	-	-
<b>Balance as at September 30, 2009 (Unaudited)</b>	<b>232,128</b>	<b>7,113,655</b>	<b>7,345,783</b>
<i>Accumulated amortisation</i>			
Balance as at January 1, 2008 (Audited)	(113,574)	(2,181,703)	(2,295,277)
Amortisation for the period (Unaudited)	(13,197)	(896,629)	(909,826)
<b>Balance as at September 30, 2008 (Unaudited)</b>	<b>(126,771)</b>	<b>(3,078,332)</b>	<b>(3,205,103)</b>
Amortisation for the period (Unaudited)	(11,871)	(296,410)	(308,281)
<b>Balance as at December 31, 2008 (Audited)</b>	<b>(138,642)</b>	<b>(3,374,742)</b>	<b>(3,513,384)</b>
Amortisation for the period (Unaudited)	(23,636)	(438,573)	(462,209)
<b>Balance as at September 30, 2009 (Unaudited)</b>	<b>(162,278)</b>	<b>(3,813,315)</b>	<b>(3,975,593)</b>
<i>Net book value</i>			
<b>Balance as at December 31, 2008 (Audited)</b>	<b>93,486</b>	<b>3,738,913</b>	<b>3,832,399</b>
<b>Balance as at September 30, 2009 (Unaudited)</b>	<b>69,850</b>	<b>3,300,340</b>	<b>3,370,190</b>

The amortisation charge of USD 438,573 relating to mineral rights was charged to cost of sales and the charge of USD 23,636 relating to software was charged to administrative expenses (nine months ended September 30, 2008: USD 896,629 - was charged to cost of sales and USD 13,197 was charged to administrative expenses).

## 14 Property, plant and equipment

	<u>Land and buildings</u>	<u>Vehicles</u>	<u>Oil and gas assets</u>	<u>Total</u>
<i>Cost</i>				
Balance as at January 1, 2008 (Audited)	114,855	1,606,086	175,133,393	176,854,334
Additions (Unaudited)	-	-	31,310,873	31,310,873
<b>Balance as at September 30, 2008 (Unaudited)</b>	<b>114,855</b>	<b>1,606,086</b>	<b>206,444,266</b>	<b>208,165,207</b>
Additions (Unaudited)	-	-	2,596,212	2,596,212
Disposals (Unaudited)	-	-	(2,604)	(2,604)
<b>Balance as at December 31, 2008 (Audited)</b>	<b>114,855</b>	<b>1,606,086</b>	<b>209,037,874</b>	<b>210,758,815</b>
Additions (Unaudited)	-	-	4,805,591	4,805,591
Disposals (Unaudited)	-	-	(13,697)	(13,697)
<b>Balance as at September 30, 2009 (Unaudited)</b>	<b>114,855</b>	<b>1,606,086</b>	<b>213,829,768</b>	<b>215,550,709</b>
<i>Accumulated depreciation and impairment losses</i>				
Balance as at January 1, 2008 (Audited)	(19,556)	(480,431)	(48,261,543)	(48,761,530)
Depreciation charge (Unaudited)	(2,115)	(236,776)	(24,116,378)	(24,355,269)
<b>Balance as at September 30, 2008 (Unaudited)</b>	<b>(21,671)</b>	<b>(717,207)</b>	<b>(72,377,921)</b>	<b>(73,116,799)</b>
Depreciation charge (Unaudited)	(705)	(77,874)	(10,248,018)	(10,326,597)
<b>Balance as at December 31, 2008 (Audited)</b>	<b>(22,376)</b>	<b>(795,081)</b>	<b>(82,625,939)</b>	<b>(83,443,396)</b>
Depreciation charge (Unaudited)	(2,115)	(226,621)	(14,752,779)	(14,981,515)
<b>Balance as at September 30, 2009 (Unaudited)</b>	<b>(24,491)</b>	<b>(1,021,702)</b>	<b>(97,378,718)</b>	<b>(98,424,911)</b>
<i>Net book value</i>				
<b>Balance as at December 31, 2008 (Audited)</b>	<b>92,479</b>	<b>811,005</b>	<b>126,411,935</b>	<b>127,315,419</b>
<b>Balance as at September 30, 2009 (Unaudited)</b>	<b>90,364</b>	<b>584,384</b>	<b>116,451,050</b>	<b>117,125,798</b>

## 14 Property, plant and equipment, continued

Included in oil and gas assets at September 30, 2009 are items with a cost of USD 11,130,384 (September 30, 2008: USD 20,254,136) that are under construction or have not yet been put into use. The depreciation charge of USD 14,752,779 relating to oil and gas producing assets was charged to cost of sales and the charge of USD 228,736 relating to buildings and vehicles was charged to administrative expenses (nine months ended September 30, 2008: USD 24,116,378 - was charged to cost of sales and USD 238,891 was charged to administrative expenses).

The Company has reviewed its estimated quantity of commercial reserves at January 1, 2009 which resulted in USD 3,652,580 of decrease in depreciation charges for the period.

## 15 Deferred tax assets and liabilities

### (a) Recognised deferred tax liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	September 30, 2009	December 31, 2008	September 30, 2009	December 31, 2008	September 30, 2009	December 31, 2008
Intangible assets	-	-	(534,926)	(590,307)	(534,926)	(590,307)
Property, plant and equipment	-	-	(22,182,250)	(20,616,552)	(22,182,250)	(20,616,552)
Trade receivables	687,303	-	-	-	687,303	-
Historical cost obligation	1,040,033	991,662	-	-	1,040,033	991,662
Provision	810,975	488,899	-	-	810,975	488,899
Taxes payable	1,447,096	797,135	-	-	1,447,096	797,135
Tax loss carry-forwards	15,039	-	-	-	15,039	-
Custom duties prepaid	4,095,937	-	-	-	4,095,937	-
<b>Net tax assets/(liabilities)</b>	<b>8,096,383</b>	<b>2,277,696</b>	<b>(22,717,176)</b>	<b>(21,206,859)</b>	<b>(14,620,793)</b>	<b>(18,929,163)</b>

Deferred tax is provided for at rate of 20%, 17.5% and 15% (2008: 51%) on all timing differences for the years 2009, 2010 and after 2010 respectively.

**15 Deferred tax assets and liabilities, continued****(b) Movement in temporary differences**

	As at June 30, 2009	Recognised in the statement of comprehensive income	Recognised in equity	As at September 30, 2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Intangible assets	(507,666)	(27,260)	-	(534,926)
Property, plant and equipment	(19,268,922)	(2,913,328)	-	(22,182,250)
Trade receivables	651,468	35,835	-	687,303
Historical cost obligation	733,151	306,882	-	1,040,033
Provision	746,044	64,931	-	810,975
Taxes payable	834,413	612,683	-	1,447,096
Tax loss carry-forwards	12,388	2,651	-	15,039
Custom duties prepaid	4,095,937	-	-	4,095,937
	<b>(12,703,187)</b>	<b>(1,917,606)</b>	<b>-</b>	<b>(14,620,793)</b>

	As at January 1, 2009	Recognised in the statement of comprehensive income	Recognised in equity	As at September 30, 2009
	(Audited)	(Unaudited)	(Unaudited)	(Unaudited)
Intangible assets	(590,307)	55,381	-	(534,926)
Property, plant and equipment	(20,616,552)	(1,565,698)	-	(22,182,250)
Trade receivables	-	(505,275)	1,192,578	687,303
Historical cost obligation	991,662	48,371	-	1,040,033
Provision	488,899	322,076	-	810,975
Taxes payable	797,135	649,961	-	1,447,096
Tax loss carry-forwards	-	15,039	-	15,039
Custom duties prepaid	-	4,095,937	-	4,095,937
	<b>(18,929,163)</b>	<b>3,115,792</b>	<b>1,192,578</b>	<b>(14,620,793)</b>

	As at June 30, 2008	Recognised in the statement of comprehensive income	As at September 30, 2008
	(Unaudited)	(Unaudited)	(Unaudited)
Intangible assets	(2,141,162)	133,451	(2,007,711)
Property, plant and equipment	(62,631,331)	(2,514,708)	(65,146,039)
Taxes payable	3,314,433	(144,539)	3,169,894
Historical cost obligation	3,447,769	1,277,537	4,725,306
	<b>(58,010,291)</b>	<b>(1,248,259)</b>	<b>(59,258,550)</b>

## 15 Deferred tax assets and liabilities, continued

### (b) Movement in temporary differences, continued

	As at January 1, 2008	Recognised in the statement of comprehensive income	As at September 30, 2008
	(Audited)	(Unaudited)	(Unaudited)
Intangible assets	(2,456,055)	448,344	(2,007,711)
Property, plant and equipment	(61,987,781)	(3,158,258)	(65,146,039)
Taxes payable	2,984,154	185,740	3,169,894
Historical cost obligation	3,451,269	1,274,037	4,725,306
	<b>(58,008,413)</b>	<b>(1,250,137)</b>	<b>(59,258,550)</b>

## 16 Inventories

	September 30, 2009	December 31, 2008
	(Unaudited)	(Audited)
Raw materials and spare parts	3,796,663	4,461,494
Finished goods	2,544,112	412,616
Fuel	77,331	113,472
	<b>6,418,106</b>	<b>4,987,582</b>

## 17 Trade and other receivables

	September 30, 2009	December 31, 2008
	(Unaudited)	(Audited)
Trade receivables	56,508,858	66,193,877
Taxes receivable	12,922,739	13,838,702
Advances paid for goods and services	1,335,445	12,796,867
Other receivables	17,068	44,477
	<b>70,784,110</b>	<b>92,873,923</b>

Trade receivables include USD 55,622,601 as at September 30, 2009 (2008: USD 63,724,040) receivable from a related party for export sales of petroleum products.

## 17 Trade and other receivables, continued

Taxes and other receivables comprise VAT due from the state relates to purchases of services, materials and spare parts amounting to USD 12,854,155 (2008: USD 13,750,137) and other taxes amounting to USD 68,584 (2008: USD 88,565).

According to the contractual terms trade receivables from a related party amounting to USD 58,486,364 were due for settlement within 325 days after the shipment of goods, which is in general longer than normal settlement terms in the industry. The fair value of trade receivables from the related party was estimated as the present value of future cash flows, discounted at a rate of 16.99% which was determined by reference to a market interest rate for similar instruments.

The difference upon initial recognition of trade receivables is recognised in profit or loss as a decrease in revenue. The difference on subsequent change in the terms of payment of trade receivables, net of deferred tax asset, is recognised directly in equity as a distribution to owners. The unwinding of the discount is recognised in profit or loss as financial income.

## 18 Loan to related party

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
Tolkynneftegaz LLP	11,586,651	18,878,861

The loan to Tolkynneftegaz LLP is interest free and repayable on demand. The loan is denominated in KZT. During the nine months ended September 30, 2009, the Company has received USD 3,522,543.

## 19 Cash and cash equivalents

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
Bank deposits	93,619	97,672
Cash at bank	700	2,256,671
Cash on hand	-	8,095
	<b>94,319</b>	<b>2,362,438</b>

Cash equivalents include a short-term placement in a local bank amounting to USD 93,619 (2008: USD 97,672) bearing an average interest rate from 3.5% to 5% per annum.

## 20 Capital

The sole owner of Kazpolmunay LLP is Ascom S.A., registered in the Republic of Moldova.

In accordance with Kazakhstan legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRS. As at September 30, 2009 the Company had retained earnings, after the loss for the period, of USD 123,719,423 (2008: USD 142,391,736).

## 21 Loans and borrowings

			<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>	
From one to five years			31,695,979	50,000,000	
<b>Lender</b>	<b>Original currency</b>	<b>Collateral</b>	<b>Interest Rate</b>	<b>Loan facility outstanding as of September 30, 2009</b>	<b>Loan facility outstanding as of December 31, 2008</b>
Tristan Oil Ltd.	USD	Unsecured	17.65%	30,000,000	30,000,000
Tristan Oil Ltd.	USD	Unsecured	16%	1,695,979	20,000,000
<b>Total borrowings from related parties</b>			<b>31,695,979</b>	<b>50,000,000</b>	

During three months ended September 30, 2009 the Company partially repaid the loan principal owed to Tristan Oil Ltd in the amount of USD 18,304,021. The repayment was effected by means of a cession of rights on receivables from related party. Tristan Oil Ltd. is related party of the Company. Refer to Note 29 for details.

## 22 Historical cost obligation

	<b>Historical cost obligation</b>
Balance as at 1 January 2009 (Audited)	4,412,172
Unwind of discount (Note 10) (Unaudited)	219,189
Obligation paid during the period	(229,618)
<b>Balance at September 30, 2009 (Unaudited)</b>	<b>4,401,743</b>
<i>Non-current</i>	<b>3,546,415</b>
<i>Current</i> (Note 24)	<b>855,328</b>

According to the subsoil use contract, the Company has an obligation to repay certain historical costs incurred by the Government. At September 30, 2009 the Company's obligation in relation to historical costs is USD 4,401,743 (2008: USD 4,412,172), the undiscounted amount of the historical cost obligation equals to USD 5,970,073 (2008: USD 6,199,691). The future expected cash outflows for the historical costs have been discounted at a nominal rate of 6.59%. The unwinding of discount is recognised in profit or loss.

## 23 Provision

	<b>Site restoration and decommissioning</b>
Balance at 1 January 2009 (Audited)	3,259,328
Provisions made during the period (Unaudited)	915,039
Unwinding of discount (Note 10) (Unaudited)	93,923
<b>Balance at September 30, 2009 (Unaudited)</b>	<b>4,268,290</b>
<i>Non-current</i>	<b>3,908,290</b>

*Current* 360,000

## 23 Provision, continued

### Provision for site restoration and decommissioning

A provision of USD 4,268,290 was made in respect of the Company's obligation to remediate environmental damage in the Borankol field. Provision made during the period is represented by the provision created in respect of new wells put into operation during the nine months of 2009 and the change of the provision as a result of a change in the discount rate and timing. Until January 1, 2009 the future expected cash outflows for site restoration and decommissioning were discounted at a nominal rate of 13.24% determined by reference to the weighted average cost of borrowings. During 2009, management reviewed the estimate and modified the discount rate to a risk-free rate of 3%. The change in the discount rate is a change in estimate and has been accounted for prospectively. The provision made for the period has been capitalised as part of oil and gas assets in property, plant and equipment.

## 24 Trade and other payables

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
Trade payables	9,459,898	4,136,742
Interest payable	4,445,930	-
Historical cost obligation	855,328	619,969
Payable to employees	416,106	692,029
Advances received	122,080	-
Other payables	84,088	106,285
	<u><u>15,383,430</u></u>	<u><u>5,555,025</u></u>

Trade payables include USD 8,522,383 as at September 30, 2009 (2008: USD 3,249,260) payable to related parties. Refer to Note 29 for details.

Interest payable in the amount of USD 2,916,878 relates to interest accrual for the period from January 1, 2009 to June 20, 2009 and should have been repaid on June 20, 2009. The repayment of the interest was extended until demanded without any penalties. The remaining amount is represented by interest accrued for three months ended September 30, 2009, which is due on December 20, 2009.

## 25 Taxes payable

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
Excise duty on oil and gas condensate	4,225,640	-
Mineral extraction tax	1,752,733	-
Withholding tax	1,114,490	-
Property tax	-	4,835,912
Royalty	-	256,000
Others	274,062	711
	<u>274,062</u>	<u>711</u>

<b>7,366,925</b>	<b>5,092,623</b>
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## 26 Financial instruments

### (a) Credit risk

#### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure with the exception of the guarantee described in Notes 28(c), (d) and (e). The exposure to credit risk at the reporting date was:

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
Trade receivables	56,508,858	66,193,877
Other receivables	17,068	44,477
Loan to related party	11,586,651	18,878,861
Cash and cash equivalents	94,319	2,362,438
	<b>68,206,896</b>	<b>87,479,653</b>

The maximum exposure to credit risk for trade receivables and loan to related party at the reporting date by geographic region was:

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
Other European countries	55,622,601	63,724,040
Other CIS countries-Kazakhstan	12,472,908	21,348,698
	<b>68,095,509</b>	<b>85,072,738</b>

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
Wholesale customers	55,622,601	63,724,040
End-user customers	886,257	2,469,837
	<b>56,508,858</b>	<b>66,193,877</b>

The Company's most significant customer, a European wholesaler, a related party accounts for USD 55,622,601 of the trade receivables carrying amount as at September 30, 2009 (2008: USD 63,724,040).

## 26 Financial instruments, continued

### (b) Impairment losses

The aging of trade receivables at the reporting date was:

	<b>Gross September 30, 2009 (Unaudited)</b>	<b>Impairment September 30, 2009 (Unaudited)</b>	<b>Gross December 31, 2008 (Audited)</b>	<b>Impairment December 31, 2008 (Audited)</b>
Not past due	56,031,760	-	65,369,165	-
Past due 0-30 days	58,913	-	305,505	-
Past due 31-120 days	176,740	-	519,207	-
Past due more than 120 days	241,445	-	-	-
	<b>56,508,858</b>	<b>-</b>	<b>66,193,877</b>	<b>-</b>

The allowance account in respect of trade receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

During three months ended March 31, 2009 the Company renegotiated the terms of settlement of certain trade receivables from its main customer, a related party, by extending the term from 170 days to 230 days.

During the three months ended June 30, 2009 the Company further renegotiated the terms of settlement of the trade receivables from its main customer, a related party, by extending the term from 280 days to 325 days.

If no changes from 170 days to 280 days and subsequently from 280 days to 325 days in the settlement terms had been agreed, the receivables from related parties would have been overdue as follows:

	<b>Gross September 30, 2009 (Unaudited)</b>
Not past due	33,159,949
Past due 0-30 days	4,533,171
Past due 31-120 days	17,929,481
	<b>55,622,601</b>

Management believes that no impairment allowance is necessary in respect of trade receivables from related parties.

## 26 Financial instruments, continued

### (c) Currency risk

	<b>KZT denominated September 30, 2009 (Unaudited)</b>	<b>KZT Denominated December 31, 2008 (Audited)</b>
Trade and other receivables	903,325	2,514,314
Loan to related party	11,586,651	18,878,861
Trade and other payables	(9,543,986)	(4,243,027)
	<b>2,945,990</b>	<b>17,150,148</b>

The following significant exchange rates applied during the nine months ended September 30, 2009 and year ended December 31, 2008:

	<b>1 USD equals</b>			
	<b>Average rate</b>		<b>Reporting date spot rate</b>	
	<b>Nine months ended September 30, 2009</b>	<b>Year ended December 31, 2008</b>	<b>September 30, 2009</b>	<b>December 31, 2008</b>
KZT	146.69	120.30	150.95	120.77

### Sensitivity analysis

A 10% weakening of the KZT against the USD, based on positions as at September 30, 2009 and December 31, 2008, would have decreased equity and profit for the period by the amounts shown below.

### Sensitivity

	<b>Equity</b>	<b>Profit for the year</b>
<b>September 30, 2009</b>		
USD	(214,260)	(214,260)
<b>December 31, 2008 <sup>(1)</sup></b>		
USD	(1,247,283)	(1,247,283)

A 10% strengthening of the KZT against the USD above currency, based on positions as at September 30, 2009 and December 31, 2008, would have had the equal but opposite effect to the amounts shown above.

<sup>(1)</sup> Comparative information has been previously calculated for at 25% change in exchange rate.

### (d) Liquidity risk

The main area of liquidity risk arises from the settlement terms with the Company's main customer which is a related party. The settlement terms are 325 days, which significantly exceed normal credit terms in the industry. The Company's operations and liquidity are dependent on timely

settlement of trade receivables from a related party; if settlements are received late there is a risk that the Company will not be able to meet its financial obligations as they fall due.

## **26 Financial instruments, continued**

### **(d) Liquidity risk, continued**

The interest on loans from related party in the amount of USD 2,916,878 was due on June 20, 2009. However due to financial difficulties experienced by the Company the repayment of the interest was extended until demanded without any penalties.

Management has started negotiations with a potential new buyer of the Company's products to have additional sales made on a prepayment basis to allow the Company to have a sufficient cash to pay off its liability for interest on loans and borrowings falling due in December 2009.

Management of the Company believes that the liquidity problems are temporary and caused by financial difficulties being experienced by the ultimate buyers of crude oil as well as by existence of outstanding litigations with the Government of the Republic of the Kazakhstan (Note 28). In addition, management has been informed by the Company's ultimate controlling parties that they are conducting negotiations with third parties with a view to the sale of the Company.

## 26 Financial instruments, continued

### (d) Liquidity risk, continued

The following are the contractual maturities of financial assets and liabilities, historical cost obligation, including estimated future interest:

September 30, 2009 (Unaudited)	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial assets/(liabilities)</b>							
Loan to related party	11,586,651	11,586,651	11,586,651	-	-	-	-
Trade and other receivables	56,525,926	58,503,432	32,021,512	26,481,920			
Long-term borrowings	(33,212,300)	(45,126,050)	(5,859,800)	(2,647,500)	(5,295,000)	(31,323,750)	-
Long-term borrowings	(2,929,609)	(3,540,161)	(1,369,308)	(135,678)	(271,357)	(1,763,818)	-
Trade and other payables	(9,543,986)	(9,543,986)	(9,543,986)	-	-	-	-
	<b>22,426,682</b>	<b>11,879,886</b>	<b>26,835,069</b>	<b>23,698,742</b>	<b>(5,566,357)</b>	<b>(33,087,568)</b>	-
<b>December 31, 2008</b> (Audited)							
Loan to related party	18,878,861	18,878,861	18,878,861	-	-	-	-
Trade and other receivables	66,238,354	66,238,354	66,238,354	-	-	-	-
Long-term borrowings	(30,000,000)	(45,885,000)	(2,647,500)	(2,647,500)	(5,295,000)	(35,295,000)	-
Long-term borrowings	(20,000,000)	(29,600,000)	(1,600,000)	(1,600,000)	(3,200,000)	(23,200,000)	-
Trade and other payables	(4,243,027)	(4,243,027)	(4,243,027)	-	-	-	-
	<b>30,874,188</b>	<b>5,389,188</b>	<b>76,626,688</b>	<b>(4,247,500)</b>	<b>(8,495,000)</b>	<b>(58,495,000)</b>	-

## **26 Financial instruments, continued**

### **(e) Interest rate risk**

#### **(i) Fair value sensitivity for fixed rate instruments**

The Company accounts for its fixed rate financial instruments at amortised cost. Therefore a change in interest rates at the reporting date would not affect profit or equity.

#### **(ii) Interest rate repricing risk**

At September 30, 2009 and December 31, 2008, there were no financial liabilities that reprice within 12 months. Therefore, a change in interest rates at the reporting date would not affect profit or equity in the next 12 months.

### **(f) Fair value**

Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts.

In assessing fair values, management used the following major methods and assumptions:

*Trade and other receivables and payables.* The fair value of trade and other receivables and payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. For trade and other receivables and payables with a short maturity fair value is not materially different from the carrying value because the effect of time value of money is not material.

*Non-derivative financial liabilities.* Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Fair value of financial assets and liabilities, which are not quoted on an active market, is measured using inputs available on a market or derived from market information for such financial assets and liabilities (level 2).

## **27 Commitments**

### **Commitments on training Kazakhstan employees**

Under the conditions of the Operating Agreement the Company is liable to train Kazakhstan employees. The size of the annual training expense is calculated based on the results of the Company's operations and is not expected to be significant.

## **28 Contingencies**

### **(a) Insurance**

The insurance industry in Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available.

## **28 Contingencies, continued**

### **(a) Insurance, continued**

The Company does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

### **(b) Taxation contingencies**

The taxation system in Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Kazakhstan that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these interim financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

In 2008 Kazakhstan enacted a new tax law which came into force on January 1, 2009. This incorporated a new transfer price law. As before, the new law primarily applies to cross-border transactions involving sales of goods and services. In addition, the transfer price law applies to in-country sales and purchases of goods and services, if these transactions are determined to be effected not at arm's length.

Also, the new law eliminated the 10-percent price safe harbour that existed under the previous transfer price law (except for sales of agricultural produce). Accordingly, the tax authorities are now entitled to review prices charged in any transaction, where the contractual price deviates from the arm's length price by any percentage. Management of the Company believes that they will be able to justify the discount provided to its customers as well as to obtain all primary documents from customers to support the discount provided.

### **(c) Guarantee of Senior Secured Notes issued by related party**

The Company acts as a guarantor, jointly with Tolkyneftegaz LLP, of the Senior Secured Notes due 2012 ("the Notes") issued by Tristan Oil Ltd., a related party. The guarantee is secured by a first-priority pledge of the Capital Stock of the Company. At September 30, 2009 Tristan Oil Ltd.'s outstanding obligations under the Notes amounted to USD 531,110,000 (2008: USD 420,000,000). The Company has borrowed USD 31,695,979 (2008: USD 50,000,000) from Tristan Oil Ltd. leaving a net amount guaranteed of USD 499,414,021 (2008: USD 370,000,000) as a contingent liability.

### **(d) Guarantee of indebtedness of Montvale Invest Ltd.**

The Company has guaranteed indebtedness by a related party, Montvale Invest Ltd., to a third party. The guarantee was issued in relation to the crude oil marketing service agreement with a final buyer of the Company's crude oil under which Montvale Invest Ltd. has a right to request from the buyer prepayments of up to USD 20 million. At September 30, 2009, the amount due by Montvale Invest Ltd. to the third party was USD 20 million.

Management considers that the Company is unlikely to be required to settle this liability of Montvale Invest Ltd.

## **28 Contingencies, continued**

### **(e) Guarantee of indebtedness of Laren Holdings Ltd.**

The Company has agreed to guarantee credit facility obligations of Laren Holdings Ltd., an entity formed by certain of Laren's creditors, in the amount of USD 60 million on a subordinated basis jointly with Tolkyneftegaz LLP; other related parties act as primary guarantors. Laren Holdings Ltd. had drawn down USD 60 million from the credit facility of which USD 10 million has been repaid by related parties subsequent to September 30, 2009. The remaining facility is due on December 18, 2009. Based on representations received from the ultimate controlling company, the related parties will not be able to repay the outstanding amount on the due date and has started negotiations with creditors of Laren Holdings Ltd. to extend the due date that would broadly match the expected cash flows for the next twelve months. The ultimate controlling company is reasonably confident that it will be successful in the negotiations and believes that it is unlikely that the Company will be required to settle these liabilities.

### **(f) Investigation by finance police**

The Company and Tolkyneftegaz LLP have received a letter from the Department for Fighting Economic Offences and Corruption of the Mangistau Region of Kazakhstan (the "Department") informing it that they are the subject of a criminal investigation. The letter stated that the criminal investigation relates to two gas pipelines a, one condensate pipeline and one oil pipeline to transport its gas and condensate from Tolkyneftegaz's gas processing facility to the delivery point at the Central Asia Center pipeline for gas, the Opornaya condensate storage facilities for condensate and to transport oil from the Borankol field to the delivery point at the KazTransOil pipeline. The Department alleges that the pipelines relate to "main pipelines type", operation of which requires a state licence, and that the Company and Tolkyneftegaz LLP operated the main pipeline without obtaining a state license and that all income earned by these companies in connection with production that was transported via this pipeline was done so illegally.

Previously the Company had a technical conclusion issued by the Subsidiary State Entity "Research Studies Institute on Technical Safety in Oil and Gas Industry" that these pipelines relate to "in-field pipelines type". However on May 6, 2009 the technical conclusion was recalled and declared invalid.

On May 15, 2009, the Department notified the Company and Tolkyneftegaz LLP that it was seizing the assets of these companies including the subsoil use rights, and their partner's equity interests in these companies. The effect of such seizure is that the Company and Tolkyneftegaz LLP, as well as their partner, may not, during the investigation from sell and/or transfer the assets of these companies and the partner's equity interests in these companies to third parties, but may only use the assets in their normal business operations.

On April 24, 2009, in connection with the ongoing criminal investigation, the General Director of the Company was arrested by the finance police officers of Aktau. On April 27, 2009, the Town Court of Aktau ruled to keep him under arrest until May 20, 2009; according to legislation, the investigation has to be finalised by May 20, 2009, however by the time of the approval of these interim financial statements no decisions have been taken. V. Oskolcov was appointed as Acting General Director of the Company.

On September 18, 2009, Aktau Town Court ruled that the General Director of the Company was guilty of allowing the Company to operate the main pipeline without obtaining a state license and sentenced him to four years of imprisonment and ordered the Company to pay to the Republic of Kazakhstan approximately US\$ 145 million in fines. On November 12, 2009, the Mangistau Regional Court upheld the ruling of Aktau Town Court. The Company and its General Director will appeal the ruling.

## **28 Contingencies, continued**

### **(f) Investigation by finance police, continued**

Management believes that the Department's view on this matter is inconsistent with its, and other Kazakh governmental entities' characterisation and treatment of this pipeline. Despite the ongoing difficulties facing by the Company in Kazakhstan, and the fact that neither company has any assurance that their legal challenges will ultimately prevail, the Company and Tolkyneftegaz LLP continue their efforts to resolve the ongoing claims and litigation matters with the Kazakh authorities.

The ultimate outcome of the matter cannot presently be determined and, accordingly, no provision for any effects on the Company that may result has been made in the interim financial statements.

### **(g) Tax inspection**

During the second quarter, the Company received the results of a tax inspection conducted by the tax authorities during 2008 in respect of each of the tax years 2005, 2006 and 2007, where the tax authorities challenged the Company's position with regard to compliance with the subsoil use contract and applicable laws. According to the conclusions of the tax inspection, the Company is liable for additional taxes of USD 14,894,446 and penalties of USD 6,618,927.

Management disputes the findings of the tax inspection and has appealed the decision to the Tax Committee of the Ministry of Finance which has rejected the appeal. Company filed a petition to the Supreme Court which rejected the petition of the Company. Management lodged a petition at the Specialised Regional Economic Court of Astana ("SREC") on July 1, 2009.

On September 9, 2009 SREC refused the petition. On September 17, 2009 KPM appealed the decision to the Board on Civil Matters of the Astana Court. On October 28, 2009 the Board on Civil Matters of the Astana Court cancelled the Decisions of SREC and returned the case for further investigation.

The ultimate outcome of the matter cannot presently be determined and, accordingly, no provision for any effects on the Company that may result has been made in the interim financial statements.

### **(h) Non compliance with state working program**

In Kazakhstan all subsoil reserves belong to the State, with the Ministry of Energy and Mineral Resources granting exploration and production rights to third parties. Subsoil rights are not granted in perpetuity and any renewal must be agreed before the expiration of the relevant contract or licence. These rights may be terminated by the Ministry if the Company does not satisfy its contractual obligations.

Due to financial difficulties being experienced by the Company and overall decrease in oil prices and local demand on gas, the Company is not expecting to meet the program for 2009 and therefore is in process of revising the 2009 work program by transferring certain expense to later years. Management is currently negotiating with the government authorities the necessary changes in the 2009 working program and is confident that a corresponding approval will be received from the government authorities and that this non-compliance will not have a significant effect on the Company's operations and financial results.

## 29 Related party transactions

Related parties are entities with common direct or indirect shareholders, directors or management. A significant proportion of the Company's business is conducted through transactions with related parties and the effect of these transactions, on the basis determined between the related parties, is reflected below.

The Company's parent company is Ascom S.A., registered in the Republic of Moldova.

No publicly available financial statements are produced by the Company's parent company or ultimate controlling party (Note 1(a)).

### ***Management remuneration***

Key management received the following remuneration during the period, which is included in administrative expenses.

	<b>Three months ended September 30, 2009 (Unaudited)</b>	<b>Nine months ended September 30, 2009 (Unaudited)</b>	<b>Three months ended September 30, 2008 (Unaudited)</b>	<b>Nine months ended September 30, 2008 (Unaudited)</b>
Salaries and bonuses	<u>205,195</u>	<u>868,321</u>	<u>512,810</u>	<u>1,304,874</u>

## 29 Related party transactions, continued

### (a) Transactions with other related parties

	Sales of goods and services				Purchases of goods and services, interest payable				Amounts owed by related parties		Amounts owed to related parties	
	Three months ended September 30, 2009	Nine months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2008	Three months ended September 30, 2009	Nine months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2008	As at		As at	
									September 30, 2009	December 31, 2008	September 30, 2009	December 31, 2008
<b>Parent company</b>												
Ascom S.A.	-	-	-	-	-	118,470	259,950	813,820	-	-	-	104,460
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>118,470</b>	<b>259,950</b>	<b>813,820</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>104,460</b>
<b>Fellow subsidiaries</b>												
Kasko LLP	152,305	802,969	288,159	1,826,889	4,138,957	14,298,298	9,693,916	28,240,281	537,671	2,619,424	5,895,903	2,021,564
KASKo-Petrostar	-	-	-	-	-	135,785	147,533	435,271	58,960	-	-	155,668
Stadoil Ltd.	11,000,841	43,837,881	32,298,867	131,244,902	-	-	-	-	55,622,601	63,724,040	-	-
Tolkynneftegaz LLP	320,711	1,484,810	647,003	2,298,380	610,251	2,791,151	1,054,091	3,457,542	11,896,523	20,065,518	2,626,480	967,568
Tristan Oil Ltd.	-	-	-	-	1,911,314	6,182,411	2,170,945	6,465,639	-	-	36,141,909	50,000,000
<b>Total</b>	<b>11,473,857</b>	<b>46,125,660</b>	<b>33,234,029</b>	<b>135,370,171</b>	<b>6,660,522</b>	<b>23,407,645</b>	<b>13,066,485</b>	<b>38,598,733</b>	<b>68,115,755</b>	<b>86,408,982</b>	<b>44,664,292</b>	<b>53,144,800</b>

A description of the significant related party transactions is as follows:

- The Company sells oil and condensate to Stadoil Ltd. The prices for these transactions are based on market rates, except for credit terms on repayment of trade receivables which are in general longer than normal credit terms in the industry.
- The Company purchases seismic services from Ascom S.A.
- The Company receives loans from Tristan Oil Ltd. and repaid loan to Ascom S.A.
- KASKo LLP supplies drilling, maintenance and construction services to the Company and purchases materials from the Company.
- The Company provides processing facilities to and purchases gas from Tolkynneftegaz LLP.
- KASKo Petrostar provides construction project development services.

As discussed in Notes 28(c), (d) and (e), the Company has issued guarantees to Tristan Oil Ltd., Montvale Invest Ltd. and to Laren Holdings Ltd. on the terms disclosed in those notes.

### **30 Subsequent events**

Subsequent to the reporting date, the Company partially repaid the loan principal owed to Tristan Oil Ltd. in the amount of USD 5,600,869. The repayment to Tristan Oil Ltd. was effected by means of a cession of rights to receivables from a related party of Tristan Oil Ltd.

Tolkynneftegaz LLP partially repaid the loan by the Company in cash in the amount of USD 1,495,628.

Subsequent to the reporting date in accordance with changes to the currently effective Tax Code, the Government of the Republic of Kazakhstan has postponed the reduction in the income tax rate for 2010. In accordance with the changes the income tax rate will remain at 20% for 2010-2013 and will be decreased to 17.5% for 2014-2015 and to 15% for later years. The Company has not completed its analysis of the possible impact on the Company's position and its financial performance.

**Tolkynneftegaz LLP**

Unaudited Interim Financial Statements  
for the three- and nine months ended  
September 30, 2009

**Tolkynneftegaz LLP**  
*Interim Statement of Comprehensive Income for the three- and nine months ended September 30, 2009*  
*All amounts in USD, if not otherwise stated*

	Note	Three months ended September 30, 2009 <u>(Unaudited)</u>	Nine months ended September 30, 2009 <u>(Unaudited)</u>	Three months ended September 30, 2008 <u>(Unaudited)</u>	Nine months ended September 30, 2008 <u>(Unaudited)</u>
Sales	5	18,785,494	80,918,163	80,219,745	294,147,291
Cost of sales	6	<u>(11,252,897)</u>	<u>(45,911,818)</u>	<u>(22,000,747)</u>	<u>(64,872,045)</u>
<b>Gross profit</b>		<u><b>7,532,597</b></u>	<u><b>35,006,345</b></u>	<u><b>58,218,998</b></u>	<u><b>229,275,246</b></u>
Other income	7	999,900	3,349,187	1,454,948	4,266,385
Distribution costs	8	(2,638,311)	(7,425,663)	(103,316)	(822,937)
Administrative expenses	9	(2,353,242)	(9,128,773)	(3,824,433)	(10,523,830)
Other operating expenses	10	<u>(7,264)</u>	<u>4,766,507</u>	<u>(35,121)</u>	<u>(66,307)</u>
<b>Results from operating activities</b>		<u><b>3,533,680</b></u>	<u><b>26,567,603</b></u>	<u><b>55,711,076</b></u>	<u><b>222,128,557</b></u>
Finance expenses	11	(11,316,815)	(22,514,946)	(3,956,576)	(6,784,298)
Finance income	11	<u>2,438,342</u>	<u>8,305,042</u>	<u>18,543</u>	<u>74,355</u>
<b>(Loss)/profit before income tax</b>		<u><b>(5,344,793)</b></u>	<u><b>12,357,699</b></u>	<u><b>51,773,043</b></u>	<u><b>215,418,614</b></u>
Income tax expense	13	<u>4,253,370</u>	<u>9,160,735</u>	<u>(24,801,020)</u>	<u>(84,763,500)</u>
<b>(Loss)/profit and comprehensive income for the period</b>		<u><u><b>(1,091,423)</b></u></u>	<u><u><b>21,518,434</b></u></u>	<u><u><b>26,972,023</b></u></u>	<u><u><b>130,655,114</b></u></u>

These interim financial statements were approved by Management on December 8, 2009 and were signed on its behalf by:

\_\_\_\_\_  
A. Kiselev  
General Director

\_\_\_\_\_  
V. Stejar  
Chief Financial Officer

	September 30, 2009	December 31, 2008
Note	(Unaudited)	(Audited)
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	14 7,952,726	7,444,691
Exploration and evaluation assets	15 29,447,556	24,733,459
Advances paid for non-current assets	36,800,212	33,805,095
Non-current VAT receivable	19 21,232,545	24,542,487
Property, plant and equipment	16 528,073,369	515,548,349
<b>Total non-current assets</b>	<b>623,506,408</b>	<b>606,074,081</b>
<b>Current assets</b>		
Inventories	18 9,984,163	10,321,952
Income tax receivable	2,729,631	-
Trade and other receivables	19 71,524,046	105,369,120
Cash and cash equivalents	20 154,988	6,703,888
<b>Total current assets</b>	<b>84,392,828</b>	<b>122,394,960</b>
<b>Total assets</b>	<b>707,899,236</b>	<b>728,469,041</b>
<b>LIABILITIES AND PARTNER'S EQUITY</b>		
<b>Partner's equity</b>		
Capital	21 73,257	73,257
Additional paid-in capital	1,307,681	1,307,681
Retained earnings	273,811,297	255,221,511
<b>Total partner's equity</b>	<b>275,192,235</b>	<b>256,602,449</b>
<b>Non-current liabilities</b>		
Loans and borrowings	22 239,621,742	275,000,000
Historical cost obligation	23 2,126,435	2,269,712
Provision	24 2,797,327	1,562,863
Deferred tax liabilities	17 106,854,396	128,283,395
<b>Total non-current liabilities</b>	<b>351,399,900</b>	<b>407,115,970</b>
<b>Current liabilities</b>		
Loans and borrowings	22 11,586,651	18,878,861
Trade and other payables	25 54,942,642	9,779,812
Income tax payable	2,679,797	27,030,056
Taxes payable	26 12,098,011	9,061,893
<b>Total current liabilities</b>	<b>81,307,101</b>	<b>64,750,622</b>
<b>Total liabilities</b>	<b>432,707,001</b>	<b>471,866,592</b>
<b>Total liabilities and partner's equity</b>	<b>707,899,236</b>	<b>728,469,041</b>

**Tolkynneftegaz LLP**  
*Interim Statement of Cash Flows for the nine months ended September 30, 2009*  
*All amounts in USD, if not otherwise stated*

	Note	Nine months ended September 30, 2009 (Unaudited)	Nine months ended September 30, 2008 (Unaudited)
<b>Cash flows from operating activities</b>			
<b>Profit for the period</b>		<b>21,518,434</b>	<b>130,655,114</b>
<i>Adjustments for:</i>			
Income tax (benefit)/expense recognised in profit or loss	13	(9,160,735)	84,763,500
Depreciation	16	27,622,934	37,773,012
Finance expense	11	22,514,946	6,784,298
Finance income	11	(8,305,042)	(74,355)
Loss/(gain) on disposal of property, plant and equipment	7,10	62,480	(846)
Operating cash flow before changes in working capital and provisions		<b>54,253,017</b>	<b>259,900,723</b>
Change in trade and other receivables		16,884,595	(50,220,665)
Change in inventories		337,789	(536,695)
Change in trade and other payables		9,181,152	4,845,187
<b>Cash generated from operations before income taxes and interest paid</b>		<b>80,656,553</b>	<b>213,988,550</b>
Income taxes paid		(35,701,064)	(44,418,994)
Interest paid		-	(28,762,622)
<b>Cash flows from operating activities</b>		<b>44,955,489</b>	<b>140,806,934</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment		(26,288,920)	(88,676,482)
Advances paid for non-current assets		(2,995,117)	15,120,270
Acquisition of intangible assets and exploration and evaluation assets		(5,222,132)	(14,707,824)
Interest received		4,969	74,355
Payment of historical cost obligation		(180,700)	-
Proceeds from disposal of property, plant and equipment		54	15,919
<b>Cash flows utilised by investing activities</b>		<b>(34,681,846)</b>	<b>(88,173,762)</b>
<b>FINANCING ACTIVITIES</b>			
Repayment of borrowings		(16,822,543)	(53,848,055)
<b>Cash flows utilised by financing activities</b>		<b>(16,822,543)</b>	<b>(53,848,055)</b>
Net decrease in cash and cash equivalents		(6,548,900)	(1,214,883)
Cash and cash equivalents at beginning of the period		6,703,888	9,436,065
<b>Cash and cash equivalents at the end of the period</b>	20	<b>154,988</b>	<b>8,221,182</b>

**Tolkynneftegaz LLP**  
*Interim Statement of Changes in Equity for the nine months ended September 30, 2009*  
*All amounts in USD, if not otherwise stated*

<b>USD</b>	<b>Capital</b>	<b>Additional paid-in capital</b>	<b>Retained earnings</b>	<b>Total</b>
Balance at January 1, 2008 (Audited)	73,257	1,307,681	128,476,512	129,857,450
Total comprehensive income for the period (Unaudited)	-	-	130,655,114	130,655,114
<b>Balance at September 30, 2008 (Unaudited)</b>	<b>73,257</b>	<b>1,307,681</b>	<b>259,131,626</b>	<b>260,512,564</b>
Loss and total comprehensive income for the period (Unaudited)	-	-	(3,910,115)	(3,910,115)
<b>Balance at December 31, 2008 (Audited)</b>	<b>73,257</b>	<b>1,307,681</b>	<b>255,221,511</b>	<b>256,602,449</b>
Total comprehensive income for the period (Unaudited)	-	-	21,518,434	21,518,434
Discount on financing provided to owners (Unaudited) (Note 19)	-	-	(2,928,648)	(2,928,648)
<b>Balance at September 30, 2009 (Unaudited)</b>	<b>73,257</b>	<b>1,307,681</b>	<b>273,811,297</b>	<b>275,192,235</b>

## 1 Background

### (a) Organisation and operations

Tolkynneftegaz LLP (“the Company”) is registered in the Republic of Kazakhstan. The Company was initially established as a Joint Stock Company (“JSC”). Following the introduction of Kazakhstan legislation that increased significantly the minimum share capital of JSCs, in May 2005 the Company changed its legal form of ownership from a JSC to a Limited Liability Partnership (“LLP”). This change had no impact on the Company’s tax position.

The Company’s registered office is at Building 5, Micro-district 3A, Aktau, Mangistau region, 130000, Republic of Kazakhstan.

The Company’s principal activities are oil and gas well drilling and extraction, exploration of promising oil and gas bearing terrains and construction of oil-field facilities, pipelines and reservoirs at plants located in the Caspian region. These products are sold in the Republic of Kazakhstan and abroad.

Exploration, development and production activities are carried out in Kazakhstan on two oil and gas fields presented in the table below:

<b>Field</b>	<b>Licence Number</b>	<b>Type of Licence</b>	<b>Exploitation Granted until</b>
Tolkyn	242	Oil and gas	December 4, 2018
Tabyl	243	Oil and gas	Not yet granted

The Tabyl licence was granted for exploration activities until March 2011.

The Company is a 100% subsidiary of Terra Raf Trans Trading Ltd. (registered in Gibraltar). The Company is ultimately controlled by Anatol Stati, a citizen of the Republic of Moldova, who has the power to direct the transactions of the Company at his own discretion and for his own benefit. He has a number of other business interests outside of the Company. Related party transactions are detailed in Note 30.

### (b) Business environment

The Company’s operations are subject to country risk, being the economic, political and social risks inherent in doing business in Kazakhstan. These risks include matters arising from the policies of the government, economic conditions, the imposition of, or changes to, taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment.

The interim financial statements reflect management’s assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Company. The future business environment may differ from management’s assessment.

## **2 Basis of preparation**

### **(a) Statement of compliance**

These interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 – *Interim Financial Reporting*.

### **(b) Basis of measurement**

The interim financial statements are prepared on the historical cost basis.

### **(c) Functional and presentation currency**

The national currency of the Republic of Kazakhstan is the Kazakhstan tenge (“KZT”). The functional currency of the Company is the United States dollar (“USD”). Management has determined the USD to be the functional currency as it considers that the USD reflects the economic substance of the underlying events and circumstances of the Company.

The USD is also the currency in which the interim financial statements are presented. All financial information presented in the USD has been rounded to the nearest dollar.

The KZT is not a convertible currency outside the Republic of Kazakhstan and, accordingly, any conversion of KZT amounts to USD should not be construed as a representation that KZT amounts have been, or will be in the future, convertible into USD at the exchange rate shown, or at any other exchange rate.

### **(d) Going concern**

The accompanying interim financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and discharge of liabilities in the normal course of business. The recoverability of the Company’s assets, as well as the future operations of the Company, may be significantly affected by the current and future economic environment (Note 1(b)), the outcome of outstanding litigation and ongoing criminal investigation (Notes 29(f) and (g)), timely settlement of receivables from related parties (Note 27(a)) and in an outflow of economic resources as a result of guarantees issued by the Company (Note 29(c), (d) and (e)). As a result, there are material uncertainties which may cast significant doubt on the Company’s ability to continue as a going concern, and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The interim financial statements do not include any adjustments which may be necessary should the Company be unable to continue as a going concern.

### **(e) Use of judgments, estimates and assumptions**

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these interim financial statements in conformity with IFRSs. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

## **2 Basis of preparation, continued**

### **(e) Use of judgments, estimates and assumptions, continued**

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the interim financial statements is included in the following notes:

#### **(i) Recoverability of intangibles - exploration and evaluation costs**

Under the successful efforts method of accounting, all licence acquisition, exploration and appraisal costs are initially capitalised on a field by field basis, pending determination. Expenditure incurred during the various exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process has not been completed. This assessment involves judgement as to (i) the likely future commerciality of the asset and when such commerciality should be determined, and (ii) future revenues and costs pertaining to any wider cost pool with which the asset in question is associated, and the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value. Expectations about the future prices of oil and gas are the key assumptions in forming this estimate.

#### **(ii) Site restoration and decommissioning**

The Company has site restoration and decommissioning obligations in respect of its producing interests in Kazakhstan. The extent to which a provision is required in respect of these obligations depends, inter alia, on the legal requirements at the time of site restoration and decommissioning, the cost and timing of any necessary site restoration and decommissioning works, and the discount rate to be applied to such costs. In addition, the Kazakhstan authorities assume liability for such costs if they elect to continue production activities at the end of the licence. This will depend on the level of commercial reserves remaining at the time of expiry.

#### **(iii) Reserves**

Oil and gas producing assets which are included within property, plant and equipment are depreciated on a unit-of-production basis at a rate calculated by reference to proven developed reserves.

Reserves are determined using estimates of hydrocarbons in place, recovery factors and future hydrocarbon prices. The carrying amount of development and production assets at September 30, 2009 is shown in Note 16. Management uses established industry techniques to generate its estimates; however, the amount of reserves that will ultimately be recovered from the field cannot be known with certainty until the end of the field's life.

The level of estimated commercial reserves is also a key determinant in assessing whether an asset might be impaired.

#### **(iv) Tax**

The Company's accounting policy for income tax is disclosed in Note 3(1). The determination of tax provisions requires the application of judgment to the ultimate outcome, which can change over time depending on facts and circumstances. A change in estimate of the likelihood of a future outflow and/or in the expected amount to be settled would result in a charge or credit to profit or loss in the period in which the change occurs.

## **2 Basis of preparation, continued**

### **(e) Use of judgments, estimates and assumptions, continued**

#### **(iv) Tax, continued**

Deferred tax assets are recognised only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the level of deferred tax assets recognised which can result in a charge or credit in the period in which the change occurs. Deferred excess profit tax is recorded at the rate of excess profit tax which is expected to apply on the reversal of applicable timing differences. This estimate involves a projection of expected future net taxable revenues, the cumulative internal rate of return and the timing of the reversal of timing differences.

Tax provisions are based on enacted or substantively enacted laws. To the extent that these change there would be a charge or credit to income both in the period of change, which would include any impact on cumulative provisions, and in future periods.

In addition to Kazakhstan corporate income tax the Company is exposed to excess profit tax (“EPT”). Excess profits tax is charged at rates of between 0% and 60% on income after income tax according to the ratio of aggregate annual income to deductions in that particular year as defined by Kazakhstan legislation. Liabilities for EPT arise for any year in which the ration exceeds 20%. In determining the EPT rate there is considerable judgment involved as to the nature of deductions, the timing of those deductions and future estimate of prices of oil and gas. Management believes its judgments are reasonable and in compliance with the legislation, although there is a risk that the tax authorities will have a difference interpretation of tax legislation and that the actual future prices of oil and gas will different from the management’s estimate.

#### **(v) Receivables from related party**

Management believes that no impairment provisions are required for receivables from related party even for overdue amounts.

#### **(vi) Financial guarantee**

The Company has issued a number of guarantees. A significant degree of uncertainty is involved in determination of the likelihood of default occurrence and the amount of expenditure required to settle the obligation.

### **3 Significant accounting policies**

The significant accounting policies applied in the preparation of the interim statements are described below. These accounting policies have been consistently applied.

#### **(a) Foreign currency**

##### *Foreign currency transactions*

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies are measured at amortised cost and are translated to the functional currency at the exchange rate at the date of acquisition. Foreign currency differences arising in translation are recognised in profit or loss.

#### **(b) Financial instruments**

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and call deposits.

Accounting for finance income and expense is discussed in Note 3(k).

#### **(c) Capital**

##### *Capital contributions*

Capital contributions are classified as equity.

##### *Distributions*

Distributions are recognised as a liability in the period in which they were declared.

#### **(d) Property, plant and equipment**

##### **(i) Recognition and measurement**

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

### **3 Significant accounting policies, continued**

#### **(d) Property, plant and equipment, continued**

##### **(i) Recognition and measurement, continued**

Gains and losses on disposal of an item of property, plant and equipment are recognised net in “other income” in profit or loss.

##### *Oil and gas exploration and evaluation expenditure*

Oil and gas exploration and evaluation expenditure is accounted for using the “successful efforts” method of accounting.

Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately in profit or loss. Expenditure incurred on the acquisition of a licence interest is capitalised as an intangible asset on a licence by licence basis. Other costs in respect of exploration and evaluation activities are held, undepleted, within exploration and evaluation assets until such time as the exploration phase on the licence area is complete or commercial reserves have been discovered. Borrowing costs that relate to qualifying assets are capitalised as part of the cost of such assets.

Exploration expenditure incurred in the process of determining exploration targets and exploration and appraisal drilling costs is capitalised on a field by field basis.

Following the determination of the commercial viability of a field, if commercial reserves are established and the technical feasibility for extraction is demonstrated, then the related capitalised costs are transferred to oil and gas producing assets in property, plant and equipment.

All costs incurred after the technical feasibility and commercial viability of producing hydrocarbons has been demonstrated, are capitalised within development / producing assets on a field by field basis. Subsequent expenditure is capitalised only where it enhances the economic benefits of the development / producing asset.

##### **(ii) Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

##### **(iii) Depreciation**

The Company depreciates its oil and gas producing assets on a unit-of-production basis that is calculated to write off the historic cost of each asset in line with the depletion of proven developed reserves. The net book values of producing assets are depreciated on a field by field basis by reference to the ratio of oil and gas production in the period to the estimated quantity of commercial reserves at the end of the period plus the production in the period.

The depreciation of oil and gas producing assets commences once the asset is put into use.

Depreciation of other property, plant and equipment is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.



### **3 Significant accounting policies, continued**

**(f) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(g) Impairment**

**(i) Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment was recognised. For financial assets recognised at amortised cost, the reversal is recognised in profit or loss.

**(ii) Non-financial assets**

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggests that the carrying amount of exploration and evaluation assets may exceed its recoverable amount, which is the case when: the period of exploration licence has expired and it is not expected to be renewed; substantial expenditures on further exploration are not planned; exploration has not led to the discovery of commercial viable reserves; indications exist that exploration and evaluation assets will not be recovered in full from successful development or by sale.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

### **3 Significant accounting policies, continued**

**(g) Impairment, continued**

**(ii) *Non-financial assets, continued***

Impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(h) Employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**(i) Provisions**

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

***Site restoration and decommissioning***

The Company has site restoration and decommissioning obligations in respect of its producing interests in Kazakhstan. A provision for site restoration and decommissioning in respect of contaminated land, and the related expense, is recognised upon identification of any contamination.

The extent to which a provision is required in respect of these obligations depends, inter alia, on the legal requirements at the time of decommissioning, the cost and timing of any necessary decommissioning works, and the discount rate to be applied to such costs. This will depend on the level of commercial reserves remaining at the time of expiry.

**(j) Revenue**

Revenue from sales of oil, natural gas and all other products is recognised when the significant risks and rewards of ownership have been transferred, which is when the title passes to the customer. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism or at the point of receipt, depending upon contractual conditions.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

Revenue is measured at the fair value of the consideration received or receivable, net of sales taxes, excise duties and similar levies but not royalty taxes.

### **3 Significant accounting policies, continued**

#### **(k) Finance income and expense**

Finance income comprises interest income on funds invested, unwinding of discount on interest free financing to owners and foreign currency gain. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expense primarily comprises interest expense on borrowings, unwinding of discount on provisions and foreign currency loss. All borrowing costs are recognised in profit or loss using the effective interest method, except for borrowing costs relating to qualifying assets which are capitalised.

#### **(l) Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

According to the Kazakhstan tax legislation specific to the mineral extraction industry the Company's operations are subject to excess profit tax. Excess profit tax is charged at rates of between 0% and 30% on profit for the period according to the internal rate of return as defined by Kazakhstan legislation.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### **(m) Guarantees**

Financial guarantees are contracts that require the Company to make specified payments to reimburse the holder of the guarantee for a loss if it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies under common control, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

### **3 Significant accounting policies, continued**

#### **(n) New Standards and interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 30 September 2009, and have not been applied in preparing these interim financial statements. None of these pronouncements are expected to have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective.

### **4 Financial risk management**

#### **(a) Overview**

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these interim financial statements. Management has overall responsibility for the establishment and oversight of the Company's risk management framework. Management monitors risks faced by the Company.

#### **(b) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

In the normal course of its business, the Company incurs credit risk on trade debts and on funds deposited with financial institutions. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. The Company does not require collateral in respect of trade and other receivables. The maximum exposure to credit risk is the amounts included in the statement of financial position for financial assets and the guarantee in Note 29(c), (d) and (e).

## **4 Financial risk management, continued**

### **(c) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

### **(d) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

#### **(i) Currency risk**

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Company, which is the USD. The currencies in which these transactions primarily are denominated are KZT and Euro.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Company.

#### **(ii) Interest rate risk**

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Company's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Company over the expected period until maturity.

### **(e) Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company is subject to specific capital requirements under the terms of the Indenture Agreement between Tristan Oil Ltd., Kazpolmunay LLP, Tolkynneftegaz LLP and Wells Fargo Bank, N.A. dated December 20, 2006 relating to restrictions on (i) the declaration and payment of dividends, and (ii) the purchase, redemption, acquisition or retirement for value of any equity interests to comply with ratios based on fixed charge coverage and excess cash flows.

The Company complied with the specific capital requirements during the three months ended September 30, 2009 and December 31, 2008.

## 5 Sales

	<b>Three months ended September 30, 2009 (Unaudited)</b>	<b>Nine months ended September 30, 2009 (Unaudited)</b>	<b>Three months ended September 30, 2008 (Unaudited)</b>	<b>Nine months ended September 30, 2008 (Unaudited)</b>
Sales of extracted products	18,785,494	80,073,037	79,801,685	292,795,822
Sales of purchased products	-	845,126	418,060	1,351,469
	<b><u>18,785,494</u></b>	<b><u>80,918,163</u></b>	<b><u>80,219,745</u></b>	<b><u>294,147,291</u></b>

Sales revenues classified by type of petroleum products sold are as follows:

	<b>Three months ended September 30, 2009 (Unaudited)</b>	<b>Nine months ended September 30, 2009 (Unaudited)</b>	<b>Three months ended September 30, 2008 (Unaudited)</b>	<b>Nine months ended September 30, 2008 (Unaudited)</b>
Sales of crude oil	10,746,222	41,442,390	51,745,694	205,239,263
Sales of natural gas	7,930,819	39,113,787	28,344,211	88,520,208
Sales of self-produced electricity	108,453	361,986	129,840	387,820
	<b><u>18,785,494</u></b>	<b><u>80,918,163</u></b>	<b><u>80,219,745</u></b>	<b><u>294,147,291</u></b>

Export sales to related parties amounted to USD 10,746,222 for the three months ended September 30, 2009 and USD 41,442,390 for the nine months ended September 30, 2009 (for the three- and nine months ended September 30, 2008 export sales to related parties amounted USD 51,745,694 and USD 205,239,263, respectively).

## 6 Cost of sales

	<b>Three months ended September 30, 2009 (Unaudited)</b>	<b>Nine months ended September 30, 2009 (Unaudited)</b>	<b>Three months ended September 30, 2008 (Unaudited)</b>	<b>Nine months ended September 30, 2008 (Unaudited)</b>
Depreciation	5,050,901	27,265,687	13,309,611	37,451,479
Salaries and related costs	1,480,039	3,581,634	1,880,357	4,798,447
Mineral extraction tax	947,678	3,934,733	-	-
Royalty tax	-	-	2,824,364	9,880,421
Materials	476,539	1,475,655	165,870	2,039,817
Transportation	398,347	1,286,173	518,990	914,814
Security	315,688	791,254	106,078	849,514
Other	2,583,705	6,986,176	2,815,484	7,689,849
<b>Cost of sales of extracted oil</b>	<b>11,252,897</b>	<b>45,321,312</b>	<b>21,620,754</b>	<b>63,624,341</b>
Cost of sales of gas purchased for resale	-	590,506	379,993	1,247,704
	<b>11,252,897</b>	<b>45,911,818</b>	<b>22,000,747</b>	<b>64,872,045</b>

Under the terms of the new Tax Code introduced in Kazakhstan and applied by the Company with effect from January 1, 2009, the royalty tax has been replaced by a mineral extraction tax.

The mineral extraction tax is calculated on the value of the produced mineral resources and is paid in cash on a quarterly basis. The mineral resources tax for hydrocarbons is calculated based on the world price. The Company's operations are subject to 5% rate of mineral extraction tax on production of oil and condensate and 1.5% on production of natural gas.

Royalty was calculated on the value of the produced mineral resources and was payable in cash on a monthly basis. Royalty for hydrocarbons was calculated monthly on the average selling price, exclusive of indirect taxes and reduced by the cost of transportation expenses to the place of sale at a rate of 3.35%.

## 7 Other income

	<b>Three months ended September 30, 2009 (Unaudited)</b>	<b>Nine months ended September 30, 2009 (Unaudited)</b>	<b>Three months ended September 30, 2008 (Unaudited)</b>	<b>Nine months ended September 30, 2008 (Unaudited)</b>
Sales of materials	551,472	1,968,131	1,017,599	2,963,571
Rental income	448,428	1,381,056	436,790	1,301,968
Gain on disposal of plant and equipment	-	-	559	846
	<b>999,900</b>	<b>3,349,187</b>	<b>1,454,948</b>	<b>4,266,385</b>

Other operating income comprises revenues other than from sale of hydrocarbons and mainly arises from transactions with related parties, as described in Note 30.

## 8 Distribution costs

	<b>Three months ended September 30, 2009 (Unaudited)</b>	<b>Nine months ended September 30, 2009 (Unaudited)</b>	<b>Three months ended September 30, 2008 (Unaudited)</b>	<b>Nine months ended September 30, 2008 (Unaudited)</b>
Excise duty on oil and gas condensate	2,310,271	6,659,569	-	-
Pipeline transportation of oil and gas	312,172	681,337	56,415	653,983
Commission services	2,221	27,608	5,756	15,504
Other	13,647	57,149	41,145	153,450
	<b><u>2,638,311</u></b>	<b><u>7,425,663</u></b>	<b><u>103,316</u></b>	<b><u>822,937</u></b>

An excise duty on oil and gas condensate has been introduced as a consequence of the new Tax Code effective from January 1, 2009. It is calculated on the value of exported hydrocarbons and is paid in cash on a quarterly basis. The excise duty is calculated based on the actual realised volume of exported hydrocarbons and the world price. The rate depends on the average world price for hydrocarbons during a quarter and varies from 7% for a minimum realised price of up to USD 50 per barrel to 32% for a maximum realised price of up to USD 200 and over per barrel. The Company's operations during the nine months ended September 30, 2009 were subject to rates between 7% and 14%.

## 9 Administrative expenses

	<b>Three months ended September 30, 2009 (Unaudited)</b>	<b>Nine months ended September 30, 2009 (Unaudited)</b>	<b>Three months ended September 30, 2008 (Unaudited)</b>	<b>Nine months ended September 30, 2008 (Unaudited)</b>
Taxes and duties	945,598	3,563,323	775,165	2,611,502
Salaries and related costs	797,965	3,222,562	1,589,654	3,953,859
Depreciation	118,876	357,247	106,073	321,533
Personnel training	82,237	203,635	269,060	848,702
Audit and consulting	61,408	319,503	133,740	462,194
Communication	55,322	202,949	147,074	359,214
Banking services	32,915	78,492	86,738	208,809
Charitable donations	22,303	32,668	10,755	23,377
Materials	14,784	70,021	45,193	106,020
Travel allowances	10,501	80,691	78,525	222,377
Transportation	-	14,584	14,734	36,380
Other	211,333	983,098	567,722	1,369,863
	<b><u>2,353,242</u></b>	<b><u>9,128,773</u></b>	<b><u>3,824,433</u></b>	<b><u>10,523,830</u></b>

Included in taxes and duties is late payment interest in the amount of USD 901,436 incurred by the Company for the late payment of corporate income and excess profit taxes.

## 10 Other operating expenses

	Three months ended September 30, 2009 (Unaudited)	Nine months ended September 30, 2009 (Unaudited)	Three months ended September 30, 2008 (Unaudited)	Nine months ended September 30, 2008 (Unaudited)
Reversal of property tax accrual	-	4,866,285	-	-
Loss on disposal of property, plant and equipment	514	(62,480)	-	-
Other	(7,778)	(37,298)	(35,121)	(66,307)
	<u>(7,264)</u>	<u>4,766,507</u>	<u>(35,121)</u>	<u>(66,307)</u>

Before 2009 the Company made accruals for property tax based on specific assumptions. As at March 31, 2009 based on results of a detailed tax inspection it was concluded that the assumptions made previously were no longer valid. As a result, the Company has reversed property tax accruals of USD 4,866,285.

## 11 Finance income and expenses

	Three months ended September 30, 2009 (Unaudited)	Nine months ended September 30, 2009 (Unaudited)	Three months ended September 30, 2008 (Unaudited)	Nine months ended September 30, 2008 (Unaudited)
Unwinding of discount on accounts receivable from related party	2,438,067	8,300,073	-	-
Interest income	275	4,969	18,543	74,355
<b>Finance income</b>	<u>2,438,342</u>	<u>8,305,042</u>	<u>18,543</u>	<u>74,355</u>
Foreign exchange loss	(573,545)	(268,544)	(3,020,375)	(2,659,912)
Unwinding of discount on historical cost obligation and provision	(62,354)	(185,611)	-	-
Interest expense	(11,181,965)	(34,805,733)	(12,007,661)	(38,969,231)
<b>Total borrowing costs</b>	<u>(11,817,864)</u>	<u>(35,259,888)</u>	<u>(15,028,036)</u>	<u>(41,629,143)</u>
Less: amounts included in the cost of qualifying assets	501,049	12,744,942	11,071,460	34,844,845
<b>Finance expenses</b>	<u>(11,316,815)</u>	<u>(22,514,946)</u>	<u>(3,956,576)</u>	<u>(6,784,298)</u>
<b>Finance expenses, net</b>	<u>(8,878,473)</u>	<u>(14,209,904)</u>	<u>(3,938,033)</u>	<u>(6,709,943)</u>

The rates used to determine the amount of borrowing costs eligible for capitalisation for the three- and nine months ended September 30, 2009 were 17.65% and 16% (for the three and nine months ended September 30, 2008: 17.65% and 16%).

## 12 Personnel costs

	Three months ended September 30, 2009 (Unaudited)	Nine months ended September 30, 2009 (Unaudited)	Three months ended September 30, 2008 (Unaudited)	Nine months ended September 30, 2008 (Unaudited)
Salaries and bonuses	1,964,405	6,359,270	3,164,162	7,562,991
Social security	203,596	582,149	425,662	1,281,595
	<b>2,168,001</b>	<b>6,941,419</b>	<b>3,589,824</b>	<b>8,844,586</b>

Personnel costs are included in cost of goods sold, administrative expenses and finished goods.

## 13 Income tax expense

	Three months ended September 30, 2009 (Unaudited)	Nine months ended September 30, 2009 (Unaudited)	Three months ended September 30, 2008 (Unaudited)	Nine months ended September 30, 2008 (Unaudited)
Corporate income tax	(1,253,760)	(6,024,879)	(15,531,245)	(60,987,150)
Excess profits tax	(2,679,797)	(2,679,797)	(8,591,299)	(17,076,402)
<b>Current tax</b>	<b>(3,933,557)</b>	<b>(8,704,676)</b>	<b>(24,122,544)</b>	<b>(78,063,552)</b>
Deferred income tax	2,633,914	6,560,277	(139,809)	(1,633,064)
Deferred excess profits tax	5,553,013	11,305,134	(538,667)	(5,955,177)
Adjustment to income tax provided in prior periods	-	-	-	888,293
<b>Deferred tax</b>	<b>8,186,927</b>	<b>17,865,411</b>	<b>(678,476)</b>	<b>(6,699,948)</b>
	<b>4,253,370</b>	<b>9,160,735</b>	<b>(24,801,020)</b>	<b>(84,763,500)</b>

### Reconciliation of effective tax rate:

	Three months Ended September 30, 2009 (Unaudited)	Nine months ended September 30, 2009 (Unaudited)	Three months ended September 30, 2008 (Unaudited)	Nine months ended September 30, 2008 (Unaudited)
(Loss)/profit before income tax	(5,344,793)	12,357,699	51,773,043	215,418,614
Statutory tax rate	20%	20%	30%	30%
Calculated income tax expense	1,068,959	(2,471,540)	(15,531,913)	(64,625,584)
Effect of excess profits tax	2,873,216	8,625,337	(9,129,966)	(23,031,579)
Adjustment to tax provided in prior periods	-	-	-	888,293
Change in unrecognised tax losses carried-forward	(659,349)	(659,349)	-	-
Tax effect of non-taxable/(non-deductible) items	970,544	3,666,287	(139,141)	2,005,370
	<b>4,253,370</b>	<b>9,160,735</b>	<b>(24,801,020)</b>	<b>(84,763,500)</b>

### 13 Income tax expense, continued

With effect from January 1, 2009, the income tax rate has been reduced to 20% for 2009, to 17.5% and to 15% for the years 2010 and 2011, respectively. These rates have been used in the calculation of deferred tax assets and liabilities.

According to the Kazakhstan tax legislation specific to the mineral extraction industry the Company's operations are subject to excess profits tax. Excess profits tax is charged at rates of between 0% and 60% on income after income tax according to the ratio of aggregate annual income to deductions in that particular year as defined by Kazakhstan legislation.

### 14 Intangible assets

	<b>Licence</b>
<i>Cost</i>	
Balance as at January 1, 2008 (Audited)	5,057,473
Additions (Unaudited)	49,649
<b>Balance as at September 30, 2008 (Unaudited)</b>	<b>5,107,122</b>
Additions (Unaudited)	2,337,569
<b>Balance as at December 31, 2008 (Audited)</b>	<b>7,444,691</b>
Additions (Unaudited)	508,035
<b>Balance as at September 30, 2009 (Unaudited)</b>	<b>7,952,726</b>

Amortisation of the licence relating to the Tabyl field under exploration has not yet commenced.

## 15 Exploration and evaluation assets

	<b>Tangible assets</b>
<i>Cost</i>	
Balance as at January 1, 2008 (Audited)	17,600,063
Additions (Unaudited)	14,658,175
<b>Balance as at September 30, 2008 (Unaudited)</b>	<b>32,258,238</b>
Additions (Unaudited)	10,591,612
Transfers to construction in progress	(18,116,391)
<b>Balance as at December 31, 2008 (Audited)</b>	<b>24,733,459</b>
Additions (Unaudited)	4,714,097
<b>Balance as at September 30, 2009 (Unaudited)</b>	<b>29,447,556</b>

The costs related to the Tabyl field, which is under exploration, are expected to be recouped upon the successful development and exploration of the field. Transfers to construction in progress are represented by costs of wells which were put into production and transferred to property, plant and equipment.

## 16 Property, plant and equipment

	Land and buildings	Vehicles	Oil and gas assets	Liquid Petroleum Gas plant (under construction)	Total
<i>Cost</i>					
Balance as at January 1, 2008 (Audited)	6,970	2,294,835	363,632,133	142,530,039	508,463,977
Additions (Unaudited)	-	23,632	58,497,560	65,958,537	124,479,729
Disposals (Unaudited)	-	-	(34,972)	-	(34,972)
<b>Balance as at September 30, 2008 (Unaudited)</b>	<b>6,970</b>	<b>2,318,467</b>	<b>422,094,721</b>	<b>208,488,576</b>	<b>632,908,734</b>
Additions (Unaudited)	-	307,337	17,506,504	14,677,109	32,490,950
Disposals (Unaudited)	-	-	(28,514)	-	(28,514)
<b>Balance as at December 31, 2008 (Audited)</b>	<b>6,970</b>	<b>2,625,804</b>	<b>439,572,711</b>	<b>223,165,685</b>	<b>665,371,170</b>
Additions (Unaudited)	-	-	15,859,505	24,350,983	40,210,488
Disposals (Unaudited)	-	-	(168,502)	-	(168,502)
<b>Balance as at September 30, 2009 (Unaudited)</b>	<b>6,970</b>	<b>2,625,804</b>	<b>455,263,714</b>	<b>247,516,668</b>	<b>705,413,156</b>

## 16 Property, plant and equipment, continued

	Land and buildings	Vehicles	Oil and gas assets	Liquid Petroleum Gas plant (under construction)	Total
<i>Accumulated depreciation</i>					
Balance as at January 1, 2008 (Audited)	(1,911)	(792,233)	(96,251,863)	-	(97,046,007)
Depreciation charge (Unaudited)	(209)	(321,323)	(37,451,480)	-	(37,773,012)
Disposals (Unaudited)	-	-	19,899	-	19,899
<b>Balance as at September 30, 2008 (Unaudited)</b>	<b>(2,120)</b>	<b>(1,113,556)</b>	<b>(133,683,444)</b>	<b>-</b>	<b>(134,799,120)</b>
Depreciation charge (Unaudited)	(70)	(106,797)	(14,928,929)	-	(15,035,796)
Disposals (Unaudited)	-	-	12,095	-	12,095
<b>Balance as at December 31, 2008 (Audited)</b>	<b>(2,190)</b>	<b>(1,220,353)</b>	<b>(148,600,278)</b>	<b>-</b>	<b>(149,822,821)</b>
Depreciation charge (Unaudited)	(209)	(357,038)	(27,265,687)	-	(27,622,934)
Disposals (Unaudited)	-	-	105,968	-	105,968
<b>Balance as at September 30, 2009 (Unaudited)</b>	<b>(2,399)</b>	<b>(1,577,391)</b>	<b>(175,759,997)</b>	<b>-</b>	<b>(177,339,787)</b>
<i>Net book value</i>					
<b>Balance as at December 31, 2008 (Audited)</b>	<b>4,780</b>	<b>1,405,451</b>	<b>290,972,433</b>	<b>223,165,685</b>	<b>515,548,349</b>
<b>Balance as at September 30, 2009 (Unaudited)</b>	<b>4,571</b>	<b>1,048,413</b>	<b>279,503,717</b>	<b>247,516,668</b>	<b>528,073,369</b>

## **16 Property, plant and equipment, continued**

Included in oil and gas assets are items with a cost of USD 64,522,187 (September 30, 2008: USD 86,016,250) that are under construction or have not yet been put into use. Depreciation expense of USD 27,265,687 has been charged to cost of goods sold, USD 357,247 to administrative expenses (nine months ended September 30, 2008: USD 37,451,479 has been charged to cost of goods sold, USD 321,533 to administrative expenses).

The Company has reviewed its estimated quantity of commercial reserves at January 1, 2009 which resulted in USD 6,010,155 of increase in depreciation charges for the period.

With a view to increasing the efficiency of its gas operations, the Company's management made the decision in 2006 to construct a Liquid Petroleum Gas (LPG) facility. Currently the completion of the construction is suspended and is expected to be commissioned in the first quarter of 2010.

## 17 Deferred tax assets and liabilities

### (a) Recognised deferred tax liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	September 30, 2009 (Unaudited)	December 31, 2008 (Audited)	September 30, 2009 (Unaudited)	December 31, 2008 (Audited)	September 30, 2009 (Unaudited)	December 31, 2008 (Audited)
Intangible and exploration assets	-	-	(16,185,699)	(11,432,370)	(16,185,699)	(11,432,370)
Property, plant and equipment	-	-	(123,875,817)	(138,920,640)	(123,875,817)	(138,920,640)
Trade receivables	1,659,663	-	-	-	1,659,663	-
Site restoration provisions	1,287,050	719,074	-	-	1,287,050	719,074
Historical cost obligations	1,186,223	1,843,631	-	-	1,186,223	1,843,631
Taxes payable	2,937,374	2,549,121	-	-	2,937,374	2,549,121
Tax loss carry-forwards	26,136,810	16,957,789	-	-	26,136,810	16,957,789
<b>Net tax assets/(liabilities)</b>	<b>33,207,120</b>	<b>22,069,615</b>	<b>(140,061,516)</b>	<b>(150,353,010)</b>	<b>(106,854,396)</b>	<b>(128,283,395)</b>

## 17 Deferred tax assets and liabilities, continued

### (a) Recognised deferred tax liabilities, continued

Deferred tax is provided for at rates of 20%, 17.5% and 15% (2007: 30%) on timing differences expected to reverse in 2009, 2010 and after 2010 respectively, with an additional 31.64% on timing differences which are expected to be subject to excess profits tax.

### (b) Movement in temporary differences

	As at June 30, 2009 (Unaudited)	Recognised in statement of comprehensive income (Unaudited)	Recognised in equity (Unaudited)	As at September 30, 2009 (Unaudited)
Intangible and exploration assets	(16,098,561)	(87,138)	-	(16,185,699)
Property, plant and equipment	(128,890,932)	5,015,115	-	(123,875,817)
Trade receivables	2,175,082	(515,419)	-	1,659,663
Site restoration provisions	1,277,597	9,453	-	1,287,050
Historical cost obligations	1,208,557	(22,334)	-	1,186,223
Taxes payable	1,977,181	960,193	-	2,937,374
Tax loss carry-forwards	23,309,753	2,827,057	-	26,136,810
<b>Net tax assets/(liabilities)</b>	<b>(115,041,323)</b>	<b>8,186,927</b>	<b>-</b>	<b>(106,854,396)</b>

	As at January 1, 2009 (Audited)	Recognised in statement of comprehensive income (Unaudited)	Recognised in equity (Unaudited)	As at September 30, 2009 (Unaudited)
Intangible and exploration assets	(11,432,370)	(4,753,329)	-	(16,185,699)
Property, plant and equipment	(138,920,640)	15,044,823	-	(123,875,817)
Trade receivables	-	(1,903,925)	3,563,588	1,659,663
Site restoration provisions	719,074	567,976	-	1,287,050
Historical cost obligations	1,843,631	(657,408)	-	1,186,223
Taxes payable	2,549,121	388,253	-	2,937,374
Tax loss carry-forwards	16,957,789	9,179,021	-	26,136,810
<b>Net tax assets/(liabilities)</b>	<b>(128,283,395)</b>	<b>17,865,411</b>	<b>3,563,588</b>	<b>(106,854,396)</b>

## 17 Deferred tax assets and liabilities, continued

### (b) Movement in temporary differences, continued

	<b>As at June 30, 2008 (Audited)</b>	<b>Recognised in statement of comprehensive income (Unaudited)</b>	<b>As at September 30, 2008 (Unaudited)</b>
Intangible assets	1,504,958	(46,938)	1,458,020
Property, plant and equipment	(150,037,726)	(1,375,971)	(151,413,697)
Tax loss carry-forwards	15,685,972	689,494	16,375,466
Taxes payable	1,930,571	54,939	1,985,510
	<b>(130,916,225)</b>	<b>(678,476)</b>	<b>(131,594,701)</b>

	<b>As at January 1, 2008 (Audited)</b>	<b>Recognised in statement of comprehensive income (Unaudited)</b>	<b>As at September 30, 2008 (Unaudited)</b>
Intangible assets	1,877,711	(419,691)	1,458,020
Property, plant and equipment	(136,807,553)	(14,606,144)	(151,413,697)
Tax loss carry-forwards	8,534,919	7,840,547	16,375,466
Taxes payable	1,500,170	485,340	1,985,510
	<b>(124,894,753)</b>	<b>(6,699,948)</b>	<b>(131,594,701)</b>

The tax losses relate to the sub-soil contracts for Tabyl and construction of the LPG plant. All losses incurred after January 1, 2009 may be carried forward for 10 years. Management expects the LPG plant to enter into operations in the first quarter of 2010 and to reach a full capacity starting from 2011. Management is expecting to generate sufficient taxable income from the Tabyl field and from the LPG plant to utilise the tax losses.

### (c) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	<b>2008 USD</b>	<b>2007 USD</b>
Tax loss carry-forwards	2,022,444	-

The tax losses expire in 2011.

## 18 Inventories

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
Raw materials and spare parts	8,956,847	10,130,595
Finished goods	1,027,316	191,357
	<b>9,984,163</b>	<b>10,321,952</b>

## 19 Trade and other receivables/Non-current VAT receivable

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
Trade receivables	61,825,201	83,381,079
Advances paid for goods and services	5,368,825	16,411,713
Taxes receivable	2,081,167	4,141,459
Others	2,248,853	1,434,869
	<b>71,524,046</b>	<b>105,369,120</b>

Trade receivables include USD 55,954,566 as at September 30, 2009 (December 31, 2008: USD 71,681,438) for an export receivable from a related party in respect of sales of petroleum products.

According to the contractual terms trade receivables from a related party as at September 30, 2009 amounting USD 55,954,566 were due for settlement within 325 days after the shipment of goods, which is in general longer than normal settlement terms in the industry. The fair value of trade receivables from the related party was estimated as the present value of future cash flows, discounted at a rate of 17% which is determined by reference to a market interest rate for similar instruments.

The difference upon initial recognition of trade receivables is recognised in profit or loss as a decrease in revenue. The difference on subsequent change in the terms of payment of trade receivables, net of deferred tax asset, is recognised directly in equity as distribution to owners. The unwinding of the discount is recognised in profit or loss as financial income.

Taxes receivable comprise current VAT due from the state related to purchases of services, materials and spare parts amounting to USD 2,025,825 (December 31, 2008: USD 4,128,830) and other taxes prepaid amounting to USD 55,342 (December 31, 2008: USD 12,629).

VAT due from the state of USD 21,232,545 (December 31, 2008: USD 24,542,487) relates to purchases of services, materials and spare parts for the LPG facility. The amount is presented as a non-current asset since recoverability is expected after twelve months from the end of the reporting period.

The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 27.

## 20 Cash and cash equivalents

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
Cash at bank	62,746	6,594,599
Bank deposits	88,859	99,260
Cash on hand	3,383	10,029
	<b>154,988</b>	<b>6,703,888</b>

Cash equivalents include a short-term placement in a local bank amounting to USD 88,859 (December 31, 2008: USD 99,260) bearing an average interest rate from 3.5% up to 5% per annum.

The Company's exposure to credit, interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 27.

## 21 Capital

The sole partner of Tolkynneftegaz LLP is Terra Raf Trans Trading Ltd., registered in Gibraltar.

In accordance with Kazakhstan legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRS. As at June September 30, 2009 the Company had retained earnings, including the profit for the period, of USD 273,811,297 (December 31, 2008: USD 255,221,511).

## 22 Loans and borrowings

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
Less than one year	11,586,651	18,878,861
From one to four years	239,621,742	275,000,000
<b>Total</b>	<b>251,208,393</b>	<b>293,878,861</b>

<b>Lender</b>	<b>Original currency</b>	<b>Collateral</b>	<b>Interest rate</b>	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Tristan Oil Ltd	USD	Unsecured	17.65%	181,000,000	181,000,000
Tristan Oil Ltd	USD	Unsecured	16%	58,621,742	94,000,000
Kazpolmunay LLP	KZT	Unsecured	-	11,586,651	18,878,861
<b>Loans and borrowings</b>				<b>251,208,393</b>	<b>293,878,861</b>

During the three months ended September 30, 2009 the Company partially repaid the loan principals owed to Tristan Oil Ltd. and Kazpolmunay LLP of USD 35,378,258 and USD 3,522,543 respectively. The repayment to Kazpolmunay LLP was effected in cash, while repayment to Tristan Oil Ltd. amounting to USD 22,078,258 was effected by means of a concession agreement transferring rights on receivables from a related party and the rest of the amount was paid by cash.

## 23 Historical cost obligation

	<b>Historical cost obligation</b>
<b>Balance as at December 31, 2008 (Audited)</b>	<b>2,631,112</b>
Unwinding of discount (Note 11)	127,773
Payment made during the period	(180,700)
<b>Balance as at September 30, 2009 (Unaudited)</b>	<b>2,578,185</b>
<i>Non-current</i>	2,126,435
<i>Current</i> (Note 25)	451,750
	<b>2,578,185</b>

According to the subsoil use contract, the Company has an obligation to repay certain historical costs incurred by the Government. At September 30, 2009 the Company's obligation in relation to historical costs is USD 3,433,300 (December 31, 2008: USD 3,614,000). The future cash outflows for historical costs have been discounted at a nominal rate of 6.59%. The unwinding of discount is recognised in profit or loss.

## 24 Provision

	<b>Site restoration and decommissioning</b>
<b>Balance as at December 31, 2008 (Audited)</b>	<b>1,562,863</b>
Provision made during the period	1,176,626
Unwinding of discount (Note 11)	57,838
<b>Balance as at September 30, 2009 (Unaudited)</b>	<b>2,797,327</b>

A provision of USD 2,797,327 was made in respect of the Company's obligation to remediate environmental damage in the Tolkyn field. Provision made during the period is represented by the provision created in respect of new wells put into operation during the second quarter of 2009 and the increase of the provision as a result of change in the discount rate. Until January 1, 2009 the future expected cash outflows for site restoration and decommissioning were discounted at a nominal rate of 13.24% determined by reference to the weighted average cost of borrowings. During 2009, management reviewed the estimate and modified the discount rate to a real risk-free rate of 3%. The change in the discount rate is a change in estimate and has been accounted for prospectively. The provision made for the period has been capitalised as part of oil and gas assets in property, plant and equipment.

## 25 Trade and other payables

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
Trade payables	19,781,483	8,137,509
Interest payable	27,844,587	-
Advances received	6,043,838	195,355
Payable to employees	731,386	985,465
Historical cost obligation	451,750	361,400
Other payables	89,598	100,083
	<b>54,942,642</b>	<b>9,779,812</b>

Interest payable in the amount of USD 18,899,014 relates to interest accrual for the period from January 1, 2009 to June 20, 2009 and should have been repaid on June 20, 2009. The repayment of the interest was extended until demanded without any penalties. The remaining amount is represented by interest accrued for three months ended September 30, 2009, which is due on December 20, 2009.

## 26 Taxes payable

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
Withholding tax	6,810,746	3,675,418
Excise duty on oil and gas condensate	3,267,140	-
Mineral extraction tax	1,964,782	-
Property taxes	-	4,866,285
Royalty taxes	-	289,603
Other taxes	55,343	230,587
	<b>12,098,011</b>	<b>9,061,893</b>

## 27 Financial instruments

### (a) Credit risk

#### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure with the exception of the guarantee described in Note 29(c), (d) and (e). The exposure to credit risk at the reporting date was:

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
Trade receivables	61,825,201	83,381,079
Other receivables	2,248,853	1,434,869
Cash and cash equivalents	154,988	6,703,888
	<b>64,229,042</b>	<b>91,519,836</b>

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
European countries	55,954,566	71,681,438
CIS countries - Kazakhstan	5,870,635	11,699,641
	<b>61,825,201</b>	<b>83,381,079</b>

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	<b>September 30, 2009 (Unaudited)</b>	<b>December 31, 2008 (Audited)</b>
Wholesale customer	55,954,566	71,681,438
End-user customers	5,870,635	11,699,641
	<b>61,825,201</b>	<b>83,381,079</b>

The Company's most significant customer, a European wholesaler and related party, accounts for USD 55,954,566 of the trade receivables carrying amount as at September 30, 2009 (December 31, 2008: USD 71,681,438).

## 27 Financial instruments, continued

### (a) Credit risk, continued

#### Impairment losses

The aging of trade receivables at the reporting date was:

	<b>Gross September 30, 2009 (Unaudited)</b>	<b>Impairment September 30, 2009 (Unaudited)</b>	<b>Gross December 31, 2008 (Audited)</b>	<b>Impairment December 31, 2008 (Audited)</b>
Not past due	57,476,011	-	78,518,725	-
Past due 0-30 days	282,242	-	3,614,805	-
Past due 31-120 days	1,063,918	-	769,227	-
Past due more than 120 days	3,003,030	-	478,322	-
	<b>61,825,201</b>	<b>-</b>	<b>83,381,079</b>	<b>-</b>

If no change from 170 days to 280 days and subsequently from 280 days to 325 days in the settlement terms had been agreed, the receivable from related parties would have been overdue as follows:

	<b>Gross September 30, 2009 (Unaudited)</b>
Not past due	28,820,136
Past due 0-30 days	6,688,733
Past due 31-120 days	14,596,485
Past due more than 120 days	5,849,212
	<b>55,954,566</b>

Management believes that no impairment allowance is necessary in respect of trade receivables from related party.

## 27 Financial instruments, continued

### (b) Currency risk

	<b>KZT denominated September 30, 2009</b>	<b>KZT denominated December 31, 2008</b>
Trade and other receivables	8,119,488	13,134,510
Cash and cash equivalents	154,988	6,427,709
Loans and borrowings	(11,586,651)	(18,878,861)
Trade and other payables	(19,871,081)	(8,237,592)
	<b>(23,183,256)</b>	<b>(7,554,234)</b>

The following significant exchange rates applied during the three months ended September 30, 2009 and year ended December 31, 2008:

#### 1 USD equals

	<b>Average rate</b>		<b>Reporting date spot rate</b>	
	<b>Nine months ended</b>	<b>Year ended</b>	<b>September 30, 2009</b>	<b>December 31, 2008</b>
	<b>September 30, 2009</b>	<b>December 31, 2008</b>	<b>September 30, 2009</b>	<b>December 31, 2008</b>
KZT	146.69	120.30	150.95	120.77

### Sensitivity analysis

A 10% weakening of the KZT against the USD would have increased equity and profit for the year by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for December 31, 2008.

	<b>Equity</b>	<b>Profit for the year</b>
<b>September 30, 2009</b>		
USD	1,686,055	1,686,055
<b>December 31, 2008 <sup>(1)</sup></b>		
USD	480,724	480,724

A 10% strengthening of the KZT against the USD, based on positions as at September 30, 2009 and December 31, 2008, would have had the equal but opposite effect on the above currencies to the amounts shown above.

<sup>(1)</sup> Comparative information has been previously calculated for at 25% change in exchange rate.

## **27 Financial instruments, continued**

### **(c) Liquidity risk**

The main area of liquidity risk arises from the settlement terms with the Company's main customer which is a related party. The settlement terms are 325 days and significantly exceed normal credit terms in the industry. The Company's operations and liquidity are dependent on timely settlement of trade receivables from a related party; if settlements are received late there is a risk that the Company will not be able to meet its financial obligations as they fall due.

The interest on loans from a related party of USD 2,916,878 was due on June 20, 2009. However due to financial difficulties experienced by the Company the repayment of the interest was extended until demanded without any penalties (Note 25).

Management has started negotiations with a potential new buyer of the Company's products to make additional sales on a prepayment basis to allow the Company to have a sufficient cash to pay off its liability for interest on loans and borrowings falling due in December 2009.

At the reporting date there were certain claims from creditors on timely settlement of the Company's outstanding debts (Note 29(i)).

## 27 Financial instruments, continued

### (c) Liquidity risk, continued

Management of the Company believes that the liquidity problems are temporary and caused by financial difficulties being experienced by the ultimate buyers of crude oil as well as by the existence of outstanding litigation with the Government of the Republic of the Kazakhstan (Note 29). In addition, management has been informed by the Company's ultimate controlling parties that they are conducting negotiations with third parties with a view to the sale of this company.

The following are the contractual maturities of financial liabilities and assets, historical cost obligation including estimated interest payments:

September 30, 2009 In USD	Carrying amount	Contractual cash flows	6 months or less	6-12 mths	1-2 years	2-5 years	More than 5 years
<b>Non-derivative financial assets/(liabilities)</b>							
Trade and other receivables	64,074,054	67,097,671	44,235,052	22,862,619	-	-	-
Long-term borrowings	(202,032,608)	(276,839,500)	(39,933,125)	(15,973,250)	(31,946,500)	(188,986,625)	-
Long-term borrowings	(65,433,721)	(89,590,439)	(14,554,609)	(4,689,739)	(9,379,479)	(60,966,612)	-
Short-term borrowings	(11,586,651)	(11,586,651)	(11,586,651)	-	-	-	-
Trade and other payables	(19,871,081)	(19,871,081)	(19,871,081)	-	-	-	-
	<b>(234,850,007)</b>	<b>(330,790,000)</b>	<b>(41,710,414)</b>	<b>2,199,630</b>	<b>(41,325,979)</b>	<b>(249,953,237)</b>	-
<b>December 31, 2008</b>							
<b>Non-derivative financial assets/(liabilities)</b>							
Trade and other receivables	84,815,948	84,815,948	84,815,948	-	-	-	-
Long-term borrowings	(181,000,000)	(276,839,500)	(15,973,250)	(15,973,250)	(31,946,500)	(212,946,500)	-
Long-term borrowings	(94,000,000)	(139,120,000)	(7,520,000)	(7,520,000)	(15,040,000)	(109,040,000)	-
Short-term borrowings	(18,878,861)	(18,878,861)	(18,878,861)	-	-	-	-
Trade and other payables	(8,237,592)	(8,237,592)	(8,237,592)	-	-	-	-
	<b>(217,300,505)</b>	<b>(358,260,005)</b>	<b>34,206,245</b>	<b>(23,493,250)</b>	<b>(46,986,500)</b>	<b>(321,986,500)</b>	-

## **27 Financial instruments, continued**

### **(d) Interest rate risk**

#### **Fair values sensitivity analysis for fixed rate instruments**

The Company accounts for its fixed rate financial instruments at amortised cost. Therefore a change in interest rates at the reporting date would not affect profit or equity.

#### ***Interest rate repricing risk***

At September 30, 2009 and December, 31 2008, there were no financial liabilities that reprice within 12 months. Therefore, a change in interest rates at the reporting date would not affect profit or equity in the next 12 months.

### **(e) Fair value**

Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts.

In assessing fair values, management used the following major methods and assumptions:

*Trade and other receivables and payables.* The fair value of trade and other receivables and payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. For trade and other receivables and payables with a short maturity fair value is not materially different from the carrying value because the effect of time value of money is not material.

*Non-derivative financial liabilities.* Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Fair value of financial assets and liabilities, which are not quoted on an active market, is measured using inputs available on a market or derived from market information for such financial assets and liabilities (level 2).

## **28 Commitments**

### **(a) Commitments for training of Kazakhstan employees**

Under the conditions of the Operating Agreement the Company is liable to train Kazakh employees. The size of the annual training expense is calculated based on the results of the Company's operations and is not expected to be significant.

### **(b) Minimum investment commitments**

The minimum commitments for the Tabyl field were revised under the licence agreement in February 2007 to USD 14,056,100 which had been completely fulfilled as at March 31, 2008.

## **28 Commitments, continued**

### **(c) Capital commitments**

At September 30, 2009 the Company had a contractual commitment for the purchase of plant and equipment in respect of construction of LPG plant for USD 16,158,827 (December 31, 2008: USD 1,194,905).

## **29 Contingencies**

### **(a) Insurance**

The insurance industry in Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company property or relating to Company operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

### **(b) Taxation contingencies**

The taxation system in Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Kazakhstan that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these interim financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

In 2008 Kazakhstan enacted a new tax law which came into force on January 1, 2009. This incorporated a new transfer price law. The new law primarily applies to cross-border transactions involving sales of goods and services. In addition, the transfer price law applies to in-country sales and purchases of goods and services, if these transactions are determined to be effected not at arm's length.

Also, the new law eliminated the 10-percent price safe harbour that existed under the previous transfer price law (except for sales of agricultural produce). Accordingly, the tax authorities are now entitled to review prices charged in any transaction, where the contractual price deviates from the arm's length price by any percentage. Management of the Company believes that they will be able to justify the discount provided to its customers as well as to obtain primary document from customers to support the discount

## **29 Contingencies, continued**

### **(c) Guarantee of Senior Secured Notes issued by related party**

The Company acts as a guarantor, jointly with Kazpolmunay LLP, of the Senior Secured Notes due 2012 (“the Notes”) issued by Tristan Oil Ltd., a related party. The guarantee is secured by a first-priority pledge of the Capital Stock of the Company. At September 30, 2009 Tristan Oil Ltd.’s outstanding obligations under the Notes amounted to USD 531,110,000 (December 31, 2008: USD 420,000,000). The Company has borrowed USD 239,621,742 (December 31, 2008: USD 275,000,000) from Tristan Oil Ltd. leaving a net amount guaranteed of USD 256,110,000 (December 31, 2008: USD 145,000,000) as a contingent liability.

### **(d) Guarantee of indebtedness of Montvale Invest Ltd.**

The Company has guaranteed indebtedness of a related party, Montvale Invest Ltd., to a third party. The guarantee was issued in relation to the crude oil marketing service agreement with a final buyer of the Company’s crude oil under which Montvale Invest Ltd. has a right to request from the buyer prepayments of up to USD 20 million. At September 30, 2009, the amount due by Montvale Invest Ltd. to the third party was USD 56.3 million. Management considers that the Company is unlikely to be required to settle this liability of Montvale Invest Ltd.

### **(e) Guarantee of indebtedness of Laren Holdings Ltd.**

The Company has agreed to guarantee credit facility obligations of Laren Holdings Ltd., an entity formed by certain of Laren Holdings Ltd’s creditors, in the amount of USD 60 million on a subordinated basis jointly with Kazpolmunay LLP; other related parties act as primary guarantors. Laren Holdings Ltd. had drawn down USD 60 million from the credit facility of which USD 10 million has been repaid by related parties subsequent to September 30, 2009. The remaining facility is due on December 18, 2009. Based on representations received from the ultimate controlling company, the related parties will not be able to repay the outstanding amount on the due date and has started negotiations with creditors of Laren Holdings Ltd. to extend the due date that would broadly match the expected cash flows for the next twelve months. The ultimate controlling company is reasonably confident that it will be successful in the negotiations and believes that it is unlikely that the Company will be required to settle these liabilities.

### **(f) Investigation by finance police**

The Company and Kazpolmunay LLP have received a letter from the Department for Fighting Economic Offences and Corruption of the Mangistau Region of Kazakhstan (the “Department”) informing it that they are the subject of a criminal investigation. The letter stated that the criminal investigation relates to two gas pipelines, one condensate pipeline to transport its gas and condensate from the Company’s gas processing facility to the delivery point at the Central Asia Center pipeline for gas, the Opornaya condensate storage facilities for condensate and to transport oil from the Borankol field to the delivery point at the KazTransOil pipeline. The Department alleges that the pipelines relate to “main pipelines type”, operation which requires a state licence, and that the Company and Kazpolmunay LLP operated the main pipeline without obtaining a state license and that all income earned by these companies for the period from 2002 to 2008 in connection with production that was transported via this pipeline was done so illegally.

Previously the Company had a technical conclusion issued by the Subsidiary State Entity “Research Studies Institute on Technical Safety in Oil and Gas Industry” that these pipelines relate to “in-field pipelines type”. However on May 6, 2009 the technical conclusion was recalled and declared invalid.

## **29 Contingencies, continued**

### **(f) Investigation by finance police, continued**

On May 15, 2009, the Department notified the Company and Kazpolmunay LLP that it was seizing the assets of these companies and their partners' equity interests in these companies. The effect of such seizure is that the Company and Kazpolmunay LLP, as well as their partners, may not, during the investigation sell and/or transfer the assets of these companies and the partner's equity interests in these companies to third parties, but may only use the assets in their normal business operations.

On April 24, 2009, in connection with the ongoing criminal investigation, the General Director of Kazpolmunay LLP was arrested by the finance police officers of Aktau. On April 27, 2009, the Town Court of Aktau ruled to keep him under arrest until May 20, 2009.

On September 18, 2009, Aktau Town Court ruled that the General Director of Kazpolmunay LLP was guilty of allowing Kazpolmunay LLP to operate the main pipeline without obtaining a state license and sentenced him to four years imprisonment and ordered Kazpolmunay LLP to pay to the Republic of Kazakhstan approximately USD 145 million in fines. On November 12, 2009, the Mangistau Regional Court upheld the ruling of Aktau Town Court. Kazpolmunay LLP and its General Director will appeal the ruling. Management believes that the Department's view on this matter is inconsistent with its, and other Kazakh governmental entities', characterisation and treatment of this pipeline. Despite the ongoing difficulties facing by the Company in Kazakhstan, and the fact that neither management has any assurance that their legal challenges will ultimately prevail, the Company and Kazpolmunay LLP continue their efforts to resolve the ongoing claims and litigation matters with the Kazakh authorities.

The ultimate outcome of the matter cannot presently be determined.

### **(g) Tax inspection**

During the second quarter, the Company received the results of a tax inspection conducted by the tax authorities during 2008 in respect of each of the tax years 2005, 2006 and 2007, where the tax authorities challenged the Company's position with regard to compliance with the subsoil use contract and applicable laws. According to the conclusions of the tax inspection, the Company is liable for additional taxes of USD 26,499,387 and penalties of USD 12,555,326. The Company has appealed the results of the tax inspections to the Tax Committee of the Ministry of Finance and received an adverse response.

Management disputes the findings of the tax inspection and has appealed the decision to the Tax Committee of the Ministry of Finance which has rejected the appeal. The Company filed a petition to the Supreme Court which rejected the petition of the Company. Management lodged a petition at the Specialised Regional Economic Court of Astana ("SREC") on July 1, 2009.

On September 9, 2009 SREC refused the petition. On September 17, 2009 KPM appealed the decision to the Board on Civil Matters of the Astana Court. On October 28, 2009 the Board on Civil Matters of the Astana Court cancelled the decisions of SREC and returned the case for further investigation.

The ultimate outcome of the matter cannot presently be determined and, accordingly, no provision for any effects on the Company that may result has been made in the interim financial statements.

## **29 Contingencies, continued**

### **(h) Pre-emptive Right Waiver**

On December 18, 2008, the MEMR submitted a formal letter to the Company informing that the Ministry of Energy and Mineral Resources (the “Ministry”) had cancelled its previously issued waiver of the Ministry’s pre-emptive rights in connection with the transfer of ownership of the Company in 2003. At such time, the current owner of the Company acquired it from an affiliated entity. At the request of the Ministry, in 2007 the Company applied for, and was granted, a waiver of the Ministry’s pre-emptive rights in connection with the ownership transfer in 2003.

The Ministry cancelled its decision to waive its pre-emptive rights because it claimed it did not receive all the pertinent information regarding the date of the transfer at the time the waiver was granted.

The formal letter provided that the Company had to submit all necessary documentation to the Ministry by January 23, 2009 and that any failure by the Company to obtain a favorable resolution with respect to this matter, would result in the Ministry cancelling the Company’s subsoil use contract with respect to the Tolkyn field and Tabyl block. The Company submitted the required documentation to the Ministry.

On February 27, 2009, the Ministry submitted a formal notification to the Company informing that the transfer of ownership of the Company in 2003 violated the Government of Kazakhstan’s pre-emptive rights. The Ministry requested that another application regarding the transfer of ownership be submitted within one month from the date of the notification in order to afford the State of Kazakhstan the opportunity to exercise or waive its pre-emptive rights in connection with the Company’s change of ownership in 2003. The formal notification provided that any failure by the Company to resubmit the application would result in the Ministry revoking the Company’s subsoil use contract with respect to the Tolkyn field and Tabyl block.

On March 25, 2009, the Company submitted the requested application to the Ministry. The Ministry acknowledged the receipt of the application and did not request any further information from the Company.

On September 23, 2009 the Ministry submitted a formal letter to the Company informing it that depending on final results of the ongoing criminal investigation and tax inspection described in Notes 29(f) and (g), the Ministry will consider revoking the Company’s subsoil use contract with respect to the Tolkyn field and Tabyl block, and also informed the Company that the Ministry has started procedures for inclusion of the Company in the List of Strategic Objects which could further limit the partner’s ability to control the Company. Management believes that the Company is in compliance with relevant legislation.

### **(i) Timely settlement of liabilities**

As at September 30, 2009 there were certain litigations and claims from creditors on timely settlement of the Company’s outstanding debts in the total amount of USD 1,225,858.

### **(j) Work program compliance**

In Kazakhstan all subsoil reserves belong to the State, with the Ministry of Energy and Mineral Resources granting exploration and production rights to third parties. Subsoil rights are not granted in perpetuity and any renewal must be agreed before the expiration of the relevant contract or licence. These rights may be terminated by the Ministry if the Company does not satisfy its contractual obligations.

## 29 Contingencies, continued

### (j) Work program compliance, continued

Due to financial difficulties being experienced by the Company and overall decrease in oil prices and local demand on gas, the Company is not expecting to meet the program for 2009 and therefore is in process of revising the 2009 work program by transferring certain expense to later years. Management is currently negotiating with the government authorities the necessary changes in the 2009 working program and is confident that a corresponding approval will be received from the government authorities and that this non-compliance will not have a significant effect on the Company's operations and financial results.

## 30 Related party transactions

Related parties are entities with common direct or indirect shareholders, directors or management. A significant proportion of the Company's business is conducted through transactions with related parties and the effect of these, on the basis determined between the related parties is reflected below.

The Company's parent company is Terra Raf Trans Trading Ltd, registered in Gibraltar.

No publicly available financial statements are produced by the Company's parent company or ultimate controlling party (Note 1(a)).

### *Management remuneration*

Key management received the following remuneration during the period, which is included in administrative expenses.

	Three months ended September 30, 2009 (Unaudited)	Nine months ended September 30, 2009 (Unaudited)	Three months ended September 30, 2008 (Unaudited)	Nine months Ended September 30, 2008 (Unaudited)
Salaries and bonuses	267,508	593,825	355,639	654,837

### 30 Related party transactions, continued

#### (a) Transactions with other related parties

	Sales of goods and services				Purchases of goods and services, interest payable				Amounts owed by related parties		Amounts owed to related parties	
	Three months ended	Nine months ended	Three months ended	Nine months ended	Three months ended	Nine months ended	Three months ended	Nine months ended	As at		As at	
	September 30, 2009	September 30, 2009	September 30, 2008	September 30, 2008	September 30, 2009	September 30, 2009	September 30, 2008	September 30, 2008	September 30, 2009	December 31, 2008	September 30, 2009	December 31, 2008
<b>Fellow subsidiaries</b>												
Arpega Trading S.R.L.	-	-	-	-	443	3,678	3,506	391,907	-	-	9,983	8,042
Ascom S.A. General	-	-	-	-	-	130,470	159,975	3,600,384	-	-	-	129,440
Affinity Ltd	10,746,222	41,442,390	51,745,694	205,239,263	-	-	-	-	55,954,566	71,681,438	-	-
Kasko LLP	225,456	656,276	431,869	1,597,315	4,235,143	32,334,109	14,039,199	56,168,827	7,124,426	14,710,461	16,022,425	3,902,359
KASKo-Petrostar	-	-	-	235	73,028	400,838	247,117	465,751	-	24,441	-	55,635
Kazpolmunay LLP	610,251	2,791,151	1,054,091	3,547,542	320,711	1,484,810	647,003	2,298,380	2,626,480	967,568	11,896,523	20,065,518
Tristan Oil Ltd	-	-	-	-	11,181,966	34,805,734	12,007,661	35,761,947	-	-	267,466,329	275,000,000
<b>Total</b>	<b>11,581,929</b>	<b>44,889,817</b>	<b>53,231,654</b>	<b>210,384,355</b>	<b>15,811,291</b>	<b>69,159,639</b>	<b>27,104,461</b>	<b>98,687,196</b>	<b>65,705,472</b>	<b>87,383,908</b>	<b>295,395,260</b>	<b>299,160,994</b>

A description of the significant related party transactions is as follows:

- The Company sells oil and condensate to General Affinity Ltd. The prices for these transactions are based on market rates, except for credit terms on repayment of trade receivables which are in general longer than normal credit terms in the industry.
- The Company purchases seismic services from Ascom S.A.
- The Company receives loans from Ascom S.A. and Tristan Oil Ltd.
- During the current and prior year, the Company purchased equipment from Arpega Trading SRL.
- KASKo LLP supplies drilling, maintenance and construction services to the Company and purchases materials from the Company.
- The Company is provided with processing facilities by, and sells gas to Kazpolmunay LLP.
- KASKo Petrostar provides construction project development services. As discussed in Notes 29(c), (d) and (e) the Company has issued guarantees to Tristan Oil Ltd., Montvale Invest Ltd. and to Laren Holdings Ltd. on the terms disclosed in those notes.

### **31 Subsequent events**

Subsequent to the reporting date, the Company partially repaid the loan principal owed to Tristan Oil Ltd in the amount of USD 14,584,519. The repayment to Tristan Oil Ltd. was effected by means of a cession of rights to receivables from a related party of Tristan Oil Ltd.

The Company partially repaid the loan to the Kazpolmunay LLP in cash in the amount of USD 1,495,628.

Subsequent to the reporting date with respect to the changes to the currently effective Tax Code, the Government of the Republic of Kazakhstan has postponed the reduction in the income tax rate for 2010. In accordance with the changes the income tax rate will remain at 20% for 2010-2013 and will be decreased to 17.5% for 2014-2015 and to 15% for later years. The Company has not completed its analysis of the possible impact on the Company's position and its financial performance.