

ALTIUS HOLDINGS INC

**UNAUDITED INTERIM CONDENSED CONSOLIDATED SPECIAL PURPOSE
FINANCIAL STATEMENTS AND NOTES**

For the 6 month period ending 30 June 2010

Altius Holdings Inc

Officers' report

The Officers of Altius Holdings Inc (the "Company" or "Altius") present their report together with the unaudited consolidated special purpose financial statements for the 6 month period ending 30 June 2010 for the Company and its subsidiaries.

The Company came into existence in its current form on 1 January 2010, following the amalgamation of three pre-existing Canadian companies (Altius Energy Corporation, Arawak Acquisition Inc and 1153264 Alberta Limited) with Altius Holdings Inc in accordance with Canadian legal practice. These special purpose financial statements have been prepared on the basis that this legal amalgamation occurred on 1 January 2008 and that Company had adopted International Financial Reporting Standards from inception (except as explained in the basis of preparation note).

In addition, the special purpose financial statements have been prepared on the basis that the group represents the results of the Kazakhstan production and development assets. All exploration assets previously held by one of the Company's subsidiaries were transferred out of the group with effect from 31 March 2010. The special purpose accounts have been prepared on the basis that the exploration assets were never owned by the business.

Principal Activities & Business Review

Altius is an upstream oil and gas company with a balanced portfolio of development and production assets focused in the prolific Oil basins of Kazakhstan.

Results & Dividends

The Company's unaudited consolidated financial statements for the year ended 30 June 2010 are set out on pages 8 to 15. The Company has not declared or paid any dividends in 2010 or 2009. For the foreseeable future, the Company anticipates that it will retain future earnings and other cash resources for the operation and development of its business.

Directors

The directors of the company as at 30 June 2010 with subsequent changes as are follows:

| | |
|-------------------|-------------------------|
| Alastair D McBain | |
| Wendy Poon | |
| Jeffrey Peacock | resigned 26 March 2010 |
| Bruce Greenbank | appointed 26 March 2010 |

Officers

The following individuals were officers for the group throughout the period:

| | |
|------------------|-------------------------|
| Alastair McBain | Chief Executive Officer |
| Shahveer Kapadia | Chief Operating Officer |
| Simon Blaydes | Chief Financial Officer |

Important events during the period

Construction of the PSP facility at Kenkiyak and the oil transportation pipeline between the Akzhar field and Kenkiyak commenced in late 2009. Construction of the PSP and the pipeline was completed in March/April 2010, with the PSP coming on stream immediately following regulatory approval. Pressure testing of the pipeline was completed satisfactorily; regulatory approval was issued, enabling the pipeline to come on stream in June 2010. The pipeline enables Altius to virtually double's our production capacity from the Akhzar field and has the potential for a further significant increase in capacity at limited additional capital cost. Completion of the pipeline and PSP enables very significant increases in production from the Akhzar field, which is currently constrained by transport capacity issues. At the end of May 2010, the group repaid the outstanding \$45 million loan with Calyon.

Oil and gas reserves

The latest available independent external assessment of the Oil and Gas reserves of the group are as follows:

| Country | Proved reserves (mmBbls) | Probable reserves (mmBbls) | Possible reserves (mmBbls) | External assessment performed | Effective date |
|-------------------|--------------------------|----------------------------|----------------------------|-------------------------------|----------------|
| Kazakhstan | | | | | |
| • Akzhar field | 33.0 | 30.6 | 21.2 | Ryder Scott | 31/12/2009 |
| • Besbolek field | 7.1 | 2.9 | 1.6 | Ryder Scott | 31/12/2009 |
| • Karaitaikyz | 0.6 | 0.3 | 0.0 | Ryder Scott | 31/12/2009 |
| • Alimbai | 1.6 | 2.9 | 1.3 | Ryder Scott | 31/12/2009 |

The Kazakhstan assessment has been performed in accordance with the requirements of the Society of Petroleum Engineers' guidelines.

Statement of Officers' Responsibilities

The Officers are responsible for preparing the Interim Report and the financial statements in accordance with applicable law and regulations. Company law requires the Officers to prepare financial statements for each financial reporting period. The Officers have prepared the group financial statements in accordance with International Financial Reporting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the group and of the profit or loss for that period. In preparing these financial statements the Officers are also required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates on a reasonable and prudent basis;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will be able to continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Officers confirm that they have complied with the above requirements in preparing the financial statements. In addition, so far as each Officer is aware, there is no relevant audit information of which the auditors are unaware and each of the Officers has taken all the steps that he ought to have taken in order to make himself aware of any relevant audit information and to establish that the auditor was aware of such information. The Officers are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and that all financial information presented elsewhere in the Annual Report is consistent, where appropriate, with that contained in the financial statements. The Officers are responsible for ensuring that the Company maintains systems of internal accounting and administration controls designed to provide reasonable assurance that the financial information is relevant, reliable and accurate. The Officers are responsible for the maintenance and integrity of the statutory and audited information on the Company's website.

Auditors

Ernst & Young LLP, Kazakhstan, ("E&Y LLP") have been appointed to review these special purpose financial statements.

Alastair D McBain
Chief Executive Officer
29 October 2010



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REPORT ON REVIEW OF SPECIAL PURPOSE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the management of Altius Holdings Inc.:

Introduction

We have reviewed the accompanying special purpose interim condensed consolidated financial statements of Altius Holdings Inc. ("the Company") and its subsidiaries ("the Group") as at 30 June 2010, comprising of the special purpose interim consolidated statement of financial position as at 30 June 2010 and the related special purpose interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these special purpose interim condensed consolidated financial statements in accordance with basis of preparation described in Note 2. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with basis of preparation described in Note 2.



Restriction on use

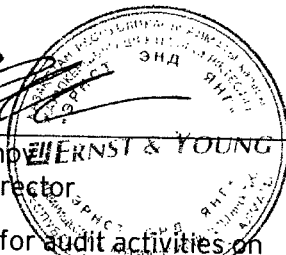
The purpose of these accompanying special purpose interim condensed consolidated financial statements is for inclusion into a regulatory filing related to a proposed listing of the Group on the Kazakhstan Stock Exchange and therefore should not be used for any other purpose. These special purpose interim condensed consolidated financial statements represent the financial history of the listing Group only and exclude certain other subsidiaries and their financial results, which have been disposed of prior to the proposed listing and therefore have not been prepared in accordance with IFRS (Note 2).

Ernst & Young LLP

Paul Cohn
Audit Partner

Evgeny Zhemaletdinov
Auditor / General Director

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series MΦЮ-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

29 October 2010

Altius Holdings Inc

Unaudited Interim Condensed Consolidated income statement

| For the 6 month periods and year ending: | | 30 June 2010 \$000 | 30 June 2009 \$000 | 31 December 2009 \$000 |
|--|--------------|-----------------------|-----------------------|---------------------------|
| | Notes | | | |
| Revenue | 5 | 89,509 | 52,673 | 134,363 |
| Cost of sales | | 27,274 | 18,220 | 40,575 |
| Gross profit | | 62,235 | 34,453 | 93,788 |
| Distribution costs | | 14,516 | 9,912 | 23,145 |
| General and administrative expenses | | 7,971 | 7,781 | 16,895 |
| Operating profit | | 39,748 | 16,760 | 53,748 |
| Finance income | | 189 | 780 | 1,542 |
| Finance costs | | 2,871 | 1,365 | 3,913 |
| Finance cost - net | | (2,682) | (585) | (2,371) |
| Profit before income tax | | 37,066 | 16,175 | 51,377 |
| Income tax expense | 6 | 11,438 | 11,588 | 18,697 |
| Profit for the period | | 25,628 | 4,587 | 32,680 |

Unaudited Interim Condensed Consolidated statement of other comprehensive income

There were no items of other comprehensive income in any period/year.

The accompanying notes on pages 8 to 15 are an integral part of these consolidated financial statements.

Altius Holdings Inc

Unaudited Interim Condensed Consolidated Statement of financial position

| As at | | 30 June 2010 \$000 | 31 December 2009 \$000 |
|--|--------------|-----------------------|---------------------------|
| | Notes | | |
| Non-current assets | | | |
| Property plant and equipment | 7 | 80,938 | 76,218 |
| Intangible assets | 8 | 44,619 | 45,337 |
| Deferred income tax assets | 15 | 1,512 | 1,535 |
| Other non-current assets | 9 | 2,571 | 69,870 |
| | | 129,640 | 192,960 |
| Current assets | | | |
| Inventory | 10 | 3,224 | 5,309 |
| Trade and other receivables | 11 | 37,147 | 47,969 |
| Cash and cash equivalents | | 50,143 | 6,612 |
| | | 90,514 | 59,890 |
| Total Assets | | 220,154 | 252,850 |
| Current liabilities | | | |
| Trade and other payables | 12 | 15,324 | 13,160 |
| Corporate income taxes payable | | 5,045 | 1,645 |
| Short term debt | 13 | 0 | 14,844 |
| Current portion of other long term liabilities | | 326 | 601 |
| | | 20,695 | 30,250 |
| Non-current liabilities | | | |
| Long term debt | 14 | 2,904 | 51,827 |
| Deferred income tax liabilities | 15 | 12,632 | 12,780 |
| Other long term liabilities | | 5,072 | 5,072 |
| Provisions for decommissioning costs | | 5,629 | 5,327 |
| | | 26,237 | 75,006 |
| Net Assets | | 173,222 | 147,594 |
| Shareholders' equity | | | |
| Share capital | | 52,419 | 52,419 |
| Retained earnings | | 120,803 | 95,175 |
| Total shareholders' equity | | 173,222 | 147,594 |

The accompanying notes on pages 8 to 15 are an integral part of these consolidated financial statements.

The financial statements on pages 8 to 15 were authorised for issue by the Board of Directors on 29 October 2010 and were signed on its behalf by

Alastair D. McBain
Director and Chief Executive Officer

Altius Holdings Inc

Unaudited Interim Condensed Consolidated statement of cash flows

| For the 6 month period ending: | Notes | 30 June 2010 \$000 | 30 June 2009 \$000 |
|---|-------|-----------------------|-----------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 16 | 60,220 | 12,968 |
| Interest received | | 25 | 18 |
| Interest paid | | (2,526) | (1,005) |
| Income tax paid | | (8,102) | (18,307) |
| Net cash generated/(spent) from operating activities | | 49,617 | (6,326) |
| Cash flows from investing activities | | | |
| Purchase of Tangible and intangible assets | 16 | (9,254) | (2,846) |
| Net cash used in investing activities | | (9,254) | (2,846) |
| Cash flows from financing activities | | | |
| Proceeds from long term debt – group payables | | - | 22,800 |
| Settlement of long term intra-group receivables | | 66,353 | - |
| Long term debt repayments - banks | | (45,000) | (17,800) |
| Long term debt repayment – intra-group | | (17,800) | - |
| Payment of other long term liabilities | | (385) | (466) |
| Net cash generated from financing activities | | 3,168 | 4,534 |
| Net increase/(decrease) in cash and cash equivalents | | 43,531 | (4,638) |
| Cash and cash equivalents, beginning of the period | | 6,612 | 21,228 |
| Cash and cash equivalents at end of the period | | 50,143 | 16,590 |

The accompanying notes on pages 8 to 15 are an integral part of these consolidated financial statements.

Altius Holdings Inc

Unaudited Interim Condensed Consolidated Statement of changes in Shareholders' equity

| | Share Capital \$000 | Retained earnings \$000 | Total \$000 |
|--|------------------------|-------------------------------|----------------|
| Balances as at 1 January 2009 | 52,419 | 62,495 | 114,914 |
| Result for the period | - | 4,587 | 4,587 |
| Balances as at 30 June 2009 | 52,419 | 67,082 | 119,501 |
| Result for the period | - | 28,093 | 28,093 |
| Balances as at 31 December 2009 | 52,419 | 95,175 | 147,594 |
| Result for the period | - | 25,628 | 25,628 |
| Balances as at 30 June 2010 | 52,419 | 120,803 | 173,222 |

The accompanying notes on pages 8 to 15 are an integral part of these consolidated financial statements.

Altius Holdings Inc

Notes to the unaudited financial statements for the period ended 30 June 2010

All amounts are in thousands of U.S. dollars unless otherwise stated.

1. General information

Altius Holdings Inc (“the company”) and its subsidiaries (together “the group”) is an independent upstream oil and gas company with a portfolio of development and production assets located in the prolific Oil basins of Kazakhstan. Altius operates four producing fields in Kazakhstan (Akzhar, Besbolek, Alimbai and Karataikyzy).

2. Basis of preparation

On 1 January 2010, three pre-existing Canadian companies (Altius Energy Corporation, Arawak Acquisition Inc and 1153264 Alberta Limited) were amalgamated with Altius Holdings Inc, in accordance with Canadian legal practice (see note 3).

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) except as described below.

The basis of preparation under which these accounts have been prepared results in the following material departure from IFRSs. In all other respects IFRSs have been applied:

- IAS 27 “Consolidated and Separate Financial Statements” defines a group as a parent and its subsidiaries and further describes how consolidated financial statements are prepared. The historical financial information does not include the results of operations of subsidiaries of the holding company Altius Holdings Inc. and therefore does not comply with the requirements of IAS 27.

These financial statements, which have been prepared specifically for the purpose of a regulatory filing for the listing of Altius Holdings Inc on the KASE, is prepared on a basis that consolidates Altius Petroleum International BV and its subsidiaries but excludes Balkhash Petroleum BV, Leopard Oil BV, Steppe Eagle Oil BV and Ibex Petroleum BV and their respective subsidiaries, by applying the principles underlying the consolidation procedures of IAS 27 for each of the periods to 31 December 2008, 31 December 2009 and 30 June 2010 and as of those dates. Management believe that presentation of the actual entities being listed provides more relevant information to the regulatory authority.

The interim condensed consolidated special purpose financial statements of Altius Holdings Inc have been prepared in US dollars under the historical cost convention as modified by the revaluation of other financial assets and liabilities at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group’s accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the company’s financial statements are disclosed in the 31 December 2009 audited financial statements.

3. Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009, except for the adoption of new standards and interpretations as of 1 January 2010, noted below:

- IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions. The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this

- amendment did not have any impact on the financial position or performance of the Group;
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment had no effect on the financial position nor performance of the Group;
 - IFRIC 17 Distribution of Non-cash Assets to Owners. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position nor performance of the Group;
 - Improvements to IFRSs (issued May 2008). In May 2008, the Board issued its first omnibus of amendments to its standards. All amendments issued are effective for Altius Holdings Inc ember 2009, apart from the following:
 - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and had no impact on the financial position nor financial performance of the Group.
 - Improvements to IFRSs (issued April 2009). In April 2009 the Board issued its second 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.
 - IFRS 8 Operating Segment Information: Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group’s chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in the 31 December 2009 financial statements.
 - IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement. The transaction is reflected in the Statement of Cash Flows and Note 12.
 - IAS 36 Impairment of Assets: The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.
 - Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:
 - IFRS 2 Share-based Payment
 - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
 - IAS 1 Presentation of Financial Statements
 - IAS 17 Leases
 - 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

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

4. Seasonality of operations

Whilst the Company’s Oil operations are not seasonal in nature, certain activities, such as well drilling and workover activities, cannot be undertaken at certain times of the year due to seasonal weather variations. This has the effect of causing some variation in the level of Oil production and hence operating profit between the two halves of the financial year.

5. Revenue

| For the years ended: | 30 June 2010 \$000 | 30 June 2009 \$000 |
|----------------------|-----------------------|-----------------------|
| Gross revenue | 106,970 | 57,883 |
| Export duties | (17,461) | (5,210) |
| Revenue | 89,509 | 52,673 |

6. Income tax expense

The income tax cost for the year is as follows:

| For the years ended: | 30 June 2010 \$000 | 30 June 2009 \$000 |
|---|-----------------------|-----------------------|
| Current | | |
| Current tax on profits for the year | 11,512 | 3,458 |
| Adjustments in respect of prior years | - | 2 |
| Total current tax | 11,512 | 3,460 |
| Deferred taxation | | |
| Origination and reversal of temporary differences | 23 | 8,136 |
| Adjustments in respect of tax rates | (97) | (8) |
| Total deferred tax | (74) | 8,128 |
| Income tax expense | 11,438 | 11,588 |

7. Property, plant and equipment

Acquisitions and disposals

During the six months ended 30 June 2010, the Group acquired tangible fixed assets with a cost of \$10,846,000 (30 June 2009: \$3,216,000). The amount of borrowing costs capitalised during the six months ended 30 June 2010 was \$Nil (2009: \$Nil). The weighted average rate used to determine the amount of borrowing costs eligible for capitalisation was US\$LIBOR plus 3 %, which is the effective interest rate of the borrowing.

Assets with a net book value of \$405,000 were disposed of by the Group during the six months ended 30 June 2010 (30 June 2009: \$279,000), resulting in a net loss on disposal of \$319,000 (30 June 2009: \$279,000).

8. Intangible assets

Acquisitions and disposals

During the six months ended 30 June 2010, the Group acquired intangible fixed assets with a cost of \$406,000 (2009: \$1,202,000). Assets with a net book value of \$174,000 were disposed of by the Group during the six months ended 30 June 2010 (2009: \$Nil), resulting in a net loss on disposal of \$150,000 (30 June 2009: \$Nil).

9. Other non-current assets

| As at: | 30 June 2010 | 31 December 2009 |
|--|--------------|------------------|
| | \$000 | \$000 |
| Receivables from Arawak Energy group companies | 2,571 | 69,870 |
| Total | 2,571 | 69,870 |

The amounts due from fellow Arawak group companies were mostly repaid during May 2010. The cash received was used to settle long term inter-company liabilities with fellow Arawak group undertakings and to settle the group's \$80 million borrowing facility with Calyon. The outstanding \$45 million due on this loan was repaid on 28 May 2010.

10. Inventory

| As at: | 30 June 2010 | 31 December 2009 |
|------------------------|--------------|------------------|
| | \$000 | \$000 |
| Supplies | 1,528 | 3,282 |
| Crude oil | 1,696 | 2,027 |
| Total inventory | 3,224 | 5,309 |

No impairment charges were needed as at 30 June 2010 or 31 December 2009.

11. Trade and other receivables

The fair value of the group's trade and other receivables is set out below:

| As at: | 30 June 2010 | 31 December 2009 |
|--|---------------|------------------|
| | \$000 | \$000 |
| Trade receivables | 1 | 83 |
| Less: provisions for impairment | - | - |
| Trade receivables (net) | 1 | 83 |
| Prepaid expenses | 5,150 | 8,150 |
| Receivables from Arawak Energy group companies | 4,467 | 5,386 |
| Receivables from Vitol Holding group companies | 19,969 | 27,135 |
| Refundable value added taxes | 7,560 | 7,215 |
| Total | 37,147 | 47,969 |

Trade receivables are considered to be fully recoverable and classified as current (less than 60 days from the date of invoice). No amounts are considered to be past due date but not considered to be impaired.

12. Trade and other payables

| As at: | 30 June 2010 \$000 | 31 December 2009 \$000 |
|---|-----------------------|---------------------------|
| Trade payables | 2,519 | 7,996 |
| Amounts due to fellow Vitol Holding group companies | 2,854 | 6 |
| Amounts due to fellow Arawak Energy group companies | - | 4,181 |
| Social security and other taxes | 9,479 | (638) |
| Accrued expenses | 472 | 1,615 |
| | 15,324 | 13,160 |

13. Short term debt

| As at: | 30 June 2010 \$000 | 31 December 2009 \$000 |
|---|-----------------------|---------------------------|
| Short-term portion of long term loans | - | 15,000 |
| Less short term portion of capitalised fees | - | (156) |
| Short term debt | - | 14,844 |

14. Long term debt

| As at | 30 June 2010 \$000 | 31 December 2009 \$000 |
|---|-----------------------|---------------------------|
| Bank loans | - | 45,000 |
| Less: | | |
| Short-term portion | - | (15,000) |
| Unamortised debt issue costs | - | (622) |
| Less: | | |
| Short-term portion | - | 156 |
| Due to fellow Arawak Energy group companies | 2,904 | 22,293 |
| Long term debt | 2,904 | 51,827 |

In May 2008 the Company's wholly-owned subsidiary Altius Petroleum International BV ("Altius") signed a reserve-based financing agreement with Calyon. The Calyon facility of \$80 million (of which \$60 million had been drawn as at 31 December 2009) is secured against a crude oil purchase agreement between Altius and Vitol, and was guaranteed by Altius Energy Limited, the Company's parent undertaking. The facility limit reduces annually and the loan must be repaid in full within five years of the date of the agreement. Interest is paid quarterly at an interest rate of US LIBOR plus 1.75%. An amount of net \$15 million was repaid during 2009, leaving the principal amount outstanding of \$45 million at the year end. Altius repaid this loan in full as at 28 May 2010.

15. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred income taxes assets and liabilities relate to income taxes levied by the same tax authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts are as follows:

| As at: | 30 June 2010 \$000 | 31 December 2009 \$000 |
|---|-----------------------|---------------------------|
| Deferred tax asset to be recovered after 12 months | 1,512 | 1,535 |
| Deferred tax asset to be recovered within 12 months | - | - |
| Deferred income tax assets | 1,512 | 1,535 |
| Deferred tax liability to be recovered after 12 months | 12,627 | 12,689 |
| Deferred tax liability to be recovered within 12 months | 5 | 91 |
| Deferred income tax liabilities | 12,632 | 12,780 |
| Net deferred income tax liabilities | 11,120 | 11,245 |

16. Cash flow statement

Reconciliation of Profit before taxation to Cash generated from Operations

| For the year ended: | 30 June 2010 \$000 | 30 June 2009 \$000 |
|--|-----------------------|-----------------------|
| Profit before taxation | 37,066 | 16,175 |
| <i>Adjustments for non-cash items</i> | | |
| Depreciation and amortisation | 6,670 | 4,009 |
| Non-cash interest expense/(income) - (net) | 1,106 | (402) |
| Loss on disposal of fixed assets | 469 | 279 |
| <i>Change in working capital</i> | | |
| Decrease/(Increase) in Inventory | 2,086 | 1,519 |
| Decrease/(Increase) in Trade and other receivables | 10,822 | (4,948) |
| Increase/(Decrease) in Trade and other payables | 2,001 | (3,664) |
| Cash generated from Operations | 60,220 | 12,968 |

Non-cash transactions

Capitalised property and equipment includes expenditure which was not settled in cash in the period of acquisition. The most significant non-cash elements are as follows:

| As at | 30 June 2010 \$000 | 30 June 2009 \$000 |
|---|-----------------------|-----------------------|
| Property and equipment additions | 9,978 | 4,259 |
| Less: | | |
| Non-cash additions | (724) | - |
| Asset retirement obligations | - | (1,413) |
| Total additions per the cash flow statement | 9,254 | 2,846 |

17. Commitments and contingent liabilities

Work commitments

Pursuant to its contracts, Altius has minimum spending commitments for several of its oilfields in Kazakhstan. Non-fulfilment of contractual work commitments could result in punitive actions by the Government, including suspending or revoking the licenses for which the work commitment was not fulfilled.

The work commitments for each of the next five years and in total are as follows:

| \$000 | 2010 | 2011 | 2012 | 2013 | Thereafter | Total |
|--------------|-----------|------------|------------|------------|--------------|--------------|
| Akzhar | - | - | - | - | - | - |
| Besbolek | - | - | - | - | - | - |
| Karataikyz | - | - | - | - | - | - |
| Alimbai | 57 | 113 | 113 | 113 | 9,335 | 9,731 |
| Total | 57 | 113 | 113 | 113 | 9,335 | 9,731 |

Expenditure and lease commitments

Commitments under operating leases and similar contractual arrangements for each of the next five years and in total are as follows:

| \$000 | 2010 | 2011 | 2012 | 2013 | Thereafter | Total |
|----------------|---------------|----------|----------|----------|------------|---------------|
| Buildings | - | - | - | - | - | - |
| Machinery | 65 | - | - | - | - | 65 |
| Trucking costs | 3,220 | - | - | - | - | 3,220 |
| Pipeline costs | 20,804 | - | - | - | - | 20,804 |
| Total | 24,089 | - | - | - | - | 24,089 |

18. Related party transactions

All of the transactions below are recorded according to the terms of the related party contracts, which are on terms which management believes are no more and no less favourable than those with unrelated parties. Vitol Holding B.V. and its subsidiaries.

A member of the Vitol group ("Vitol") of companies, owned 100 % of the Company's outstanding shares at 31 December 2009 and 30 June 2010. Most of the transactions were in the normal course of operations and all have been recorded at the exchange amount.

a) Crude oil sales

Revenues from Kazakhstan export crude oil sales during the six months ended 30 June 2010 received from Vitol group were \$102 million (2009 – \$147 million). Accounts receivable at 30 June 2010 include revenues from export crude oil sales to Vitol group of \$19.4 million (31 December 2009 – \$27.1 million). The sales price is settled at the date of sale.

b) Transportation and selling costs

Transportation and selling costs include \$0.02 million (2009: \$0.05 million) charged by Vitol group associated with export oil sales and related accounts payable and accrued liabilities outstanding at 30 June 2010 was nil (31 December 2009 – nil).

c) Services provided by fellow group undertakings

i) Oil field services

Leopard Services LLP, a Kazakhstan based business, provides certain well workover and transportation services to the group's Kazakhstan branches. Production expenses include \$8.9 million (2009: \$15.9 million). Amounts included in prepayments \$nil (2009: \$nil) and creditors

due within 12 months \$nil (2009: \$nil).

ii) Management services

Arawak Energy Limited, the Company's immediate parent undertaking provides management and corporate services (legal, technical, finance) to the group. As part of the cost of providing these services, an element of head office overhead costs are also recharged.

d) Reserve-based finance facility

In May 2008, the Company's wholly owned subsidiary Altius Petroleum International BV signed an agreement with Calyon for a five-year \$80 million reserve-based finance facility with Vitol participating alongside Calyon, providing \$20 million of the original loan. The interest payable to Calyon in respect of the Vitol participation was \$0.14 million in 2010 (2009 - \$0.9 million).

19. Events after the balance sheet date

In July 2010, the Kazakh government announced that it was reintroducing Customs Export Tax at a rate of \$20 per tonne of oil of exported. The tax became payable on all export sales made by the group from August 2010.