



Altius Holdings Inc

Consolidated Financial Statements

*For the year ended December 31, 2010
with Independent Auditor's Report*

Ernst & Young

 **ERNST & YOUNG**

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INDEPENDENT AUDITORS' REPORT

To the Shareholder and Management of Altius Holding Inc.:

We have audited the accompanying financial statements of Altius Holding Inc. (the "Company") and its subsidiaries (jointly the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Basis for Qualified Opinion

The accompanying financial statements are prepared on a basis that consolidates only Altius Petroleum International B.V., 100% owned subsidiary, but excludes Balkhash Petroleum B.V., Leopard Oil B.V., Steppe Eagle Oil B.V. and Ibex Petroleum B.V., 100% owned subsidiaries, which is not in compliance with International Accounting Standard 27 - "Consolidated and Separate Financial Statements". The subsidiaries omitted from consolidation were disposed of in 2010. Accordingly, equity is overstated by 3,580,814 thousand Tenge and 4,158,102 thousand Tenge as at 1 January 2009 and 31 December 2009, respectively, and total assets as at 31 December 2009 are understated by 2,836,452 thousand Tenge.

Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Altius Holding Inc. as at 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP



Paul Cohn
Audit Partner



Evgeny Zhemaletdinov
Ernst & Young

Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP

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



Auditor Qualification Certificate
No. 0000553 dated 24 December 2003

6 June 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2010

<i>In thousands of Tenge</i>	Notes	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Intangible assets	4	4,194,255	4,766,058
Property, plant and equipment	5	15,102,775	12,941,544
Advances paid for non-current assets		127,636	262,077
Restricted cash	9	130,262	105,593
Total non-current assets		19,554,928	18,075,272
Current assets			
Inventories	6	630,341	502,648
Trade receivables	7	476,834	4,887,089
Advances paid		340,466	515,911
Interest free loans to related parties	18	4,423,643	9,699,246
Income tax prepaid		10,248	451,372
VAT recoverable and other taxes prepaid	8	1,889,767	1,308,619
Other current assets		37,246	64,952
Cash and cash equivalents	9	9,176,511	878,299
Total current assets		16,985,056	18,308,136
TOTAL ASSETS		36,539,984	36,383,408
EQUITY AND LIABILITIES			
Share capital	10	6,330,551	6,330,551
Retained earnings		24,962,029	16,706,611
Total equity		31,292,580	23,037,162
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	17	812,383	533,077
Interest bearing loans	11	-	7,091,608
Abandonment and site restoration liabilities	12	360,207	213,407
Obligation on historical cost	12	531,152	622,408
Total non-current liabilities		1,703,742	8,460,500
Current liabilities			
Interest-bearing loans	11	-	2,455,566
Trade payables	13	1,803,460	1,215,151
Obligation on historical cost	12	128,624	117,685
Corporate income tax payable		306,896	359,752
Excess profit tax payable		946,188	200,022
Other current liabilities		358,494	537,570
Total current liabilities		3,543,662	4,885,746
Total liabilities		5,247,404	13,346,246
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		36,539,984	36,383,408

The accounting policies and explanatory notes on pages 5 through 27 form an integral part of these consolidated financial statements.

Managing Director


 Sangsoo Ryou

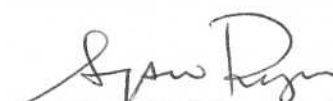
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2010

<i>In thousands of Tenge</i>	Notes	2010	2009
Revenue from sale of crude oil		33,011,571	23,133,192
Cost of sales	14	(7,813,827)	(6,643,283)
Gross profit		25,197,744	16,489,909
Selling expenses	15	(9,681,417)	(6,404,893)
General and administrative expenses	16	(2,535,512)	(2,564,505)
Profit from operating activities		12,980,815	7,520,511
Finance costs		(302,921)	(621,265)
Finance income		57,049	259,535
Foreign exchange (loss) / gain, net		(284,892)	477,433
Other income		173,231	442,323
Other expense		(119,289)	(426,027)
Profit before income tax		12,503,993	7,652,510
Corporate income tax expense	17	(3,252,981)	(1,372,455)
Excess profit tax expense	17	(995,594)	(213,956)
Profit for the year		8,255,418	6,066,099
Other comprehensive income		-	-
Total comprehensive income for the year		8,255,418	6,066,099

The accounting policies and explanatory notes on pages 5 through 27 form an integral part of these consolidated financial statements.

Managing Director



Sangsoo Ryou

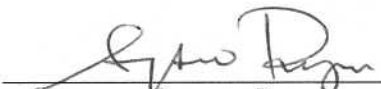
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

<i>In thousands of Tenge</i>	Notes	2010	2009
Cash flows from operating activities			
Income before income tax		12,503,993	7,652,510
Adjustments to add (deduct) noncash items:			
Depreciation, depletion and amortization	4, 5	2,049,320	1,870,935
Unwinding of discount		45,459	61,816
Interest income		(46,515)	(192,704)
Interest expense		246,928	554,434
Allowance for obsolete inventory and doubtful VAT recoverable		38,144	27,964
Loss on disposal of property, plant and equipment		10,018	3,290
Change in estimate on historical cost obligation		26,860	225,740
Unrealized foreign exchange loss		-	1,490,732
Operating cash flows before working capital changes		14,874,207	11,694,717
Working capital adjustments:			
Change in inventories		(122,650)	371,889
Changes in taxes		(733,933)	(867,540)
Change in trade receivables and other current assets		4,437,961	(4,134,335)
Change in advances paid		175,445	(38,602)
Change in trade payables		588,309	(67,796)
Change in other current liabilities		(179,076)	316,760
Cash generated from operations		19,040,263	7,275,093
Income tax paid		(2,834,835)	(3,256,617)
Interest paid		(456,237)	(44,381)
Interest received		46,515	259,535
Net cash provided by operating activities		15,795,706	4,233,630
Cash flows from investing activities			
Loans given to related parties		-	(1,770,070)
Loans repaid by related parties		5,275,603	-
Purchase of property, plant and equipment		(3,914,898)	(4,459,729)
Proceeds from sale of property, plant and equipment		391,594	502,201
Purchase of intangible assets		(21,700)	(136,353)
Advances paid for non-current assets		134,441	(262,077)
Net cash provided by / (used in) investing activities		1,865,040	(6,126,028)
Cash flows from financing activities			
Proceeds from bank loans		-	3,433,716
Repayment of bank loans		(9,337,865)	(3,124,859)
Transfer to restricted cash deposit		(24,669)	(61,730)
Net cash (used in) / provided by financing activities		(9,362,534)	247,127
Net change in cash and cash equivalents		8,298,212	(1,645,271)
Cash and cash equivalents at the beginning of the year		878,299	2,523,570
Cash and cash equivalents at the end of the year		9,176,511	878,299

The accounting policies and explanatory notes on pages 5 through 27 form an integral part of these consolidated financial statements.

Managing Director


Sangsoo Ryou

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2010

<i>In thousands of Tenge</i>	Share capital	Retained earnings	Total
As at January 1, 2009	6,330,551	10,640,512	16,971,063
Net profit for the year	–	6,066,099	6,066,099
Total comprehensive income for the year	–	6,066,099	6,066,099
As at December 31, 2009	6,330,551	16,706,611	23,037,162
Net profit for the year	–	8,255,418	8,255,418
Total comprehensive income for the year	–	8,255,418	8,255,418
As at December 31, 2010	6,330,551	24,962,029	31,292,580

The accounting policies and explanatory notes on pages 5 through 27 form an integral part of these consolidated financial statements.

Managing Director



Sangsoo Ryou

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Altius Holdings Inc (“the Company”) and its subsidiaries (“the Group”) is an independent upstream oil and gas company with a portfolio of development and production assets located in the prolific basins of Kazakhstan. The Group operates four producing fields in Kazakhstan.

As at December 31, 2010 Altius Holdings Inc, an entity established under the laws of Canada, is 100% owned by Altius Energy Corporation, a Canadian entity, which in turn 100% controlled by the Altius Energy Limited, an entity registered in Jersey. Vitol Holding B.V. and its subsidiaries (the “Vitol Group”) own 100% in the issued share capital of Altius Energy Limited (Note 21).

The Company’s registered legal address is: 3700 Cattera Tower, 400 Third Avenue SW, Calgary, Alberta, Canada.

The financial statements of the Company for the year ended December 31, 2010 were authorized for issue by Managing Director on June 6, 2011.

Licence terms

Altius Petroleum B.V. 100% subsidiary of the Company is engaged in oil and gas field development and production Akzhar, Alimbai, Besbolek and Karataiky fields located in North-Western Kazakhstan through the branches operated in Aktobe and Atyrau cities. The Group’s operating license, which was obtained from the Government of Republic of Kazakhstan, expire in 2029-2036 (“Subsoil Agreements”). The Group started production at Besbolek field in 2006 and Karataiky and Akzhar fields in 2008.

Kazakhstan business environment

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

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Kazakhstan. While the Kazakhstan Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Kazakhstan banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group’s financial position, operating results and business prospects.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION**

The Group has adopted IFRS and has prepared IFRS financial statements for the first time as at December 31, 2010.

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standard Board (“IASB”).

The financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these financial statements. All values in these financial statements are rounded to the nearest thousands, except when otherwise indicated.

On 1 January 2010, three pre-existing Canadian entities (Altius Energy Corporation, Arawak Acquisition Inc and 1153264 Alberta Limited) under control of Altius Energy Limited were amalgamated with Altius Holdings Inc, in accordance with Canadian legal practice.

Transition to IFRS

As a first-time adopter of IFRS, the Group applies IFRS 1 “First Time Adoption of International Financial Reporting Standards” and has chosen the year ending 31 December 2010 to be the first year when the Company adopts IFRS.

IFRS 1 requires first-time adopters to prepare an opening IFRS balance sheet at the date of transition to IFRS. This is the starting point for its accounting under IFRS. According to IFRS 1, for companies adopting IFRS in 2010, the opening IFRS balance sheet will be as at 1 January 2009, which is the beginning of the first comparative period included in the IFRS financial statements.

In accordance with IFRS 1, the Company applies the same accounting policies in its opening IFRS balance sheet and throughout all periods presented in its first complete set of IFRS financial statements. Those accounting policies should comply with each IFRS effective at the reporting date for its first complete set of IFRS financial statements (i.e., as at 31 December 2010).

Prior to adoption of IFRS the Group prepared special purpose financial statements (the “Previous GAAP”). Special purpose financial statements of the Group for the year ended December 31, 2009 have been prepared specifically for the purpose of inclusion into the Information Memorandum for the listing of Altius Holdings Inc on the Kazakhstan Stock Exchange (“KASE”). The Previous GAAP did not consolidate Balkhash Petroleum B.V., Leopard Oil B.V., Steppe Eagle Oil B.V. and Ibex Petroleum B.V. because these subsidiaries had been disposed of prior to the listing and as the result management felt exclusion of these subsidiaries would result in more appropriate and relevant information for the listing authorities and subsequent users of the financial statements. Those special purpose financial statements were not in compliance with the requirements of IFRS.

IFRS 1 requires a first-time adopter to disclose reconciliations that give sufficient detail to enable users to understand the material adjustments to the statement of financial position and requires specific reconciliations of equity reported under previous GAAP to its equity under IFRS.

Reconciliation of information in the consolidated statement of financial position as at 31 December 2009:

	IFRS in '000 Tenge	Previous GAAP in '000 US Dollars
Intangible assets	4,766,058	45,337
Property, plant and equipment	12,941,544	76,218
Inventories	502,648	5,309
Share capital	6,330,551	52,419
Retained earnings	16,706,611	95,175
Deferred tax liabilities	533,077	12,780
Abandonment and site restoration liabilities	213,407	5,327
Obligation on historical cost	740,093	5,673

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION (continued)****Transition to IFRS (continued)**

Reconciliation of in the consolidated statement of financial position as at 1 January 2009:

	As reported in 2009 in '000 Tenge	As reported in 2009 in '000 US Dollars
Intangible assets	5,327,120	46,283
Property, plant and equipment	10,215,703	60,558
Inventories	866,687	6,084
Share capital	6,330,551	52,419
Retained earnings	10,640,512	62,495
Deferred tax liabilities	670,602	4,234
Abandonment and site restoration liabilities	204,965	4,912
Obligation on historical cost	656,198	4,496

Reconciliation of in the consolidated statement of comprehensive income for the year ended 31 December 2009:

<i>In thousands of Tenge</i>	As reported in 2009 in '000 Tenge	As reported in 2009 in '000 US Dollars
Revenue from sale of crude oil	23,133,192	155,584
Cost of sales	(6,643,283)	(40,575)
Selling expenses	(6,404,893)	(44,366)
General and administrative expenses	(2,564,505)	(16,895)
Finance costs	(621,265)	(3,913)
Finance income	259,535	1,542
Foreign exchange gain	477,433	-
Other income, net	16,296	-
Income tax expense	(1,586,411)	(18,697)
Profit for the year	6,066,099	32,680

The special purpose financial statements of the Group for the year ended December 31, 2009 for the listing purposes on KASE were prepared as if United States Dollar (the "US Dollar" or "US\$") is the functional and presentation currency of Company and Altius Petroleum B.V. The full set IFRS consolidated financial statements of the Group for the year ended December 31, 2010 are prepared based on the Company's and Altius Petroleum B.V. functional currency is Kazakhstani Tenge ("Tenge" or "KZT"). The management of the Company believes that Kazakhstani Tenge has always reflected the economic substance of the underlying events and circumstances of the entity as the majority of operations of the Group are performed in the Republic of Kazakhstan and purchases of services, materials and other costs from Kazakhstani suppliers were denominated in Tenge. Therefore, the material adjustments to the previous GAAP financial statements relate to different functional currency.

Foreign Currency Translation

The consolidated financial statements are presented in Tenge, which is the Company's and its subsidiary's functional and presentation currency.

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the statement of comprehensive income.

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as official currency exchange rates in the Republic of Kazakhstan.

The currency exchange rate of KASE as of December 31, 2010, was 147.40 Tenge to 1 US dollar. This rate was used to translate monetary assets and liabilities denominated in US dollars as of December 31, 2010 (2009: 148.36 Tenge to 1 US dollar). The currency exchange rate of KASE as of June 6, 2011, was 145.53 Tenge to 1 US dollar.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)**Significant Accounting Judgments and Estimates**

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

Deferred taxes

Deferred tax assets are recognized for all provisions, accrued vacations, allowances for slow-moving inventories and other liabilities, obligation on historical cost, abandonment and site restoration liabilities to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved, as well as on the successful implementation of tax planning strategies. The carrying value of recognized deferred tax assets as at December 31, 2010 was 523,674 thousand Tenge (December 31, 2009: 447,605 thousand Tenge). Further details are contained in Note 17.

Fair value of Financial Instruments

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

Assets retirement obligations

Under the terms of Subsoil Agreement (Note 1), legislation and regulations the Group has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Group's obligation relates to the ongoing closure of all non-productive wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories. Since the license terms cannot be extended at the discretion of the Group, the settlement date of the final closure obligations has been assumed to be the end of each license period. If the asset retirement obligations were to be settled at the end of the economic life of the properties, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Group's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective contracts and current legislation. Where neither contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the license term, no liability has been recognized.

Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government of Republic of Kazakhstan or in the local industry practice.

The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market.

The Group reviews site restoration provisions at each reporting date, and adjust them to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Group's estimate can be affected by changes in asset removal technologies, costs and industry practice.

The discount rates used to determine the balance sheet obligation at December 31, 2010 was 5.6% (2009: 7.9%). Movements in the provision for asset retirement obligations are disclosed in Note 12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)**Significant Accounting Judgments and Estimates (continued)***Useful life of Property, Plant and Equipment*

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognized in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Changes in Accounting Policies and Disclosures**

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended IFRS and IFRIC interpretations effective as of January 2010:

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial Instruments: Recognition and measurement – Eligible Hedged items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

The adoption of the standard or interpretation is deemed to have no impact on the financial statements or performance of the Group.

Improvements to IFRS

In May 2008 and April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

Issued in May 2008

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Issued in April 2009

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.
- IFRS 8 Operating Segments.
- IAS 7 Statement of Cash Flows.
- IAS 36 Impairment of Assets.
- IFRS 2 Share-based Payment
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 34 Interim Financial Reporting

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Improvements to IFRS (continued)**

Issued in April 2009 (continued)

- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

Oil and gas properties

Group's accounting policies for oil and gas properties differ depending on the developmental stage of the asset. Assets are capitalised as intangible or tangible assets depending on the nature of the expenditure or the stage of development of the property.

Pre-license expenditure

Any expenditure incurred prior to obtaining an exploration license (or similar) rights is expensed as incurred.

Licenses and similar rights

The cost of acquiring property exploration and development licenses (or similar rights) along with any incidental costs relating to the acquisition of the license are capitalised as an intangible asset. Licenses are amortised on a straight line basis over the expected remaining life of the license from the date of acquisition. In some instances it may be possible to extend the term of the license. The expected remaining life of the license used for amortization purposes, does not reflect license extensions until the application for extension has been substantively approved.

Exploration and evaluation expenditure

All expenditure incurred prior to technical and commercial evaluation of the property is capitalized on a property by property basis. Associated equipment and similar expenditure are capitalized as property, plant and equipment. The remaining expenditure is capitalized as an intangible asset. The type of expenditure capitalized includes land acquisition, geological and geophysical studies (both internal and externally sourced), exploratory drilling and direct production overheads that can reasonably allocated to these activities. Any costs associated with drilling dry wells, drilled in the exploration and evaluation phase, are always expensed on completion of the technical assessment of the exploration program even if the impairment review undertaken at that point indicates no impairment provision is required.

Intangible exploration and evaluation assets are not subject to amortization until development production commences. Property, plant and equipment that are consumed in developing an exploration and evaluation phase property are subject to depreciation over their useful economic life. The depreciation charge for such assets is capitalized as part of the cost of developing the intangible exploration and evaluation property.

Exploration phase assets are assessed annually for impairment purposes.

Development and production assets

Once a property has been assessed as being technically and commercially feasible to develop, the development stage is deemed to have commenced. Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, is capitalized within oil and gas properties.

Depreciation of oil and gas properties

Depreciation of gas assets is calculated on the unit-of-production method, except for infrastructure facilities, which are depreciated on a straight-line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Other property plant and equipment**

Other property plant and equipment includes non-oil and gas assets such as office buildings, motor vehicles, information technology equipment and office fixtures and fittings. The initial cost of the fixed assets comprises its purchase price, including import duties and non-refundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is computed on a straight-line basis over the estimated useful lives. The estimated useful life of certain fixed assets is presented as follows:

	Years
Buildings and constructions	5-50
Machinery and equipment	3-20
Vehicles	3-7
Other	2-20

Derecognition of property, plant and equipment occur when assets are sold or retired and any gain or loss resulting from their disposal is recognized, obtained as the difference between the net disposal proceeds and the carrying amount are recognized through income or loss on disposal in the separate statement of comprehensive income.

Construction-in-progress represents tangible fixed assets under construction and is stated at cost. This includes cost of construction and equipment and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to expense in the period when such costs are incurred. The expenditures that have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of tangible fixed assets beyond its originally assessed standard performance (increase of useful life, capacity, etc.) are capitalized as an additional cost of fixed assets.

Asset Retirement Obligation (Decommissioning)

Provision for decommissioning is recognized in full, on a discounted cash flow basis, when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding tangible fixed asset of an amount equivalent to the provision is also created. This asset is subsequently depreciated as part of the capital costs of the production and transportation facilities on a unit-of-production basis.

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

- (a) changes in the provision are added to, or deducted from, the cost of the related asset in the current period;
- (b) the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognized immediately as an expense; and
- (c) if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss, in accordance with IAS 36.

Historical cost

Certain of these liabilities do not fall due for payment for several years after initial license acquisition. Such costs, along with any signing bonus and/or tax payments are capitalized as part of license acquisition cost and are initially recognized at their fair value. The associated liability is subsequently accounted for at its amortised cost discounted using the appropriate effective discount rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial Assets***Initial Recognition and Measurement*

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

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

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

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

Subsequent Measurement

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

Derecognition

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

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

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

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

Impairment*Financial Assets*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Impairment (continued)***Non-financial Assets*

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the operating profit in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised through profit or loss.

Financial Liabilities*Initial Recognition and Measurement*

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

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings.

Subsequent Measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Gains or losses on liabilities held for trading are recognised in the separate statement of comprehensive income.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in operating profit when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial Liabilities (continued)***Derecognition*

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

Fair Value of Financial Instruments

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

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

Inventory

Crude oil inventory consists of oil and gas produced and in storage tanks or in transit and is recorded at the lower of production cost, determined on a weighted average basis, and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable selling expenses. Supplies inventory is recorded at the lower of cost, determined on a weighted average basis, and net realisable value.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits held on call or with maturities less than three months and restricted cash.

Provisions

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

If the effect of the time value of money is material, 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 where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Revenue and Expense Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reasonably measured. Revenue is recognised net of indirect taxes. The following specific recognition criteria must also be met before revenue is recognised.

Sales of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

Interest Income

Revenue is recognised as interest accrues (using the effective interest method that is the rate that discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Expenses

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Revenue and Expense Recognition (continued)***Finance costs*

Finance costs comprise interest expense on borrowings and the accumulation of interest on provisions. Finance costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Other finance costs are recognised as an expense when incurred.

Unwinding of present value discounts arising from asset retirement obligations or deferred license acquisition costs (historical costs) are expensed as finance cost when incurred.

Income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognized directly in equity recognized in equity and not in the statement of comprehensive income.

Deferred income tax

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

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Value Added Tax**

The tax authorities permit the settlement of sales and purchases value added tax (VAT) on a net basis.

Value Added Tax Payable

VAT is payable to tax authorities upon collection of receivables from customers. VAT on purchases, which have been settled at the balance sheet date, is deducted from the amount payable.

In addition, VAT related to sales which have not been collected at the balance sheet date is also included in the balance of VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT liability is maintained until the debtor is written off for tax purposes.

Value Added Tax Recoverable

VAT recoverable relates to purchases, which have not been settled at the balance sheet date. VAT recoverable is reclaimable against VAT related to sales upon payment for the purchases.

4. INTANGIBLE ASSETS

The movements on intangible assets for the years ended December 31, 2010 and 2009 was as follows:

<i>In thousands of Tenge</i>	License	Exploration and evaluation assets	Total
At cost			
At January 1, 2009	5,118,036	845,925	5,963,961
Additions	107,538	28,815	136,353
Change in terms	(63,232)	–	(63,232)
At December 31, 2009	5,162,342	874,740	6,037,082
Additions	23,843	21,700	45,543
Change in terms	(58,200)	–	(58,200)
At December 31, 2010	5,127,985	896,440	6,024,425
Accumulated depreciation and depletion			
At January 1, 2009	636,841	–	636,841
Charge for the year	634,183	–	634,183
At December 31, 2009	1,271,024	–	1,271,024
Charge for the year	559,146	–	559,146
At December 31, 2010	1,830,170	–	1,830,170
Net book value			
At January 1, 2009	4,481,195	845,925	5,327,120
At December 31, 2009	3,891,318	874,740	4,766,058
At December 31, 2010	3,297,815	896,440	4,194,255

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. PROPERTY, PLANT AND EQUIPMENT**

The movement on property, plant and equipment for the years ended December 31, 2010 and 2009 was as follows:

<i>In thousands of Tenge</i>	Oil and gas property	Land	Buildings and constructions	Other	Construction-in-progress	Total
At cost						
At January 1, 2009	9,174,459	9,407	212,622	163,099	2,094,096	11,653,683
Additions	507,819	–	165,000	280,168	3,529,958	4,482,945
Disposals	(279,687)	–	(184,970)	(66,008)	(93,608)	(624,273)
Transfers and reclassifications	2,520,452	–	726	218,405	(2,739,583)	–
At December 31, 2009	11,923,043	9,407	193,378	595,664	2,790,863	15,512,355
Additions	299,317	4,564	–	140,403	3,608,733	4,053,017
Disposals	(20,936)	(13,971)	(193,378)	(229,350)	(10,511)	(468,146)
Transfers and reclassifications	5,153,463	–	–	23,711	(5,177,174)	–
At December 31, 2010	17,354,887	–	–	530,428	1,211,911	19,097,226
Accumulated depreciation and depletion						
At January 1, 2009	1,380,036	–	23,823	34,121	–	1,437,980
Charge for the year	1,194,282	–	19,294	23,176	–	1,236,752
Disposals	(74,807)	–	(21,045)	(8,069)	–	(103,921)
At December 31, 2009	2,499,511	–	22,072	49,228	–	2,570,811
Charge for the year	1,412,797	–	6,427	70,950	–	1,490,174
Disposals	(16,698)	–	(28,499)	(21,337)	–	(66,534)
At December 31, 2010	3,895,610	–	–	98,841	–	3,994,451
Net book value						
At January 1, 2009	7,794,423	9,407	188,799	128,978	2,094,096	10,215,703
At December 31, 2009	9,423,532	9,407	171,306	546,436	2,790,863	12,941,544
At December 31, 2010	13,459,277	–	–	431,587	1,211,911	15,102,775

During 2010 the Group capitalised salary of production employees amounting of 43,896 thousand Tenge (2009: 33,910 thousand Tenge).

In 2009 the Group disposed all its servicing building and construction, machinery and equipment and vehicles to Leopard Service Petroleum LLP, an entity under common control, as part of the Arawak Group restructuring process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**6. INVENTORIES**

As at December 31, 2010 and 2009 inventories comprised:

<i>In thousands of Tenge</i>	December 31, 2010	December 31, 2009
Crude oil	292,550	302,916
Materials	328,146	195,955
Work in progress	32,262	31,437
Less: provision for obsolete and slow-moving inventories	(22,617)	(27,660)
	630,341	502,648

The movements in provision for obsolete and slow-moving inventories for the years ended December 31, were as follows:

<i>In thousands of Tenge</i>	2010	2009
Provision as at January 1	27,660	35,510
Charge for the year	22,617	27,660
Recovered	(27,660)	(35,510)
Provision as at December 31	22,617	27,660

7. TRADE RECEIVABLES

<i>In thousands of Tenge</i>	December 31, 2010	December 31, 2009
Trade receivables in US Dollars	434,985	4,549,097
Trade receivables in Tenge	41,849	337,875
Trade receivables in Russian Roubles	–	117
	476,834	4,887,089

Trade and other receivables are interest free and normally receivable within 30 days. Trade receivables are current as at December 31, 2010 and 2009 and represent amounts due from sales of crude oil.

As at December 31, 2010 and 2009 the aging analysis of trade receivables is as follows:

<i>In thousands of Tenge</i>	Total	Past due, but not impaired				270 days – 1 year
		Neither past due nor impaired (0 – 30 days)	30 – 180 days	180 – 270 days		
December 31, 2010	476,834	444,629	26,901	5,300	4	
December 31, 2009	4,887,089	4,873,929	424	12,736	–	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**8. VAT RECOVERABLE AND OTHER TAXES PREPAID**

As at December 31, 2010 and 2009 VAT recoverable and other taxes prepaid comprised:

<i>In thousands of Tenge</i>	December 31, 2010	December 31, 2009
VAT recoverable	1,185,668	1,063,426
Mineral extraction tax prepaid	359,744	106,000
Rental tax prepaid	179,906	100,784
Other	243,450	74,223
Less: Allowance for doubtful VAT recoverable	(79,001)	(35,814)
	1,889,767	1,308,619

9. CASH AND CASH EQUIVALENTS

As at December 31, 2010 and 2009 cash and cash equivalents comprised the following:

<i>In thousands of Tenge</i>	December 31, 2010	December 31, 2009
Current bank accounts – US dollars	8,928,295	340,149
Current bank account – Tenge	235,457	531,325
Deposit accounts – US dollars	129,805	105,216
Current bank account – EURO	5,031	
Cash on hand	5,537	3,561
Cash on card accounts	2,191	3,264
Deposit accounts – Tenge	457	377
Less restricted cash	(130,262)	(105,593)
	9,176,511	878,299

As at December 31, 2010 and 2009 current bank accounts were interest free.

The Group holds a restricted cash deposit that is made towards a liquidation fund for abandonment and site restoration costs and guarantee for non-resident employees. The deposit matures at the inception of the liquidation program approved by the Ministry of Energy and Mineral Resources of Kazakhstan (Note 1) and upon departure of non-resident employees. The total amount of the restricted cash deposit depends on the total investments into exploration activities and number of non-resident employees.

10. SHARE CAPITAL

Common shares outstanding	31 December 2010		31 December 2009	
	Number of shares	In thousands of Tenge	Number of shares	In thousands of Tenge
Issued:				
Balance, beginning of the year	29,620,259	6,330,551	29,620,259	6,330,551
Balance, end of the year	182,644,452	6,330,551	29,620,259	6,330,551

On July 20, 2010, the Company undertook a share split. As the result the number of existing common shares was increased to 182,644,452 shares with no increase in the nominal value of the common shares.

Book value of shares

In accordance with the decision of the Exchange Board of the Kazakhstan Stock Exchange (“KASE”) dated October 4, 2010 financial statements shall disclose book value per share (common and preferred) as of the reporting date, calculated in accordance with the KASE rules.

<i>In millions of Tenge</i>	December 31, 2010	December 31, 2009
Total assets	36,539,984	36,383,408
Intangible assets	4,194,255	4,766,058
Total liabilities	5,247,404	13,346,246
Net assets for common shares	27,098,325	18,271,104
Number of common shares	182,644,452	29,620,259
Book value per share, Tenge	148.37	616.84

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**11. INTEREST-BEARING LOANS**

At December 31, 2010 and 2009 interest-bearing loans comprised:

<i>In thousands of Tenge</i>	Currency	Date of Issue	Maturity Date	Interest rate	December 31, 2010	December 31, 2009
Calyon	US dollars	April 2008	May 2013	Libor+1.75%	–	6,680,890
Balkash Petroleum B.V.	US dollars	May 2009	May 2015	14%	–	2,866,284
					–	9,547,174
Less short term portion					–	(2,455,566)
					–	7,091,608

In April 2008 the Group entered into a Reserve-based loan facility agreement with Calyon for a maximum facility up to 80,000 thousand US dollars. The facility limit reduces annually and loan must be repaid in full within five years from the date of the agreement. Interest has to be paid at the agreed maturity at an interest rate of LIBOR plus 1.75%. During 2010 the Group fully repaid liabilities in relation to the above mentioned loan facility agreement.

In May 2009 the Group opened a credit line of 25,000 thousand US dollars with Balkash Petroleum B.V., an entity under common control, for 5 years with no pledges. Under this credit line Balkash Petroleum B.V. provided a number of short-term and long-term loans to the Group. Interest and principal under credit line agreements are payable on demand. During 2010 the Group repaid all open credit lines.

12. OBLIGATION ON HISTORICAL COST AND ABANDONMENT AND SITE RESTORATION LIABILITIES

<i>In thousands of Tenge</i>	Historical cost liabilities	Abandonment and site restoration liabilities
As of January 1, 2009	656,198	204,965
Arising during the year	–	31,884
Unwinding of discount	53,528	8,288
Repayment	(132,141)	–
Change in estimate	–	(31,730)
Foreign exchange	162,508	–
As of December 31, 2009	740,093	213,407
Short-term portion	117,685	–
Long-term portion	622,408	213,407
Arising during the year	23,843	52,684
Unwinding of discount	36,777	8,682
Repayment	(109,598)	–
Change in estimate	–	85,434
Restructuring	(31,339)	–
As of December 31, 2010	659,776	360,207
Short-term portion	128,624	–
Long-term portion	531,152	360,207

According to the Subsoil Agreements (Note 1), the Group assumed obligations related to the historical costs of geological and geophysical data and drilling works incurred by the Government of Republic of Kazakhstan and obligations for abandonment and site restoration.

Provisions on historical costs are recognized as the Group has a legal obligation according to the terms of the signed Addendum N1732 (Akzhar) to the Subsoil Agreement on purchase of geological information dated September 14, 2000. According to the Addendum the amount of historical cost liabilities for Akzhar filed amounted to 7,018 thousand US Dollars.

Provisions on historical costs are recognized as the Group has a legal obligation according to the terms of the signed Addendums N547 (Karataiky) and N546 (Besbolek) (“Addendums”) to the Subsoil Agreements on purchase of geological information dated March 2, 2001. According to the Addendums the amount of historical cost liabilities amounted to 828 thousand US Dollars and 196 thousand US Dollars for Karataiky and Besbolek, respectively. On September 3, 2010 the Addendum N547 was amended and as the result historical cost liabilities were reduced to 465 thousand US Dollars.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**12. OBLIGATION ON HISTORICAL COST AND ABANDONMENT AND SITE RESPORTATION LIABILITIES (continued)**

The effect of the time value of money is material. Liabilities 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.

Payments of historical costs should be made on a quarterly basis over 10 years from the date of commencement of production, provided that reserves are proved and commercial production has commenced. The production has commenced in 2008. As of December 31, 2010 the Group has repaid 1,639 thousand US Dollars and the fair value of the historical cost liabilities comprises 4,177 thousand US Dollars (equivalent to 635,933 thousand Tenge) for Akzhar filed. For Besbolek and Karataiky fields, as of December 31, 2010, the Group has repaid 196 thousand US Dollars and 292 thousand US Dollars, respectively and the fair value of the historical cost liabilities comprises 162 thousand US Dollars (equivalent to 23,843 thousand Tenge).

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

13. TRADE PAYABLES

Trade payables comprised the following at December 31:

<i>In thousands of Tenge</i>	December 31, 2010	December 31, 2009
Due to related parties	1,626,130	453,040
Due to third parties	177,330	762,111
	1,803,460	1,215,151

Accounts payable are non-interest bearing, normally settled on 30-day terms.

14. COST OF SALES

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

<i>In thousands of Tenge</i>	2010	2009
Mineral extraction tax	2,161,376	1,565,634
Depreciation, depletion and amortization	2,025,706	1,839,794
Transportation expenses	1,292,790	974,368
Repair and maintenance	521,608	603,084
Services	406,708	327,733
Salaries and related costs	472,306	453,420
Taxes and fees	169,268	146,323
Other	874,658	700,052
Cost of production	7,924,420	6,610,408
Change in work in progress, crude oil:		
Work in progress, crude oil at January 1	334,353	428,423
Oil for own needs	(120,134)	(61,195)
Work in progress, crude oil at December 31	(324,812)	(334,353)
Net changes in work in progress and finished goods	(110,593)	32,875
	7,813,827	6,643,283

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**15. SELLING EXPENSES**

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

<i>In thousands of Tenge</i>	2010	2009
Rental tax	5,218,983	3,039,225
Transportation	3,843,767	3,236,811
Custom duties	407,552	–
Other	211,115	128,857
	9,681,417	6,404,893

Transportation expenses in 2010 and 2009 represent costs related to transportation of oil through the pipelines MunaiTas JSC and KazTransOil JSC that provide oil pipeline transportation services throughout Kazakhstan.

On July 13, 2010 the Government of Republic of Kazakhstan re-introduced export custom duty on crude oil at the rate of 20 US dollars per ton.

16. GENERAL AND ADMINISTRATIVE EXPENSES

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

<i>In thousands of Tenge</i>	2010	2009
Payroll and related expenses	1,555,695	1,571,656
Rent and office maintenance	234,311	150,088
Professional services	126,818	216,776
Business trips	75,616	85,002
Communication	64,241	65,415
Charity	32,391	14,722
Training	46,330	65,628
Other	400,110	395,218
	2,535,512	2,564,505

17. INCOME TAXES

The Group's Kazakhstani operations are subject to income tax of 20% on taxable profit and Branch profit tax of 5% after corporate income tax as determined under the laws of the Republic of Kazakhstan. Income tax expense consisted of the following for the year ended December 31:

<i>In thousands of Tenge</i>	2010	2009
Corporate income tax	3,011,295	1,494,286
Excess profit tax	957,974	229,650
Current income tax expense	3,969,269	1,723,936
Corporate income tax	241,686	(121,831)
Excess profit tax	37,620	(15,694)
Deferred income tax expense / (benefit)	279,306	(137,525)
Income tax expense	4,248,575	1,586,411

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**17. INCOME TAXES (continued)**

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

<i>In thousands of Tenge</i>	2010	2009
Accounting profit before income tax	12,503,993	7,652,510
Corporate income tax expense at statutory rate	3,000,959	1,836,602
Excess profit tax	957,974	229,650
Effect of change in income tax rate	87,970	3,558
Other non-temporary differences	201,672	(483,399)
	4,248,575	1,586,411

For the year ended December 31, 2010 the effective rate of income tax was 33% (2009: 21%).

In November 2009 the Government of Republic of Kazakhstan approved amendments to the tax code effective January 1, 2009, in accordance to which the statutory income tax rates are changed to 20% during the years from January 1, 2010 till January 1, 2013, 17.5% – from January 1, 2013 till January 1, 2014, and 15% – from January 1, 2014 onwards.

In November 2010 the Government of Republic of Kazakhstan approved amendments to the tax code effective January 1, 2011, in accordance to which the statutory income tax rates are changed to 20% for future periods. The effect of these changes in corporate income tax rate on income tax expenses was significant and disclosed in the reconciliation above.

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

<i>In thousands of Tenge</i>	December 31, 2010	December 31, 2009
Deferred tax assets:		
Historical costs	276,033	172,553
Asset retirement obligation	108,997	44,533
Accrued expenses	86,032	195,823
Losses carried forward	52,612	34,696
	523,674	447,605
Deferred tax liabilities:		
Property, plant and equipment and intangible assets	(1,336,057)	(980,682)
	(1,336,057)	(980,682)
Net deferred tax liability	(812,383)	(533,077)

At December 31, 2010, the Group recognized deferred income tax expense in the amount of 259,393 thousand Tenge, which represents the difference arising from net deferred tax liability of 749,671 thousand Tenge as of December 31, 2010 and net deferred tax liability of 490,278 thousand Tenge in as of December 31, 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**18. RELATED PARTY TRANSACTIONS**

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties include key management personnel of the Group, enterprises in which a substantial interest in the voting power is owned, directly and indirectly, by the Group's key management personnel, Arawak Group companies and entities controlled by Vitol Group. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

<i>In thousands of Tenge</i>	2010	2009
Sales of crude oil		
ARKHAM B.V.	31,552,236	18,636,194
Vitol Central Asia B.V.	–	3,228,966
	31,552,236	21,865,160
Sales of fixed assets		
Leopard Service Petroleum LLP	205,885	172,637
Steppe Eagle Oil B.V.	31	8,082
Ibex Petroleum B.V.	17	766
	205,933	181,485
Sales of materials		
Leopard Service Petroleum LLP	–	226,939
Ibex Petroleum B.V.	–	13,193
	–	240,132
Purchases of fixed assets		
Leopard Service Petroleum LLP	241,088	347,056
Steppe Eagle Oil B.V.	10,735	3,088
Ibex Petroleum B.V.	85	9,041
Kosyuneft LLP	–	52,275
	251,908	411,460
Purchases of materials		
Leopard Service Petroleum LLP	728,307	537,350
Steppe Eagle Oil B.V.	38,939	28,659
Ibex Petroleum B.V.	–	1,406
	767,246	567,415
Purchases of services		
Leopard Service Petroleum LLP	1,972,030	1,711,416
Arkham B.V.	266,003	–
Kosyuneft LLP	180,341	50,058
Arawak Geosciences LLP	101,290	–
Saigak Munaigas GmbH	4,080	3,240
PechoraNefteGas CJSC	129	156
	2,523,873	1,764,870

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**18. RELATED PARTY TRANSACTIONS (continued)**

<i>In thousands of Tenge</i>	December 31, 2010	December 31, 2009
Due from related parties		
Rosco S.A.	2,953,890	–
Arawak Canada	1,100,379	–
Arkham B.V.	476,721	4,025,658
Arawak Energy Kazakhstan B.V.	369,374	–
Steppe Eagle Oil B.V.	34	43
Altius Energy Limited	–	10,129,049
Leopard Service Petroleum LLP	–	232,882
Ibex Petroleum B.V.	–	13,203
Kosyuneft LLP	–	117
Balkash Petroleum B.V.	–	149,392
	4,900,398	14,550,344
Due to related parties		
Altius Energy Corporation	631,567	–
Arawak Energy Ltd	528,661	–
Leopard Service Petroleum LLP	418,454	414,695
Arkham B.V.	36,173	–
Arawak Geosciences LLP	9,680	–
Saigak Munaigas GmbH	1,008	–
PechoraNefteGas CJSC	587	1,573
Steppe Eagle Oil B.V.	–	31,039
Ibex Petroleum B.V.	–	5,733
	1,626,130	453,040

Interest free loan to related party

In 2010, the Group provided an interest free loans to Rosco S.A. and Arawak Energy Kazakhstan B.V., payable on demand and no pledges amounting 20,040 thousand US dollars and 2,506 thousand US dollars, respectively.

Compensation to key management personnel

Key management personnel totalled four persons as at December 31, 2010 (2009: four persons). Total compensation to key management personnel included in personnel costs in the accompanying statement of comprehensive income for the year ended December 31, 2010 amounted to 228,301 thousand Tenge (2009: 230,224 thousand Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**19. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group, in connection with its activities, is exposed to various financial risks associated with its financial instruments. Financial instruments are comprised primarily of cash and cash equivalents, trade receivables, other receivables, accounts payable, advances received from related parties (redeemable in cash) and loans.

Liquidity risks

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Group regularly monitors liquidity requirements and management ensures that sufficient funds are available to meet any commitments as they arise. The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2010 based on contractual undiscounted payments.

2010	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Trade payables	1,144,900	397,615	260,945	–	–	1,803,460
Other current liabilities	–	358,494	–	–	–	358,494
	1,144,900	756,109	260,945	–	–	2,161,954

2009	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Trade payables	323,850	442,934	448,367	–	–	1,215,151
Interest-bearing loans	–	225,476	2,230,090	7,091,608	–	9,547,174
Other current liabilities	–	537,570	–	–	–	537,570
	323,850	1,205,980	2,678,457	7,091,608	–	11,299,895

Commodity price risk

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

The Group does not hedge its exposure to the risk of fluctuations in price of crude oil.

Credit risks

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

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group has transactional currency exposures. Such exposure arises from revenues in US Dollars. Almost 95% of the Group's revenue is denominated in the US Dollars, whilst almost none of cost of sales is denominated in US Dollars.

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

	Increase / decrease in US dollar rate	Effect on profit before tax
2010	11.56%	1,627,300
	-11.56%	(1,627,300)
2009	+10%	591,746
	-15%	(887,619)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Substantially all the Group's monetary assets and liabilities are carried at their estimated fair values as of December 31, 2010. The carrying amount of monetary assets and liabilities approximates their fair value due to the short-term maturity of these financial instruments.

20. COMMITMENTS AND CONTINGENCIES**Social and education commitments**

As required by Subsoil Agreement with the Government, the Group is obliged to spend: (i) 80 thousand US Dollars per annum to finance social infrastructure and (ii) 1 percent from the operating expenditures incurred during the year for education purposes of the citizens of Kazakhstan on an annual basis until the end of the Subsoil Agreement. As at December 31, 2010 the Group fully complied with those commitments.

Domestic sales commitment

As required by the Subsoil Agreement (Note 1), the Group is obliged to sell 15% of crude oil produced on local market at prices which are typically less than on export. In 2010 the Group sold about 43 thousand tones on local market out 54 thousand tones required for the amount of 1,054,494 thousand Tenge. The Management believes that noncompliance with domestic sales commitment will not have material effect on the future operation of the Group.

Taxation

Kazakhstani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. Recent events within Kazakhstan suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As of December 31, 2010 management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Environmental matters

The Group may also be subject to loss contingencies relating to regional environmental claims that may arise from the past operations of the related fields in which it operates. As Kazakhstani laws and regulations evolve concerning environmental assessments and site restoration, the Group may subject to further costs. It is the opinion of management that such costs, if any, will not have a material effect on the financial condition of the Group and accordingly no provisions for future environmental claims or penalties are included in the accompanying financial statements. The calculation of abandonment and site restoration is considered in Note 12.

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

21. SUBSEQUENT EVENTS*Customs duty on crude oil export*

On December 30, 2010 the Government of Republic of Kazakhstan increased customs duty on crude oil export from 20 US dollars to 40 US dollars per ton effective from January 1, 2011.

Change in ownership

On March 18, 2011 KNOC Black Hill Ltd. (Canada) purchased 100% share of the Company from sole shareholder Altius Energy Corporation (Note 1).