

US\$300,000,000



Tristan Oil Ltd.

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**10½% Senior Secured Notes due 2012**


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**Our Business**

We are engaged in the exploration and development of oil and gas fields and the production of oil, condensate and gas in the Pre Caspian basin of Western Kazakhstan.

**The Notes**

*The Issuer.* Tristan Oil Ltd. ("Tristan Oil" or the "Company"), a British Virgin Islands company, is a new company that was formed solely to issue the Notes.

*Guarantors.* The Notes will be jointly and severally guaranteed on a senior secured basis by Kazpolmunay LLP ("KPM") and Tolkyneftegaz LLP ("TNG"), both of which are affiliates of Tristan Oil, and by all future restricted subsidiaries of KPM and TNG.

*Use of Proceeds.* The net proceeds from the sale of the Notes will be used to repay certain existing indebtedness of TNG, make a shareholder distribution and for working capital and general corporate purposes of KPM and TNG.

*Maturity.* The Notes will mature on January 1, 2012.

*Interest Payments.* Tristan Oil will pay interest on the Notes at an annual rate of 10½%. Tristan Oil will make interest payments semi-annually on each January 1 and July 1, commencing July 1, 2007.

*Ranking.* The Notes will be Tristan Oil's senior secured obligations, will rank senior in right of payment to all of its existing and future subordinated indebtedness and will rank equal in right of payment with all of its existing and future senior indebtedness. The guarantees of the Notes will be senior secured obligations of each of the guarantors, will rank senior in right of payment to all of their existing and future subordinated indebtedness and will rank equal in right of payment with all of their existing and future senior indebtedness.

*Security.* The Notes will be secured by pledges of (1) 100% of the capital stock of Tristan Oil and (2) all notes payable to Tristan Oil by KPM, TNG and TNG's parent company. The guarantees of the Notes will be secured by pledges of 100%

the capital stock of KPM, TNG and any future guarantors of the Notes.

*Optional Redemption.* Prior to July 1, 2009, Tristan Oil may redeem up to 35% of the Notes at the price set forth in this offering circular with the net proceeds of an initial public offering of Tristan Oil, KPM or TNG. On or after July 1, 2009, Tristan Oil may redeem all or a portion of the Notes at the prices set forth in this offering circular. In addition, Tristan Oil may redeem all of the Notes upon the occurrence of certain changes in applicable tax law.

*Change of Control Offer.* If Tristan Oil, KPM or TNG experience a change of control, each holder of the Notes will have the right to require Tristan Oil to repurchase the Notes at the price set forth in this offering circular.

*Asset Sale Offer.* If KPM or TNG sell certain assets and do not use the proceeds as permitted under the indenture governing the Notes, Tristan Oil will be required to offer to purchase the Notes at the price set forth in this offering circular.

*Excess Cash Flow Offer.* Within 90 days after the end of each fiscal year in which our Excess Cash Flow is \$5.0 million or more, Tristan Oil must offer to repurchase a portion of the Notes at the price set forth in this offering circular, with 50% of our Excess Cash Flow from the previous fiscal year.

*No Registration Rights.* The offer and sale of the Notes will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any other jurisdiction and the Notes may only be resold as provided for herein. No offer to exchange the Notes in a transaction registered under the Securities Act will be made.

*Luxembourg Listing.* Application will be made to list the Notes on the Euro MTF, the alternative market of the Luxembourg Stock Exchange.

*PORTAL®.* We expect that the Notes will be eligible for trading in the PORTAL Market®, a subsidiary of the Nasdaq Market, Inc.

*Delivery.* The Notes will be ready for delivery on or about December 20, 2006, in book entry form through the Depository Trust Company.

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**Investing in the Notes involves a high degree of risk. See "Risk Factors" beginning on page 11.**

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The offer and sale of the Notes will not be registered under the Securities Act, and Tristan Oil will not be registered under the United States Investment Company Act of 1940, as amended (the "Investment Company Act"). The Notes will be offered and sold only (i) within the United States or to, or for the account or benefit of, U.S. Persons, in reliance on Rule 144A under the Securities Act ("Rule 144A") to persons who are both (A) qualified institutional buyers (as defined in Rule 144A) and (B) qualified purchasers (for the purposes of Section 3(c)(7) of the Investment Company Act) and (ii) to non-U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")) in offshore transactions (as defined in Regulation S) in reliance on Regulation S. See "Notice to Investors."

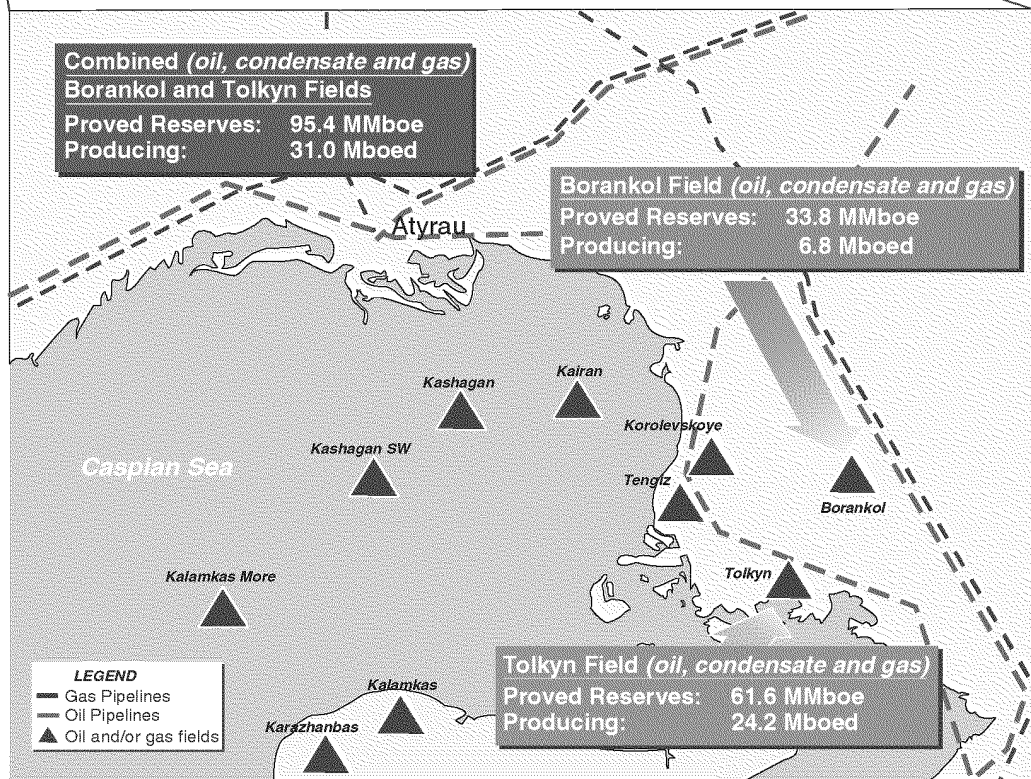
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**PRICE: 100%**

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**Jefferies & Company**

*The date of this offering circular is December 13, 2006*



Notes: Proved reserves as of December 31, 2006. Average daily production for six months ended June 30, 2006.

## IMPORTANT INFORMATION ABOUT THIS OFFERING CIRCULAR

**This offering circular is highly confidential. We prepared it solely for use in connection with this offering. You may not reproduce or distribute this offering circular, in whole or in part, and you may not disclose any of the contents of this offering circular or use any information herein for any purpose other than considering an investment in the Notes. If you do not purchase any Notes or this offering is terminated for any reason, you will return this offering circular to Jefferies & Company, Inc., 520 Madison Avenue, 12th Floor, New York, NY 10022. By accepting delivery of this offering circular, you expressly agree, for our benefit and the benefit of the initial purchaser, to the foregoing and to maintain the disclosed information contained or incorporated by reference in this offering circular in confidence. You may not distribute this offering circular or disclose its contents to anyone without our prior written consent, other than persons you have retained to advise you in connection with this offering.**

**The information in this offering circular is current only as of the date on its cover. For any time after the cover date of this offering circular, the information, including information concerning our business, prospects, financial condition or results of operations may have changed.**

This offering is being made on the basis of this offering circular. This offering circular summarizes certain documents and other information and we refer you to the actual documents for a more complete understanding of what we discuss in this offering circular. Any decision to purchase Notes in this offering must be based on the information contained herein and on your own evaluation of our business and the terms of this offering, including the merits and risks of the investment. We have not, and the initial purchaser has not, authorized any person to give any information or make any representations about us that are not contained in this offering circular in connection with this offering. If any information is given or any representations are made to you outside of this offering circular, they should not be relied upon as having been authorized by the initial purchaser or us.

Jefferies & Company, Inc., the initial purchaser, is not responsible for the accuracy or completeness of this offering circular. The initial purchaser has not acted on your behalf to independently verify the information in this offering circular. Nothing in this offering circular is, or may be relied upon as, a promise or representation by the initial purchaser as to the past, present or future.

This offering circular is directed only to each person to whom it is delivered by or on behalf of the initial purchaser or us, and is not an offer to any other person or to the public generally. The initial purchaser and we reserve the right to reject all or part of any offer to purchase Notes for any reason. The initial purchaser and we also reserve the right to sell less than all of the Notes offered by this offering circular or to sell to any purchaser less than the principal amount of Notes such purchaser has offered to purchase.

By accepting delivery of this offering circular you expressly agree that neither we nor the initial purchaser is giving you legal, business, financial or tax advice about any matter. You may not be legally able to participate in this private offering. You should consult with your own attorney, accountant and other advisors about those matters (including to determine if you may legally participate in this private offering). You must comply with all applicable laws and regulations (including obtaining required consents, approvals or permissions) in force in any jurisdiction in which you purchase, offer or sell the Notes. Neither we nor the initial purchaser has any responsibility for any purchase, offer or sale of the Notes by you.

This offering circular does not constitute an offer to sell or a solicitation of an offer to buy the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this offering circular and the offer or sale of the Notes in certain jurisdictions is restricted by law. This offering circular may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorized or is unlawful. The Notes sold in the offering are also subject to restrictions on transferability and resale. Persons into

whose possession this offering circular may come are required to inform themselves about and to observe the aforementioned restrictions. Further information with regard to restrictions on offers, sales and deliveries of the Notes and the delivery of the offering circular is set in the “*Notice to Investors*” section of this offering circular.

**If you purchase the Notes, you agree that your purchase will constitute your representation, warranty, acknowledgment of and agreement to the statements contained in the “*Notice to Investors*” section of this offering circular.**

If you have any questions relating to this offering circular or this offering, or if you require additional information in connection with your investment in the Notes, you should direct your questions to the initial purchaser or us.

Neither the U.S. Securities and Exchange Commission (the “SEC”), nor any U.S. state securities commission has approved or disapproved the offer or sale of the Notes or determined that this offering circular is truthful or complete. Any representation to the contrary is a criminal offense.

In connection with this offering, the initial purchaser may engage in transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, the initial purchaser may over allot Notes in connection with this offering, (provided that the aggregate principal amount of Notes allotted does not exceed 105.0% of the aggregate principal amount of the Notes) and may bid for and purchase Notes in the open market. For a description of these activities, see “*Plan of Distribution*.”

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#### RESALE RESTRICTIONS

**THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PROVIDED FOR HEREIN UNDER “NOTICE TO INVESTORS”. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.**

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#### FOR NEW HAMPSHIRE RESIDENTS ONLY

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE UNIFORM SECURITIES ACT WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

**FOR FLORIDA RESIDENTS ONLY**

**THE SECURITIES ARE OFFERED PURSUANT TO A CLAIM OF EXEMPTION UNDER SECTION 517.061 OF THE FLORIDA SECURITIES ACT AND HAVE NOT BEEN REGISTERED UNDER SAID ACT IN THE STATE OF FLORIDA. ALL FLORIDA RESIDENTS (OTHER THAN EXEMPT INSTITUTIONAL INVESTORS) HAVE THE RIGHT TO VOID THE PURCHASE OF THE SECURITIES, WITHOUT PENALTY, WITHIN THREE DAYS OF MAKING SUCH PURCHASE.**

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**UNITED KINGDOM**

**THE LEAD MANAGER HAS REPRESENTED, WARRANTED AND AGREED THAT: (1) IT HAS ONLY COMMUNICATED OR CAUSED TO BE COMMUNICATED AND WILL ONLY COMMUNICATE OR CAUSE TO BE COMMUNICATED AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (THE “FSMA”)) RECEIVED BY IT IN CONNECTION WITH THE ISSUE OR SALE OF ANY NOTES IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FSMA DOES NOT APPLY TO THE ISSUER OR THE GUARANTOR; AND SECTION 99 (2) IT HAS COMPLIED AND WILL COMPLY WITH ALL APPLICABLE PROVISIONS OF THE FSMA WITH RESPECT TO ANYTHING DONE BY IT IN RELATION TO SUCH NOTES IN, FROM OR OTHERWISE INVOLVING THE UNITED KINGDOM.**

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**EUROPEAN ECONOMIC AREA**

**IN RELATION TO EACH MEMBER STATE OF THE EUROPEAN ECONOMIC AREA WHICH HAS IMPLEMENTED THE PROSPECTUS DIRECTIVE (EACH, A “RELEVANT MEMBER STATE”), THE INITIAL PURCHASER HAS REPRESENTED AND AGREED THAT WITH EFFECT FROM AND INCLUDING THE DATE ON WHICH THE PROSPECTUS DIRECTIVE IS IMPLEMENTED IN THAT RELEVANT MEMBER STATE (THE “RELEVANT IMPLEMENTATION DATE”) IT HAS NOT MADE AND WILL NOT MAKE AN OFFER OF NOTES TO THE PUBLIC IN THAT RELEVANT MEMBER STATE PRIOR TO THE PUBLICATION OF A PROSPECTUS IN RELATION TO THE NOTES WHICH HAS BEEN APPROVED BY THE COMPETENT AUTHORITY IN THAT RELEVANT MEMBER STATE OR, WHERE APPROPRIATE, APPROVED IN ANOTHER RELEVANT MEMBER STATE AND NOTIFIED TO THE COMPETENT AUTHORITY IN THAT RELEVANT MEMBER STATE, ALL IN ACCORDANCE WITH THE PROSPECTUS DIRECTIVE, EXCEPT THAT IT MAY, WITH EFFECT FROM AND INCLUDING THE RELEVANT IMPLEMENTATION DATE, MAKE AN OFFER OF NOTES TO THE PUBLIC IN THAT RELEVANT MEMBER STATE AT ANY TIME: (A) TO LEGAL ENTITIES WHICH ARE AUTHORIZED OR REGULATED TO OPERATE IN THE FINANCIAL MARKETS OR, IF NOT SO AUTHORIZED OR REGULATED, WHOSE CORPORATE PURPOSE IS SOLELY TO INVEST IN SECURITIES; (B) TO ANY LEGAL ENTITY WHICH HAS TWO OR MORE OF (1) AN AVERAGE OF AT LEAST 250 EMPLOYEES DURING THE LAST FINANCIAL YEAR; (2) A TOTAL BALANCE SHEET OF MORE THAN EUR43,000,000 AND (3) AN ANNUAL NET TURNOVER OF MORE THAN EUR50,000,000, AS SHOWN IN ITS LAST ANNUAL OR CONSOLIDATED ACCOUNTS; OR (C) IN ANY OTHER CIRCUMSTANCES WHICH DO NOT REQUIRE THE PUBLICATION BY THE ISSUER OF A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE PROSPECTUS DIRECTIVE.**

**FOR THE PURPOSES OF THIS PROVISION, THE EXPRESSION AN “OFFER OF NOTES TO THE PUBLIC” IN RELATION TO ANY NOTES IN ANY RELEVANT MEMBER STATE MEANS THE COMMUNICATION IN ANY FORM AND BY ANY MEANS OF SUFFICIENT INFORMATION**

**ON THE TERMS OF THE OFFER AND THE NOTES TO BE OFFERED SO AS TO ENABLE AN INVESTOR TO DECIDE TO PURCHASE OR SUBSCRIBE THE NOTES, AS THE SAME MAY BE VARIED IN THAT RELEVANT MEMBER STATE BY ANY MEASURE IMPLEMENTING THE PROSPECTUS DIRECTIVE IN THAT RELEVANT MEMBER STATE AND THE EXPRESSION “PROSPECTUS DIRECTIVE” MEANS DIRECTIVE 2003/71/EC AND INCLUDES ANY RELEVANT IMPLEMENTING MEASURE IN EACH RELEVANT MEMBER STATE.**

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**LUXEMBOURG**

**THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE TERRITORY OF THE GRAND-DUCHY OF LUXEMBOURG UNLESS: (A) A PROSPECTUS HAS BEEN DULY APPROVED BY THE COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER IF LUXEMBOURG IS THE HOME MEMBER STATE (AS DEFINED IN THE LAW OF 10 JULY 2005 ON PROSPECTUSES FOR SECURITIES AND IMPLEMENTING DIRECTIVE 2003/71/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 4 NOVEMBER 2003 ON THE PROSPECTUS TO BE PUBLISHED WHEN SECURITIES ARE OFFERED TO THE PUBLIC OR ADMITTED TO TRADING); (B) IF LUXEMBOURG IS NOT THE HOME MEMBER STATE, THE COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER HAS BEEN NOTIFIED BY THE COMPETENT AUTHORITY IN THE HOME MEMBER STATE THAT THE PROSPECTUS HAS BEEN DULY APPROVED; OR (C) THE OFFER BENEFITS FROM AN EXEMPTION TO OR CONSTITUTES A TRANSACTION NOT SUBJECT TO, THE REQUIREMENT TO PUBLISH A PROSPECTUS.**

## FORWARD-LOOKING STATEMENTS

This offering circular includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical facts included or incorporated by reference in this offering circular, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs and plans and objectives of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “project,” “estimate,” “anticipate,” “believe,” or “continue” or the negative thereof or variations thereon or similar terminology. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we cannot give assurance that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from our expectations (“cautionary statements”) include, but are not limited to, our assumptions about energy markets, production levels, reserve levels, operating results, competitive conditions, technology, the availability of capital resources, capital expenditure obligations, the supply and demand for oil, condensate and gas, the price of oil, condensate and gas and other products, currency exchange rates, the weather, inflation, the availability of drilling rigs and other equipment necessary for our business and of qualified employees, drilling risks, future processing volumes and pipeline throughput, general economic conditions, either internationally or in the jurisdictions in which we are doing business, legislative or regulatory changes, including changes in environmental regulation, environmental risks and liability under environmental laws and regulations, the securities or capital markets and other factors disclosed under “*Risk Factors*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and elsewhere in this report. We assume no duty to update or revise forward-looking statements included in this offering circular based on changes in internal estimates or expectations or otherwise. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements.

## AVAILABLE INFORMATION

Neither we nor the guarantors of the Notes are required to file periodic reports under Sections 13 or 15 of the Exchange Act with the U.S. Securities and Exchange Commission. To permit compliance with Rule 144A under the Securities Act in connection with resales and transfers of Notes pursuant to Rule 144A, we and the guarantors have agreed to provide to any holder or beneficial owner of Notes, or to any prospective purchaser of Notes designated by a holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act, if at the time of such request we or the guarantors, as the case may be, are not a reporting company under Section 13 or Section 15(d) of the Exchange Act or are not exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

## **ENFORCEMENT OF FOREIGN JUDGMENTS**

Tristan Oil is a company organized under the laws of the British Virgin Islands and its directors and principal officers are residents of Moldova, Italy and Romania. As a result, it may not be possible (a) to effect service of process upon Tristan Oil or any such person outside the British Virgin Islands, Moldova, Italy and Romania, (b) to enforce against Tristan Oil or any such person in courts of jurisdictions other than British Virgin Islands, Moldova, Italy and Romania, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or (c) to enforce against Tristan Oil or any such person, in the British Virgin Islands, Moldova, Italy and Romania's courts, judgments obtained in jurisdictions other than British Virgin Islands, Moldova, Italy and Romania, including judgments obtained with respect to the indenture in the courts of New York and judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States.

The guarantors of the Notes, KPM and TNG, are organized under the laws of Kazakhstan and their managing directors and principal officers are residents of Kazakhstan. All or a substantial portion of the assets of the guarantors and of each of such persons are located in Kazakhstan. As a result, it may not be possible (a) to effect service of process upon the guarantors or any such person outside Kazakhstan, (b) to enforce against the guarantors or any such person in courts of jurisdictions other than Kazakhstan, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or (c) to enforce against the guarantors or any such person, in Kazakhstan's courts, judgments obtained in jurisdictions other than Kazakhstan, including judgments obtained with respect to the indenture in the courts of New York and judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States.

## **INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE**

Pursuant to Internal Revenue Service Circular 230, we hereby inform you that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. Such description was written to support the marketing of the Notes. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

## **NON-GAAP FINANCIAL MEASURES**

"EBITDA" is defined in this offering circular as net profit before interest expense, income tax expense, depreciation and amortization. EBITDA is not a standard measure under either International Financial Reporting Standards ("IFRS") or U.S. GAAP and may not be comparable to similarly titled measures reported by other companies due to potential inconsistencies in the method of calculation. For example, net profit includes accounting items associated with capital expenditures, such as depreciation and interest expense, and the presentation of such items may vary between companies depending on the method of accounting adopted by each company. In addition, as our industry is capital intensive, capital expenditure requirements and related levels of debt and interest expense may have a significant impact on the net profit of companies with similar operating results.

As a measure of our operating performance, we believe that the most directly comparable IFRS and U.S. GAAP measure to EBITDA is net profit. We have included EBITDA in addition to net profit because we believe it is an indicative measure of our operating performance and is used by investors and analysts to evaluate companies in our industry. EBITDA should not be construed as an alternative to net profit as a measure of our operating results or to net cash provided by operations as a measure of our liquidity. Funds depicted by EBITDA may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.



## **PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION**

Tristan Oil was incorporated solely for the purpose of issuing the Notes under the indenture, has no business operation of its own and its only significant assets will be loans that it will make to KPM, TNG and TNG's parent company from the net proceeds of this offering.

Our financial information set forth herein has, unless otherwise indicated, been derived from the unaudited condensed interim combined balance sheets and statements of income, cash flows and changes in shareholders' equity of KPM and TNG as of and for the nine months ended September 30, 2005 and 2006 (the "Combined Interim Financial Statements"), and the audited combined balance sheets of KPM and TNG as of December 31, 2003, 2004 and 2005 and the audited combined statements of income, cash flows and changes in shareholders' equity of KPM and TNG for the years ended December 31, 2003, 2004 and 2005 (the "Combined Annual Financial Statements" and together with the Combined Interim Financial Statements, the "Combined Financial Statements").

In addition, included herein are the individual condensed interim unaudited balance sheets and statements of income, cash flows and changes in shareholders' equity of each of KPM and TNG as of and for the nine months ended September 30, 2005 and 2006 ("Individual Interim Financial Statements"), and the audited individual balance sheets of each of KPM and TNG for the years ended December 31, 2003, 2004 and 2005 and the audited individual statements of income, cash flows and changes in shareholders' equity of each of KPM and TNG for the years ended December 31, 2003, 2004 and 2005 (the "Individual Annual Financial Statements" and together with the Individual Interim Financial Statements, the "Individual Financial Statements").

The Combined Financial Statements and the Individual Financial Statements were prepared in accordance with IFRS.

## **PRO FORMA FINANCIAL INFORMATION**

Financial information presented on a pro forma basis in this offering circular reflects assets, liabilities and transactions of Tristan Oil, KPM and TNG after giving effect to the sale of the Notes in this offering and the application of proceeds thereof. Prior to the sale of the Notes in this offering and the application of the net proceeds thereof, Tristan Oil will have no business operations and no significant assets or liabilities.

Ratios of EBITDA to cash interest expense, senior debt to EBITDA and total debt to EBITDA presented on a pro forma basis in this offering circular reflect EBITDA on a historical basis and cash interest expense, senior debt and total debt on a pro forma basis.

## **CERTAIN DEFINED TERMS AND CONVENTIONS**

References to "Kazakhstan" herein are references to the Republic of Kazakhstan. References to "the government" are to the government of the Republic of Kazakhstan. References to "United States" or "U.S." are to the United States of America. Unless otherwise specified, references herein to "dollar," "dollars," "U.S. Dollars", "US\$" or "\$" are to the lawful currency of the United States and references to "Tenge" are to the lawful currency of Kazakhstan.

All references to "tonne" or "tonnes" are to a metric tonne or to metric tonnes, respectively. A metric tonne is a unit of mass equal to 1,000 kilograms, or approximately 2,204.6 pounds.

A meter is a unit of length equal to 39.37 U.S. inches.

A kilometer is a unit of length equal to 1,000 meters, or approximately 0.621 mile.

Certain amounts (including percentage amounts) have been rounded for convenience and certain figures, therefore, may not sum to total amounts or equal quotients.

For the meanings of other terms, including oil, condensate and gas terms, used in this offering circular, see “*Glossary of Oil, Condensate and Gas Terms.*”

## **INDUSTRY AND MARKET DATA**

We have obtained certain market data, industry forecasts and data relating to the oil, condensate and gas industry in Kazakhstan and the Caspian Sea region used throughout this offering circular from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of the information is not guaranteed. Similarly, while we believe these industry forecasts and market research to be reliable, we have not independently verified the information and do not make any representation as to the accuracy of such information.

## OFFERING CIRCULAR SUMMARY

*This summary highlights certain information concerning our business and this offering. It does not contain all of the information that may be important to you and to your investment decision. The following summary is qualified in its entirety by the more detailed information and financial statements and notes thereto appearing elsewhere in this offering circular. Before deciding to invest in the Notes, you should carefully read the entire offering circular and should consider, among other things, the matters set forth in "Risk Factors." Unless the context otherwise indicates or requires, references in this offering circular to the terms the "company," "we," "us" or "our" refer to Tristan Oil, KPM and TNG collectively. The terms "pro forma" or "on a pro forma basis," when used throughout this offering circular, give effect to the sale of Notes in this offering and the application of the net proceeds thereof.*

### **Our Business**

We are engaged in the exploration and development of oil and gas fields and in the production of oil, condensate and gas in the Pre Caspian basin of Western Kazakhstan. We operate on two fields. KPM operates on the Borankol field and TNG operates on the Tolkyln field. The two fields have a combined proved plus probable reserves value of \$865.8 million. With \$416.2 million invested in exploring and developing these fields, we are currently producing 31.0 mboed, with approximately 15.9 years of remaining proved reserve life.

As of December 31, 2006, the Borankol and Tolkyln fields will have combined proved reserves of approximately 95.4 MMboe, 40.7% of which will be oil/condensate and 59.3% of which will be gas. We had 63 producing wells as of June 30, 2006, and we expect to drill 12 wells through the end of 2007. With newly-constructed infrastructure built to Western standards and experienced management and technical teams, we believe that we are well-positioned to increase our reserves, production, cash flow and net profit through the exploration and development of our existing properties.

For the twelve months ended September 30, 2006, we generated approximately \$241.7 million of sales, \$184.9 million of EBITDA and \$75.4 million of net profit. For the same twelve-month period, our pro forma ratio of total debt to EBITDA would have been 2.0x and our pro forma ratio of EBITDA to cash interest expense would have been 4.4x. Additionally, as of September 30, 2006, our pro forma ratio of total reserves value to senior debt would have been 2.9x.

### **The Oil and Gas Industry in Kazakhstan**

Since 2000, Kazakhstan has experienced significant economic growth, driven predominantly by a series of economic reforms and an influx of foreign invested capital. Since 1993, Kazakhstan has attracted more than \$40.0 billion in foreign direct investment, or FDI, the highest FDI per capita rate among all the former republics of the Soviet Union. The energy sector in particular has been the focus of foreign investors. Over the past several years, the country has significantly developed its energy infrastructure in order to accommodate the growing energy production levels.

Major projects in Kazakhstan involving foreign investment include the development of the Tengiz, Korolevskoye, Kashagan and Karachaganak fields. Tengizchevroil LLP, a joint venture among Chevron Corporation, ExxonMobil Corporation, Lukarco Services B.V. and National Company KazMunaiGas, is developing the Tengiz and Korolevskoye oil fields pursuant to a production license granted in 1993. A consortium of international companies of Eni S.p.A., Royal Dutch Shell plc, Total S.A., ExxonMobil Corporation, Conoco Phillips, National Company KazMunaiGas and INPEX Holdings Inc. is developing the Kashagan field pursuant to a production sharing agreement entered into in 1997. A consortium of international companies is also developing the Karachaganak field pursuant to a production sharing agreement entered into in 1997.

As of December 31, 2005, Kazakhstan ranked eighth in the world in oil reserves and eleventh in the world in gas reserves with estimated proved oil and gas reserves of 57.3 billion boe. Kazakhstan is the second largest oil producer (after Russia) among the former republics of the Soviet Union and has the Caspian Sea region's largest oil reserves.

Between 1999 and 2005, Kazakhstan's oil production grew at a compounded annual growth rate, or CAGR, of approximately 13.7% reaching average daily production of 1.4 MMbopd in 2005. The government estimates that the country will produce 2.0 MMbopd by 2010 and 3.0 MMbopd by 2015.

Between 1999 and 2005 Kazakhstan's gas production grew at a CAGR of 16.7% reaching 829.9 bcf in 2005. According to the 15-year development strategy of the Ministry of Energy and Mineral Resources of Kazakhstan, or MEMR, gas production in Kazakhstan will increase to 1.7 tcf by 2010, and to 1.8 tcf by 2015.

### **Our Operations**

We currently conduct our operations on the Borankol and Tolkyn fields.

*Borankol field.* KPM operates on the Borankol field. On average we have produced 97.2% of our oil from the Borankol field during 2005 and the first six months of 2006. Approximately \$159.6 million has been invested in the exploration and development of the Borankol field. The Borankol field covers 16,610 gross acres and, as of December 31, 2006, has a proved reserve base of 33.8 MMboe, 76.6% of which is oil/condensate and 23.4% of which is gas. This proved reserve base represents 35.4% of our total proved reserve base and contributes \$214.8 million or 43.1% to our proved reserves value (the probable reserve base of the Borankol field contributes an additional \$168.4 million to our proved plus probable reserves value). Since production on the Borankol field began in 2001, the field has produced 6.8 MMbbl of oil and condensate, and 9.1 bcf of gas. As of June 30, 2006, there were 44 producing wells on this field, with an average daily production of 6.8 mboed (6.0 mboed of oil, 0.1 mboed of condensate and 0.8 mboed of gas) and 15.9 years of remaining proved reserve life. KPM owns two drilling rigs and it operates both on the Borankol field, and KPM plans to drill 7 additional wells through the end of 2007.

*Tolkyn field.* TNG operates on the Tolkyn field. On average, we have produced 97.5% of our condensate and 95.0% of our gas from the Tolkyn field during 2005 and first six months of 2006. Approximately \$256.5 million has been invested in the exploration and development of the Tolkyn field. The Tolkyn field covers 8,928 gross acres and, as of December 31, 2006, has a proved reserve base of 61.6 MMboe, 21.0% of which is oil/condensate and 79.0% of which is gas. This proved reserve base represents 64.6% of our total proved reserve base and contributes \$283.1 million or 56.9% to our proved reserves value (the probable reserve base of the Tolkyn field contributes an additional \$199.5 million to our proved plus probable reserves value). Since production began on the Tolkyn field in 2003, the field has produced 5.5 MMbbl of oil and condensate, and 111.4 bcf of gas. As of June 30, 2006, there were 19 producing wells on this field, with an average daily production of 24.2 mboed (0.2 mboed of oil, 4.8 mboed of condensate and 19.1 mboed of gas) and 12.5 years of remaining proved reserve life. TNG owns two drilling rigs and it operates both on the Tolkyn field, and TNG plans to drill 5 additional wells through the end of 2007.

### **Business Strengths**

*Demonstrated ability to grow reserves, production volumes and sales.* We have grown our proved developed reserves from 48.3 MMboe at December 31, 2003 to 94.6 MMboe at June 30, 2006. Over the same period, our daily production increased from 17.5 mboed to 31.0 mboed. Our EBITDA increased from \$33.9 million for the twelve months ended December 31, 2003 to \$184.9 million for the twelve months ended September 30, 2006. These increases were due to the construction of our gas and condensate processing facility on the Borankol field completed in April 2003, increased drilling efforts, the success of our drilling activity and other improvements to our infrastructure. We believe we have the opportunities, expertise and knowledge to continue growing our reserves and sales volume.

*Successful drilling history.* We follow a disciplined formal process prior to drilling wells, which entails thorough geological and financial analysis. Many of our drilling locations are in close proximity to areas that have experienced significant oil, condensate and gas production. We have drilled 69 wells through June 30, 2006, achieving a 98.6% success rate and we currently benefit from 95.0% production uptime. Although drilling rigs, drilling crews and other equipment and services related to drilling are in high demand, we believe that we have secured sufficient drilling equipment and services to execute our drilling program. We expect that our approach to drilling will continue to enable us to identify and develop additional prospects.

*Western-Standard Infrastructure.* Our infrastructure, built primarily in the last four years, is in line with Western standards. We have located on site at the Borankol field an oil treatment facility and a gas and condensate processing facility which were constructed in 2001 and 2003, respectively. To accommodate our anticipated growth in production, we expect to complete construction of an additional gas and condensate processing facility, which we believe will increase our processing capacity from 120.0 MMscfg/d to 350.0 MMscfg/d resulting in increased gas and condensate production. In addition, we have built pipelines connecting the Tolkyn field to the production facilities located on the Borankol field. We have also constructed pipelines allowing us to transport our oil, condensate and gas to the pipelines and railways through which we ultimately distribute our products.

*Experienced management and technical teams.* Mr. Anatol Stati, President, Chief Executive Officer and Chairman of the Board of Tristan Oil, entered into the oil and gas business in the Caspian Sea region in 1995. Companies beneficially owned by Mr. Stati and certain members of his family acquired controlling interests in KPM and TNG in 1999 and 2000, respectively. Mr. Stati has led our management team from the early stages of exploration through our consistent growth in production since 2001. In addition, our management and technical teams have an average of 23 years of experience in the oil and gas business.

*Maintain financial flexibility and a conservative capital structure.* We practice a disciplined approach to financial management and have historically maintained a strong capital structure which has provided us with the ability to successfully execute our business plan. For the twelve months ended September 30, 2006, we generated approximately \$241.7 million of sales, \$184.9 million of EBITDA and \$75.4 million of net profit. For the same twelve-month period, our pro forma ratio of senior debt to EBITDA would have been 1.6x and our pro forma ratio of EBITDA to cash interest expense would have been 4.4x. Additionally, as of September 30, 2006, our pro forma ratio of total reserves value to senior debt would have been 2.9x.

## **Business Strategy**

*Focus on expanding production of oil, condensate and gas.* We plan to continue expanding our production of oil, condensate and gas by growing our operations organically. We intend to apply our drilling experience to increase our proved reserves and expect to drill 12 wells through the end of 2007. We expect to complete construction of an additional gas and condensate processing facility which we believe will increase our processing capacity from 120.0 MMscfg/d to 350.0 MMscfg/d and result in increased gas and condensate production and sales.

*Increase profitability of gas operations.* We intend to seek new ways to profit from our substantial gas reserves. We are investing in the construction of a new liquid petroleum gas ("LPG") plant on the Borankol field which we expect to complete in 2008. We will build the LPG plant through a joint venture with Vitol FSU B.V. Once the gas we extract from our wells has been separated from condensate, it will be processed in the LPG plant where a portion of the gas will be turned into LPG. We expect that approximately 7% of the gas we extract from our wells will be processed into LPG. Unlike gas, which must be distributed through pipelines, LPG may be transported by rail, and we believe this will provide us with increased distribution options and the opportunity to realize increased sales.

*Continue to maintain operational control of the exploration and development of our fields.* We currently maintain 100% control over the exploration and development of our fields. By maintaining operational control over the exploration and development of our fields, we are able to utilize our technical and operational expertise to better manage operating costs, capital expenditures and the timing of development activities.

### **Corporate Structure**

Tristan Oil, KPM and TNG are each wholly owned, either directly or indirectly, by Mr. Stati and certain members of the Stati family.

Tristan Oil is a company organized under the laws of British Virgin Islands. Tristan Oil was incorporated solely for the purpose of issuing the Notes under the indenture, has no business operations of its own, and its only assets will be loans that it will make to KPM, TNG and TNG's parent company from the net proceeds of the offering. Tristan Oil has no parent company or subsidiaries.

KPM and TNG are limited liability partnerships organized under the laws of Kazakhstan. Entities controlled by Mr. Stati and certain members of the Stati family acquired a 62.0% interest in KPM in 1999 and a 75.0% interest in TNG in 2000 and acquired the remaining interests in KPM and TNG in 2004 and 2002, respectively. Ascom S.A. ("Ascom") is the direct parent company of KPM and Terra Raf Trans Traiding Ltd. ("Terra Raf") is the direct parent company of TNG. Ascom and Terra Raf are each wholly owned by Mr. Stati and certain members of the Stati family.

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Tristan Oil's registered offices are located at Craigmuir Chambers, Road Town, Tortola, British Virgin Islands. For purposes of inquiries with respect to this offering, our address is 18 Renasterii bd., Chisinau, Moldova, MD 2005. We can be reached by phone at +373 22 244417.

## THE OFFERING

*The summary below describes the principal terms of the Notes and is not intended to be complete. Certain of the terms and conditions described below are subject to important limitations and exceptions. The section of this offering circular entitled "Description of the Notes" contains a more detailed description of the terms and conditions of the Notes.*

Issuer .....	Tristan Oil, a new company formed for the purpose of issuing the Notes, has no business operations of its own and its only material assets will be loans that it will make to KPM, TNG and TNG's parent company from the net proceeds of this offering.
Guarantees .....	The Notes will be jointly and severally guaranteed on a senior secured basis by KPM and TNG, and by all of the future restricted subsidiaries of KPM and TNG.
Securities Offered .....	\$300,000,000 aggregate principal amount of 10 1/2% Senior Secured Notes due 2012.
Maturity Date .....	January 1, 2012.
Interest .....	Tristan Oil will pay interest on the Notes at an annual rate of 10 1/2%. Tristan Oil will make interest payments semi-annually in cash, in arrears, on each January 1 and July 1, commencing July 1, 2007.
Security .....	The Notes will be secured by pledges of (1) 100% of the capital stock of Tristan Oil and (2) all notes payable to Tristan Oil by KPM, TNG and TNG's parent company. The guarantees of the Notes will be secured by pledges of 100% of the capital stock of KPM, TNG and any future guarantors of the Notes.
Ranking .....	The Notes will be Tristan Oil's senior secured obligations, will rank senior in right of payment to all of its existing and future subordinated indebtedness and will rank equal in right of payment with all of its existing and future senior indebtedness. The guarantees of the Notes will be senior secured obligations of each of the guarantors, will rank senior in right of payment to all of their existing and future subordinated indebtedness and will rank equal in right of payment with all of their existing and future senior indebtedness.
Optional Redemption .....	Prior to July 1, 2009, Tristan Oil may redeem up to 35% of the Notes at the price set forth in this offering circular with the net proceeds of an initial public offering of Tristan Oil, KPM or TNG. On or after July 1, 2009, Tristan Oil may redeem all or a portion of the Notes at the prices set forth in this offering circular. In addition, Tristan Oil may redeem all of the Notes upon the occurrence of certain changes in applicable tax law.
Change of Control Offer .....	If Tristan Oil, KPM or TNG experiences a change of control, each holder of the Notes will have the right to require Tristan Oil to repurchase all or any part of the holder's Notes at a price equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, and Additional Amounts, if any.

Asset Sale Offer .....	If KPM or TNG sell certain assets and do not use the proceeds as permitted under the indenture governing the Notes, Tristan Oil will be required to offer to purchase the Notes in an amount equal to the proceeds of such sale at a price equal to 100% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, and Additional Amounts, if any.
Excess Cash Flow Offer .....	Within 90 days after the end of each fiscal year in which our Excess Cash Flow is \$5.0 million or more, Tristan Oil must offer to repurchase a portion of the Notes at a price equal to 100% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, and Additional Amounts, if any, with 50% of our Excess Cash Flow from the previous fiscal year.
Certain Covenants .....	<p>The indenture governing the Notes will contain covenants that, among other things, limit the ability of Tristan Oil, KPM, TNG and restricted subsidiaries of KPM and TNG to:</p> <ul style="list-style-type: none"> <li>• incur debt;</li> <li>• pay dividends, redeem subordinated debt or make other restricted payments;</li> <li>• transfer or sell assets;</li> <li>• make certain investments or acquisitions;</li> <li>• grant liens on our assets;</li> <li>• enter into certain transactions with affiliates; and</li> <li>• merge, consolidate or transfer substantially all of our assets.</li> </ul> <p>These covenants are subject to a number of important limitations and exceptions.</p>
No Registration Rights .....	The offer and sale of the Notes will not be registered under the Securities Act or the securities laws of any other jurisdiction and no offer to exchange the Notes in a transaction registered under the Securities Act will be made.
Transfer Restrictions .....	The Notes are subject to restrictions on transfer and may only be transferred or resold as provided for herein. See <i>“Notice to Investors.”</i>
Luxembourg Listing .....	Application will be made to list the Notes on the Euro MTF, the alternative market of the Luxembourg Stock Exchange.
PORTAL <sup>®</sup> .....	We expect that the Notes will be eligible for trading in the PORTAL Market <sup>®</sup> , a subsidiary of the Nasdaq Market, Inc.
Use of Proceeds .....	Net proceeds from this offering will be used to repay certain existing indebtedness of TNG, make a shareholder distribution and for working capital and general corporate purposes of KPM and TNG. See <i>“Use of Proceeds.”</i>

*You should refer to “Risk Factors” for an explanation of certain risks of investing in the Notes.*



## SUMMARY COMBINED HISTORICAL AND PRO FORMA FINANCIAL DATA

The following table sets forth summary historical and pro forma financial data. Summary historical financial data for KPM and TNG is presented on a combined basis, after the elimination of transactions and balances between KPM and TNG. The income statement data and other financial data as of and for each of the three fiscal years ended December 31, 2003, 2004 and 2005 are derived from the audited financial statements and the notes thereto appearing elsewhere in this offering circular. The unaudited data for the twelve months ended September 30, 2006 was derived by: (1) adding our historical financial data for the year ended December 31, 2005 to (2) our historical financial data for the nine months ended September 30, 2006 and (3) subtracting our historical financial data for the nine months ended September 30, 2005.

Prior to the sale of the Notes in this offering and the application of the proceeds thereof, Tristan Oil will have no business operations and no significant assets or liabilities. Financial information presented on a pro forma basis in this offering circular reflects assets, liabilities and transactions of Tristan Oil, KPM and TNG after giving effect to the sale of the Notes in this offering and the application of proceeds thereof. The pro forma financial data and ratios and pro forma balance sheet data as of and for the twelve months ended September 30, 2006 give effect to the sale of the Notes in this offering and the application of the net proceeds thereof as if each had occurred as of October 1, 2005 in the case of the income statement data, and on September 30, 2006, in the case of the balance sheet data.

The summary combined historical and pro forma financial data should be read in conjunction with, and is qualified in its entirety by reference to, the sections entitled “*Capitalization*,” “*Selected Combined Financial and Operating Data*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and the financial statements and the notes thereto contained elsewhere in this offering circular.

	Fiscal Year Ended December 31,			Twelve Months Ended September 30,
	2003	2004	2005	2006 (unaudited)
	(dollars in thousands)			
<b>Income Statement Data:</b>				
Sales:				
Sales of crude oil and gas condensate .....	\$53,607	\$102,469	\$182,203	\$213,208
Sales of gas .....	11,065	23,486	27,310	28,487
Sales of self-produced electricity .....	—	23	39	35
Total sales .....	64,672	125,978	209,552	241,729
Gross profit .....	35,084	71,574	149,453	165,765
Total operating expenses .....	13,619	19,539	16,441	20,508
Operating profit .....	21,465	52,035	133,012	145,257
Net profit .....	11,750	28,713	72,307	75,360
<b>Other Financial Data:</b>				
EBITDA <sup>(1)</sup> .....	\$33,870	\$ 77,593	\$161,475	\$184,899
Depreciation and amortization .....	12,247	23,412	28,318	37,293
Capital expenditures .....	17,014	43,186	103,200	202,501
<b>Pro Forma Financial Data:</b>				
Senior debt .....				\$300,000
Total debt .....				369,542
EBITDA to cash interest expense <sup>(1)(2)</sup> .....				4.4x
Senior debt to EBITDA <sup>(1)</sup> .....				1.6x
Total debt to EBITDA <sup>(1)</sup> .....				2.0x
Total reserves value to senior debt .....				2.9x

	<u>As of September 30, 2006</u>	
	<u>Actual</u>	<u>Pro Forma</u>
	(unaudited)	
(dollars in thousands)		
<b>Balance Sheet Data:</b>		
Property, plant and equipment .....	\$282,135	\$282,135
Cash and cash equivalents .....	18,848	116,448
Total assets .....	545,315	632,047
Total debt .....	217,273	369,542
Shareholders' equity .....	169,582	99,714

- (1) As shown below, EBITDA represents net profit before interest expense, income tax expense and depreciation and amortization. As a measure of our operating performance, we believe that the most directly comparable IFRS and U.S. GAAP measure to EBITDA is net profit. We have included EBITDA in addition to net profit because we believe it is an indicative measure of our operating performance and is used by investors and analysts to evaluate companies in our industry. However, EBITDA should not be construed as an alternative to net profit as a measure of our operating results or to net cash provided by operations as a measure of liquidity. The following table reconciles net profit to EBITDA.
- (2) Cash interest expense excludes withholding tax payable by KPM and TNG on interest payments to Tristan Oil relating to loans that will be made to KPM and TNG with the proceeds of the sale of the Notes in this offering.

	<u>Fiscal Year Ended December 31,</u>			<u>Twelve Months Ended</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>September 30,</u>
				<u>2006</u>
	(dollars in thousands)			
Net profit .....	\$11,750	\$28,713	\$ 72,307	\$ 75,360
Adjustments:				
Interest expense .....	3,792	7,184	3,406	3,224
Income tax expense .....	6,081	18,285	57,444	69,022
Depreciation and amortization .....	12,247	23,412	28,318	37,293
EBITDA .....	<u>\$33,870</u>	<u>\$77,593</u>	<u>\$161,475</u>	<u>\$184,899</u>

## SUMMARY RESERVES AND OPERATING DATA

### Proved and Probable Reserves

The estimates in the tables below are for year end proved and probable reserves as of December 31, 2006 and are presented net of shrinkage. The proved and probable reserve values in the table below are based on a constant oil price and variable gas price scenario. The reserve volumes as of December 31, 2006 are from the reserve report (the "Ryder Scott Reserve Report") dated as of June 30, 2006, prepared independently by Ryder Scott Company, L.P. ("Ryder Scott"), an independent petroleum engineering firm. Probable reserves are being presented below to help investors better understand the future potential of our fields beyond that reflected by our proved reserves.

The reserves in the Ryder Scott Reserve Report include the proved and probable categories. The proved and probable reserves conform to the definition approved by the Society of Petroleum Engineers ("SPE") and the World Petroleum Congress ("WPC") using a deterministic methodology, except that they are based on variable gas price scenario.

	As of December 31, 2006		
	KPM	TNG	Combined
<b>Proved Reserves</b>			
Oil/condensate (MMbbls) .....	25.9	12.9	38.8
Gas (bcf) .....	47.4	292.1	339.5
Total proved (MMboe) .....	33.8	61.6	95.4
% Gas .....	23.4%	79.0%	59.3%
% Proved developed .....	77.3%	100.0%	92.0%
Estimated proved reserve life index (years) <sup>(1)</sup> .....	13.1	6.2	7.6
Remaining reserve life (years) <sup>(2)</sup> .....	15.9	12.5	15.9
<b>Probable Reserves</b>			
Oil/condensate (MMbbls) .....	32.9	12.7	45.6
Gas (bcf) .....	33.2	257.7	290.9
Total probable (MMboe) .....	38.5	55.6	94.1
% Gas .....	14.4%	77.2%	51.5%
% Probable developed .....	65.9%	94.6%	82.8%
<b>Total reserves (MMboe)</b> .....	<b>72.2</b>	<b>117.2</b>	<b>189.5</b>
Estimated total reserve life index (years) <sup>(3)</sup> .....	28.0	11.8	15.2
Remaining reserve life (years) <sup>(2)</sup> .....	32.0	26.0	32.0
<b>PV-10 Value (dollars in millions)<sup>(4)</sup>:</b>			
Total proved value .....	\$214.8	\$283.1	\$497.9
Total probable value .....	168.4	199.5	367.9
<b>Total reserves value</b> .....	<b>\$383.2</b>	<b>\$482.6</b>	<b>\$865.8</b>

(1) Estimated reserve life index is based on proved reserves as of December 31, 2006 divided by the sum of the estimated production for the year ending December 31, 2006.

(2) Remaining reserve life is time required to produce the reserves to their economic limit, which is when sales equal operating costs.

(3) Estimated total reserve life index is based on proved plus probable reserves as of December 31, 2006 divided by the sum of the estimated production for the year ending December 31, 2006.

(4) The reserve values as of December 31, 2006 were prepared using reserve values from the Ryder Scott Reserve Report and an after tax analysis to create a future discounted after tax cash flow. "PV-10" shows the present value of our estimated future net cash flows from proved reserves, probable reserves, or total reserves as applicable, in each case after income taxes, discounted at 10.0% per year, calculated using constant oil pricing and a variable gas pricing scenario. The prices used as of December 31, 2006 were based on \$60.00 per bbl of Brent-oil benchmarked price adjusted for our price differentials and variable pricing per mcf of natural gas. Variable gas pricing scenario allows for the escalation of the gas price by 10% per year until reaching an estimated world price cap of \$8.96 per mcf in 2032 and held constant thereafter. PV-10 does not purport to present the fair market value of our oil, gas and condensate reserves and is not necessarily indicative of actual future cash flows.

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

	Fiscal Year Ended December 31,			Twelve Months Ended September 30,
	2003	2004	2005	2006
<b>Sales Volume:</b>				
Oil and condensate (MMbbls) .....	2.7	3.6	4.1	4.0
Gas (bcf) .....	20.3	41.9	42.2	41.7
Oil equivalent (MMboe) .....	6.1	10.5	11.1	11.0
<b>Average realized sales price per unit</b>				
Oil and condensate (dollar per bbl) .....	\$19.80	\$28.85	\$44.45	\$53.70
Gas (dollar per mcf) .....	0.55	0.56	0.65	0.68
<b>Average production cost (per boe) .....</b>	<b>4.86</b>	<b>5.16</b>	<b>5.40</b>	<b>6.91</b>

#### Drilling Activity and Producing Wells on the Borankol and Tolkyln Fields

The following table sets forth information with respect to wells we drilled during the periods presented in the table and the number of producing wells at the end of the periods presented in the table. A producing well is a well found to be capable of producing in sufficient quantities to justify completion as a well.

	As of and for the years ended December 31,						As of and for the six months ended June 30,	
	2003		2004		2005		2006	
	Wells Drilled	Total Wells	Wells Drilled	Total Wells	Wells Drilled	Total Wells	Wells Drilled	Total Wells
<b>Well Count:</b>								
Producing oil .....	1	12	12	24	11	35	9	44
Producing gas / condensate .....	5	8	7	15	2	12	7	19
Total producing wells .....	6	20	19	39	13	47	16	63

The information above should not be considered indicative of future drilling performance, nor should it be assumed that there is any correlation between the number of productive wells drilled and the amount of oil, condensate and gas that may ultimately be recovered.

## RISK FACTORS

*An investment in the Notes involves a significant degree of risk, including the risks described below. You should carefully consider the following risk factors and the other information in this offering circular before deciding to invest in the Notes. All of the risks described below could materially and adversely affect our business, prospects, financial condition, operating results and cash flows, which in turn could adversely affect our ability to satisfy our obligations under the Notes and the guarantees of the Notes.*

### **Risk Factors Relating to Our Business**

**Any future decrease in the international market price for oil could adversely affect our business, prospects, financial condition, results of operations and cash flows.**

Sales of oil and condensate are our primary source of sales. We sell oil at a price benchmarked against the international market price for Urals oil. We sell condensate at a price benchmarked against the international market price for Brent oil and Oman/Dubai oil. Oil prices are subject to large fluctuations in response to a variety of factors beyond our control, including but not limited to:

- effects of the world economy and of geo-political events;
- changes in the supply of and demand for oil;
- market uncertainty and speculative activities by those who buy and sell oil on the world markets;
- weather and general economic conditions;
- the actions of the Organization of Petroleum Exporting Countries;
- governmental regulation in Kazakhstan and elsewhere;
- political stability in Kazakhstan, neighboring countries and other oil producing regions; and
- the availability of alternate fuel sources.

Our business, prospects, financial condition, results of operations and cash flows are heavily dependent on prevailing oil prices. Historically, oil prices have been highly volatile. Our sales and net profit fluctuate significantly with changes in oil prices. Although oil prices worldwide have increased significantly since 2001, there can be no assurance that such growth, or the existing level of oil prices, will be maintained in the future. Even relatively modest future declines in oil prices could adversely affect our business, prospects, financial condition, results of operations and cash flows.

Our profitability is determined in large part by the difference between our oil and condensate sales and our cost of sales relating to oil and condensate, as well as distribution costs relating to sales of oil and condensate. Therefore, lower oil prices may reduce the amount of oil and condensate that we are able to produce economically or may reduce the economic viability of the production levels of specific wells or of infrastructure projects planned or drilling activity because production costs would exceed anticipated profit from such production. Furthermore, because we do not have any hedging agreements, we do not have any contractual hedging protection in the event that oil prices decrease from current levels.

Accordingly, any decline in oil prices and/or any curtailment in our overall production volumes could result in a reduction in net profit, impair our ability to make planned capital expenditures and to incur costs necessary for the drilling of our fields and could materially adversely affect our business, prospects, financial condition, results of operations and cash flows.

**Our sales could be affected if our arrangements with Vitol S.A. are not fulfilled.**

The majority of the oil and condensate we produce is ultimately sold through arrangements with Vitol S.A. (“Vitol”), the only party through which we export oil and condensate. Based on current international market prices for oil and historical sales through Vitol, we estimate that the aggregate value of these arrangements will be \$548.2 million through maturity on December 31, 2008. The value of these arrangements are designed to reduce the risks of over-supply or lack of demand for oil and condensate by guaranteeing the purchase of the majority of the oil and condensate we produce. However, we cannot assure you that Vitol will fulfill its obligations. If Vitol fails to do so, our sales could be materially adversely affected. In addition, if we are unable to extend our arrangements with Vitol or enter into a similar arrangement with equally favorable terms to us, our sales could be materially adversely affected.

**We derive the majority of our gas sales from two customers and the loss of these customers could result in a decline in our revenues.**

The only major network of gas pipelines servicing the region in which our fields are located is the Central Asia-Center pipeline network. There are only two major parties with rights to access the Central Asia-Center pipeline network in Kazakhstan, GazImpex and KazRosGaz. As a consequence, approximately 90% of our gas production is sold through supply and purchase agreements with GazImpex and KazRosGaz. We anticipate that significant customer concentrations for our gas production may continue for the foreseeable future with limited access to international markets. The loss of one or both of these customers, or material decreases in amounts sold to these customers may result in a decrease in our sales.

**If the actual quantities of our oil/condensate and gas reserves are lower than estimated or expected, our business, prospects, financial condition or results of operations could be materially and adversely affected.**

As of December 31, 2006, the Borankol and Tolkyln fields will have proved reserves of approximately 33.8 MMboe and 61.6 MMboe, proved reserve life of 15.9 and 12.5 years, and total reserves value of \$383.2 million and \$482.6 million, respectively.

There are uncertainties inherent in estimating the quantity and the quality of reserves and in projecting future rates of production and reserves value, including many factors beyond our control. Estimating the amount and quality of reserves is a subjective process and estimates made by different experts often vary significantly. In addition, results of drilling, testing and production subsequent to the date of an estimate may result in revisions to that estimate. Accordingly, reserves estimates may be different from the quantity of oil, condensate and gas that is ultimately recovered and, consequently, the sales we realize therefrom could be different from estimated reserves value. The reliability of such estimates is highly dependent upon the accuracy of the assumptions on which they are based, the quality of the information available and the ability to verify such information against industry standards.

The reserves data contained herein (including the data taken from the Ryder Scott Reserve Report) are estimates only and should not be construed as representing actual quantities, production levels or reserves value. These estimates are based on geological and engineering data, production data, prices, costs, and other information assembled by us and by Ryder Scott, and they assume, among other things, that the future development of our fields and the future marketability of our products will be similar to past development and marketability. These assumptions may prove to be incorrect and potential investors should not place undue reliance on the forward-looking statements contained herein (including data taken from the Ryder Scott Reserve Report) concerning our reserves, production levels or reserves value.

If the assumptions upon which the estimates of our reserves of oil/condensate or gas have been based are wrong, we may be unable to produce the estimated levels of oil, condensate or gas set out in this offering circular and our business, prospects, financial condition, results of operations or cash flows could be materially and adversely affected. In addition, if the international market price for oil decreases, some of our reserves may not be commercially viable to extract.

**We face drilling and production risks and hazards which may affect our ability to produce oil, condensate and gas at expected levels, quality and costs.**

Our future success will depend, in part, on our ability to develop existing oil/condensate and gas reserves in a timely and cost-effective manner using secondary, enhanced recovery and well stimulation techniques.

Our drilling activities may be unsuccessful and the actual costs incurred of drilling and operating wells may exceed budget. We may be required to curtail, delay or cancel any drilling operations because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions, compliance with governmental requirements or delays in the delivery of equipment. The occurrence of any of these events could have an adverse effect on our business, prospects, financial condition, results of operations and cash flows.

Our production operations are also subject to all the production hazards typically associated with the production of oil, condensate and gas resources. These risks include natural catastrophe, fire, explosion, blowouts, encountering formations with abnormal pressure, the use of secondary recovery techniques, the level of water cut, cratering and spills, each of which could result in substantial damage to wells, producing facilities, other property and the environment or in personal injury. Any of these risks could result in loss of oil, condensate and gas or could lead to environmental pollution and other damage to our properties or surrounding areas and increase costs.

**The Kazakh government has the ability to require us to deliver oil and condensate to the domestic market at prices that are materially below international market prices.**

The Kazakh government has the ability to require us to deliver oil and condensate to the domestic market at prices that are materially below international market prices. Pursuant to governmental requirements during the years ended December 31, 2004 and 2005, we supplied the domestic market with 160.1 mbbl and 191.5 mbbl of oil and condensate, which was approximately 4.5% and 4.7% of our sales volume for these years.

In the future, amounts of oil and condensate we could be required to supply by the government could be higher than prior quantities. Any sale of oil or condensate in quantities in excess of what we have supplied in the past pursuant to governmental request at prices materially below international market prices could have an adverse effect on our business, prospects, financial condition, results of operations and cash flows.

**We rely upon distribution networks owned and operated by third parties which may become unavailable or subject to increased tariffs and we may not be able to find suitable alternative distribution networks.**

The oil, condensate and gas that we produce is generally transported via infrastructure owned or operated by third parties.

Kazakhstan has no direct access to the open sea, that is why oil, condensate and gas to be exported to the international markets must use pipelines or railways that go through other countries. We export our oil through a pipeline network to the Black Sea port of Odessa, Ukraine and our condensate via railway to Caspian Sea ports and Finland. Currently, there are limited alternative transportation systems available. Any reduction or cessation in the availability of these pipelines and railways, whether due to serious malfunctions, security issues, political developments or “force majeure,” could force us to reduce or cease our exports.

Oil production in Kazakhstan is increasing, which means that access to export routes is increasingly competitive. The pipeline network through which we distribute all of our export oil is owned and operated by third parties. The portion of the pipeline that runs through Kazakhstan is owned and operated by JSC KazTransOil (“KazTransOil”), and the portion of the pipeline that runs through Russia and Ukraine is owned

and operated by Transneft. We have an agreement with KazTransOil relating to the transportation of our export oil through the entire pipeline network we use, and KazTransOil has a separate agreement with Transneft relating to the transportation of our export oil to Odessa, Ukraine. Despite these agreements we cannot guarantee that KazTransOil and Transneft will fulfill their obligations under these agreements and failure to fulfill such obligations could have a material adverse effect on our business, prospects, financial condition, results of operations and cash flows.

The Agency of Kazakhstan for the Regulation of Natural Monopolies, or the Antimonopoly Agency, and the Federal Service on Tariffs of the Russian Federation set the tariffs we must pay for the distribution of our oil through Kazakhstan and Russia, respectively.

We currently have a contract with KazTransOil to transport oil with fixed tariffs. However, Kazakhstan legislation gives KazTransOil the right to apply to the Antimonopoly Agency for periodic review of the tariff, in which case the Antimonopoly Agency must review the application and may increase the tariff. The same right of review is given to Transneft under Russian law and the Federal Services on Tariffs of Russian Federation can increase the tariff relating to the portion of the pipeline network that runs through Russia. Accordingly, we may face increased costs for distribution of our oil.

All of our exported oil must pass through Russia. We are, therefore, dependent upon the enforcement of the intergovernmental agreement between Kazakhstan and Russia and the maintenance of stable relations between Kazakhstan and Russia.

**We operate on our fields pursuant to subsoil use licenses and contracts with the government of Kazakhstan and our failure to comply with the terms of these contracts could lead to the suspension or termination of our operations on our fields.**

Our operations on the Borankol and Tolkyin fields must be carried out in accordance with the terms of the related subsoil use licenses and contracts, including annual working programs and budgets, which must be agreed to with the MEMR. The law provides that fines may be imposed and that the subsoil use contracts may be suspended, amended or terminated if we fail to comply with such obligations under such documents or fail to make timely payments of taxes, fees and royalties for the subsoil use, provide the required geological information or meet other reporting and procedural requirements.

In addition, we have invested approximately \$19.2 million in connection with our subsoil use contract with respect to the Tabyl block. The terms of this contract have expired. We have applied to the MEMR for an extension of the term of this contract. If it is not extended we will lose our investment and we may be subject to remediation costs to restore the Tabyl block to the state it was in prior to the start of our exploration and development.

**Oil, condensate and gas operations can be hazardous and may expose us to environmental and other liabilities.**

We are subject to the operating risks normally associated with the exploration, development and production of oil, condensate and gas, including well blowouts, cratering and explosions, pipe failure, fires, geological formations with abnormal pressures, uncontrollable flows of oil, condensate and gas, brine or well fluids, and other environmental hazards and risks. Moreover, our drilling operations involve risks from high pressures in geological formations and from mechanical difficulties such as stuck pipe, collapsed casing and separated cable. If any of these risks occur, we could incur substantial losses as a result of:

- injury or loss of life;
- severe damage to or destruction of property, natural resources or equipment;



- pollution or other environmental damage;
- environmental clean-up responsibilities;
- regulatory investigations and penalties;
- delays in our operations or curtailment of our production; and
- suspension of our operations.

We maintain what we believe to be appropriate insurance coverage, although in many cases insurance coverage for the risks identified above is either not available or is not available at premium levels that are economically practical to justify its purchase. The insurance coverage we maintain may not fully compensate us as an injured party, or compensate us as an injured party at all, if we incur losses as a result of these risks. Moreover, in the future we may not be able to maintain all or even part of our current insurance coverage at premium levels that justify its purchase.

In addition, as an owner and operator of oil, condensate and gas properties, we are subject to various laws and regulations relating to the discharge of materials into, and the protection of, the environment. These laws and regulations may impose liability on us for the cost of environmental cleanup resulting from our operations and could further subject us to liability for environmental damages.

**Fluctuations in the U.S. Dollar/Tenge exchange rate may adversely affect our financial condition, the results of our operations and our cash flows.**

A majority of our sales are in U.S. Dollars and a majority of our expenses are in Tenge. If the value of the U.S. Dollar falls against the Tenge, we will have fewer Tenge available to pay our Tenge expenses and our financial assets denominated in U.S. Dollars will be adversely affected. This could have a negative effect on our financial condition, results of operations and cash flows.

The average exchange rate of the U.S. Dollar to the Tenge has depreciated from 148.8 in 2003 to 135.9 in 2004, 132.9 in 2005 and 126.8 in the first six months of 2006. Going forward, we do not know if the value of the U.S. Dollar versus the Tenge will move in a direction that is positive or negative for us.

**Our accounting systems are not as sophisticated or robust as those of companies with a longer history of compliance with IFRS.**

KPM and TNG only recently began preparing their financial statements in accordance with IFRS and they are not as experienced with or knowledgeable about IFRS as companies with a longer history of IFRS compliance. KPM and TNG currently:

- lack sufficient accounting personnel with experience in the application and interpretation of IFRS;
- have limited experience in exercising the judgments required by IFRS;
- have not fully developed and implemented the methodologies required for the preparation of IFRS financial statements on an automated basis and presently use manual techniques to convert basic accounting data; and
- have limited capacity to implement integrated information technology and business process automation systems that facilitate the preparation of IFRS financial statements.

While KPM and TNG continue to address the above issues, they may be unable to remedy the above issues, in which case there is a risk of material misstatements in their financial statements that may not be detected on a timely basis and that the preparation and delivery of their financial statements, as required under the indenture governing the Notes, may be delayed.

**We are subject to an uncertain tax environment which may lead to disputes with taxation authorities and penalties and interest relating to unpaid taxes.**

*General*

We are subject to local and national tax regimes in Kazakhstan. The local and national tax environment in Kazakhstan may change and the rules implementing those changes are usually not established on a timely basis. Non-compliance with Kazakhstan tax laws and regulations can lead to the imposition of substantial penalties and interest. While certain of our tax obligations are clearly established pursuant to tax stabilization clauses in our subsoil use contracts, some obligations are linked to the tax regulations. Future tax investigations or inquiries could raise issues or could result in assessments to which we believe we are not subject or with which we believe we have complied.

The current penalties and interest related to reported or investigated violations of Kazakhstan law, decrees and related regulations are severe. Penalties can include fines equaling 50.0% of the amount at issue. Under the current tax code, interest on unpaid taxes is compounded daily on a 365 day basis at a rate equal to 2.5 times the refinancing rate set by the National Bank of Kazakhstan. Based on the current National Bank of Kazakhstan refinancing rate of 9.0% per annum, interest on unpaid taxes is assessable at a rate of 0.06% compounded daily. As a result, penalties can amount to significant percentages of any unreported and unpaid taxes. Future tax investigations or inquiries could raise issues or could result in additional assessments against which we may be unable to appeal successfully.

*Transfer Pricing*

If transfer pricing is not considered to be on an arms length basis, then the relevant tax authority may dispute the nature of the transaction and may levy additional charges. The relevant tax authorities may challenge the price at which we sell our products or pay for goods and services in transactions with our affiliates or third parties outside of Kazakhstan. If the tax authorities determined that such prices are different than the amounts permitted under applicable transfer pricing laws and regulations or were not supported by adequate documentation, the tax authorities could make an assessment against us. Any assessment made against us could have a material adverse effect on our business, financial condition or results of operations. See “*Certain Relationships and Related Party Transactions*” for a discussion of material agreements we have with our affiliates.

**Our insurance coverage may be inadequate to fully protect us from all losses.**

While we believe that we maintain insurance coverage in amounts which conform to industry norms in Kazakhstan, we are not fully insured against all potential hazards pertaining to our business and if any or all of our equipment or facilities are damaged and our operations are interrupted for a sustained period, there can be no assurance that our insurance policies (including business interruption insurance policies) will be adequate to cover any or all of the losses that may be incurred as a result of such interruptions or the costs of repairing or replacing the damaged equipment and facilities.

**After this offering, we will have a substantial amount of indebtedness which could prevent us from fulfilling our obligations under the Notes and the guarantees of the Notes.**

Our high level of indebtedness, namely the Notes, could have materially adverse effects on our business. In addition, the indenture which governs the Notes will permit us to incur additional debt in the future. Our high level of indebtedness could, among other things:

- increase our vulnerability to general adverse economic and industry conditions or a downturn in our business;
- limit our ability to obtain additional financing, whether for working capital, capital expenditures or other purposes;

- require us to dedicate a substantial portion of the cash flow from operations to repay our outstanding indebtedness, thereby reducing the availability of cash flow to fund our working capital, capital expenditures and other needs;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate, including any changes to regulation and taxation; and
- place us at a competitive disadvantage compared to our competitors that may have less debt or more financial resources.

If our indebtedness affects us in these ways, it could have an adverse effect on our business, prospects, results of operations and cash flows, making it more difficult for us to satisfy our obligations under the Notes and the guarantees of the Notes.

See “*Description of Other Indebtedness*” for the discussion of our outstanding indebtedness as of the date of this offering circular.

**Covenants in the indenture governing the Notes and the guarantees of the Notes impose significant restrictions on us.**

The indenture governing the Notes and the guarantees of the Notes contain a number of covenants imposing significant restrictions on us. The restrictions these covenants place on us include restrictions on our repurchase of, and payment of dividends on, our capital stock and limitations on our ability to incur additional indebtedness, make investments, engage in transactions with affiliates, sell assets and create liens on our assets. These restrictions may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise and, in turn, may materially and adversely affect our business, prospects, financial condition, results of operations and cash flows.

**The loss of Mr. Stati or key personnel could have an adverse effect on our business.**

Our success is dependent on the performance of our senior management and key technical personnel, and in particular, Mr. Stati, Tristan Oil’s President, CEO and Chairman of the Board and the ultimate majority beneficial owner of Tristan Oil, KPM and TNG. The loss of Mr. Stati or other key employees could have a material and adverse effect on our business. We do not have employment or non-compete agreements in place with Mr. Stati or any other members of our senior management or our key technical personnel. In addition, we do not carry life insurance covering Mr. Stati or other members of our senior management or our key technical personnel.

**We may face unanticipated increases in costs.**

We may incur various unanticipated costs associated with production, capital expenditures, distribution, personnel, procurement, government taxes and other costs. The oil and gas business is a capital intensive industry. In order to maintain our existing production levels, our future capital expenditures and operating expenses may ultimately be greater than historical and currently planned amounts. Any such unanticipated costs may adversely affect our business, prospects, financial condition, results of operations and cash flows.

**We are dependent on personnel and consultants in Kazakhstan to run our day-to-day operations.**

We rely on our personnel in Kazakhstan to run our day-to-day operations and retain external consultants to provide services that are critical to our operations, such as creating geological models. Current wage structures in Kazakhstan are lower than in industrialized nations and it may be difficult to attract and retain experienced and skilled consultants and personnel from outside Kazakhstan. Further, it may be difficult to secure the required

Kazakhstan working permits for any new personnel or consultants. If we are unable to retain or find suitable personnel and consultants at commercially viable rates, our business, prospects, financial condition, results of operations and cash flows might be adversely affected.

### **Risk Factors Relating to Kazakhstan**

**All of our assets relating to our business operations are currently located in Kazakhstan and we are therefore susceptible to certain Kazakhstan specific risk factors such as political, social and economic instability.**

Kazakhstan's creation as an independent state in 1991 resulted from the break-up of the Soviet Union. As such, it has a relatively short history as an independent nation. All of our assets relating to our business operations are currently located in Kazakhstan and we are therefore susceptible to the social, political, economic, legal and fiscal instability and civil disturbance related to Kazakhstan. The occurrence of any such events could have a material adverse effect on our business, prospects, financial condition and results of operations.

Kazakhstan has actively pursued a program of economic reform and foreign investment designed to establish a free market economy, but there can be no assurance such program will be successful or that such reforms will continue in the future.

Emerging markets such as that of Kazakhstan change rapidly and, therefore, the information set out in this document may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, our investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significant risks involved. Investors are urged to consult their own legal and financial advisers before making an investment in the Notes.

As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Kazakhstan and adversely affect Kazakhstan's economy. In addition, during such times, emerging market companies can face severe liquidity constraints as foreign funding resources are withdrawn. Thus, even if Kazakhstan's economy remains relatively stable, financial turmoil in any emerging market country, in particular countries in the Caspian Sea or Central Asian regions, which recently have experienced significant political instability (including terrorism and internal conflicts), could seriously disrupt our business, which would have a material and adverse effect on our prospects, financial condition, results of operations and cash flows.

In respect to court proceedings in Kazakhstan between local entities, the consideration of a case can be concluded relatively quickly (usually within two months). Enforcement of a court decision can take longer. A successful litigant will usually work very closely with court bailiffs in order to enforce the court decision.

**We are exposed to a variety of political and country risks, including the risk of adverse sovereign action by the Kazakh government.**

The oil and gas industry is central to Kazakhstan's economy and its future prospects for development, and thus can be expected to be the focus of continuing political and social attention and debate. We believe we are subject to similar risks relating to oil and gas businesses in other developing countries, such as risks of expropriation or re-nationalization, breach or abrogation of project agreements, application of laws and regulations from which we were intended to be exempt, denials of required permits and approvals, increases in royalty rates and taxes that were intended to be stable, application of exchange or capital controls, and other risks. In addition, we face risks arising from political instability in the region and the difficulties of operating in a political, legal and business environment characterized by rapidly changing law, inconsistent application of law

and regulation, corruption and an unpredictable judicial system. Any of the foregoing risks could have a material adverse effect on our business, prospects, financial condition, results of operations and cash flows.

**Any changes in the existing policies of the Kazakh government, or a change in the Kazakh government or the president of Kazakhstan, may adversely affect our ability to operate our business.**

Since independence in 1991, Kazakhstan has had only one president and the country has been largely free from political violence. Our operations have benefited from these stable conditions. We could face enhanced risk and uncertainty in the event of a change in the government, including the possibility that a successor Kazakh government would seek to reopen or challenge the tax, legal or other arrangements affecting our operations based on the new government's conception of the national interest or other factors.

**The laws and regulations of Kazakhstan relating to foreign investment, subsoil use and licensing, companies, customs, currency, capital markets, pensions, insurance, banking, taxation and competition are still developing and uncertainties in the law could have a material adverse effect on our operations.**

The laws and regulations of Kazakhstan relating to foreign investment, subsoil use, licensing, companies, customs, currency, capital markets, pensions, insurance, banking, taxation and competition are still developing. Many such laws provide regulators and officials with substantial discretion in their application, interpretation and enforcement. The judicial system may not be fully independent of social, economic and political forces. Court decisions can be difficult to predict and enforce, and our best efforts to comply with applicable law may not always result in compliance as determined by regulators and/or the courts. Furthermore, because Kazakhstan Law dated 27 January 1996 on Subsoil and Subsoil Use, or Subsoil Law, does not define the course of action available to the government by reference to the gravity of a breach, a minor breach could conceivably lead to harsh consequences, such as suspensions or termination of the subsoil user rights. Because of the relative newness of the Subsoil Law, there are few precedents that would make the consequences of a breach more predictable.

Given Kazakhstan's short legislative, judicial and administrative history, it is not possible to predict the effect of current and future legislation on our business. Our ongoing rights under our subsoil use contracts and licenses (if applicable) and other agreements may be susceptible to revision or cancellation, and legal redress in relation to such revocation or cancellation may be uncertain.

As tax legislation in Kazakhstan has been in force for only a relatively short time, Kazakhstan's tax laws may not always be clearly determinable which means that they are not always applied in a consistent manner. In addition, the tax laws continue to evolve. Instances of divergent opinions among local, regional and national tax authorities are not unusual. While our tax obligations are clearly established in our subsoil use contracts, some obligations are linked to the tax regulations. Tax legislation is evolving and is subject to different and changing interpretations, as well as inconsistent enforcement. The uncertainty of application and the evolution of tax laws create a risk of additional and substantial payments of tax by us, which could have a material adverse effect on our business, prospects, financial position and results of operations. Tax regulation and compliance is subject to review and investigation by the authorities who may conceivably impose material fines, penalties and interest charges which could be disputed unsuccessfully by us either with the tax authorities or through the courts.

**Any changes in laws, regulations and permit requirements to which we are subject could require us to make substantial expenditures or subject us to material liabilities or other sanctions.**

We are required to obtain, on an ongoing basis, all permits as required by the laws of Kazakhstan. Failure to obtain all such permits could materially and negatively impact our production, business, financial condition or results of operations.

**Downgrades of credit ratings of Kazakhstan and companies with operations in Kazakhstan, could adversely affect us and the market price of our Notes.**

Currently, Kazakhstan's sovereign foreign currency long-term debt is rated "Baa2" by Moody's Investors Service, Inc. ("Moody's") and "BBB" by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. ("Standard & Poor's"). Its short-term foreign currency debt is rated "A2" by Moody's and "A-3" by Standard & Poor's. The Fitch Ratings Limited ("Fitch Ratings") long term issuer default rating is BBB. On June 9, 2006, Moody's raised Kazakhstan's foreign currency government bond rating and issuer rating from Baa3 to Baa2, and on November 2, 2006, Standard & Poor's raised Kazakhstan's foreign currency long-term debt rating from "BBB-" to "BBB". These ratings reflect an assessment of the government's overall financial capacity to pay its obligations and its ability or willingness to meet its financial commitments as they become due.

No assurance can be given that Moody's, Standard & Poor's, Fitch Ratings or any other statistical rating organization will not downgrade the credit ratings of Kazakhstan or companies with operations in Kazakhstan. Any such downgrade could have an adverse impact on liquidity in Kazakhstan's financial markets, the ability of the government and companies with operations in Kazakhstan, including us, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available to us, which could materially and adversely affect our financial condition, liquidity and results of operations.

**Risks Related to our Notes**

**Tristan Oil was formed solely to issue the Notes, has no business operations of its own and may not have access to sufficient cash to make payments on the Notes.**

Tristan Oil was formed solely to issue the Notes and has no business operations of its own. It will use the net proceeds of the offering to make loans to KPM, TNG and TNG's parent. It will depend on the cash flows of the guarantors and their ability to make loan repayments in order to meet its obligations under the Notes. The guarantors may not generate sufficient cash flow to enable Tristan Oil to meet its obligations under the Notes. Contractual and legal restrictions applicable to the guarantors could limit our ability to obtain cash from them. In addition, our rights to participate in any distribution of the guarantors' assets upon their liquidation, reorganization or insolvency would generally be subject to the prior claims of the guarantors' creditors.

**The sale of our pledged capital stock securing the Notes may be insufficient to satisfy our debt in the event of a default and the trustee may face certain difficulties enforcing the pledge and disposing of our pledged capital stock.**

The Notes will be secured by pledges of the capital stock of Tristan Oil and all notes payable to Tristan Oil by KPM, TNG and TNG's parent company. The guarantees of the Notes will be secured by pledges of the capital stock of KPM, TNG and any future guarantors of the Notes. In the event that we default on our obligations to make payments in respect to the Notes or the guarantees of the Notes as applicable, holders of Notes will have to rely on the enforcement of their security interest in the notes payable and the sale of the capital stock for re-payment of amounts due on the Notes. The notes payable and the proceeds from the sale of the capital stock may not be sufficient to satisfy our obligations under the Notes or the guarantees of the Notes as applicable. The amount of the proceeds will depend on a number of factors, including the market value of the capital stock at the time of enforcement, the jurisdiction in which the enforcement action or sale is completed, and the trustee's (or its agents) ability to dispose of the capital stock to a willing purchaser. There is currently no public market for our capital stock.

In addition, because KPM and TNG hold licenses from the Kazakh government with respect to the Borankol and Tolkyn fields, in order to sell the capital stock of KPM and TNG, the Kazakh government will have to waive its statutory right to purchase the capital stock and consent to the sale, which may further restrict the trustee's ability to find an acceptable purchaser for our capital stock and delay the process.

Furthermore, in certain circumstances, the extent to which the pledge of our capital stock may be enforced in the event of a default and the extent to which the pledge will have priority over the claims of other creditors could be limited. If the proceeds from a sale of our capital stock are not sufficient to satisfy payments due on the Notes or if the pledge is not enforceable, the holders of Notes will have only unsecured claims against our remaining assets.

**The enforceability of the guarantees securing the Notes may be limited or otherwise impaired under applicable law.**

Our obligations under the Notes have been guaranteed on a senior secured basis by the guarantors.

Various fraudulent conveyance laws have been enacted for the protection of creditors and may be utilized by a court of competent jurisdiction to subordinate or void any guarantee issued by the guarantors. It is also possible that, under certain circumstances, a court could hold that the direct obligations of the guarantors could be superior to the obligations under its guarantee to us.

The measure of insolvency for purposes of determining whether a transfer is voidable as a fraudulent transfer varies depending upon the law of the jurisdiction that is being applied. Generally, however, a debtor would be considered insolvent if the sum of all its debts, including contingent liabilities, was greater than the fair market value of all its assets or if the present fair market value of the debtor's assets was less than the amount required to repay its debts, including contingent liabilities, as they become due.

To the extent that a guarantee is voided as a fraudulent conveyance or found unenforceable for any other reason, holders of the Notes would cease to have any claim in respect of the applicable guarantor. In such event, the claims of the holders of the Notes against such guarantor would be subject to the prior payment of all liabilities of such guarantor. There can be no assurance that, after providing for all such liabilities, if any, there would be sufficient assets to satisfy the claims of the holders of the Notes relating to any voided portion of such guarantee.

We are incorporated under the laws of the British Virgin Islands and the guarantors of the Notes are organized under the laws of Kazakhstan. Substantially all of the guarantors' assets are located in Kazakhstan. Under bankruptcy laws in the United States, courts typically have jurisdiction over a debtor's property, wherever located, including property situated in other countries. There can be no assurance, however, that courts outside of the United States would recognize the U.S. bankruptcy court's jurisdiction. Accordingly, difficulties may arise in administering a U.S. bankruptcy case involving a foreign debtor like us and the guarantors with property located outside of the United States, and any orders or judgments of a bankruptcy court in the United States may not be enforceable in the British Virgin Islands against them or in Kazakhstan against their principal operating subsidiary.

In addition, the rights of the trustee to enforce remedies may be significantly impaired by the restructuring provisions of applicable Kazakhstan bankruptcy, insolvency and other restructuring laws if the benefit of such laws is sought with respect to their principal operating subsidiary. In the event that the guarantors in Kazakhstan became insolvent or bankruptcy proceedings were instituted in Kazakhstan by or against them, the ability to enforce their guarantee may be impaired or not available.

**Certain of our affiliates have business operations, or deal with third-party entities engaged in business operations, in countries that are subject to U.S. economic sanctions, which may affect the liquidity of the Notes.**

Certain of our affiliates that are not guarantors currently engage in oil and gas exploration activities in Sudan. In addition, one of the guarantors of the Notes produces condensate which is sold to an unaffiliated trading company which in turn has historically entered into swap agreements for condensate with Iranian entities. Certain U.S. states have recently enacted legislation limiting or prohibiting investments by pension funds and other retirement systems in companies that have business activities or contracts with countries subject to these sanctions. Some other investors have adopted similar policies. These factors may adversely affect the liquidity of the Notes.

**Our management has broad discretion over the use of proceeds of the Notes offered herein and may not use those proceeds effectively.**

While we expect to apply the proceeds of this offering to repay certain of our existing indebtedness, make a shareholder distribution and for working capital and general corporate purposes, including future permissible acquisitions and capital expenditures, future events or developments may make a change in the use of the net proceeds from that specified above necessary or desirable. Our management has broad discretion on how and when to use the proceeds of the Notes offered herein. If management does not use the proceeds of the Notes offered herein effectively, there could be a material adverse impact on our business, financial condition and results of operations.

**We may be unable to satisfy our Note purchase obligations upon a change of control.**

Upon the occurrence of a change of control, each holder of the Notes may require us to purchase all or a portion of such holder's Notes at a purchase price equal to 101.0% of the aggregate principal amount of such holder's Notes, together with accrued and unpaid interest, if any, to the date of purchase. In such event, we may not have the financial resources sufficient to purchase all of the Notes and our other indebtedness that might become payable upon the occurrence of a change of control.

**There may not be a liquid trading market for the Notes**

Although the initial purchaser has informed us that it currently intends to make a market in the Notes, it is not obligated to do so and any such market-making activity may be discontinued at any time without notice. In addition, any such market-making activity will be subject to the limits imposed by the Securities Act, the Exchange Act, and other applicable securities laws. Although the Notes will be eligible for trading on the Portal Market and we expect to apply to have the Notes listed on the Euro MTF, the alternative market of the Luxembourg Stock Exchange, we cannot assure you that a liquid trading market for the Notes will develop or, if one develops, that it will be maintained. In addition, in the event there are changes in the listing requirements we may conclude that continued listing on the Euro MTF is unduly burdensome.

If a trading market for the Notes were to develop, the price of the Notes may fluctuate and the liquidity may be limited. The Notes could trade at prices that may be higher or lower than the initial offering price, depending on many factors including, among other things, our results of operations and prospects, prevailing interest rates, exchange rates, the market for similar securities, and economic conditions. If a trading market for the Notes does not develop, holders of Notes may be unable to resell their Notes for an extended period of time, if at all.

**It may be difficult to enforce judgments obtained against us in the United States with respect to the indenture, the Notes or the Note Guarantees or which are predicated on the federal securities laws of the United States.**

Tristan Oil is a company organized under the laws of the British Virgin Islands and its directors and principal officers are residents of Moldova, Italy and Romania. As a result, it may not be possible (a) to effect service of process upon Tristan Oil or any such person outside the British Virgin Islands, Moldova, Italy and Romania, (b) to enforce against Tristan Oil or any such person in courts of jurisdictions other than British Virgin Islands, Moldova, Italy and Romania, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or (c) to enforce against Tristan Oil or any such person, in the British Virgin Islands, Moldova, Italy and Romania's courts, judgments obtained in jurisdictions other than British Virgin Islands, Moldova, Italy and Romania, including judgments obtained with respect to the indenture in the courts of New York and judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States.

The guarantors of the Notes, KPM and TNG, are organized under the laws of Kazakhstan and their managing directors and principal officers are residents of Kazakhstan. All or a substantial portion of the assets of



the guarantors and of each of such persons are located in Kazakhstan. As a result, it may not be possible (a) to effect service of process upon the guarantors or any such person outside Kazakhstan, (b) to enforce against the guarantors or any such person in courts of jurisdictions other than Kazakhstan, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or (c) to enforce against the guarantors or any such person, in Kazakhstan's courts, judgments obtained in jurisdictions other than Kazakhstan, including judgments obtained with respect to the indenture in the courts of New York and judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States.

The indenture, the Notes and the Note Guarantees are governed by the laws of the State of New York and we have agreed that disputes arising thereunder are subject to the jurisdiction of the federal and state courts located in New York and arbitration in New York. Kazakhstan's courts will not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and the United States. Each of Kazakhstan and the United States are parties to the New York Convention on the Recognition and Enforcement of Arbitral Awards (the "Convention"), and accordingly arbitration awards rendered in the United States are generally recognized and enforceable in Kazakhstan, provided the conditions to enforcement set out in the Convention are met.

The pledge agreements relating to the security interests in the capital stock of KPM and TNG are governed by the laws of Kazakhstan and disputes arising thereunder are subject to arbitration in New York.

## USE OF PROCEEDS

We estimate that the net proceeds of this offering will be \$287.0 million after deducting commissions payable to the initial purchaser and other expenses related to the offering. The net proceeds will be used, through intercompany loans, to repay \$158.4 million outstanding under TNG's existing bank credit facility, including prepayment premium, to make a \$31.0 million shareholder distribution and to fund \$97.6 million of working capital and for general corporate purposes of KPM and TNG. See "*Description of Other Indebtedness*" for details regarding TNG's existing credit facility. See "*Description of Other Indebtedness*" and "*Certain Relationships and Related Party Transactions—Certain Transactions with Affiliates Relating to the Use of Proceeds of this Note Offering*" for a discussion of the intercompany loans that will be made with the net proceeds of the offering.

Sources of Funds	Uses of Funds															
(dollars in thousands)																
Notes offered hereby . . . . .	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%; border-right: 1px solid black;">\$300,000</td> <td style="width: 50%;">Repay existing bank credit facility . . . . .</td> <td style="width: 10%; text-align: right;">\$158,400</td> </tr> <tr> <td style="border-right: 1px solid black;"></td> <td>Shareholder distribution . . . . .</td> <td style="text-align: right;">31,000</td> </tr> <tr> <td style="border-right: 1px solid black;"></td> <td>Working capital and general corporate purposes . . . . .</td> <td style="text-align: right;">97,600</td> </tr> <tr> <td style="border-right: 1px solid black;"></td> <td>Fees and other expenses . . . . .</td> <td style="text-align: right;">13,000</td> </tr> <tr> <td style="border-right: 1px solid black; border-top: 1px solid black;"><b>Total sources</b> . . . . .</td> <td style="border-top: 1px solid black;"><b>Total uses</b> . . . . .</td> <td style="text-align: right; border-top: 1px solid black;"><b>\$300,000</b></td> </tr> </table>	\$300,000	Repay existing bank credit facility . . . . .	\$158,400		Shareholder distribution . . . . .	31,000		Working capital and general corporate purposes . . . . .	97,600		Fees and other expenses . . . . .	13,000	<b>Total sources</b> . . . . .	<b>Total uses</b> . . . . .	<b>\$300,000</b>
\$300,000	Repay existing bank credit facility . . . . .	\$158,400														
	Shareholder distribution . . . . .	31,000														
	Working capital and general corporate purposes . . . . .	97,600														
	Fees and other expenses . . . . .	13,000														
<b>Total sources</b> . . . . .	<b>Total uses</b> . . . . .	<b>\$300,000</b>														
<b>Total sources</b> . . . . .	<b>Total uses</b> . . . . .	<b>\$300,000</b>														

## CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of September 30, 2006, and is adjusted to give pro forma effect to the sale of the Notes in this offering and the application of the net proceeds thereof as if each had occurred on that date.

You should read this table in conjunction with our consolidated financial statements and the related notes thereto included elsewhere in this offering circular, as well as the sections in this offering circular entitled “*Use of Proceeds*,” “*Selected Combined Financial and Operating Data*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*.”

	As of September 30, 2006	
	Actual (unaudited)	Pro Forma
	(dollars in thousands)	
Cash and cash equivalents .....	\$ 18,848	\$116,448
<b>Debt:</b>		
Bank credit facility .....	147,731	—
New senior secured notes .....	—	300,000
Subordinated loans <sup>(1)</sup> .....	69,542	69,542
Total debt .....	\$217,273	\$369,542
Shareholders’ equity .....	169,582	99,714 <sup>(2)</sup>
<b>Total capitalization</b> .....	<b>\$386,855</b>	<b>\$469,255</b>

- <sup>(1)</sup> See “*Certain Relationships and Related Party Transactions—Transactions with Affiliates Relating to Loan Agreements*” for a description of the subordinated loans.
- <sup>(2)</sup> Pro forma shareholders equity is adjusted for a shareholder distribution of \$25.0 million, accrued interest and prepayment premium of \$15.0 million, and the loss on the recognition at fair value of the loan that will be made to TNG’s parent by Tristan Oil with the proceeds of the sale of the Notes in this offering.

## SELECTED COMBINED FINANCIAL AND OPERATING DATA

The following table sets forth selected financial and operating data for KPM and TNG presented on a combined basis, after the elimination of transactions and balances between KPM and TNG. The income statement data, other financial data and balance sheet data as of and for each of the three fiscal years ended December 31, 2003, 2004 and 2005 are derived from the audited financial statements and the notes thereto appearing elsewhere in this offering circular. The income statement, other financial data and balance sheet data as of and for each of the nine months ended September 30, 2005 and 2006 have been derived from our unaudited historical financial statements and the notes thereto appearing elsewhere in this offering circular, which, in our opinion, include all adjustments, including usual recurring adjustments, necessary for the fair presentation for such periods. The interim period selected financial data are not necessarily indicative of the results for the full year. The selected financial data should be read in conjunction with, and is qualified in its entirety by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with our financial statements and the notes thereto appearing elsewhere in this offering circular.

	Fiscal Year Ended December 31,			Nine Months Ended September 30,	
	2003	2004	2005	2005	2006
(unaudited)					
(dollars in thousands)					
<b>Statement of Operations:</b>					
Sales:					
Sales of crude oil and gas condensate	\$ 53,607	\$102,469	\$182,203	\$134,037	\$165,042
Sales of natural gas	11,065	23,486	27,310	20,760	21,937
Sales of self-produced electricity	—	23	39	42	38
Total sales	64,672	125,978	209,552	154,839	187,017
Cost of sales	(29,587)	(54,405)	(60,099)	(38,166)	(54,032)
Gross profit	35,084	71,574	149,453	116,673	132,985
Distribution costs	(11,231)	(15,704)	(10,217)	(8,002)	(8,579)
Administrative expenses	(1,734)	(2,508)	(3,082)	(2,205)	(8,192)
Other operating expenses	(1,843)	(2,674)	(4,846)	(3,421)	(2,098)
Other income	1,188	1,347	1,705	1,136	2,310
Operating profit	21,465	52,035	133,012	104,182	116,426
Interest expense	(3,792)	(7,184)	(3,406)	(2,595)	(2,412)
Exchange gains / (losses)	158	2,147	145	1,968	4,172
Net profit before tax	17,831	46,998	129,751	103,555	118,186
Income tax expense	(6,081)	(18,285)	(57,444)	(43,614)	(55,192)
Net profit	\$ 11,750	\$ 28,713	\$ 72,307	\$ 59,941	\$ 62,994
<b>Other Financial Data:</b>					
EBITDA	\$ 33,870	\$ 77,593	\$161,475	\$122,819	\$146,243
Depreciation and amortization	12,247	23,412	28,318	16,669	25,645
Capital expenditures	17,014	43,186	103,200	59,816	159,117
<b>Balance Sheet Data:</b>					
Property, plant and equipment	\$ 91,910	\$109,172	\$205,648	\$171,497	\$282,135
Cash and cash equivalents	5,613	375	1,185	4,586	18,848
Total assets	136,299	187,791	338,020	324,259	545,315
Total debt	107,585	119,834	131,858	131,857	217,273
Shareholders' equity	5,568	34,281	106,588	94,221	169,582

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

*You should read this discussion in conjunction with the combined financial statements and the notes thereto beginning on page F-1 of this offering circular. Management's discussion and analysis may contain forward-looking statements that are provided to assist in the understanding of anticipated future financial performance. However, this performance involves risks and uncertainties that may cause actual results to differ materially from those expressed in the forward-looking statements. Some of the important factors that could cause our actual results or outcomes to differ from those discussed are listed under "Forward-Looking Statements."*

### Overview

We are engaged in the exploration and development of oil and gas fields and the production of oil, condensate and gas in the Pre Caspian basin of Western Kazakhstan. We operate on two fields. KPM operates on the Borankol field, and TNG operates on the Tolkyn field, each pursuant to subsoil use contracts with the government of Kazakhstan. The combined proved reserve base of the Borankol and Tolkyn fields as of December 31, 2006 is 95.4 MMboe, 40.7% of which is oil/condensate and 59.3% of which is gas.

We produced approximately 96.5% of our oil from the Borankol field during the six months ended June 30, 2006. Once oil is extracted from the wells, it is separated from associated gas and impurities at a treatment facility located onsite at the Borankol field. For the six months ended June 30, 2006, we delivered 97.6% of our oil FOB Odessa to export markets through a pipeline network pursuant to an agreement with KazTransOil, the operator of the network in Kazakhstan. This pipeline network extends through Kazakhstan, Russia and Ukraine through Samara, Russia to the port of Odessa, Ukraine. The price of the oil we sell for export is benchmarked against the international market price for Urals oil. For the six months ended June 30, 2006, we sold 2.4% of the Borankol oil to the domestic market in Kazakhstan.

We produced 98.1% of our condensate and 96.1% of our gas from the Tolkyn field during the six months ended June 30, 2006. Once extracted from wells, gas is transported to the Borankol field where it is treated in a processing facility and condensate is separated from gas. Until November 2004, we sold condensate mixed with oil, and the price of the oil we exported was benchmarked against the international market price for Urals oil. Since November 2004, we have sold condensate as a separate product, and the price of the condensate we sell for export is benchmarked against the international market prices for Brent oil and Oman/Dubai oil. For the six months ended June 30, 2006, we delivered approximately 98.0% of our condensate FCA Opornaya, and our buyer transported the condensate by rail to Caspian Sea ports and Finland. Our gas production is sold through supply and purchase agreements with GazImpex and KazRosGaz and to local Kazakhstan end users. We deliver the gas we sell to GazImpex and KazRosGaz FCA Opornaya, and they transport the gas through the Central Asia-Center pipeline.

KPM and TNG began exploration on the Borankol and Tolkyn fields in 2000 and 2001, respectively. Since 1999, \$416.2 million has been invested on exploration and development work on the Borankol and Tolkyn fields collectively. Production began on the Borankol and Tolkyn fields in 2001 and 2003, respectively. As of June 30, 2006, we had 63 producing wells on the Borankol and Tolkyn fields and were producing 31.0 mboed with 15.9 years of remaining proved reserve life. In the near term, we intend to increase our production of oil, condensate and gas and we currently expect to drill 12 new wells through 2007.

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

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

### International Oil Prices

Sales of oil and condensate accounted for approximately 88.4% of our combined sales for the six months ended June 30, 2006. The price of the oil we sell for export is benchmarked against the international

market price for Urals oil. Since November 2004, the price at which we sell condensate to export has been benchmarked against the international market price for Brent oil and Oman/Dubai oil. Oil prices have been, and are expected to continue to be, volatile and can fluctuate substantially in response to many factors beyond our control. International prices for Urals oil, Brent oil and Oman/Dubai oil have fluctuated for the periods presented in the financial statements included herein, as shown in the table below.

	Fiscal Year Ended December 31,			Six Months Ended June 30,	
	2003	2004	2005	2005	2006
	(US\$/bbl)			(US\$/bbl)	
<i>Average for the periods indicated</i>					
Urals .....	\$27.31	\$33.86	\$49.93	\$45.35	\$61.51
Oman/Dubai .....	28.87	38.32	54.51	49.71	65.85
Brent .....	27.24	34.20	50.45	45.41	61.53

Source: Bloomberg

All of our export sales of oil and condensate are priced at the average spot rates for three consecutive quotation days from the bill of lading. For the six months ended June 30, 2006, our average realized price for oil and condensate exports was \$56.22 bbl compared to \$40.89 bbl for the same period in 2005. For the year ended December 31, 2005, our average realized price for oil and condensate exports increased to \$45.62 bbl from \$28.78 bbl and \$22.44 bbl, respectively, for the years ended December 31, 2004 and 2003.

## Production

Our sales are dependent on our level of production of oil, condensate and gas production. The primary factors affecting our production are capital availability, adequate infrastructure, the success of our drilling program and our drilling prospects. As of September 30, 2006, our daily production was 31.0 mboed compared to 17.5 mboed on December 31, 2003. This increase was due to the construction of our gas and condensate processing facility on the Borankol field completed in April 2003, increased drilling efforts, the success of our drilling activity and other improvements to our infrastructure. The table below shows our oil, condensate and gas production for the periods presented in our financial statements included herein.

### Borankol Field

	Fiscal Year Ended December 31,			Six Months Ended June 30,
	2003	2004	2005	2006
<i>Average for the periods indicated</i>				
Oil (mbopd) .....	4.7	4.8	6.0	6.0
Condensate (mbopd) .....	0.3	0.7	0.1	0.1
Gas (MMcfd) .....	9.8	27.7	6.7	4.6
Total (mboed) .....	6.6	10.2	7.3	6.8

### Tolkyn Field

	Fiscal Year Ended December 31,			Six Months Ended June 30,
	2003	2004	2005	2006
<i>Average for the periods indicated</i>				
Oil (mbopd) .....	0.4	—	0.1	0.2
Condensate (mbopd) .....	2.2	4.2	4.9	4.8
Gas (MMcfd) .....	49.1	91.4	112.1	114.8
Total (mboed) .....	10.9	19.4	23.7	24.2

## Gas Market in Kazakhstan

The only major network of gas pipelines servicing the region in which our fields are located is the Central Asia-Center pipeline network. There are only two major parties with rights to access the Central Asia-Center pipeline network in Kazakhstan, GazImpex and KazRosGaz. As a consequence, since 2004 the majority of our gas production has been sold through supply and purchase agreements with GazImpex and KazRosGaz at prices significantly less than those available on the international market. Our remaining gas production during this period has been sold to local Kazakhstan end users.

## Taxes Paid Under Subsoil Use Contracts

Under the terms of existing subsoil use contracts, KPM and TNG are required to pay corporate income tax, excess profit tax, royalty tax and certain other fees at rates and under calculation methods that vary according to the contract. The taxation terms of these contracts are fixed for the duration of the contract.

The corporate income tax rate for KPM and TNG is currently 30.0%. Pursuant to their subsoil use contracts, KPM and TNG are required to calculate and pay excess profit tax if the internal rate of return exceeds 20.0%. For calculating excess profit tax, the internal rate of return is calculated on the basis of cash flows adjusted for the inflation rate. KPM's and TNG's subsoil use contracts provide for progressive taxation where an increase of the internal rate of return leads to an increase in the excess profit tax rate. The internal rate of return from the Borankol field exceeded the relevant threshold for the year ended December 31, 2005 which resulted in KPM paying a 12% excess profit tax.

KPM's operations on the Borankol field are currently subject to royalty taxes on a sliding scale, ranging from 2.0% to 7.4% based on cumulative production. The current level of royalty tax paid for the Borankol field is 5.3%. TNG's operations on the Tolkyn field is subject to royalty taxes at a fixed rate of 3.4%.

## Results of Operations

	Years Ended December 31,			Nine Months Ended September 30,	
	2003	2004	2005	2005	2006
				(unaudited)	
Sales .....	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales .....	45.8	43.2	28.7	24.6	28.9
Gross profit .....	54.2	56.8	71.3	75.4	71.1
Distribution expenses .....	17.4	12.5	4.9	5.2	4.6
Administrative expenses .....	2.7	2.0	1.5	1.4	4.4
Other operating expenses, net .....	1.0	1.1	1.5	1.5	(0.1)
Total operating expenses .....	21.1	15.6	7.8	8.1	8.9
Operating profit .....	33.2	41.3	63.5	67.3	62.3
Interest expense .....	(5.9)	(5.7)	(1.6)	(1.7)	(1.3)
Exchange gains / (losses) .....	0.2	1.7	0.1	1.3	2.2
Net profit before taxes .....	27.6	37.3	61.9	66.9	63.2
Income tax expense .....	9.5	14.5	27.4	28.2	29.5
Net profit .....	18.2%	22.8%	34.5%	38.7%	33.7%

## Components of Sales

Components of our historical sales are as follows:

	Fiscal Year Ended December 31,						Nine Months Ended September 30,			
	2003	%	2004	%	2005	%	2005 (unaudited)	%	2006 (unaudited)	%
(dollars in thousands)										
<b>Sales</b>										
Sales of crude oil and gas										
condensate . . . . .	\$53,607	82.9%	\$102,469	81.3%	\$182,203	86.9%	\$134,037	86.6%	\$165,042	88.2%
Sales of gas . . . . .	11,065	17.1%	23,486	18.6%	27,310	13.0%	20,760	13.4%	21,937	11.7%
Sales of self-produced										
electricity . . . . .	—	—	23	0.0%	39	0.0%	42	0.0%	38	0.0%
Total Sales . . . . .	<u>\$64,672</u>	<u>100%</u>	<u>\$125,978</u>	<u>100%</u>	<u>\$209,552</u>	<u>100%</u>	<u>\$154,839</u>	<u>100%</u>	<u>\$187,017</u>	<u>100%</u>

## Results of Operations for the Nine Months Ended September 30, 2006 and the Nine Months Ended September 30, 2005

### Sales

Sales increased to \$187.0 million for the nine months ended September 30, 2006, from \$154.8 million for the nine months ended September 30, 2005, representing an increase of 20.8%. Sales of oil and condensate increased to \$165.0 million for the nine months ended September 30, 2006 from \$134.0 million for the nine months ended September 30, 2005, representing an increase of 23.1%. The increase in sales of oil and condensate was primarily due to a 25.5% increase in the average realized sales price per barrel of oil and condensate, to \$55.74 for the nine months ended September 30, 2006 from \$44.43 for the nine months ended September 30, 2005. The increase in the average realized sales price per barrel was primarily due to an increase in the international market price for oil. Sales volumes of oil and condensate decreased to 2.9 MMbbl for the nine months ended September 30, 2006 from 3.0 MMbbl for the nine months ended September 30, 2005, representing a decrease of 1.9%. Gas sales increased slightly to \$21.9 million for the nine months ended September 30, 2006 from \$20.8 million for the nine months ended September 30, 2005. The modest increase in gas sales was attributable to a 7.4% increase in the average realized sales price per unit from \$0.65 per mcf for the nine months ended September 30, 2005 to \$0.70 per mcf for the same period in 2006 and an offsetting 1.6% decrease in gas sales volumes from 31.8 bcf for the nine months ended September 30, 2005 to 31.2 bcf for the nine months ended September 30, 2006. Gas sales volumes decreased in part due to the application of our gas to the extraction of oil through a procedure called “gas-lift.” Our average realized price increased from \$18.70 per boe for the nine months ended September 30, 2005 to \$22.98 per boe for the nine months ended September 30, 2006.

### Cost of Sales

Cost of sales includes royalty tax, depreciation and amortization, salaries and related costs, material costs, transportation expenses, security services and other expenses. Cost of sales increased to \$54.0 million for the nine months ended September 30, 2006 from \$38.2 million for the nine months ended September 30, 2005, representing an increase of 41.6%. This increase was primarily due to an increase in depreciation as a result of an increase in the value of oil, condensate and gas producing assets. Cost of sales increased to \$6.64 per boe for the nine months ended September 30, 2006 from \$4.61 per boe for the nine months ended September 30, 2005, which represents a 44.0% increase.

### Other Income

Other income includes sales of materials and other services, rental income, revenue from the disposal of fixed assets, investment income, and other income. Other income increased to \$2.3 million for the nine months ended September 30, 2006 from \$1.1 million for the nine months ended September 30, 2005. Other income increased to \$0.28 per boe for the nine months ended September 30, 2006 from \$0.14 per boe for the nine months ended September 30, 2005.



### *Distribution Costs*

Distribution costs include pipeline transportation costs, oil storage costs and other expenses. Distribution costs increased to \$8.6 million for the nine months ended September 30, 2006 from \$8.0 million for the nine months ended September 30, 2005, representing an increase of 7.2%. Distribution costs increased to \$1.05 per boe for the nine months ended September 30, 2006 from \$0.97 per boe for the nine months ended September 30, 2005, representing a 9.1% increase.

### *Administrative Expenses*

Administrative expenses include depreciation and amortization, taxes and duties, salaries and related costs, personnel training, charitable donations, travel allowances, banking services, materials, and other expenses. Administrative expenses increased to \$8.2 million for the nine months ended September 30, 2006 from \$2.2 million for the nine months ended September 30, 2005. This increase was primarily due to an increase in production activities relative to development activities and a consequent fall in the proportion of salary and related costs capitalized. Administrative expenses increased to \$1.01 per boe for the nine months ended September 30, 2006 from \$0.27 per boe for the nine months ended September 30, 2005, which represents a 278.0% increase.

### *Other Operating Expenses*

Other operating expenses decreased to \$2.1 million for the nine months ended September 30, 2006 from \$3.4 million for the nine months ended September 30, 2005. On a per boe basis, other operating expenses decreased to \$0.26 for the nine months ended September 30, 2006 from \$0.41 for the nine months ended September 30, 2005, which represents a 36.6% decrease.

### *Interest Expense*

Interest expense decreased to \$2.4 million during the nine months ended September 30, 2006 from \$2.6 million during the nine months ended September 30, 2005, representing a decrease of 7.0%. Although interest expenses on borrowings increased over the prior nine months, interest expenses decreased as a higher proportion of interest as borrowings were capitalized as part of the cost of capital expenditures.

### *Exchange Gains / (Losses)*

Exchange gains / (losses) increased from a gain of approximately \$2.0 million during the nine months ended September 30, 2005 to a \$4.2 million gain during the nine months ended September 30, 2006. This increase was due to fluctuations in the relative value of the Tenge and the Euro against the U.S. Dollar.

### *Income Tax Expense*

Income tax expense increased to \$55.2 million for the nine months ended September 30, 2006 from \$43.6 million during the nine months ended September 30, 2005, representing an increase of 26.5%.

## **Results of Operations for the Fiscal Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004**

### *Sales*

Sales increased to \$209.6 million for the year ended December 31, 2005 from \$126.0 million for the year ended December 31, 2004, representing an increase of 66.3%. Sales of oil and condensate increased to \$182.2 million for the year ended December 31, 2005 from \$102.5 million for the year ended December 31, 2004. The increase in sales of oil and condensate was primarily due to a 54.1% increase in the average realized sales price per barrel, from \$28.85 in 2004 to \$44.45 in 2005 and a 15.4% increase in sales volumes of oil and condensate from 3.6 MMbbl in 2004 to 4.1 MMbbl in 2005. The increase in the average realized price per barrel was primarily due to an increase in the international market price for oil. The increase in oil and condensate sales

volumes was due to an increase in the number of productive wells over the prior year. Gas sales increased to \$27.3 million for the year ended December 31, 2005 from \$23.5 million for the year ended December 31, 2004. The increase in gas sales was attributable to a 15.4% increase in the average realized sales price per unit from \$0.56 per mcf for the year ended December 31, 2004 to \$0.65 per mcf for the same period in 2005. This increase was due to a higher negotiated selling price with one of TNG's two primary gas customers. Our average realized price increased from \$11.96 per boe for the fiscal year ended December 31, 2004 to \$18.81 per boe for the fiscal year ended December 31, 2005.

#### ***Cost of Sales***

Cost of sales increased to \$60.1 million for the fiscal year ended December 31, 2005 from \$54.4 million for the fiscal year ended December 31, 2004, representing an increase of approximately 10.5%. This increase in cost of sales was primarily due to an increase in depreciation as a result of an increase in oil and condensate production volumes. Cost of sales increased from \$5.16 per boe to \$5.40 per boe for the fiscal years ended December 31, 2004 and 2005, respectively.

#### ***Other Income***

Other income totaled \$1.7 million for the year ended December 31, 2005, representing a 26.5% increase from the year ended December 31, 2004. Other income increased to \$0.15 per boe for the fiscal year ended December 31, 2005 from \$0.13 per boe for the fiscal year ended December 31, 2004, which represents a 19.7% increase.

#### ***Distribution Costs***

Distribution costs decreased to \$10.2 million for the fiscal year ended December 31, 2005 from \$15.7 million for the fiscal year ended December 31, 2004, representing a decrease of approximately 35.0%. As of December 31, 2004, we no longer distribute the condensate we export FOB Odessa and instead distribute the condensate we export FCA Opornaya. This change resulted in a \$5.5 million decrease in distribution costs, or a \$0.57 per boe decrease in our weighted average unit distribution costs, during the fiscal year ended December 31, 2005 compared to the fiscal year ended December 31, 2004. This decrease in distribution costs was partially offset by a reduction in sales price relating to our new FCA distribution arrangement. Distribution costs were \$1.49 per boe and \$0.92 per boe for the fiscal years ended December 31, 2004 and 2005, respectively.

#### ***Administrative Expenses***

Administrative expenses increased to \$3.1 million, or \$0.28 per boe, for the fiscal year ended December 31, 2005 from \$2.5 million, or \$0.24 per boe, for the fiscal year ended December 31, 2004. This increase was primarily due to an increase in production activities relative to development activities and a consequent fall in the proportion of salary and related costs capitalized.

#### ***Other Operating Expenses***

Other operating expenses increased to \$4.8 million for the fiscal year ended December 31, 2005 from \$2.7 million for the fiscal year ended December 31, 2004. The increase is due principally to increased property taxes, resulting from the higher value of oil, condensate and gas producing assets.

#### ***Interest Expense***

Interest expense decreased to \$3.4 million for the fiscal year ended December 31, 2005, from \$7.2 million for the fiscal year ended December 31, 2004, representing a 52.6% decrease. Although total borrowings increased over the prior year, interest expense decreased due to certain amounts of interest that were capitalized.

### *Exchange Gains / (Losses)*

Exchange gains decreased to \$0.1 million for the fiscal year ended December 31, 2005 from \$2.1 million for the fiscal year ended December 31, 2004. This increase related to fluctuations of the relative value of the Tenge against the U.S. Dollar.

### *Income Tax Expense*

Income tax expense increased to \$57.4 million for the fiscal year ended December 31, 2005 from \$18.3 million in the fiscal year ended December 31, 2004, representing a 214.2% increase. This increase was primarily due to KPM being subject to the excess profit tax in 2005 for the first time.

## **Results of Operations for the Fiscal Year Ended December 31, 2004 Compared to the Fiscal Year Ended December 31, 2003.**

### *Sales*

Sales increased to \$126.0 million for the fiscal year ended December 31, 2004, from \$64.7 million for the fiscal year ended December 31, 2003, representing an increase of approximately 94.8%. Sales of oil and condensate increased to \$102.5 million for the fiscal year ended December 31, 2004 from \$53.6 million for the fiscal year ended December 31, 2003, representing an increase of approximately 91.1%. The increase in sales of oil and condensate was primarily due to a 45.7% increase in the average realized sales price per barrel to \$28.85 for the fiscal year ended December 31, 2004 from \$19.80 for the fiscal year ended December 31, 2003 and a 31.2% increase in sales of oil and condensate volumes to 3.6 MMbbl for the fiscal year ended December 31, 2004 from 2.7 MMbbl for the fiscal year ended December 31, 2003. The increase in the average realized sales price per barrel was primarily due to an increase in the international market price for oil. The increase in oil and condensate sales volumes was due to an increase in the number of productive wells over the prior year. Gas sales increased to \$23.5 million for the fiscal year ended December 31, 2004 from \$11.1 million for the fiscal year ended December 31, 2003. The increase in gas sales was attributable to a 2.6% increase in the average realized sales price per unit from \$0.55 per mcf for the fiscal year ended December 31, 2003 to \$0.56 per mcf for the same period in 2004 and a 106.9% increase in gas volumes from 20.3 bcf for the fiscal year ended December 31, 2003 to 41.9 bcf for the fiscal year ended December 31, 2004. The increase in gas sales volumes was due to an increase in the number of productive wells over the prior year and increased production at our processing plant at the Borankol field, which was completed in 2003. Our average realized sales price per unit increased from \$10.63 per boe for the fiscal year ended December 31, 2003 to \$11.96 per boe for the fiscal year ended December 31, 2003.

### *Cost of Sales*

Cost of sales increased to \$54.4 million for the fiscal year ended December 31, 2004 from \$29.6 million for the fiscal year ended December 31, 2003, representing an increase of 83.9%. This increase was primarily due to an increase in depreciation as a result of an increase in production volumes and in the value of oil, condensate and gas producing assets subject to depreciation. Cost of sales increased to \$5.16 per boe for the fiscal year ended December 31, 2004 from \$4.86 per boe for the fiscal year ended December 31, 2003, which represents a 6.2% increase.

### *Other Income*

Other income for the fiscal year ended December 31, 2004 was relatively unchanged at \$1.4 million compared to the fiscal year ended December 31, 2003. Other income decreased to \$0.13 per boe for the fiscal year ended December 31, 2004 from \$0.20 per boe for the fiscal year ended December 31, 2003.

### *Distribution Cost*

Distribution costs increased to \$15.7 million for the fiscal year ended December 31, 2004 from \$11.2 million for the fiscal year ended December 31, 2003, representing an increase of 39.8%. This increase was

due primarily to the increase in oil, condensate and gas sales volumes. However, on a boe basis, distribution costs decreased to \$1.49 per boe for the fiscal year ended December 31, 2004 from \$1.85 per boe for the fiscal year ended December 31, 2003, which represents a 19.3% decrease.

#### *Administrative Expenses*

Administrative expenses increased to \$2.5 million for the fiscal year ended December 31, 2004 from \$1.7 million for the fiscal year ended December 31, 2003, representing an increase of 44.6%. However, on a boe basis, administration expenses decreased to \$0.24 per boe for the fiscal year ended December 31, 2004 from \$0.29 per boe for the fiscal year ended December 31, 2003, which represents a 16.5% decrease.

#### *Other Operating Expenses*

Other operating expenses increased to \$2.7 million for the fiscal year ended December 31, 2004 from \$1.8 million for the fiscal year ended December 31, 2003. This increase was due principally to increased property taxes, resulting from the higher value of oil, condensate and gas producing assets.

#### *Interest Expense*

Interest expense increased to \$7.2 million for the fiscal year ended December 31, 2004 from \$3.8 million for fiscal year 2003, an increase of 89.4%. Total interest payable was almost unchanged but the level of interest capitalized as part of capital projects fell in 2004.

#### *Exchange Gains / (Losses)*

Exchange gains were \$2.1 million for the fiscal year ended December 31, 2004 compared to a nominal gain for the fiscal year ended December 31, 2003. This change related to fluctuations of the relative value of the Tenge against the U.S. Dollar.

#### *Income Tax Expense*

Income tax expense increased to \$18.3 million for the fiscal year ended December 31, 2004 from \$6.1 million for the fiscal year ended December 31, 2003. This increase was due to the increased net profit before tax.

### **Liquidity and Capital Resources**

For the periods presented in the financial statements contained herein, we have funded our oil, condensate and gas operations with funds from operations and loans, including, our line of credit with Kazkommerzbank and loans from an affiliate. See “*Certain Relationships And Related Party Transactions—Certain Transactions with Affiliates Relating to Loan Agreements*” and “*Description of Other Indebtedness.*”

#### *Cash Flow from Operating Activities*

Net cash provided by operating activities increased to \$91.3 million for the nine months ended September 30, 2006 from \$52.0 million for the nine months ended September 30, 2005. Net cash provided by operating activities was \$92.0 million for the fiscal year ended December 31, 2005 compared to \$25.7 million and \$4.6 million for the fiscal years ended December 31, 2004 and December 2003, respectively. The increases in net cash provided by operating activities were primarily due to increases in volumes and substantial increases in the international market price for oil and were partially offset by increases in trade and other receivables related to such increases in volumes and prices. Net cash provided by operating activities are substantially influenced by the international market price for oil. Oil prices have been, and are expected to continue to be, volatile, and can fluctuate substantially in response to many factors beyond our control.

#### *Cash Flow from Investing Activities*

Net cash used in investing activities increased to \$159.1 million for the nine months ended September 30, 2006 from \$59.8 million for the nine months ended September 30, 2005. Net cash used in investing activities was \$103.2 million for the fiscal year ended December 31, 2005 compared to \$43.2 million and \$16.9

million for the fiscal years ended December 31, 2004 and December 2003, respectively. The increases in net cash used in investing activities were due to increases in capital expenditures relating to purchases of fixed assets, including the ongoing construction of a new gas and condensate processing facility at the Borankol field, increased drilling of wells, purchases of drilling rigs and construction of a new pipeline from the Tol kyn field to the Borankol field.

**Cash Flow from Financing Activities**

Net cash provided by financing activities increased to \$85.4 million for the nine months ended September 30, 2006 from \$12.0 million for the nine months ended September 30, 2005. Net cash provided by financing activities was \$12.0 million for the fiscal year ended December 31, 2005 compared to \$12.2 million and \$17.7 million for the fiscal years ended December 31, 2004 and December 2003, respectively. Changes in net cash provided by financing activities related to draw downs and repayments of principal under our line of credit with Kazkommerzbank and repayments of loans from an affiliate.

The levels of our cash, current assets and current liabilities at the dates of the balance sheets included herein are as follows:

	As of December 31,			As of
	2003	2004	2005	September 30,
	(dollars in thousands)			2006
				(unaudited)
Cash and cash equivalents	\$ 5,613	\$ 375	\$ 1,185	\$ 18,848
Total current assets (excluding cash and cash equivalents)	32,401	61,419	112,072	225,017
Total current liabilities	47,656	21,974	47,107	85,027

**Capital Expenditures**

We currently expect to incur the following capital expenditures in 2007 and 2008:

**Drilling.** We expect to drill 12 wells in 2007, 5 on the Tol kyn Field and 7 on the Borankol Field. We expect to incur \$33.0 million of capital expenditure in connection with drilling these wells and an additional \$3.0 million in infrastructure development relating to the drilling.

**LPG Plant.** TNG is currently building a new LPG processing facility for liquid petroleum gas. To date, TNG has made advance payments of approximately \$73.0 million in connection with the LPG project. In total, TNG expects to spend \$130.0 million in capital expenditures in connection with the LPG project through 2008.

We currently believe that cash provided from operating activities and the net proceeds of this offering will be sufficient to fund the aforementioned capital expenditures. The volatility of the international market for oil may affect our ability to fund our capital expenditure projects.

**Contractual Borrowings**

The following table shows all contractual obligations as of September 30, 2006.

	Payments due by period				
	Total	Within 1 Year	1-2 Years	3-5 Years	After 5 Years
	(dollars in thousands)				
Long-term borrowings	\$217,273	\$22,599	\$26,528	\$92,710	\$75,436
Capital lease borrowings	—	—	—	—	—
Operating lease borrowings	—	—	—	—	—
Total	\$217,273	\$22,599	\$26,528	\$92,710	\$75,436

## OVERVIEW OF KAZAKHSTAN AND THE OIL AND GAS INDUSTRY

### Overview of Kazakhstan

Kazakhstan is located in Central Asia and is bordered by Russia to the north and west, China's Xinjiang-Uighur Autonomous Region to the east, the Kyrgyz Republic ("Kyrgyz"), the Republic of Uzbekistan ("Uzbekistan") and the Republic of Turkmenistan ("Turkmenistan") to the south and the Caspian Sea to the west. The capital, Astana, is located in central Kazakhstan but Almaty, in the south east of the country, is the principal business and financial centre of the country and is by far its largest city.

The country covers an area of 2.7 million square kilometers, approximately the same size as Western Europe, and spans two time zones from the Caspian Sea in the west to the Altai Mountains in the east. In terms of landmass, Kazakhstan is the ninth largest country in the world and the second largest country, after Russia, in the Commonwealth of Independent States ("CIS").

As of June 30, 2006, the population of Kazakhstan was approximately 15.2 million, making Kazakhstan one of the most sparsely populated countries in the world, with an average population density of approximately 5.6 people per square kilometer.

Kazakhstan's economy is highly dependent on the successful development of the oil sector. For each of the past five years, GDP growth in Kazakhstan has been over 9.0%, fuelled by increased world demand for oil and high oil prices. This growth in GDP has resulted in a GDP per capita of \$8,300 in 2005. Over this period, the general economic situation in Kazakhstan has improved, leading to a strong growth in imports to Kazakhstan. High oil prices have increased foreign exchange reserves, which are being accumulated in the National Development Fund of Kazakhstan in order to reduce inflationary pressures on the country's economy. Between 1993 and 2005 Kazakhstan has attracted more than \$40.0 billion in foreign direct investment, the highest per capita rate of all of the republics of the former Soviet Union.

The non-oil economy in Kazakhstan has grown at a rate of over 7.0% per annum over the past 5 years. Those sectors most closely associated with oil have grown fastest: construction and services related to oil extraction, transportation, and investment projects, including real estate and related services and, on a lesser scale, financial services and trade, have shown strong growth.

The table below shows Kazakhstan's GDP, GDP growth and inflation for the years from 2001 to 2005.

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
GDP (dollars in billions) . . . . .	22.1	24.6	30.9	43.2	56.1
Real GDP Growth (% change) . . . . .	13.5	9.8	9.3	9.6	9.4
Inflation (CPI % change) . . . . .	8.4	5.9	6.4	6.9	7.6

Rapid economic growth has helped stimulate employment and raise living standards. Unemployment rates in Kazakhstan fell from 13.7% in 1998 to 8.1% in 2005. Currently, the annual per capita GDP and monthly wages in Kazakhstan are among the highest of the republics of the former Soviet Union. In 2005, Kazakhstan attracted approximately 82% of the total foreign direct investment into Central Asia, approximately \$6.2 billion.

Kazakhstan was the first CIS country to achieve an investment grade sovereign rating and is currently rated BBB by Standard & Poor's and Baa2 by Moody's. In June 2006, Moody's raised Kazakhstan's foreign currency government bond rating and issuer rating from Baa3 to Baa2, and on November 2, 2006 Standard & Poor's raised Kazakhstan's foreign currency long-term debt rating from "BBB-" to "BBB".

## **Kazakhstan's Oil and Gas Industry**

The Caspian Sea region includes those countries (including Russia and Iran) bordering the Caspian Sea. A part of Uzbekistan is also considered to be part of the Caspian region due to its proximity. To date, the two significant oil producing countries in the Caspian Sea region have been Kazakhstan and Azerbaijan. It is expected that these countries will continue to lead the region in oil production in the near future, driven by production growth from existing fields and the development of recently discovered fields. Turkmenistan and Uzbekistan are the predominant gas producers in the Caspian Sea region but do not produce significant oil volumes relative to Kazakhstan and Azerbaijan. In addition, the areas of Russia and Iran near the Caspian Sea are not a source of substantial oil production for these countries. Russia, however, plays an important role in the region by providing a transportation corridor between the Caspian Sea and the Black Sea.

### ***Major Oil and Gas Projects in Kazakhstan***

Since 2000, Kazakhstan has experienced significant economic growth. Two of the main catalysts for this growth have been economic reform and foreign investment, much of which has been concentrated in the energy sector. Foreign investment in the oil and gas sector in Kazakhstan has taken the form of joint ventures, production-sharing agreements and exploration/field concessions. Major projects in Kazakhstan include the Tengiz, Karachaganak and Kashagan fields.

Tengizchevroil LLP, a joint venture among Chevron Corporation, ExxonMobil Corporation, Lukarco Services B.V, and National Company KazMunaiGas, was created in 1993 as a 40-year, \$20.0 billion joint venture with the aim of developing the Tengiz and Korolev fields. The Tengiz field is one of the largest fields to be developed in the world in the last 25 years and is located on the southeastern part of the Pre Caspian basin on the northeastern edge of the Caspian Sea. According to current estimates, the Tengiz field has recoverable reserves of between 6.0 billion and 9.0 billion bbl of oil. In 2005, 13.6 million tonnes, or 273.1 thousand bopd of oil were produced.

The Karachaganak field is a large gas-oil-condensate field located in northwest Kazakhstan, with an area of about 280 square kilometers. In 1997, a foreign consortium signed a \$7.0 to \$8.0 billion final production sharing agreement to develop the field for 40 years, with a planned investment of \$4.0 billion by 2006. The field holds an estimated 8 to 9 billion barrels of oil and gas condensate and 47.0 tcf of gas. In 2003, Karachaganak's oil and condensate production averaged above 200.0 mbopd, representing almost 20% of total Kazakhstan production.

The Kashagan field is located off the northern shore of the Caspian Sea. In 1997, a consortium of companies consisting of Eni S.p.A, Royal Dutch Shell plc, Total S.A., ExxonMobil Corporation, Conoco Phillips, and National Company KazMunaiGas and INPEX Holdings Inc signed a 40-year production sharing agreement covering five structures, namely Kashagan, Kalamkas, Aktoty, Kairan and Kashagan SW. In June 2000, as a result of drilling and testing of wells in East Kashagan-1, the discovery was announced as the largest oil and gas field to be discovered for the past 40 years. Eni S.p.A alone plans to invest \$10.0 billion in the first stage of exploring the Kashagan oil field.

### ***Oil Supply and Demand***

As of December 31, 2005, Kazakhstan ranked eighth in the world in oil reserves and eleventh in the world in gas reserves with estimated proved oil and gas reserves of 57.3 billion boe. Kazakhstan is the second largest oil producer (after Russia) among the former Soviet republics and has the Caspian Sea region's largest recoverable oil reserves.

Between 1999 and 2005, Kazakhstan's oil production grew at a CAGR of approximately 13.7%. During 2005, the country produced 1.4 million bopd. The government estimates that Kazakhstan will produce 2.0 million bopd by 2010, and 3.0 million bopd by 2015. It is expected that most of this growth will come from the Tengiz, Karachaganak and Kashagan fields.

Kazakhstan produced 405.5 million barrels of oil and gas condensate in 2003, 473.4 million barrels of oil and gas condensate in 2004 and 497.9 million barrels of oil and gas condensate in 2005.

Kazakhstan has three major oil refineries supplying the north (at Pavlodar), the west (at Atyrau) and the south (at Shymkent), with an estimated total refining capacity of 21.0 million tonnes per year, or approximately 427 thousand bopd. In 2005, the three refineries together processed a combined average of approximately 11.2 million tonnes per year, or 224 thousand bopd.

The refinery at Pavlodar is supplied mainly by oil from west Siberia; the Atyrau Refinery runs solely on domestic oil from the west of Kazakhstan; and the Shymkent refinery generally uses oil from south Kazakhstan. The Atyrau Refinery is undergoing modernization to provide some additional capacity and to allow the refinery to meet current European fuel standards.

### *Gas Supply and Demand*

Kazakhstan is a net exporter of gas. Increases in its own gas production are expected to come primarily from associated gas at the Tengiz, Karachaganak and Kashagan fields. Most of Kazakhstan's gas reserves are located in the west of the country near the Caspian Sea, with roughly 25% of proved reserves located in the Karachaganak field.

Gas production in Kazakhstan has increased significantly since 1999 when the government passed a law requiring subsoil users (primarily oil companies) to include gas utilization projects in their development plans. As a result, gas production in 2000 doubled compared to 1995, reaching 381.4 bcf, the highest level since independence in 1991. Production has increased since then, reaching 829.9 bcf in 2005. According to the 15-year development strategy of MEMR, gas production in Kazakhstan will increase to 1.7 tcf by 2010, and to 1.8 tcf by 2015.

### *Transportation*

An important aspect of increasing hydrocarbon production in Kazakhstan has been the development of transportation infrastructure. Exports of oil have grown significantly and most oil from Kazakhstan is currently delivered to foreign markets via pipelines through Russia to shipping points on the Black Sea. The opening of the Caspian Pipeline Consortium ("CPC") pipeline in 2001 substantially raised the oil export capacity of Kazakhstan.

In 2005, approximately 30.5 million tonnes per year, or 613.0 mbopd, of oil were shipped through the CPC pipeline and 16.9 million tonnes per year, or 340.0 mbopd, of oil were shipped through the Uzen-Atyrau-Samara ("UAS") pipeline out of total exports of 54.8 million tonnes per year, or 1.1 MMBopd.

The CPC pipeline, which has been operational since 2001, represents a major export route. It extends 980 miles, originating in the Tengiz field, running through Russia and terminating at the CPC marine terminal on the Black Sea near the Russian port of Novorossiysk. The capacity currently is 560.0 mbopd. The CPC expansion project is expected to see capacity grow to at least 1.3 MMBopd and includes the construction of additional pumping stations, increasing the storage capacity of the existing reservoirs, as well as construction of additional loading facilities. The project's costs are estimated at \$1.5 billion.

The UAS pipeline transports oil from fields in the Atyrau and Mangistau regions to Russia. The pipeline system runs from Uzen in Southwest Kazakhstan to Atyrau, before crossing into Russia and linking with Russia's Transneft system at Samara. In June 2002, Kazakhstan signed a 15-year oil transit agreement with Russia. Under this agreement, Kazakhstan will export at least 16.9 million tonnes per year, or 340.0 thousand bopd, of oil using the Russian pipeline system.



The 1,040 mile Baku-Tbilisi-Ceyhan pipeline delivers oil from Baku in Azerbaijan to a new marine terminal in the Turkish port of Ceyhan on the Mediterranean and is the first direct pipeline link between the Caspian Sea and the Mediterranean Sea. The Baku-Tbilisi-Ceyhan pipeline project began operating in July 2006, and is designed to transport up to approximately 50 million tonnes, or 1.0 million bopd. BP is the largest stakeholder in this project with 30.1%. The Baku-Tbilisi-Ceyhan pipeline is expected to be largely dedicated to production from the Azerbaijan sector of the Caspian Sea but to the extent there is available capacity, the Baku-Tbilisi-Ceyhan pipeline may be used to transport Kazakhstan oil shipped across the Caspian Sea to Baku by tanker. Kazakhstan is now in discussions with Azerbaijan for access.

In December 2005, China and Kazakhstan put into operation the 613 mile Atasu-Alashankou pipeline, forming part of the Kazakhstan-China pipeline, which cost approximately \$3.0 billion. The initial capacity of the Atasu-Alashankou pipeline is approximately 10.0 million tonnes, or 200.0 thousand bopd, per year, with a projected increase up to approximately 20.0 million tonnes per year, or 400.0 thousand bopd.

Rail transportation was the primary export route for Kazakhstan production before the development of the UAS and CPC pipelines. The rail infrastructure remains an alternative transportation option.

## BUSINESS

### Our Business

We are engaged in the exploration and development of oil and gas fields and in the production of oil, condensate and gas in the Pre Caspian basin of Western Kazakhstan. We operate on two fields. KPM operates on the Borankol field and TNG operates on the Tolkyin field. The two fields have a combined proved plus probable reserves value of \$865.8 million. With \$416.2 million invested in exploring and developing these fields, we are currently producing 31.0 mboed, with approximately 15.9 years of remaining proved reserve life.

As of December 31, 2006, the Borankol and Tolkyin fields will have combined proved reserves of approximately 95.4 MMboe, 40.7% of which will be oil/condensate and 59.3% of which will be gas. We had 63 actively producing wells as of June 30, 2006, and we expect to drill 12 wells through the end of 2007. With newly-constructed infrastructure built to Western standards and experienced management and technical teams, we believe we are well-positioned to increase our reserves, production, cash flow and net profit through the exploration and development of our existing properties.

For the twelve months ended September 30, 2006, we generated approximately \$241.7 million of sales, \$184.9 million of EBITDA and \$75.4 million of net profit. For the same twelve-month period, our pro forma ratio of total debt to EBITDA would have been 2.0x and our pro forma ratio of EBITDA to cash interest expense would have been 4.4x. Additionally, as of September 30, 2006, our pro forma ratio of total reserves value to senior debt would have been 2.9x.

### Business Strengths

We believe that our key strengths are as follows:

***Demonstrated ability to grow reserves, production volumes and sales volumes.*** We have grown our proved developed reserves from 48.3 MMboe at December 31, 2003 to 94.6 MMboe at June 30, 2006. Over the same period, our daily production increased from 17.5 mboed to 31.0 mboed. Our EBITDA increased from \$33.9 million for the twelve month period ended December 31, 2003 to \$184.9 million for the twelve months ended September 30, 2006. These increases were due to the construction of our gas and condensate processing facility on the Borankol field completed in April 2003, increased drilling efforts, the success of our drilling activity and other improvements to our infrastructure. We believe we have the opportunities, expertise and knowledge to continue growing our reserves and sales volume.

***Successful drilling history.*** We follow a disciplined formal process prior to drilling wells, which entails thorough geological and financial analysis. Many of our drilling locations are in close proximity to areas that have experienced significant oil, condensate and gas production. We have drilled 69 wells through June 30, 2006, achieving a 98.6% success rate and we currently benefit from 95.0% production uptime. Although drilling rigs, drilling crews and other equipment and services are in high demand, we believe that we have secured sufficient drilling equipment and services to execute our drilling program. We expect that our approach to drilling will continue to enable us to identify and develop additional prospects.

***Western-Standard Infrastructure.*** Our infrastructure, built primarily in the last four years, is in line with Western standards. We have located on site at the Borankol field an oil treatment facility and a gas and condensate processing facility which were constructed in 2001 and 2003, respectively. To accommodate our anticipated growth in production, we expect to complete construction of an additional gas and condensate processing facility, which we believe will increase our gas and condensate processing capacity from 120.0 MMscfg/d to 350.0 MMscfg/d resulting in increased gas and condensate production. In addition, we have built pipelines connecting the Tolkyin field to the Borankol production facilities located on the Borankol field. We have also constructed pipelines allowing us to transport our oil, condensate and gas to Opomaya where we connect to the pipelines and railways through which we ultimately distribute our products.

***Experienced management and technical teams.*** Mr. Stati, President, Chief Executive Officer and Chairman of the Board of Tristan Oil, entered into the oil and gas business in the Caspian Sea region in 1995.

Companies beneficially owned by Mr. Stati and certain members of his family acquired controlling interests in KPM and TNG in 1999 and 2000, respectively. Mr. Stati has led our management team from the early stages of exploration through our consistent growth in production since 2001. In addition, our management and technical teams have an average of 23 years of experience in the oil and gas business.

***Maintain financial flexibility and a conservative capital structure.*** We practice a disciplined approach to financial management and have historically maintained a strong capital structure which has provided us with the ability to successfully execute our business plan. For the twelve months ended September 30, 2006, we generated approximately \$241.7 million of sales, \$184.9 million of EBITDA and \$75.4 million of net profit. For the same twelve-month period, our pro forma ratio of senior debt to EBITDA would have been 1.6x and our pro forma ratio of EBITDA to cash interest expense would have been 4.4x. Additionally, as of September 30, 2006 our pro forma ratio of total reserves value to senior debt would have been 2.9x.

## **Business Strategy**

***Focus on expanding production of oil, condensate and gas.*** We plan to continue expanding our production of oil, condensate and gas by growing our operations organically. We intend to apply our drilling experience to increase our proved reserves and expect to drill 12 wells through the end of 2007. We expect to complete construction of an additional gas and condensate processing facility which we believe will increase our gas and condensate processing capacity from 120.0 MMscfg/d to 350.0 MMscfg/d and result in increased gas and condensate production and sales.

***Increase profitability of gas operations.*** We intend to seek new ways to profit from our substantial gas reserves. We are investing in the construction of a new LPG plant on the Borankol field which we expect to complete in 2008. We will build the LPG plant through a joint venture with Vitol FSU B.V. Once the gas we extract from our wells has been separated from condensate, it will be processed in the LPG plant where a portion of the gas will be turned into LPG. We expect that approximately 7% of the gas we extract from our wells will be processed into LPG. Unlike gas, which must be distributed through pipelines, LPG may be transported by rail, and we believe this will provide us with increased distribution options and the opportunity to realize increased sales.

***Continue to maintain operational control of the exploration and development of our fields.*** We currently maintain 100% control over the exploration and development of our fields. By maintaining operational control over the exploration and development of our fields, we are able to utilize our technical and operational expertise to better manage operating costs, capital expenditures and the timing of development activities.

## **Corporate Structure**

Tristan Oil, KPM and TNG are each wholly owned, either directly or indirectly, by Mr. Stati and certain members of the Stati family.

Tristan Oil is a corporation organized under the laws of British Virgin Islands. Tristan Oil was incorporated solely for the purpose of issuing the Notes under the indenture, has no business operations of its own and its only assets will be loans that it will make to KPM, TNG and TNG's parent company from the net proceeds of the offering. Tristan Oil has no parent company or subsidiaries.

KPM and TNG are limited liability partnerships organized under the laws of Kazakhstan. Entities controlled by Mr. Stati and certain members of the Stati family acquired a 62.0% interest in KPM in 1999 and a 75.0% interest in TNG in 2000 and acquired the remaining interests in KPM and TNG in 2004 and 2002, respectively. Ascom is the direct parent company of KPM and Terra Raf is the direct parent company of TNG. Ascom and Terra Raf are each wholly owned by Mr. Stati and certain members of the Stati family.

Tristan Oil's registered offices are located at Craigmuir Chambers, Road Town, Tortola, British Virgin Islands. For purposes of inquiries with respect to this offering, our address is 18 Renasterii bd., Chisinau, Moldova, MD 2005. We can be reached by phone at +373 22 244417.

### Proved and Probable Reserves

The estimates in the tables below are for year end proved and probable reserves as of December 31, 2006 and are presented net of shrinkage. The proved and probable reserve values in the table below are based on a constant oil price and variable gas price scenario. The reserve volumes as of December 31, 2006 are from the reserve report (the "Ryder Scott Reserve Report") dated as of June 30, 2006, prepared independently by Ryder Scott Company, L.P. ("Ryder Scott"), an independent petroleum engineering firm. Probable reserves are being presented below to help investors better understand the future potential of our fields beyond that reflected by our proved reserves.

The reserves in the Ryder Scott Reserve Report include the proved and probable categories. The proved and probable reserves conform to the definition approved by the Society of Petroleum Engineers ("SPE") and the World Petroleum Congress ("WPC") using a deterministic methodology, except that they are based on variable gas price scenario.

	As of December 31, 2006		
	KPM	TNG	Combined
<b>Proved Reserves</b>			
Oil/condensate (MMbbls) .....	25.9	12.9	38.8
Gas (bcf) .....	47.4	292.1	339.5
Total proved (MMboe) .....	33.8	61.6	95.4
% Gas .....	23.4%	79.0%	59.3%
% Proved developed .....	77.3%	100.0%	92.0%
Estimated proved reserve life index (years) <sup>(1)</sup> .....	13.1	6.2	7.6
Remaining reserve life (years) <sup>(2)</sup> .....	15.9	12.5	15.9
<b>Probable Reserves</b>			
Oil/condensate (MMbbls) .....	32.9	12.7	45.6
Gas (bcf) .....	33.2	257.7	290.9
Total probable (MMboe) .....	38.5	55.6	94.1
% Gas .....	14.4%	77.2%	51.5%
% Probable developed .....	65.9%	94.6%	82.8%
<b>Total reserves (MMboe)</b> .....	<b>72.2</b>	<b>117.2</b>	<b>189.5</b>
Estimated total reserve life index (years) <sup>(3)</sup> .....	28.0	11.8	15.2
Remaining reserve life (years) <sup>(2)</sup> .....	32.0	26.0	32.0
<b>PV-10 Value (dollars in millions)<sup>(4)</sup>:</b>			
Total proved value .....	\$214.8	\$283.1	\$497.9
Total probable value .....	168.4	199.5	367.9
<b>Total reserves value</b> .....	<b>\$383.2</b>	<b>\$482.6</b>	<b>\$865.8</b>

(1) Estimated reserve life index is based on proved reserves as of December 31, 2006 divided by the sum of the estimated production for the year ending December 31, 2006.

(2) Remaining reserve life is time required to produce the reserves to their economic limit, which is when sales equals operating costs.

(3) Estimated total reserve life index is based on proved plus probable reserves as of December 31, 2006 divided by the sum of the estimated production for the year ending December 31, 2006.

(4) The reserve values as of December 31, 2006 were prepared using reserve values from the Ryder Scott Reserve Report and an after tax analysis to create a future discounted after tax cash flow. "PV-10" shows the present value of our estimated future net cash flows from proved reserves, probable reserves, or total reserves as applicable, in each case after income taxes, discounted at 10.0% per year, calculated using constant oil pricing and a variable gas pricing scenario. The prices used as of December 31, 2006 were based on \$60.00 per bbl of Brent-oil benchmarked price adjusted for our price differentials and variable pricing per mcf of natural gas. Variable gas pricing scenario allows for the escalation of the gas price by 10% per year until reaching an estimated world price cap of \$8.96 per mcf in 2032 and held constant thereafter. PV-10 does not purport to present the fair market value of our oil/condensate and gas reserves and is not necessarily indicative of actual future cash flows.

## Our Operations

We currently conduct our operations on the Borankol and Tolkyk fields.

*Borankol field.* KPM operates on the Borankol field. On average we have produced 97.2% of our oil from the Borankol field during 2005 and first six months of 2006. Approximately \$159.6 million has been invested in the exploration and development of the Borankol field. The Borankol field covers 16,610 gross acres and, as of December 31, 2006, has a proved reserve base of 33.8 MMboe, 76.6% of which is oil/condensate and 23.4% of which is gas. This proved reserve base represents 35.4% of our total proved reserve base and contributes \$214.8 million or 43.1% to our proved reserves value (the probable reserve base of the Borankol field contributes an additional \$168.4 million to our proved plus probable reserves value). Since production on the Borankol field began in 2001, the field has produced 6.8 MMbbl of oil and condensate, and 9.1 bcf of gas. As of June 30, 2006, there were 44 producing wells on this field, with an average daily production of 6.8 mboed (6.0 mboed of oil, 0.1 mboed of condensate and 0.8 mboed of gas) and 15.9 years of remaining proved reserve life. KPM owns two drilling rigs and it operates both on the Borankol field, and KPM plans to drill 7 additional wells through the end of 2007.

*Tolkyk field.* TNG operates on the Tolkyk field. On average, we have produced 97.5% of our condensate and 95.0% of our gas from the Tolkyk field during 2005 and first six months of 2006. Approximately \$256.6 million has been invested in the exploration and development of the Tolkyk field. The Tolkyk field covers 8,929 gross acres and as of December 31, 2006 has proved reserve base of 61.6 MMboe, 21.0% of which is oil/condensate and 79.0% of which is gas. This proved reserve base represents 64.6% of our total proved reserve base and contributes \$283.1 million or 56.9% to our proved reserves value (the probable reserve base of the Tolkyk field contributes an additional \$199.5 million to our proved plus probable reserves value). Since production began on the Tolkyk field in 2003, the field has produced 5.5 MMbbl of oil and condensate, and 111.4 bcf of gas. As of June 30, 2006, there were 19 producing wells on this field, with an average daily production of 24.2 mboed (0.2 mboed of oil, 4.8 mboed of condensate and 19.1 mboed of gas) and 12.5 years of remaining proved reserve life. TNG owns two drilling rigs and it operates both on the Tolkyk field, and TNG plans to drill 5 additional wells through the end of 2007.

## Subsoil Use Contracts

Prior to 1999, subsoil use rights in Kazakhstan were granted through issuance of an exploration and/or production license and a related subsoil contract which was negotiated after the issuance of a license. A subsoil use contract would set forth the specific terms of the exploration and/or production activities based upon the license terms. The contract terms could not contradict the license as the latter had prevailing force. In 1999, Kazakhstan law changed such that licenses were no longer separately required. Licenses granted prior to the change in law remain in force until they expire. Since 1999, exploration and/or production rights are granted pursuant to a subsoil use contract only.

*KPM subsoil use contract.* KPM operates on the Borankol field pursuant to an exploration and production license issued to KPM on May 23, 1997 for twenty-five years and a Contract for Exploration and Production of Hydrocarbons, dated March 30, 1999 (the "KPM subsoil use contract"), by and between the Kazakh State Agency on Investments and KPM. The term of the KPM subsoil use contract is through May 23, 2022. KPM explores and develops the Borankol field and produces oil, condensate and gas on the field. KPM is required to maintain an annual minimum work program on the Borankol field. For the year ended December 31, 2005, in accordance with its minimum work program, KPM invested approximately \$40.0 million in the drilling, testing and production of oil condensate and gas. For the year ending December 31, 2006, KPM's minimum work program is approximately \$72.4 million. The KPM subsoil use contract provides that, except with respect to taxation, changes in the laws of Kazakhstan detrimental to the rights of KPM under its subsoil use contract shall not affect such rights. KPM is required to pay various taxes, fees and royalties in accordance with the terms of the KPM subsoil use contract.

*TNG subsoil use contract.* TNG operates the Tolkyk field pursuant to an exploration and production license granted on December 4, 1997, for twelve years and a Contract for Exploration and Production of Hydrocarbons, dated August 12, 1998 (the “TNG subsoil use contract”), by and between the Kazakh State Agency on Investments and TNG. The term of the TNG subsoil use contract is through December 4, 2018. TNG explores and develops the Tolkyk field and produces oil, condensate and gas on the field. TNG is required to maintain a minimum annual work program on the Tolkyk field. For the year ended December 31, 2005, in accordance with its minimum work program, TNG invested approximately \$43.0 million in the drilling, testing and production of oil, condensate and gas. For the year ending December 31, 2006, TNG’s minimum work program is approximately \$98.0 million. The TNG subsoil use contract provides that, except with respect to taxation, changes in the laws of Kazakhstan detrimental to the rights of TNG under its subsoil use contract shall not affect such rights. TNG is required to pay various taxes, fees and royalties in accordance with the terms of the TNG subsoil use contract.

### Sales Volume, Prices and Costs

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

	Fiscal Year Ended December 31,			Nine Months Ended September 30,		Twelve Months Ended September 30,
	2003	2004	2005	2005	2006	2006
<b>Sales Volume:</b>						
Oil and condensate (MMbbls) .....	2.7	3.6	4.1	3.0	3.0	4.0
Gas (bcf) .....	20.3	41.9	42.2	31.6	31.1	41.7
Oil equivalent (MMboe) .....	6.1	10.5	11.1	8.3	8.1	11.0
<b>Average realized sales price per unit</b>						
Oil and condensate (dollar per bbl) .....	\$19.80	\$28.85	\$44.45	\$44.43	\$55.74	\$53.70
Gas (dollar per mcf) .....	0.55	0.56	0.65	0.66	0.71	0.68
<b>Average production cost (per boe) .....</b>	<b>4.86</b>	<b>5.16</b>	<b>5.40</b>	<b>4.61</b>	<b>6.64</b>	<b>6.91</b>

### Drilling Activity and Producing Wells on the Borankol and Tolkyk Fields

The following table sets forth information with respect to wells we drilled during the period presented in the table and the number of producing wells at the end of the periods presented in the table. A producing well is a well found to be capable of producing in sufficient quantities to justify completion as a well.

	As of December 31,						As of June 30,	
	2003		2004		2005		2006	
	Wells Drilled	Total Wells	Wells Drilled	Total Wells	Wells Drilled	Total Wells	Wells Drilled	Total Wells
<b>Well Count:</b>								
Producing oil .....	1	12	12	24	11	35	9	44
Producing gas / condensate .....	5	8	7	15	2	12	7	19
Total producing wells .....	6	20	19	39	13	47	16	63

The information above should not be considered indicative of future drilling performance, nor should it be assumed that there is any correlation between the number of productive wells drilled and the amount of oil, condensate and gas that may ultimately be recovered.

## Oil and Gas Acreage

The following table sets forth our total developed and undeveloped acreage on the Borankol and Tolkyn fields as of June 30, 2006.

	<u>Total Acreage</u>
<b>Developed:</b>	
Borankol .....	4,000
Tolkyn .....	<u>4,850</u>
Total developed .....	8,850
<b>Undeveloped:</b>	
Borankol .....	12,610
Tolkyn .....	<u>4,078</u>
Total undeveloped .....	16,688

## Oil, Condensate and Gas Distribution

Our oil, condensate and gas is ultimately distributed to customers through infrastructure owned and operated by third parties. We transport our oil, condensate and gas from our fields to Opornaya through pipelines that we own and operate. We deliver the vast majority of our oil FOB Odessa to export markets through a pipeline network which extends through Kazakhstan, Russia and Ukraine. In Kazakhstan, this pipeline is owned and operated by KazTransOil, and in Russia and Ukraine it is owned by Transneft. We have an agreement with KazTransOil relating to the distribution of our oil through the entire portion of the pipeline network we use, and KazTransOil has a separate agreement with Transneft relating to the transportation of our oil through Samara, Russia to Odessa, Ukraine. We deliver the vast majority of our condensate FCA Opornaya for distribution by railway to Caspian Sea ports and Finland. We deliver the vast majority of our gas FCA Opornaya for distribution through the Central-Asia Center pipeline.

## Sales and Marketing

The vast majority of our oil and condensate is exported through sale arrangements with Vitol. For the six months ended June 30, 2006 we sold 1,950.2 Mbbl of our oil and condensate to Vitol, which represented 86.3% of our sales. Our remaining sales of oil and condensate are made to domestic customers. The vast majority of our gas is sold pursuant to purchase and sales agreements with KazRosGas and GazImpex. Most of our remaining gas sales are to end-users in Kazakhstan.

*TNG crude oil marketing services agreement.* Terra Raf, our affiliated trading company, and Vitol entered into an agreement (the "TNG COMSA") pursuant to which Terra Raf agrees to sell all of TNG's exported oil and condensate to Vitol, or its nominee, and Vitol provides transportation and marketing services to Terra Raf. TNG transfers its condensate to Terra Raf through an affiliated intermediary. The term of the TNG COMSA is from January 20, 2006 to December 31, 2008, but it provides for commencement of oil deliveries from December 1, 2005. It can be extended for further consecutive periods of twelve months.

The TNG COMSA allows Terra Raf to request from Vitol prepayments of up to \$30 million. Prepayments bear interest at LIBOR plus 4.0%. Currently, \$29.8 million in prepayments have been advanced to Terra Raf and remain outstanding.

TNG has agreed to guarantee Terra Raf's performance of its obligations under the TNG COMSA by entering into a guarantee and indemnity agreement (the "TNG Guarantee") with Vitol. Pursuant to the TNG Guarantee, among other things, TNG undertakes to pay upon demand any amount due under or in connection with TNG COMSA if and when Terra Raf fails to pay such amount. TNG's obligations rank at least pari passu with the claims of all of its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

*KPM crude oil marketing services agreement.* Terra Raf and Vitol entered into an agreement (the “KPM COMSA”) pursuant to which Terra Raf agrees to sell all of KPM’s export oil and condensate to Vitol, or its nominee, and Vitol provides transportation and marketing services to Terra Raf. KPM transfers its oil to Terra Raf through an affiliated intermediary. The term of the KPM COMSA is from November 11, 2005 to December 31, 2008, but it provides for commencement of oil deliveries from December 1, 2005. It can be extended for further consecutive periods of twelve months.

The KPM COMSA allows Terra Raf to request from Vitol prepayments of up to \$30 million. Prepayments bear interest at LIBOR plus 4.0%. Currently, \$29.8 million in prepayments have been advanced to Terra Raf and remain outstanding.

KPM has agreed to guarantee Terra Raf’s performance of its obligations under the KPM COMSA by entering into a guarantee and indemnity agreement (the “KPM Guarantee”) with Vitol. Pursuant to the KPM Guarantee, among other things, KPM undertakes to pay upon demand any amount due under or in connection with KPM COMSA if and when Terra Raf fails to pay such amount. KPM’s obligations rank at least *pari passu* with the claims of all of its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

*TNG contract with KazRosGaz for the sale and purchase of gas.* TNG and KazRosGaz have entered into a long term sales contract (the “KaRosGaz Contract”) pursuant to which TNG agrees to deliver gas to KazRosGaz. The term of the KazRosGaz Contract is from June 2003 to December 2013. For the six months ended June 30, 2006, we have sold 1,715.3 mboe of our gas, which represented 6.6% of total sales.

*TNG contract with GazImpex for the sale and purchase of gas.* TNG and GazImpex have entered into a long term sales contract (the “GazImpex Contract”) pursuant to which TNG agrees to deliver gas to GazImpex. The term of the GazImpex Contract is from January 2004 to December 2008. For the six months ended June 30, 2006, we have sold 2,236.8 mboe of our gas, which represented 5.0% of total sales.

### **Liquid Petroleum Gas Plant**

TNG, Terra Raf, Ascom and Vitol FSU have entered into various agreements in connection with the construction of a LPG Plant on the Borankol field. The LPG Plant will be owned by TNG and operated jointly by Ascom and Vitol FSU. Below is a summary of the various agreements.

(a) Joint Operating Agreement, dated June 27, 2006 (“JOA”), by and between Vitol FSU, Ascom, TNG and Terra Raf. Pursuant to the JOA, in two equal installments on June 30, 2006 and February 1, 2007, Vitol is required to invest a total of \$20.0 million in the form of a participatory loan (see below) in the LPG Plant and Ascom also is to invest a total of \$20.0 million. Terra Raf is required to arrange the financing of the remaining balance of the LPG Plant project. The LPG Plant will be jointly operated by Ascom and Vitol FSU. The agreement contemplates that Ascom, or an affiliate, and Vitol FSU are to own equal shares of a joint venture company (“JVCo”) that is to market the liquid petroleum to be produced by the LPG Plant.

(b) Joint Venture Shareholders’ Agreement, dated September 2006 (“JVSA”), by and between Vitol FSU and Terra Raf. Pursuant to this agreement the JVCo is to be an existing company called Vitol EuroAsia SA (“VEA”). VEA is owned in equal shares by Vitol and Vitol FSU. Vitol agreed to transfer all of its shares for EUR25,000 to Terra Raf pursuant to a Share Transfer Agreement. This share transfer is currently being effectuated. The term of the JVSA is ten years.

(c) Participatory Loan Agreement, dated June 27, 2006 (“PLA”), by and between Vitol FSU and Terra Raf. Pursuant to the PLA, Vitol FSU makes available a loan of \$20.0 million to finance the construction and operation of the LPG Plant. The term of the loan is to May 31, 2017, but it can be repaid earlier without penalty.



### **Environmental and Other Governmental Regulations**

Our operations are subject to various levels of government controls and regulations of Kazakhstan. We attempt to comply with all legal requirements in the conduct of our operations and employ business practices which we consider to be prudent under the circumstances in which we operate. It is not possible for us to separately calculate the costs of compliance with environmental and other governmental regulations as such costs are an integral part of our operations.

In Kazakhstan, legislation affecting the oil and gas industry is under constant review for amendment or expansion. Pursuant to such legislation, various governmental departments and agencies have issued extensive rules and regulations which affect the oil and gas industry, some of which carry substantial penalties for failure to comply. These laws and regulations can have a significant impact on the industry by increasing the cost of doing business and, consequentially, can adversely affect our profitability. Inasmuch as new legislation affecting the industry is commonplace and existing laws and regulations are frequently amended or reinterpreted, we are unable to predict the future cost or impact of complying with such laws and regulations.

### **Hedging Activities**

We have no hedging arrangements as of June 30, 2006.

### **Offices and Employees**

We own three administrative offices in Kazakhstan. The first is a 540-square meter facility located in Opornaya with approximately 80 full-time employees. Our second facility is located in Actau, where we have 290 square meters of office space and 120 full-time employees. Our third facility is located in Astana, where we maintain approximately 112 square meters and 3 full-time employees. In addition to our administrative workforce, we have approximately 180 full-time field employees stationed in facilities located on the Borankol and Tolkyn fields.

### **Legal Proceedings**

We are not a party in any material litigation or arbitration, and know of no material litigation, arbitration or claim threatened against us or our properties.

## MANAGEMENT

### Board of Directors and Executive Officers

The following table sets forth the names, ages and certain other information concerning Tristan Oil's current directors and executive officers. Each director and executive officer has held their position as such since October 2006. Each of our directors holds office until a successor is elected and qualified or until such director's earlier resignation or removal.

Name	Age	Position
Anatol Stati	54	President, CEO and Chairman of the Board
Artur Lungu	33	Executive Vice President and Chief Financial Officer
Constantine Popescu	73	Executive Vice President and Chief Operating Officer
Traian Orfescu	73	Executive Vice President for Exploration
Grigore Pisica	41	Executive Vice President and General Counsel
Svetlana Bran	45	Director, Comptroller General and Chairwoman of Audit Committee
Eduard Calancea	35	Director, Chief Economist
Ion Popa	54	Director
Ennio Sganzerla	61	Director

*Anatol Stati*, is our founder, President, Chief Executive Officer and Chairman of the Board and has served in this capacity since our founding in 1994. Prior to founding Ascom, our affiliate, Mr. Stati served as a Director at Decebel, a local Moldovan consumer goods trading company, from 1989 to 1994. Prior to joining Decebel in 1979, Mr. Stati was a Construction Equipment Operation Engineer for the Large-Panel House Building Plant in Moldova. Mr. Stati's professional career began as an Operating Engineer at the Directorate for Building and Assemble in Chisinau, Moldova. Mr. Stati holds a Bachelor of Science degree in Mechanical Engineering from the College of Construction Engineering and a secondary Bachelor of Science degree in Economics from the Free International University of Moldova.

*Artur Lungu*, is Executive Vice President and Chief Financial Officer. Mr Lungu joined Ascom in 2005. Prior to joining Ascom, Mr. Lungu served as the Assistant Director of a USAID Contractor to the Romanian government from 2003 to 2005 where he was responsible for strategic planning and budgeting. Prior to that, from 1995 to 2001, Mr. Lungu held numerous senior leadership positions with the Municipality of Chisinau where he was responsible for managing the Municipality's foreign government relationships, including the foreign direct investment program. Mr. Lungu holds a degree from the Academy of Economic Studies, Chisenau, Moldova and received a Masters degree in Public Administration from the University of Delaware.

*Constantine Popescu*, is Executive Vice President and Chief Operating Officer. Mr. Popescu joined Ascom in 1996 after serving as the General Manager of the Commercial Department at the Ministry of Oil in Romania. Prior to the Ministry of Oil, Mr. Popescu served in various capacities at several companies including Campina Petroleum Institute, Rompetrol, and Ploiesti Drilling Company. Mr. Popescu has over 47 years of relevant industry experience and holds a university degree from Technical Petroleum College as well as a Doctorate in Economics.

*Traian Orfescu*, is Executive Vice President of Exploration. After first joining us in 2001 as Chief Geologist, Mr. Orfescu was appointed to his current position in 2002. Prior to joining us, Mr. Orfescu held various positions within the industry including Chief Geologist, Head of Reservoir Engineering and most recently as Director of Exploration and later as the Advisor to the General Director of SNP Petrom S.A. in Romania. Mr. Orfescu has over 44 years of industry experience and holds a degree in Geological Engineering from the Institute of Petroleum and Gas in Bucharest, Romania.

*Grigore Pisica*, is Executive Vice President and General Counsel. Mr. Pisica joined Ascom in 1996 after serving in the legal department of the Parliament of the Republic of Moldova. In his role as Senior Consultant, Mr. Pisica focused exclusively on economic legislation. Mr. Pisica holds a law degree with an emphasis in economics from the University of Moldova.

*Svetlana Bran*, is Director, Comptroller General and Chairwoman of our Audit Committee. Mrs. Bran joined Ascom in 1995 and was previously the Chief Accountant and Adviser on Taxation. Mrs. Bran has more than 25 years of experience in accounting and financial management. Mrs. Bran has a bachelors degree in General Accounting and Auditing from the State University of Moldova and holds a post university degree from the Academy of Economic Studies of Iasi, Romania in Accounting and Audit.

*Eduard Calancea*, is a Director and Chief Economist. Mr. Calancea joined Ascom in 1997 after serving as a finance analyst with ARIA, a public consulting company and ASITO, the largest Moldovan Insurance company. Mr. Calancea holds a bachelors degree and a PhD from the Academy of Economic Studies of Moldova.

*Ion Popa*, is a Director. Mr. Popa is the General Director of the Exploration and Production Division of Petromservice S.A. From May 2005 to April 2006, Mr. Popa served as Vice President of Ascom. Prior to joining Ascom, from 2003 to 2005, Mr. Popa was state counselor to the Romanian Prime Minister. In addition, from 1991 to 2003, Mr. Popa held various senior executive roles at PETROM S.A. As Executive General Director, Mr. Popa guided the company through a \$150.0 million Eurobond offering and an IPO on the Romanian Stock Exchange.

*Ennio Sganzerla*, is a Director. Mr. Sganzerla was a Senior Vice President of Exploration and Production in the North Sea, Americas, Australasia and Russia of Agip, a subsidiary of Eni S.p.A. until September 2006. Mr. Sganzerla joined Agip in 1971 and has held several executive level positions including Managing Director. Mr. Sganzerla received his degree in Mechanical Engineering from Padova University and his Masters degree in Petroleum Engineering from Eni Corporate University.

Other key employees include:

*Constantine Salagor*, is General Director of KPM. Mr. Salagor has served in this capacity since 2000. Prior to his appointment as General Director of KPM, Mr. Salagor served as Deputy Director General of Ascom Group in Turkmenistan. Mr. Salagor first joined Ascom in 1994 as Commercial Director of the Industrial and Financial Group. Prior to joining Ascom, Mr. Salagor was a Senior Inspector for the Department of Control and Revision at the Ministry of Finance of the Republic of Moldova. Mr. Salagor holds a Bachelor of Science degree from the State University of Chisinau.

*Alexander Cojin*, is General Director of TNG. Mr. Cojin has served in this capacity since 2002. Prior to his appointment as General Director of TNG, Mr. Cojin served as Deputy Director of the Industrial and Finance Group for 12 years. Before joining Ascom in 1990, Mr. Cojin worked as a Team Leader at Decebal Cooperative Society. Mr. Cojin holds an Engineering degree from the Forestry Engineering Academy of Leningrad.

### **Executive Compensation**

Tristan Oil is a newly formed company with a recently appointed executive management team. Tristan Oil expects that compensation for the executive officers will equal approximately \$1 million a year in the aggregate. The terms of employment of the executive officers, including compensation, will be subject to the discretion of the Board of Directors of Tristan Oil.

## **PRINCIPAL STOCKHOLDERS**

All of the issued and outstanding stock of Tristan Oil is owned by Mr. Stati. Mr. Stati and other members of his family are the ultimate beneficial owners of KPM and TNG.

## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The following relates to certain transactions between us and our affiliates, all of which are beneficially owned by Mr. Stati and certain members of the Stati family. For additional details of transactions between us and our affiliates, see note 10 and note 19 of our Combined Annual Financial Statements contained herein.

### **Certain Transactions with Affiliates Relating to Sales of Oil and Condensate**

TNG and KPM are parties to several agreements with affiliated parties to sell all of their oil and condensate ultimately intended for export through Vitol. TNG has contracted with General Affinity Ltd. and Portland Oil Processing Inc., and KPM has contracted with Stadoil Ltd., Stanley Trading Company Ltd., and Terra Raf.

During the nine-month period ended September 30, 2006, TNG sold oil and condensate to affiliated parties for a total of \$73.7 million. In the years ended December 31, 2003, 2004, and 2005, TNG sold oil and condensate to affiliated parties for a total of \$16.1 million, \$41.5 million, and \$79.2 million, respectively. As of September 30, 2006, \$49.3 million was outstanding and owed to TNG under these transactions.

For the nine-month period ended September 30, 2006, KPM sold oil and condensate for a total of approximately \$89.2 million. In years ended December 31, 2003, 2004, and 2005, KPM sold oil and condensate to affiliated parties for a total of \$33.6 million, \$57.5 million, and \$99.6 million, respectively. As of September 30, 2006, \$49.6 million was outstanding and owed to KPM under these transactions.

### **Certain Transactions with Affiliates Relating to Loan Agreements**

Ascom is the direct parent company of KPM and Terra Raf is the direct parent company of TNG. In 2000, Ascom entered into investment loan agreements with each of TNG and KPM. The agreement with KPM provides for a credit facility of up to \$18.8 million that bears interest at a rate of 16.52% per annum. The agreement with TNG provides for a credit facility of up to \$85.0 million that bears interest at a rate of 17.65% per annum. Pursuant to these agreements, Ascom has caused Terra Raf to make loans to TNG and KPM. Interest payments under each of the loans are payable on a quarterly basis. Each of the loans allows for a secured interest in the proceeds from the sale of oil, condensate and gas by KPM or TNG, as applicable. Ascom, to date, has not exercised its right to obtain this security interest and has agreed to terminate this right concurrently with the issuance of the Notes. Ascom has also agreed to contractually subordinate the loans to the Notes and to make the maturity date in March 2012 concurrently with the issuance of the Notes. As of September 30, 2006, TNG owed \$57.3 million to Terra Raf under the credit facility, and it paid \$3.4 million to Terra Raf to service outstanding amounts under the credit facility during the nine-month period ended September 30, 2006. For the years ended December 31, 2003, 2004, and 2005, TNG paid Terra Raf \$4.6 million, \$5.4 million, and \$5.3 million, respectively, to service outstanding amounts under the credit facility. As of September 30, 2006, KPM owed \$14.8 million to Terra Raf under the credit facility, and it paid \$1.8 million to Terra Raf to service outstanding amounts under the credit facility during the nine-month period ended September 30, 2006. For the years ended December 31, 2003, 2004, and 2005, KPM paid to Terra Raf \$1.5 million, \$2.2 million, and \$2.4 million, respectively, to service outstanding debt under the credit facility.

### **Transactions with Kaspy Asia Service Company Ltd. and its Affiliates**

TNG and KPM are parties to numerous agreements with Kaspy Asia Service Company LTD (“Kasco”) and its affiliates. Kasco provides field services, equipment, maintenance, construction services and facilities for drilling and exploration at the Tolkyng and Borankol fields. In addition, KPM and TNG lease some equipment to Kasco.

For the nine-month period ended on September 30, 2006, TNG and KPM purchased \$70.5 million of goods and services from Kasco and sold \$3.3 million of goods and services to Kasco. As of September 30, 2006,

TNG and KPM owed Kasco \$14.9 million and Kasco owed \$17.3 million to TNG and KPM. For the years ended December 31, 2003, 2004, and 2005, TNG and KPM purchased from Kasco goods and services for a total of approximately \$19.2 million, \$46.5 million, and \$76.6 million, respectively, and sold goods and services to Kasco for a total amount of \$1.3 million, \$2.1 million, and \$2.5 million respectively.

#### **Certain Other Transactions**

TNG and KPM are parties to various agreements with Arpega Trading S.R.L. (“Arpega”). For the nine-month period ended September 30, 2006, TNG and KPM purchased \$126,290 of goods and services from Arpega, and Arpega owed to TNG and KPM \$67,487 as of September 30, 2006. Ascom provides TNG and KPM with consulting and legal services, as well as occasional sales of equipment and supplies. For the nine-month period ended September 30, 2006, TNG and KPM purchased \$0.8 million of goods and services from Ascom. As of September 30, 2006, TNG and KPM owed Ascom \$0.2 million. For the years of 2003, 2004, and 2005, TNG and KPM purchased from Ascom goods and services for a total of \$0.6 million, \$0.8 million, and \$0.9 million respectively.

#### **Certain Transactions with Affiliates Relating to the Use of Proceeds of this Note Offering**

Tristan Oil intends to use \$158.4 million of the net proceeds of this Note Offering to make a loan to TNG. The loan will have an interest rate of 15.5%, net of withholding taxes. TNG intends to use the proceeds of this loan to repay \$145.7 million outstanding under its credit facility with Kazcommerzbank, and to pay \$12.7 million in related prepayment penalties under this credit facility.

Tristan Oil intends to use \$76.0 million from the net proceeds of this Note Offering to make a loan to Terra Raf, at an interest rate of 0%. Terra Raf intends to use \$70.0 million of the proceeds from this loan to repay \$35.0 million of accounts payable to each of TNG and KPM with respect to sales of oil and condensate.

Tristan Oil also intends to use \$27.6 million of the net proceeds of this Note Offering to make a \$13.8 million loan to each of KPM and TNG. The loans to KPM and TNG will have an interest rate of 15.5%, net of withholding taxes. KPM and TNG intend to use the proceeds of the loans to fund working capital and general corporate purposes.

In addition, Tristan Oil intends to use \$25.0 million of the net proceeds of this Note Offering to make a loan to KPM. The loan to KPM will have an interest rate of 15.5%, net of withholding tax. KPM intends to use the proceeds of this loan to make a \$25.0 million distribution to Ascom, its parent company.

## DESCRIPTION OF OTHER INDEBTEDNESS

The following summary of certain provisions of the instruments evidencing our material debt does not purport to be complete and is subject to, and qualified in its entirety by reference to, all of the provisions of the corresponding agreements, including the definitions of certain terms therein that are not otherwise defined in this offering circular.

### *Credit Facilities between Terra Raf and each of KPM and TNG*

KPM and TNG each have a credit facility with Ascom with outstanding amounts as of September 30, 2006 of \$14.3 million and \$55.3 million, respectively. For additional details of these credit facilities, see “*Certain Relationships and Related Party Transactions—Transactions with Affiliates Relating to Loan Agreements.*”

### *TNG’s Credit Facility with Kazkommerzbank*

TNG has entered into a credit facility with Kazkommerzbank. The credit facility matures on April 28, 2012, has an interest rate of 11% and is secured by TNG’s exploration and development rights on the Tolky field and certain fixed assets, including TNG’s pipelines, with a net book value of \$20.7 million. As of September 30, 2006, there is \$147.7 million outstanding under this credit facility. TNG intends to repay all outstanding amounts under this credit facility, and prepayment penalties of \$12.7 million, with a loan that Tristan Oil intends to make to TNG with the net proceeds of this offering. For additional details of the loan Tristan Oil intends to make to TNG with the net proceeds of this Note Offering, see “*Certain Relationships and Related Party Transactions—Certain Transactions with Affiliates Relating to the Use of Proceeds of this Note Offering.*”

## DESCRIPTION OF THE NOTES

You can find the definitions of certain terms used in this description under the subheading “Certain Definitions.” In this description, the word (1) “Company” refers only to Tristan Oil Ltd. and not to any of its subsidiaries, (2) “KPM” refers only to Kazpolmunay LLP and (3) “TNG” refers only to Tolkyneftegaz LLP.

The Company will issue the Notes under an indenture among itself, the Guarantors and Wells Fargo Bank, N.A., as trustee, in a private transaction that is not subject to the registration requirements of the Securities Act. See “*Notice to Investors.*” The terms of the Notes will include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended. The Pledge Agreements referred to below under the caption “—Security” defines the terms of the pledges that will secure the Notes and the Note Guarantees.

The Company was formed solely to issue the Notes and will have no business operations of its own. The Company will loan a portion of the net proceeds of the offering to KPM, TNG and TNG’s parent company each of which is an affiliate of the Company. KPM and TNG will guarantee the Notes. The Company’s only material assets will be those intercompany loans. As a result, prospective purchasers of the Notes should expect the Company’s obligations on the Notes to be serviced by payments received by the Company on those intercompany loans and by payments made by the Guarantors pursuant to the Note Guarantees.

The following description is a summary of the material provisions of the indenture and the Pledge Agreements. It does not restate those agreements in their entirety. We urge you to read the indenture and the Pledge Agreements because they, and not this description, define your rights as holders of the Notes. Copies of the indenture and the Pledge Agreements are available as set forth below under “—*Additional Information.*” Certain defined terms used in this description but not defined below under “—*Certain Definitions*” have the meanings assigned to them in the indenture.

The registered holder of a Note will be treated as the owner of it for all purposes. Only registered holders will have rights under the indenture.

### Brief Description of the Notes and the Note Guarantees

#### *The Notes*

The Notes:

- will be general obligations of the Company;
- will be secured by first-priority pledges of (1) the Capital Stock of the Company and (2) all intercompany notes payable to the Company by KPM, TNG and TNG’s Parent Company;
- will be *pari passu* in right of payment with all existing and future unsecured senior Indebtedness of the Company;
- will be senior in right of payment to any existing and future subordinated Indebtedness of the Company; and
- will be unconditionally guaranteed by the Guarantors.

#### *The Note Guarantees*

The Notes will be guaranteed by KPM and TNG, each of which is an affiliate of the Company, and all future Restricted Subsidiaries of KPM and TNG. The indenture will prohibit the Company from acquiring or creating any Subsidiaries.

Each Note Guarantee:

- will be a general obligation of the Guarantor;



- will be secured by a first-priority pledge of the Capital Stock of the applicable Guarantor;
- will be *pari passu* in right of payment with all existing and future unsecured senior Indebtedness of that Guarantor; and
- will be senior in right of payment to any existing and future subordinated Indebtedness of that Guarantor.

As of the date of the indenture, neither KPM nor TNG will have any Subsidiaries. However, under the circumstances described below under the caption “—*Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries*,” KPM and TNG will be permitted to designate certain of their future Subsidiaries as “*Unrestricted Subsidiaries*.” Unrestricted Subsidiaries will not be subject to many of the restrictive covenants in the indenture. Unrestricted Subsidiaries will not guarantee the Notes.

### **Principal, Maturity and Interest**

The Company will issue \$300.0 million in aggregate principal amount of Notes in this offering. The Company may issue additional Notes under the indenture from time to time after this offering. Any issuance of additional Notes is subject to all of the covenants in the indenture, including the covenant described below under the caption “—*Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*.” The Notes and any additional Notes subsequently issued under the indenture will be treated as a single class for all purposes under the indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. Holders should note that additional Notes that are treated as a single class for non-tax purposes may be treated as separate issues for U.S. federal income tax purposes. In such case, such additional Notes may be considered to have been issued with original issue discount as defined in the U.S. Internal Revenue Code of 1986, as amended, and the U.S. Treasury Regulations issued thereunder, which may affect the market value of the Notes since additional Notes may not be distinguishable from the Notes. The Company will issue Notes in denominations of \$1,000 and integral multiples of \$1,000. The Notes will mature on January 1, 2012.

Interest on the Notes will accrue at the rate of 10½% per annum and will be payable semi-annually in arrears on each January and July, commencing on July 1, 2007. Interest on overdue principal, interest and Additional Amounts, if any, will accrue at a rate that is 1% higher than the then applicable interest rate on the Notes. The Company will make each interest payment to the holders of record on the immediately preceding January 1 and July 1.

Interest on the Notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

### **Additional Amounts**

All payments by the Company in respect of the Notes or any Guarantor under a Note Guarantee, as the case may be, will be made free and clear of, and without withholding or deduction for or on account of taxes, duties, assessments or other governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands, Kazakhstan, any jurisdiction in which the Company is organized, a resident or engaged in business or any jurisdiction by or through which payment is made or, in each case, any authority therein or thereof in the case of payments under the Notes or Kazakhstan or any other jurisdiction in which a Guarantor is organized, a resident or engaged in business or, in each case, any authority therein or thereof in the case of payments under any Guarantee, unless such withholding or deduction is required by law. In that event, the Company or the relevant Guarantor, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Amounts will be payable for or on account of:

- (i) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
  - (A) the existence of any present or former connection between such Holder and the British Virgin Islands or Kazakhstan or, in the case of payments made by any Guarantor, Kazakhstan or such

other jurisdiction in which the Guarantor is organized, as the case may be, other than merely holding such note; or

- (B) if the Notes are held in definitive registered form (“Definitive Registered Notes”) and the presentation of Definitive Registered Notes (where presentation is required) for payment had occurred within 30 days after the date such payment was due and payable or was provided for, whichever is later, except for Additional Amounts with respect to taxes that would have been imposed had the holder presented the Note for payment within such 30-day period;
- (ii) any estate, inheritance, gift, sales, transfer, personal property or similar tax;
- (iii) any deduction or withholding that is imposed by reason of the failure of the Holder or beneficial owner of a note to comply with certification, information or other reporting requirements concerning the nationality, residence or identity of the holder or such beneficial owner if such compliance is required or imposed by a statute, treaty or regulation or administrative practice of the taxing jurisdiction as a precondition to exemption from all or part of such tax;
- (iv) any withholding or deduction imposed on a payment to an individual and required to be made pursuant to European Council Directive 2003/48/EC (the “Directive”) on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, the Directive; or
- (v) any withholding or deduction by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant note to another Paying Agent in a Member State of the European Union.

The Company will also (i) make such withholding or deduction and (ii) remit the full amount deducted or withheld to the relevant authority in accordance with the applicable law. The Company will make reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any taxes so deducted or withheld from the British Virgin Islands, Kazakhstan or any taxing jurisdiction imposing such taxes. The Company will furnish to the holders of the Notes, within 60 days after the date of any taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment or, if such receipts are not obtainable, other evidence of such payments.

In addition, the Company will, upon written request of each holder (subject to the exclusions set forth in clauses (i) through (v) above and provided that reasonable supporting documentation is provided), reimburse each such holder for the amount of any such taxes levied or imposed by the British Virgin Islands, Kazakhstan or any taxing jurisdiction imposing such taxes and paid by such holder as a result of payments made under or with respect to the Notes. Any payment pursuant to this paragraph will be an Additional Amount.

At least 30 days prior to each date on which any payment under or with respect to the Notes is due and payable, if the Company will be obligated to pay Additional Amounts with respect to such payment, the Issuer will deliver to the trustee an Officers’ Certificate stating the fact the such Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the Paying Agent to pay such Additional Amounts to the holders on the payment date. Whenever in the indenture or this offering circular there is mentioned, in any context, the payment of amounts based upon the principal of, premium, if any, interest, Additional Amounts, if any, or any other amount payable under or with respect to any Note, such mention will be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

In addition, the Company will pay any stamp, issue, registration, documentary, value added or other similar taxes and other duties (including interest and penalties) payable in the British Virgin Islands, Kazakhstan (or any political subdivision or taking authority of such jurisdictions), or in the United States in respect of the creation, issue, offering, execution or enforcement of the Notes, the Note Guarantor or any documentation with respect thereto.

With respect to clauses (iv) and (v) above, if a withholding tax is imposed on a payment made by a Paying Agent, the Company will be required to maintain a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to the Directive.

### **Methods of Receiving Payments on the Notes**

If a holder of Notes has given wire transfer instructions to the Company, the Company will pay all principal, interest, premium and Additional Amounts, if any, on that holder's Notes in accordance with those instructions. All other payments on the Notes will be made at the office or agency of the paying agent and registrar unless the Company elects to make interest payments by check mailed to the noteholders at their address set forth in the register of holders.

### **Paying Agent and Registrar for the Notes**

The trustee will initially act as paying agent and registrar. The Company may change the paying agent or registrar without prior notice to the holders of the Notes, and the Company may act as paying agent or registrar.

### **Transfer and Exchange**

A holder may transfer or exchange Notes in accordance with the provisions of the indenture. The registrar and the trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents in connection with a transfer of Notes. Holders will be required to pay all taxes due on transfer. The Company will not be required to transfer or exchange any Note selected for redemption. Also, the Company will not be required to transfer or exchange any Note for a period of 15 days before a selection of Notes to be redeemed.

### **Note Guarantees**

The Notes will be guaranteed by KPM, TNG and all of the future Restricted Subsidiaries of KPM and TNG. These Note Guarantees will be joint and several obligations of the Guarantors. The obligations of each Guarantor under its Note Guarantee will be limited as necessary to prevent that Note Guarantee from constituting a fraudulent conveyance under applicable law. See "*Risk Factors—The enforceability of the guarantees securing the Notes may be limited or otherwise impaired under applicable law.*"

The Note Guarantee of KPM or TNG will be released upon legal defeasance or satisfaction and discharge of the indenture as provided below under the captions "*—Legal Defeasance and Covenant Defeasance*" and "*—Satisfaction and Discharge.*"

The Note Guarantee of a Subsidiary Guarantor will be released:

- (1) in connection with any sale or other disposition of all or substantially all of the assets of that Subsidiary Guarantor (including by way of merger or consolidation) to a Person that is not (either before or after giving effect to such transaction) the Company or a Guarantor, if the sale or other disposition does not violate the "Asset Sale" provisions of the indenture;
- (2) in connection with any sale or other disposition of all of the Capital Stock of that Subsidiary Guarantor to a Person that is not (either before or after giving effect to such transaction) the Company or a Guarantor, if the sale or other disposition does not violate the "Asset Sale" provisions of the indenture;
- (3) if such Subsidiary Guarantor is designated an Unrestricted Subsidiary in accordance with the applicable provisions of the indenture; or
- (4) upon legal defeasance or satisfaction and discharge of the indenture as provided below under the captions "*—Legal Defeasance and Covenant Defeasance*" and "*—Satisfaction and Discharge.*"

## Security

The Notes will be secured by a first-priority pledge of:

- (1) the Capital Stock of the Company; and
- (2) all intercompany notes payable to the Company by KPM, TNG and TNG's Parent Company.

Each Note Guarantee will be secured by a first-priority pledge of the Capital Stock of the applicable Guarantor.

The Company, KPM, TNG, holders of the outstanding Capital Stock of the Company KPM and TNG and the trustee will enter into Pledge Agreements defining the terms of the pledges that secure the Notes and the Note Guarantees. These pledges will secure the payment and performance when due of all Obligations of the Company and the Guarantors under the indenture and the Notes as provided in the Pledge Agreements.

So long as no Event of Default has occurred and is continuing, and subject to certain terms and conditions, each pledgor will be entitled to receive all cash dividends, interest and other payments made upon or with respect to the Collateral pledged by them and to exercise any voting and other consensual rights pertaining to the Collateral pledged by them.

Upon the occurrence and during the continuance of an Event of Default:

- (1) all rights of such pledgor to exercise such voting or other consensual rights will cease, and all such rights will become vested in the trustee, which, to the extent permitted by law, will have the sole right to exercise such voting and other consensual rights;
- (2) all rights of such pledgor to receive all cash dividends, interest and other payments made upon or with respect to the Collateral will cease and such cash dividends, interest and other payments will be paid to the trustee; and
- (3) the trustee may sell the Collateral or any part of the Collateral in accordance with the terms of the Pledge Agreement.

The Collateral Agent will determine the circumstances and manner in which the Collateral will be disposed of, including, but not limited to, the determination of whether to release all or any portion of the Collateral from the Liens created by the Pledge Agreements and whether to foreclose on the Collateral following an Event of Default.

The pledges of Capital Stock of the Company and the Guarantors and the pledge of intercompany notes payable to the Company by KPM, TNG and TNG's Parent Company will be released:

- (1) upon the full and final payment and performance of all Obligations of the Company and the Guarantors under the indenture, the Notes and the Note Guarantees; and
- (2) upon legal defeasance of the Notes and the Note Guarantees or satisfaction and discharge of the indenture as provided below under the captions "*—Legal Defeasance and Covenant Defeasance*" and "*—Satisfaction and Discharge.*"

In addition, a pledge of Capital Stock of any Subsidiary Guarantor will also be released if such Subsidiary Guarantor released from its Note Guarantee pursuant to the provisions described in clauses (1) – (3) of the third paragraph under the caption "*—Note Guarantees,*" at the time such Guarantee is released.

Collateral may be released from the security interests created by a Pledge Agreement upon the request of the Company pursuant to an Officers' Certificate certifying that all terms for release under the indenture and the applicable Pledge Agreement have been satisfied and specifying (1) the identity of the Collateral to be released and (2) the applicable provisions of the indenture and the applicable Pledge Agreement which authorize that release.

### Optional Redemption

At any time prior to July 1, 2009, the Company may redeem up to 35% of the aggregate principal amount of Notes issued under the indenture at a redemption price of 110.500% of the principal amount, plus accrued and unpaid interest to the redemption date, with the proceeds of an initial public offering of common stock of KPM or TNG; or with the proceeds of a concurrent initial public offering of common stock of the Company's direct parent company contributed to the Company's common equity capital *provided* that:

- (1) at least 65% of the aggregate principal amount of Notes originally issued under the indenture (excluding notes held by the Company, the Guarantors and their respective Subsidiaries) remains outstanding immediately after the occurrence of such redemption; and
- (2) the redemption occurs within 45 days of the date of the closing of such initial public offering.

Except pursuant to the preceding paragraph, the Notes will not be redeemable at the Company's option prior to July 1, 2009.

On or after July 1, 2009, the Company may redeem all or a part of the Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest on the Notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on July 1 of the years indicated below, subject to the rights of holders of Notes on the relevant record date to receive interest on the relevant interest payment date:

<u>Year</u>	<u>Percentage</u>
2009 .....	105.250%
2010 .....	102.625%
2011 and thereafter .....	100.000%

Unless the Company defaults in the payment of the redemption price, interest will cease to accrue on the Notes or portions thereof called for redemption on the applicable redemption date.

### Optional Redemption for Changes in Withholding Taxes

The Notes may be redeemed, in whole but not in part, at the option of the Company, at any time upon giving of not less than 30 nor more than 60 days' notice to the holders (which notice will be irrevocable) at a redemption price equal to 100% of the principal amount at maturity thereof, together with any accrued and unpaid interest to the date of redemption, if the Company determines and certifies to the trustee in an Officers' Certificate immediately prior to the giving of such notice that as a result of any change in, or amendment to, the laws or treaties (including any regulations or rulings promulgated thereunder) of the British Virgin Islands, Kazakhstan or such other jurisdiction in which the Company or any Guarantor is then organized, as the case may be (or any political subdivision or taxing authority thereof or therein) affecting taxation, which change or amendment is announced or becomes effective on or after the date of the Indenture with respect to any payment due or to become due under the Notes, the Note Guarantees or the Indenture, the Company (or if the Guarantees were called, the Guarantors, as the case may be) is, or on the next interest payment date would be, required to pay Additional Amounts on or in respect thereof and such obligation to pay Additional Amounts cannot be avoided by the taking of reasonable measures by the Company or such Guarantor, as the case may be; *provided* that no such notice of redemption will be given earlier than 90 days prior to the earliest date on which the Company or such Guarantor would be obliged to pay such Additional Amounts; *provided further* that where any Additional Amounts result from a change in, or amendment to, the laws or treaties (including any regulation or rulings promulgated thereunder) of Kazakhstan, this section will only have effect to permit the Notes to be redeemed in the event that the rate of withholding or deduction required by such law or treaty is in excess of 15% (the "Minimum Withholding Level").

Prior to the publication and giving of any notice of redemption of the Notes pursuant to this section, the Company will deliver to the trustee:

- (i) an Officers' Certificate stating that the Company is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Company so to redeem have occurred;
- (ii) a written tax opinion of an internationally recognized law or accountancy firm experienced in such matters, that the Company or any Guarantor, as the case may be, (A) has or will become obliged to pay Additional Amounts as a result of such change and (B) the obligation to pay Additional Amounts cannot be avoided by taking of reasonable measures by the Company or any Guarantor, as the case may be. Such certificate and opinion will be made available for inspection by the Holders; and
- (iii) in the case of a redemption in respect of Additional Amounts paid in respect of the withholding or deduction of tax by Kazakhstan where the Minimum Withholding Level has been exceeded, a written tax opinion of an internationally recognized law or accountancy firm experienced in such matters of the standing set out above, that the Company or any Guarantor, as the case may be, (A) has or will become obliged to pay Additional Amounts and that the Minimum Withholding Level has been exceeded, and (B) the obligation to pay Additional Amounts cannot be avoided by the taking of reasonable measures by the Company or the Guarantor, as the case may be,

*provided* that no such notice or redemption will be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Amounts if a payment in respect of the Notes were then due.

#### **Mandatory Redemption**

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

#### **Repurchase at the Option of Holders**

##### *Change of Control*

If a Change of Control occurs, each holder of Notes will have the right to require the Company to repurchase all or any part (equal to \$1,000 or an integral multiple of \$1,000) of that holder's Notes pursuant to a Change of Control Offer on the terms set forth in the indenture. In the Change of Control Offer, the Company will offer a Change of Control Payment in cash equal to 101% of the aggregate principal amount of Notes repurchased plus accrued and unpaid interest, if any, and Additional Amounts, if any, on the Notes repurchased to the date of purchase, subject to the rights of holders of Notes on the relevant record date to receive interest due on the relevant interest payment date.

Within ten days following any Change of Control, the Company will mail a notice to each holder with a copy to the Trustee describing the transaction or transactions that constitute the Change of Control and offering to repurchase Notes on the Change of Control Payment Date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the indenture and described in such notice. The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the Notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the indenture, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the indenture by virtue of such compliance.

On the Change of Control Payment Date, the Company will, to the extent lawful:

- (1) accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer;

- (2) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and
- (3) deliver or cause to be delivered to the trustee the Notes properly accepted together with an Officers' Certificate stating the aggregate principal amount of Notes or portions of Notes being purchased by the Company.

The paying agent will promptly mail to each holder of Notes properly tendered the Change of Control Payment for such Notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new note equal in principal amount to any unpurchased portion of the Notes surrendered, if any. The Company will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require the Company to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the indenture are applicable. Except as described above with respect to a Change of Control, the indenture does not contain provisions that permit the holders of the Notes to require that the Company repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction involving the Company, KPM or TNG.

The Company will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control Offer made by the Company and purchases all Notes properly tendered and not withdrawn under the Change of Control Offer, or (2) notice of redemption has been given pursuant to the indenture as described above under the caption "*—Optional Redemption,*" unless and until there is a default in payment of the applicable redemption price.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of the Company, KPM and its Subsidiaries taken as a whole or TNG and its Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of Notes to require the Company to repurchase its Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Company KPM and its Subsidiaries taken as a whole or TNG and its Subsidiaries taken as a whole to another Person or group may be uncertain.

#### *Asset Sales*

The Company will not consummate any Asset Sale. The Guarantors will not consummate an Asset Sale unless:

- (1) such Guarantor receives consideration at the time of the Asset Sale at least equal to the Fair Market Value of the assets or Equity Interests issued or sold or otherwise disposed of; and
- (2) at least 85% of the consideration received in the Asset Sale by such Guarantor is in the form of cash. For purposes of this provision, each of the following will be deemed to be cash:
  - (a) any liabilities, as shown on KPM's or TNG's most recent consolidated balance sheet, of such Guarantor (other than contingent liabilities and liabilities that are by their terms subordinated to any Note Guarantee) that are assumed by the transferee of any such assets pursuant to a customary novation agreement that releases such Guarantor from further liability;
  - (b) any securities, notes or other obligations received by such Guarantor from such transferee that are contemporaneously, subject to ordinary settlement periods, converted by such Guarantor into cash, to the extent of the cash received in that conversion; and
  - (c) any stock or assets of the kind referred to in clauses (2) or (4) of the next paragraph of this covenant.

Within 360 days after the receipt of any Net Proceeds from an Asset Sale, the applicable Guarantor may apply such Net Proceeds:

- (1) to repay Indebtedness incurred under clause (4) of the second paragraph of the covenant entitled “*Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*” that is secured by a Lien incurred under clause (6) of the definition of “*Permitted Liens*;”
- (2) to acquire all or substantially all of the assets of, or any Capital Stock of, another Oil and Gas Business, if, after giving effect to any such acquisition of Capital Stock, such Oil and Gas Business is or becomes a Restricted Subsidiary of such Guarantor;
- (3) to make a capital expenditure; or
- (4) to acquire other assets that are not classified as current assets under IFRS and that are used or useful in an Oil and Gas Business.

Pending the final application of any Net proceeds, the applicable Guarantor may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the indenture.

Any Net Proceeds from Asset Sales that are not applied or invested as provided in the second paragraph of this covenant will constitute “*Excess Proceeds*.” When the aggregate amount of Excess Proceeds exceeds \$5.0 million, within five days thereof, the Company will make an Asset Sale Offer to all holders of Notes to purchase the maximum principal amount of Notes that may be purchased out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to 100% of the principal amount plus accrued and unpaid interest (including any Additional Amounts in respect thereof) to the date of purchase and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, the applicable Guarantor may use those Excess Proceeds for any purpose not otherwise prohibited by the indenture. If the aggregate principal amount of Notes tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds, the trustee will select the Notes to be purchased on a *pro rata* basis. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with each repurchase of Notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Asset Sale provisions of the indenture, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Asset Sale provisions of the indenture by virtue of such compliance.

Agreements entered into in the future governing the Company’s and the Guarantors’ other Indebtedness may contain prohibitions of certain events, including events that would constitute a Change of Control or an Asset Sale and including repurchases of or other prepayments in respect of the Notes. The exercise by the holders of Notes of their right to require the Company to repurchase the Notes upon a Change of Control or an Asset Sale could cause a default under these other agreements, even if the Change of Control or Asset Sale itself does not, due to the financial effect of such repurchases on the Company or the Guarantor. In the event a Change of Control or Asset Sale occurs at a time when the Company is prohibited from purchasing Notes, the Company or the Guarantor could seek the consent of those lenders to the purchase of Notes or could attempt to refinance the borrowings that contain such prohibition. If the Company or the Guarantor does not obtain a consent or repay those borrowings, the Company will remain prohibited from purchasing Notes. In that case, the Company’s failure to purchase tendered Notes would constitute an Event of Default under the indenture which could, in turn, constitute a default under the other indebtedness. The Company’s ability to pay cash to the holders of Notes upon a repurchase may be limited by the Company’s then existing financial resources. See “*Risk Factors—We may be unable to satisfy our Note purchase obligations upon change of control.*”



### *Excess Cash Flow*

If the Combined Group has Excess Cash Flow for any fiscal year (the “Relevant Fiscal Year”), commencing with the fiscal year ending on December 31, 2007, then the Company shall apply an amount (the “Excess Cash Flow Offer Amount”) equal to 50% of such Excess Cash Flow for such period to make an offer to the Holders to repurchase all or a portion (in integral multiples of \$1,000) of the their Notes with an aggregate repurchase price in cash equal to the Excess Cash Flow Offer Amount pursuant to and subject to the conditions contained in the Indenture (an “Excess Cash Flow Offer”)

Within 90 days after the end of any fiscal year (or portion thereof) with respect to which the Company is required to make an Excess Cash Flow Offer pursuant to the immediately preceding paragraph, the Company must send, by registered first-class mail, an offer to each holder of the Notes, with a copy to the Trustee, which offer shall govern the terms of the Excess Cash Flow Offer. Such offer shall state, among other things, the repurchase date, which must be no earlier than 60 days nor later than 90 days from the date such notice is mailed, other than as may be required by law (the “Excess Cash Flow Offer Payment Date”).

Holder of the Notes electing to have a Note purchased pursuant to an Excess Cash Flow Offer will be required to surrender the Note, with the form entitled “Option of Holder to Elect Purchase” on the reverse of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the third business day prior to the Excess Cash Flow Offer Payment Date. If only a portion of a Note is purchased pursuant to an Excess Cash Flow Offer, a new Note in a principal amount equal to the portion thereof not purchased will be issued in the name of the holder thereof upon cancellation of the original Note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made). Notes (or portions thereof) purchased pursuant to an Excess Cash Flow Offer will be cancelled and cannot be reissued.

With respect to each Excess Cash Flow Offer, the Company shall be entitled to reduce the applicable Excess Cash Flow Offer Amount with respect thereto by the aggregate repurchase price of any Notes theretofore repurchased by the Company in the open market (to the extent such amount has not previously reduced any Excess Cash Flow Offer Amount). If the aggregate repurchase price of Notes tendered pursuant to any Excess Cash Flow Offer is less than the applicable Excess Cash Flow Offer Amount, the Company may, subject to the other provisions of the Indenture, use any such Excess Cash Flow for any other lawful purpose.

In each Excess Cash Flow Offer, the Company will be required to repurchase Notes validly tendered in response to such Excess Cash Flow Offer at a purchase price in cash equal to 100% of their principal amount (without premium), plus accrued but unpaid interest and Additional Interest, if any, thereon to the Excess Cash Flow Offer Payment Date, in accordance with the procedures (including proration in the event of oversubscription) set forth in the Indenture. The Company will not be required to make an Excess Cash Flow Offer if the Excess Cash Flow for such Relevant Fiscal Year is less than \$5.0 million.

If an Excess Cash Flow Offer is made, there can be no assurance that the Company will have available funds sufficient to pay the Excess Cash Flow purchase price for all the Notes that might be delivered by holders of the Notes seeking to accept the Excess Cash Flow Offer.

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of Notes pursuant to an Excess Cash Flow Offer. To the extent that the provisions of any securities laws or regulations conflict with the “Excess Cash Flow Offer” provisions of the Indenture, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under the “Excess Cash Flow Offer” provisions of the Indenture by virtue thereof.

## Selection and Notice

If less than all of the Notes are to be redeemed at any time, the trustee will select Notes for redemption on a pro rata basis, unless otherwise required by law or applicable stock exchange requirements.

No Notes of \$1,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each holder of Notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the indenture. Notices of redemption may not be conditional.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount of that Note that is to be redeemed. A new Note in principal amount equal to the unredeemed portion of the original Note will be issued in the name of the holder of Notes upon cancellation of the original Note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions of Notes called for redemption.

## Certain Covenants

### *Restricted Payments*

The Company and the Guarantors will not directly or indirectly:

- (1) declare or pay any dividend or make any other payment or distribution on account of the Company's or such Guarantor's Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving the Company or any Guarantor) or to the direct or indirect holders of the Company's or such Guarantor's Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of the Company or such Guarantor and other than dividends or distributions payable to the Company or a Guarantor);
- (2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving the Company, KPM or TNG) any Equity Interests of the Company, KPM or TNG or any direct or indirect parent of the Company, KPM or TNG;
- (3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness of the Company or any Guarantor that is contractually subordinated to the Notes or to any Note Guarantee (excluding any Indebtedness between or among the Company and the Guarantors), except a payment of interest at the Stated Maturity thereof; or
- (4) make any Restricted Investment

(all such payments and other actions set forth in these clauses (1) through (4) above being collectively referred to as "*Restricted Payments*"),

unless, at the time of and after giving effect to such Restricted Payment:

- (1) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;
- (2) the Combined Group, would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption "*—Incurrence of Indebtedness and Issuance of Preferred Stock;*" and
- (3) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Company and the Guarantors since the date of the indenture (excluding Restricted Payments permitted by clauses (2), (3) and (4) of the next succeeding paragraph), is less than the sum, without duplication, of:

- (a) 50% of Combined Consolidated Net Income for the period (taken as one accounting period) from the beginning of the first fiscal quarter commencing after the date of the indenture to the end of the Company's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Combined Consolidated Net Income for such period is a deficit, less 100% of such deficit); *plus*
- (b) 100% of the aggregate net cash proceeds received by the Company, KPM or TNG since the date of the indenture as a contribution to its common equity capital or from the issue or sale of Equity Interests of the Company, KPM or TNG (other than Disqualified Stock) or from the issue or sale of convertible or exchangeable Disqualified Stock or convertible or exchangeable debt securities of the Company, KPM or TNG that have been converted into or exchanged for such Equity Interests (other than Equity Interests (or Disqualified Stock or debt securities) sold to a Subsidiary of the Company KPM or TNG); *plus*
- (c) to the extent that any Restricted Investment that was made after the date of the indenture is sold for cash or otherwise liquidated or repaid for cash, the lesser of (i) the cash return of capital with respect to such Restricted Investment (less the cost of disposition, if any) and (ii) the initial amount of such Restricted Investment; *plus*
- (d) to the extent that any Unrestricted Subsidiary of any of Guarantors designated as such after the date of the indenture is redesignated as a Restricted Subsidiary after the date of the indenture, the lesser of (i) the Fair Market Value of such Guarantor's Investment in such Subsidiary as of the date of such redesignation or (ii) such Fair Market Value as of the date on which such Subsidiary was originally designated as an Unrestricted Subsidiary after the date of the indenture; *plus*
- (e) 50% of any dividends received by any Guarantor after the date of the indenture from an Unrestricted Subsidiary of a Guarantor, to the extent that such dividends were not otherwise included in Combined Consolidated Net Income for such period.

So long as no Default has occurred and is continuing or would be caused thereby, the preceding provisions will not prohibit:

- (1) the payment of any dividend or the consummation of any irrevocable redemption within 60 days after the date of declaration of the dividend or giving of the redemption notice, as the case may be, if at the date of declaration or notice, the dividend or redemption payment would have complied with the provisions of the indenture;
- (2) the making of any Restricted Payment in exchange for, or out of the net cash proceeds of the substantially concurrent sale (other than to a Subsidiary of any Guarantor) of, Equity Interests of the Company, KPM or TNG (other than Disqualified Stock) or from the substantially concurrent contribution of common equity capital to the Company, KPM or TNG; *provided* that the amount of any such net cash proceeds that are utilized for any such Restricted Payment will be excluded from clause (3)(b) of the preceding paragraph;
- (3) the repurchase, redemption, defeasance or other acquisition or retirement for value of Indebtedness of the Company or any Guarantor that is contractually subordinated to the Notes or to any Note Guarantee with the net cash proceeds from a substantially concurrent incurrence of Permitted Refinancing Indebtedness;
- (4) the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Stock of the Company, the Guarantors or their Restricted Subsidiaries issued on or after the date of the indenture in accordance with the Fixed Charge Coverage Ratio test described below under the caption "*—Incurrence of Indebtedness and Issuance of Preferred Stock*"; and
- (5) other Restricted Payments in an aggregate amount not to exceed \$5.0 million since the date of the indenture.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the applicable Guarantor, as the case may be, pursuant to the Restricted Payment. The Fair Market Value of any assets or securities that are required to be valued by this covenant will be determined by the Board of Directors of the Company.

#### ***Incurrence of Indebtedness and Issuance of Preferred Stock***

The Company and the Guarantors will not, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, “*incur*”) any Indebtedness (including Acquired Debt), and the Company, KPM or TNG will not issue any Disqualified Stock and neither KPM nor TNG will permit any of the Subsidiary Guarantors to issue any shares of preferred stock; *provided, however*, that the Company, KPM or TNG may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock, and the Subsidiary Guarantors may incur Indebtedness (including Acquired Debt) or may issue preferred stock, if:

- (1) the Fixed Charge Coverage Ratio for the Combined Group’s most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock or such preferred stock is issued, as the case may be, would have been at least 3.0 to 1.0, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the Disqualified Stock or the preferred stock had been issued, as the case may be, at the beginning of such four-quarter period; and
- (2) if such Indebtedness is not in the form of additional Notes, such Indebtedness is expressly subordinated in right of payment to the Notes.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, “*Permitted Debt*”):

- (1) the incurrence by the Company and the Guarantors of the Existing Indebtedness;
- (2) the incurrence by the Company and the Guarantors of Indebtedness represented by the Notes and the related Note Guarantees to be issued on the date of the indenture;
- (3) the incurrence by any Guarantor of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case, incurred for the purpose of financing all or any part of the purchase price or cost of design, construction, installation or improvement of property, plant or equipment used in the business of any Guarantor, in an aggregate principal amount, including all Permitted Refinancing Indebtedness incurred to renew, refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (3), not to exceed \$5.0 million at any time outstanding;
- (4) the incurrence by the Company or any of the Guarantors of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge any Indebtedness (other than Indebtedness between or among Company and the Guarantors) that was permitted by the indenture to be incurred under the first paragraph of this covenant or clauses (1), (2), (3), (4) or (11) of this paragraph;
- (5) the incurrence by the Company and any of the Guarantors of Indebtedness between or among the Company and the Guarantors; provided, however, that (a) any subsequent transfer of Equity Interests that results in any such Indebtedness being held by a Person other than the Company or a Guarantor and (b) any sale or other transfer of any such Indebtedness to a Person that is not either the Company or a Guarantor will be deemed, in each case, to constitute an incurrence of such Indebtedness by the Company or such Guarantor as the case may be, that was not permitted by this clause (5);

- (6) the incurrence by the Company or any of the Guarantors of Hedging Obligations in the ordinary course of business;
- (7) the incurrence by the Company or any of the Guarantors of Indebtedness under Oil and Gas Hedging Contracts, *provided* that such contracts were entered into in the ordinary course of business for the purpose of limiting risks that arise in the ordinary course of business of the Company or the Guarantors;
- (8) the guarantee by the Company or the Guarantors of Indebtedness of the Company or any of the Guarantors that was permitted to be incurred by another provision of this covenant; *provided* that if the Indebtedness being guaranteed is subordinated to or *pari passu* with the Notes, then the Guarantee shall be subordinated or *pari passu*, as applicable, to the same extent as the Indebtedness guaranteed;
- (9) the incurrence by the Company or any of the Guarantors of Indebtedness in respect of workers' compensation claims, self-insurance obligations, bankers' acceptances, performance and surety bonds in the ordinary course of business;
- (10) the incurrence by the Company or any of the Guarantors of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds, so long as such Indebtedness is covered within five business days; and
- (11) the incurrence by the Company or any of the Guarantors of additional Indebtedness in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to renew, refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (11), not to exceed \$ 5.0 million.

The Company and the Guarantors will not incur any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of the Company or such Guarantor unless such Indebtedness is also contractually subordinated in right of payment to the Notes and the applicable Note Guarantee on substantially identical terms; *provided, however*, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness of the Company or a Guarantor solely by virtue of being unsecured or by virtue of being secured on a first or junior Lien basis.

For purposes of determining compliance with this "*Incurrence of Indebtedness and Issuance of Preferred Stock*" covenant, in the event that an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (11) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, the Company or the applicable Guarantor will be permitted to classify such item of Indebtedness on the date of its incurrence in any manner that complies with this covenant. The accrual of interest, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, the reclassification of preferred stock as Indebtedness due to a change in accounting principles, and the payment of dividends on Disqualified Stock in the form of additional shares of the same class of Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of Disqualified Stock for purposes of this covenant; *provided*, in each such case, that the amount of any such accrual, accretion or payment is included in Combined Fixed Charges as accrued. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Company and the Guarantors may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in exchange rates or currency values.

The amount of any Indebtedness outstanding as of any date will be:

- (1) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount;
- (2) the principal amount of the Indebtedness, in the case of any other Indebtedness; and
- (3) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of:

- (a) the Fair Market Value of such assets at the date of determination; and
- (b) the amount of the Indebtedness of the other Person.

### *Liens*

The Company and the Guarantors will not, directly or indirectly, create, incur, assume or suffer to exist any Lien of any kind on any asset now owned or hereafter acquired, except Permitted Liens.

### *Dividend and Other Payment Restrictions Affecting Subsidiaries*

The Company and the Guarantors will not, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Subsidiary Guarantor to:

- (1) pay dividends or make any other distributions on its Capital Stock to the Company or any Guarantor, or with respect to any other interest or participation in, or measured by, its profits, or pay any indebtedness owed to the Company or any Guarantor;
- (2) make loans or advances to the Company or any Guarantor; or
- (3) sell, lease or transfer any of its properties or assets to the Company or any Guarantor.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

- (1) agreements governing Existing Indebtedness as in effect on the date of the indenture and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; *provided* that the amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the date of the indenture;
- (2) the indenture, the Notes, the Note Guarantees and the Pledge Agreements;
- (3) applicable law, rule, regulation or order;
- (4) any instrument governing Indebtedness or Capital Stock of a Person acquired by the Company or any of the Guarantors as in effect at the time of such acquisition (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired; *provided* that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the indenture to be incurred;
- (5) customary non-assignment provisions in contracts and licenses entered into in the ordinary course of business;
- (6) purchase money obligations for property acquired in the ordinary course of business that impose restrictions on the property purchased or leased of the nature described in clause (3) of the preceding paragraph;
- (7) any agreement for the sale or other disposition of a Subsidiary Guarantor that restricts distributions by that Subsidiary Guarantor pending the sale or other disposition;
- (8) Permitted Refinancing Indebtedness; *provided* that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are not materially more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;
- (9) Liens permitted to be incurred under the provisions of the covenant described above under the caption “—Liens” that limit the right of the debtor to dispose of the assets subject to such Liens;

- (10) provisions limiting the disposition or distribution of assets or property in joint venture agreements, asset sale agreements, sale-leaseback agreements, stock sale agreements and other similar agreements entered into with the approval of the Company's Board of Directors, which limitation is applicable only to the assets that are the subject of such agreements; and
- (11) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business.

#### ***Merger, Consolidation or Sale of Assets***

The Company will not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not the Company is the surviving Person); or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of its properties and assets, in one or more related transactions, to another Person. None of the Guarantors will, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not the Guarantor is the surviving Person); or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the applicable Guarantor and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

- (1) either: (a) the applicable Guarantor is the surviving Person; or (b) the Person formed by or surviving any such consolidation or merger (if other than the applicable Guarantor) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation organized or existing under the laws of the United States, any state of the United States or the District of Columbia;
- (2) the Person formed by or surviving any such consolidation or merger (if other than the applicable Guarantor) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of the applicable Guarantor under the indenture, the Note Guarantee and the Pledge Agreement, as applicable, pursuant to agreements reasonably satisfactory to the trustee;
- (3) immediately after such transaction, no Default or Event of Default exists;
- (4) the applicable Guarantor or the Person formed by or surviving any such consolidation or merger (if other than the applicable Guarantor) or to which such sale, assignment, transfer, conveyance or other disposition has been made would, at the time of such transaction and after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption "*—Incurrence of Indebtedness and Issuance of Preferred Stock;*" and
- (5) there has been delivered to the trustee a written tax opinion of an internationally recognized law or accountancy firm experienced in such matters to the effect that holders will not recognize income, gain or loss for U.S. federal income tax purposes or in the jurisdiction in which the Company or any Guarantor is organized as a result of such consolidation, merger, conveyance or transfer, and will be subject to U.S. federal income, British Virgin Islands and Kazakhstan tax on the same amount and in the same manner and at the same times as would have been the case if such consolidation, merger, conveyance or transfer had not occurred.

In addition, the Company will not, directly or indirectly, lease all or substantially all of its properties and assets to any other Person and a Guarantor will not, directly or indirectly, lease all or substantially all of the properties and assets of the Guarantor and its Restricted Subsidiaries taken as a whole to any other Person.

This "Merger, Consolidation or Sale of Assets" covenant will not apply to any consolidation or merger, or any sale, assignment, transfer, conveyance, lease or other disposition of assets between or among the Company and the Guarantors.

### *Transactions with Affiliates*

The Company and the Guarantors will not make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate of the Company or a Guarantor (each, an “*Affiliate Transaction*”), unless:

- (1) the Affiliate Transaction involving aggregate consideration in excess of \$1.0 million is on terms that are no less favorable to the Company or the relevant Guarantor than those that would have been obtained in a comparable transaction by the Company or such Guarantor with an unrelated Person; and
- (2) the Company delivers to the trustee:
  - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$3.0 million, a resolution of the Board of Directors of the Company set forth in an Officers’ Certificate certifying that a majority of the disinterested members and at least one Independent Director of the Board of Directors of the Company have determined that such Affiliate Transaction complies with this covenant; and
  - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$10.0 million, an opinion as to the fairness to the Company or the applicable Guarantor of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of national standing.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

- (1) any employment agreement, employee benefit plan, officer or director indemnification agreement or any similar arrangement entered into by any of the Guarantors in the ordinary course of business and payments pursuant thereto;
- (2) transactions between or among the Company and/or the Guarantors;
- (3) transactions with a Person (other than an Unrestricted Subsidiary of the Company or any Guarantor) that is an Affiliate of the Company or a Guarantor solely because the Company or such Guarantor owns, directly or through a Subsidiary Guarantor, an Equity Interest in, or controls, such Person;
- (4) payment of reasonable directors’ fees to Persons who are not otherwise Affiliates of the Company or any of the Guarantors;
- (5) any issuance of Equity Interests (other than Disqualified Stock) of the Company, KPM or TNG to Affiliates of the Company;
- (6) Existing Affiliate Transactions and any amendments or replacements thereof so long as any such amendment or replacements, taken as a whole, are not more disadvantageous to the Company or any Guarantors, as applicable, or to the holders of the Notes in any material respect than the Existing Affiliate Transaction; and
- (7) Restricted Payments that do not violate the provisions of the indenture described above under the caption “—*Restricted Payments.*”

### *Independent Directors*

The Board of Directors of each of the Company will within 30 days after the date of the indenture consist of five Directors, two of which must be Independent Directors. The Company will, at all times, after such Independent Directors are selected have at least two Independent Directors, other than during one or more periods not in any one case to exceed 90 consecutive days due to the Independent Directors death, disability, resignation or retirement.



### ***Business Activities***

The Company will not have any material operations or assets. None of the Guarantors will engage in any business other than the Oil and Gas Businesses, except to such extent as would not be material to such Guarantor and its Restricted Subsidiaries taken as a whole.

### ***Ownership of Subsidiaries***

The Company will not acquire or create any Subsidiaries. Each Restricted Subsidiary of a Guarantor will be a Wholly Owned Restricted Subsidiary.

### ***Additional Note Guarantees***

If any of the Guarantors acquires or creates a Restricted Subsidiary after the date of the indenture, then that newly acquired or created Restricted Subsidiary will (1) become a Guarantor and execute a supplemental indenture and (2) deliver an opinion of counsel satisfactory to the trustee within 10 business days of the date on which it was acquired or created.

### ***Designation of Restricted and Unrestricted Subsidiaries***

Any Guarantor may designate any Restricted Subsidiary to be an Unrestricted Subsidiary upon approval of such action by the Board of Directors of the Company if that designation would not cause a Default; *provided* that in no event will the business currently operated by KPM or TNG be transferred to or held by an Unrestricted Subsidiary. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate Fair Market Value of all outstanding Investments owned by the Guarantors in the Subsidiary designated as Unrestricted will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the covenant described above under the caption “—*Restricted Payments*” or under one or more clauses of the definition of Permitted Investments, as determined by the Company. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. A Guarantor may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if that redesignation would not cause a Default.

Any designation of a Subsidiary of a Guarantor as an Unrestricted Subsidiary will be evidenced to the trustee by filing with the trustee a certified copy of a resolution of the Board of Directors of the Company giving effect to such designation and an Officers’ Certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption “—*Restricted Payments*.” If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of the applicable Guarantor as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption “—*Incurrence of Indebtedness and Issuance of Preferred Stock*,” there will be a default of such covenant. A Guarantor may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary of such Guarantor provided that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of such Guarantor of any outstanding Indebtedness of such Unrestricted Subsidiary, and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described under the caption “—*Incurrence of Indebtedness and Issuance of Preferred Stock*,” calculated on a pro forma basis as if such designation had occurred at the beginning of the four-quarter reference period; and (2) no Default or Event of Default would be in existence following such designation.

### ***Further Assurances***

The Company and each of the Guarantors will do or cause to be done all acts and things which may be required, or which the Collateral Agent from time to time may reasonably request, to assure and confirm that the Collateral Agent holds, for the benefit of the holders of the Notes, duly created, enforceable and perfected security interests upon the Collateral.

If so requested by the Collateral Agent at any time or from time to time, the Company and each Guarantor will promptly execute, acknowledge and deliver such instruments, certificates, notices and other documents, and take such other actions, as may be reasonably be required, or which the Collateral Agent may reasonably request, to create, perfect, ensure the priority of, protect, assure or enforce the security interests and benefits intended to be conferred upon the Collateral Agent and the holders of the Notes as contemplated by the Note Documents.

Upon the exercise by the Collateral Agent or any holder of any power, right, privilege or remedy under the indenture or the Pledge Agreement which requires any consent, approval, recording, qualification or authorization of any governmental authority, the Company and the Guarantors will, execute and deliver all applications, certifications, instruments and other documents and papers that may be required from the Company and the Guarantors for such governmental consent, approval, recording, qualification or authorization.

### *Credit Rating for Notes*

The Company shall obtain within 90 days from the date of the indenture a credit rating for the Notes from Moody's and S&P and shall maintain a credit rating for the Notes with Moody's and S&P until all of the Obligations of the Company and the Guarantors under the indenture have been satisfied or discharged under the terms of the indenture. If either Moody's or S&P ceases to rate the Notes for reasons outside of the control of the Company, the Company shall obtain a credit rating from any other "nationally recognized statistical rating organization" within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act selected by the Company as a replacement agency.

### *Payments for Consent*

The Company and the Guarantors will not, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Notes, the indenture or the Pledge Agreement unless such consideration is offered to be paid and is paid to all holders of the Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

### **Reports**

Whether or not required by the rules and regulations of the SEC, so long as any Notes are outstanding, the Company and the Guarantors will furnish to the holders of Notes or cause the trustee to furnish to the holders of Notes, within the time periods specified in the SEC's rules and regulations:

- (1) all quarterly and annual financial information that would be required to be contained in a filing with the SEC on Forms 10-Q and 10-K for each of the Company and the Guarantors on a stand-alone basis and for the Company and the Guarantors on a combined basis if the Company or the Guarantors were required to file such reports;
- (2) annual financial information furnished pursuant to clause (1) shall be accompanied by a reserve report from an independent petroleum engineer dated as of the most recent year end, relating to estimates of reserves, future production and income attributable to KPM's and TNG's interests in the Borankol and Tolkyk fields, and any other hydrocarbon fields in which KPM, TNG or any of their Restricted Subsidiaries has an interest and is producing hydrocarbon products as of the most recent year end, in a form substantially identical to the "Report on Estimated Future Reserves and Income Attributable to Certain Leasehold Interests Located in the Borankol and Tolkyk Fields Republic of Kazakhstan," dated as of June 30, 2006 and prepared for ASCOM Group S.A. by Ryder Scott Company L.P.; and
- (3) all current reports that would be required to be filed with the SEC on Form 8-K if the Company or the Guarantors were required to file such reports.

The Company and the Guarantors will conduct a conference call for the holders of the Notes, any prospective investor or any securities analyst to discuss the information furnished pursuant to the previous paragraph no later than three business days after furnishing any information pursuant to clause (1) of the previous paragraph.

All such reports will be prepared in all material respects in accordance with all of the rules and regulations applicable to such reports. Each annual report on Form 10-K will include a report on the applicable combined financial statements by the Company's and the Guarantors' certified independent accountants. The Company will post the reports referred to in the preceding paragraphs on its website within the time periods that would apply if the Company and the Guarantors were required to file those reports with the SEC.

If the Company or the Guarantors have designated any of their Subsidiaries as Unrestricted Subsidiaries, then the quarterly and annual financial information required by the preceding paragraphs will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, and in Management's Discussion and Analysis of Financial Condition and Results of Operations, of the financial condition and results of operations of the Company and the Guarantors separate from the financial condition and results of operations of such Unrestricted Subsidiaries.

In addition, the Company and the Guarantors agree that, for so long as any Notes remain outstanding, they will furnish to the holders of Notes and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

#### **Events of Default and Remedies**

Each of the following is an "*Event of Default*":

- (1) default for 30 days in the payment when due of interest, and Additional Amounts, if any, on the Notes;
- (2) default in the payment when due (at maturity, upon redemption or otherwise) of the principal of, premium, if any, and Additional Amounts, if any, on, the Notes;
- (3) failure by the Company or any of the Guarantors to comply with the provisions described under the captions "*—Repurchase at the Option of Holders—Change of Control,*" "*—Repurchase at the Option of Holders—Asset Sales,*" "*—Repurchase at the Option of Holders—Excess Cash Flow,*" "*—Certain Covenants—Restricted Payments,*" "*—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock*" or "*—Certain Covenants—Merger, Consolidation or Sale of Assets;*"
- (4) failure by the Company or any of the Guarantors for 60 days after notice to the Company by the trustee or the holders of at least 25% in aggregate principal amount of the Notes then outstanding voting as a single class to comply with any of the other agreements in the indenture;
- (5) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Company or any of the Guarantors (or the payment of which is guaranteed by the Company or any of the Guarantors), whether such Indebtedness or Guarantee now exists, or is created after the date of the indenture, if that default:
  - (a) is caused by a failure to pay principal of, or interest or premium, if any, or Additional Amounts, if any, on, such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a "*Payment Default*"); or
  - (b) results in the acceleration of such Indebtedness prior to its express maturity,

and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates \$5.0 million or more;

- (6) failure by the Company or any of the Guarantors to pay final judgments entered by a court or courts of competent jurisdiction aggregating in excess of \$5.0 million, which judgments are not paid, discharged or stayed for a period of 60 days;
- (7) the occurrence of any of the following:
  - (a) an event of default under any of the Pledge Agreements;
  - (b) any of the Pledge Agreements shall cease, for any reason (other than pursuant to the terms thereof), to be in full force and effect, or the Company or any of the Guarantors shall so assert, or any security interest created or purported to be created by any of the Pledge Agreements shall cease to be enforceable or of the same effect and priority purported to be created thereby; or
  - (c) the Company or any of the Guarantors repudiates any of their respective obligations under the any of the Pledge Agreements.
- (8) except as permitted by the indenture, any Note Guarantee is held in any judicial proceeding to be unenforceable or invalid or ceases for any reason to be in full force and effect, or any Guarantor, or any Person acting on behalf of any Guarantor, denies or disaffirms its obligations under its Note Guarantee; and
- (9) certain events of bankruptcy or insolvency described in the indenture with respect to the Company, KPM, TNG or any other Subsidiary Guarantor that is a Significant Subsidiary or any group of Subsidiary Guarantors that, taken together, would constitute a Significant Subsidiary.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to the Company, KPM, TNG or any Subsidiary Guarantor, that is a Significant Subsidiary or any group of Subsidiary Guarantors that, taken together, would constitute a Significant Subsidiary, all outstanding Notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding Notes may declare all the Notes to be due and payable immediately.

Subject to certain limitations, holders of a majority in aggregate principal amount of the then outstanding Notes may direct the trustee in its exercise of any trust or power. The trustee may withhold from holders of the Notes notice of any continuing Default or Event of Default if it determines that withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal, interest, premium, or Additional Amounts, if any.

Subject to the provisions of the indenture relating to the duties of the trustee, in case an Event of Default occurs and is continuing, the trustee will be under no obligation to exercise any of the rights or powers under the indenture at the request or direction of any holders of Notes unless such holders have offered to the trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, or Additional Amounts, if any, or interest when due, no holder of a Note may pursue any remedy with respect to the indenture or the Notes unless:

- (1) such holder has previously given the trustee notice that an Event of Default is continuing;
- (2) holders of at least 25% in aggregate principal amount of the then outstanding Notes have requested the trustee to pursue the remedy;
- (3) such holders have offered the trustee reasonable security or indemnity against any loss, liability or expense;
- (4) the trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity; and

- (5) holders of a majority in aggregate principal amount of the then outstanding Notes have not given the trustee a direction inconsistent with such request within such 60-day period.

The holders of a majority in aggregate principal amount of the then outstanding Notes by notice to the trustee may, on behalf of the holders of all of the Notes, rescind an acceleration or waive any existing Default or Event of Default and its consequences under the indenture except a continuing Default or Event of Default in the payment of interest or premium, if any, or Additional Amounts, if any, on, or the principal of, the Notes.

In the case of any Event of Default occurring by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Company with the intention of avoiding payment of the premium that the Company would have had to pay if the Company then had elected to redeem the Notes pursuant to the optional redemption provisions of the indenture, an equivalent premium will also become and be immediately due and payable to the extent permitted by law upon the acceleration of the Notes. If an Event of Default occurs prior to July 2009, by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Company with the intention of avoiding the prohibition on redemption of the Notes prior to July 2009, then an additional premium specified in the indenture will also become and be immediately due and payable to the extent permitted by law upon the acceleration of the Notes.

The Company is required to deliver to the trustee annually a statement regarding compliance with the indenture. Upon becoming aware of any Default or Event of Default, the Company is required to deliver to the trustee a statement specifying such Default or Event of Default.

#### **No Personal Liability of Directors, Officers, Employees and Stockholders**

No director, officer, employee, incorporator or stockholder of the Company or any Guarantor, as such, will have any liability for any obligations of the Company or the Guarantors under the Notes, the indenture, the Note Guarantees, the Pledge Agreement or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under the federal securities laws.

#### **Legal Defeasance and Covenant Defeasance**

The Company may at any time, at the option of its Board of Directors evidenced by a resolution set forth in an Officers' Certificate, elect to have all of its obligations discharged with respect to the outstanding Notes and all obligations of the Guarantors discharged with respect to their Note Guarantees ("*Legal Defeasance*") except for:

- (1) the rights of holders of outstanding Notes to receive payments in respect of the principal of, or interest or premium, if any, or Additional Amounts, if any, on, such Notes when such payments are due from the trust referred to below;
- (2) the Company's obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust;
- (3) the rights, powers, trusts, duties and immunities of the trustee, and the Company's and the Guarantors' obligations in connection therewith; and
- (4) the Legal Defeasance and Covenant Defeasance provisions of the indenture.

In addition, the Company may, at its option and at any time, elect to have the obligations of the Company and the Guarantors released with respect to certain covenants (including the Company's obligation to make Change of Control Offers and Asset Sale Offers) that are described in the indenture ("*Covenant*

*Defeasance*”) and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described under “—*Events of Default and Remedies*” will no longer constitute an Event of Default with respect to the Notes.

The Liens securing the Collateral will be released upon either Legal Defeasance or Covenant Defeasance.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) the Company must irrevocably deposit with the trustee, in trust, for the benefit of the holders of the Notes, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient, in the opinion of a nationally recognized investment bank, appraisal firm or firm of independent public accountants, to pay the principal of, or interest and premium, if any, and Additional Amounts, if any, on, the outstanding Notes on the stated date for payment thereof or on the applicable redemption date, as the case may be, and the Company must specify whether the Notes are being defeased to such stated date for payment or to a particular redemption date;
- (2) in the case of Legal Defeasance, the Company must deliver to the trustee an opinion of counsel reasonably acceptable to the trustee confirming that (a) the Company has received from, or there has been published by, the U.S. Internal Revenue Service a ruling or (b) since the date of the indenture, there has been a change in the applicable U.S. federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (3) in the case of Covenant Defeasance, the Company must deliver to the trustee an opinion of counsel reasonably acceptable to the trustee confirming that the holders of the outstanding Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;
- (4) no Default or Event of Default has occurred and is continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Company or any Guarantor is a party or by which the Company or any Guarantor is bound;
- (5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than the indenture) to which the Company, the Guarantors or any of their Subsidiaries is a party or by which the Company, the Guarantors or any of their Subsidiaries is bound;
- (6) the Company must deliver to the trustee an Officers’ Certificate stating that the deposit was not made by the Company with the intent of preferring the holders of Notes over the other creditors of the Company with the intent of defeating, hindering, delaying or defrauding any creditors of the Company or others; and
- (7) the Company must deliver to the trustee an Officers’ Certificate and an opinion of counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

## Amendment, Supplement and Waiver

Except as provided in the next three succeeding paragraphs, the indenture, the Notes, the Note Guarantees and the Pledge Agreement may be amended or supplemented with the consent of the holders of at least a majority in aggregate principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), and any existing Default or Event of Default or compliance with any provision of the indenture, the Notes, the Note Guarantees or the Pledge Agreement may be waived with the consent of the holders of a majority in aggregate principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes).

Without the consent of each holder of Notes affected, an amendment, supplement or waiver may not (with respect to any Notes held by a non consenting holder):

- (1) reduce the principal amount of Notes whose holders must consent to an amendment, supplement or waiver;
- (2) reduce the principal of or change the fixed maturity of any Note or alter the provisions with respect to the redemption of the Notes (other than provisions relating to the covenants described above under the caption “—Repurchase at the Option of Holders”);
- (3) reduce the rate of or change the time for payment of interest, including default interest, on any Note;
- (4) waive a Default or Event of Default in the payment of principal of, or interest or premium, if any, or Additional Amounts, if any, on, the Notes (except a rescission of acceleration of the Notes by the holders of at least a majority in aggregate principal amount of the then outstanding Notes and a waiver of the payment default that resulted from such acceleration);
- (5) make any note payable in money other than that stated in the Notes;
- (6) make any change in the provisions of the indenture relating to waivers of past Defaults or the rights of holders of Notes to receive payments of principal of, or interest or premium, if any, or Additional Amounts, if any, on, the Notes;
- (7) waive a redemption payment with respect to any Note (other than a payment required by one of the covenants described above under the caption “—Repurchase at the Option of Holders”);
- (8) release any Guarantor from any of its obligations under its Note Guarantee or the indenture, except in accordance with the terms of the indenture;
- (9) release any Collateral from the Lien of the indenture of the Pledge Agreement except in accordance with the terms of the indenture and the Pledge Agreement; or
- (10) make any change in the preceding amendment and waiver provisions.

Notwithstanding the preceding, without the consent of any holder of Notes, the Company, the Guarantors and the trustee may amend or supplement the indenture, the Notes, the Note Guarantees, or the Pledge Agreement:

- (1) to cure any ambiguity, defect or inconsistency;
- (2) to provide for uncertificated Notes in addition to or in place of certificated Notes;
- (3) to provide for the assumption of the Company’s or a Guarantor’s obligations to holders of Notes and Note Guarantees in the case of a merger or consolidation or sale of all or substantially all of the Company’s or such Guarantor’s assets, as applicable;
- (4) to make any change that would provide any additional rights or benefits to the holders of Notes or that does not adversely affect the legal rights under the indenture of any such holder;

- (5) to conform the text of the Notes, the indenture, the Note Guarantees or the Pledge Agreements to any provision of this Description of Notes to the extent that such provision in this Description of Notes was intended to be a verbatim recitation of a provision of the Notes, the indenture, the Note Guarantees or the Pledge Agreements.
- (6) to provide for the issuance of additional Notes in accordance with the limitations set forth in the indenture as of the date of the indenture;
- (7) to make, complete or confirm any grant of Collateral permitted or required by the indenture or any of the Pledge Agreements or any release of Collateral that becomes effective as set forth in the indenture or the Pledge Agreements; or
- (8) to allow any Guarantor to execute a supplemental indenture and/or a Note Guarantee with respect to the Notes.

Notwithstanding anything to the contrary herein, no modification of the indenture, the Notes, the Note Guarantees or the Pledge Agreements will be permitted absent the delivery to the trustee of a written tax opinion of an internationally recognized law or accountancy firm experienced in such matters to the effect that the Holders will not recognize income, gain or loss for U.S. federal income tax purposes or in the jurisdiction in which the Company or any Guarantor is organized as a result of such amendment or modification and will be subject to U.S. federal income, British Virgin Islands and Kazakhstan tax on the same amount and in the same manner and at the same time as would have been the case if such amendment or modification had not occurred.

#### **Satisfaction and Discharge**

The indenture will be discharged and will cease to be of further effect as to all Notes issued thereunder, when:

- (1) either:
  - (a) all Notes that have been authenticated, except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust and thereafter repaid to the Company, have been delivered to the trustee for cancellation; or
  - (b) all Notes that have not been delivered to the trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and the Company or any Guarantor has irrevocably deposited or caused to be deposited with the trustee as trust funds in trust solely for the benefit of the holders, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient, without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the Notes not delivered to the trustee for cancellation for principal, premium, if any, Additional Amounts, if any, and accrued interest to the date of maturity or redemption;
- (2) no Default or Event of Default has occurred and is continuing on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Company, or any Guarantor is a party or by which the Company, or any Guarantor is bound;
- (3) the Company or any Guarantor has paid or caused to be paid all sums payable by them under the indenture; and
- (4) the Company has delivered irrevocable instructions to the trustee under the indenture to apply the deposited money toward the payment of the Notes at maturity or on the redemption date, as the case may be.



In addition, the Company must deliver an Officers' Certificate and an opinion of counsel to the trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

The Liens securing the Collateral will be released upon satisfaction and discharge of the indenture.

### **Concerning the Trustee**

Wells Fargo Bank, National Association, is to be the trustee under the indenture and has been appointed by the Company as registrar and Paying Agent with regard to the Notes.

If the trustee becomes a creditor of the Company or any Guarantor, the indenture limits the right of the trustee to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days or resign.

The holders of a majority in aggregate principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee, subject to certain exceptions. The indenture provides that in case an Event of Default occurs and is continuing, the trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any holder of Notes, unless such holder has offered to the trustee security and indemnity satisfactory to it against any loss, liability or expense.

### **Additional Information**

Anyone who receives this offering circular may obtain a copy of the indenture, the Note Guarantees, the Pledge Agreements and the Ryder Scott Reserve Report without charge by writing to 18 Renasterii bd., Chisinau, Moldova, MD 20005.

### **Book-Entry, Delivery and Form**

The Notes are being offered and sold to qualified institutional buyers who are also qualified purchasers in reliance on Rule 144A ("*Rule 144A Notes*"). The Notes also may be offered and sold in offshore transactions in reliance on Regulation S ("*Regulation S Notes*"). Except as set forth below, the Notes will be issued in registered, global form in minimum denominations of \$1,000 and integral multiples of \$1,000 in excess of \$1,000. Notes will be issued at the closing of this offering only against payment in immediately available funds.

Rule 144A Notes initially will be represented by one or more Notes in registered, global form without interest coupons (collectively, the "*Rule 144A Global Notes*"). Regulation S Notes initially will be represented by one or more Notes in registered, global form without interest coupons (collectively, the "*Regulation S Global Notes*" and, together with the Rule 144A Global Notes, the "*Global Notes*"). The Global Notes will be deposited upon issuance with the trustee as custodian for The Depository Trust Company ("*DTC*"), and registered in the name of DTC or its nominee, in each case, for credit to an account of a direct or indirect participant in DTC as described below. Through and including the 40th day after the later of the commencement of this offering and the closing of this offering (such period through and including such 40th day, the "*Restricted Period*"), beneficial interests in the Regulation S Global Notes may be held only through the Euroclear System ("*Euroclear*") and Clearstream Banking, S.A. ("*Clearstream*") (as indirect participants in DTC), unless transferred to a person that takes delivery through a Rule 144A Global Note in accordance with the certification requirements described below. Beneficial interests in the Rule 144A Global Notes may not be exchanged for beneficial interests in the Regulation S Global Notes at any time except in the limited circumstances described below. See "*—Exchanges between Regulation S Notes and Rule 144A Notes.*"

Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for definitive Notes in registered certificated form (“*Certificated Notes*”) except in the limited circumstances described below. See “—*Exchange of Global Notes for Certificated Notes*.” Except in the limited circumstances described below, owners of beneficial interests in the Global Notes will not be entitled to receive physical delivery of Notes in certificated form.

Rule 144A Notes (including beneficial interests in the Rule 144A Global Notes) will be subject to certain restrictions on transfer and will bear a restrictive legend as described under “*Notice to Investors*.” Regulation S Notes will also bear the legend as described under “*Notice to Investors*.” In addition, transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear and Clearstream), which may change from time to time.

### **Depository Procedures**

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. The Company takes no responsibility for these operations and procedures and urges investors to contact the system or their participants directly to discuss these matters.

DTC has advised the Company that DTC is a limited-purpose trust company created to hold securities for its participating organizations (collectively, the “*Participants*”) and to facilitate the clearance and settlement of transactions in those securities between the Participants through electronic book-entry changes in accounts of its Participants. The Participants include securities brokers and dealers (including the initial purchaser), banks, trust companies, clearing corporations and certain other organizations. Access to DTC’s system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the “*Indirect Participants*”). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised the Company that, pursuant to procedures established by it:

- (1) upon deposit of the Global Notes, DTC will credit the accounts of the Participants designated by the initial purchaser with portions of the principal amount of the Global Notes; and
- (2) ownership of these interests in the Global Notes will be shown on, and the transfer of ownership of these interests will be effected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interest in the Global Notes).

Investors in the Rule 144A Global Notes who are Participants may hold their interests therein directly through DTC. Investors in the Rule 144A Global Notes who are not Participants may hold their interests therein indirectly through organizations (including Euroclear and Clearstream) which are Participants. Investors in the Regulation S Global Notes must initially hold their interests therein through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants. After the expiration of the Restricted Period (but not earlier), investors may also hold interests in the Regulation S Global Notes through Participants in the DTC system other than Euroclear and Clearstream. Euroclear and Clearstream will hold interests in the Regulation S Global Notes on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositories, which are Euroclear Bank S.A./N.V., as operator of Euroclear, and Citibank, N.A., as operator of Clearstream. All interests in a Global Note, including

those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems. The laws of some states require that certain Persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such Persons will be limited to that extent. Because DTC can act only on behalf of the Participants, which in turn act on behalf of the Indirect Participants, the ability of a Person having beneficial interests in a Global Note to pledge such interests to Persons that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

**Except as described below, owners of interests in the Global Notes will not have Notes registered in their names, will not receive physical delivery of Notes in certificated form and will not be considered the registered owners or “holders” thereof under the indenture for any purpose.**

Payments in respect of the principal of, and interest and premium, if any, and Additional Amounts, if any, and Liquidated Damages, if any, on, a Global Note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered holder under the indenture. Under the terms of the indenture, the Company and the trustee will treat the Persons in whose names the Notes, including the Global Notes, are registered as the owners of the Notes for the purpose of receiving payments and for all other purposes. Consequently, neither the Company, the trustee nor any agent of the Company or the trustee has or will have any responsibility or liability for:

- (1) any aspect of DTC’s records or any Participant’s or Indirect Participant’s records relating to or payments made on account of beneficial ownership interest in the Global Notes or for maintaining, supervising or reviewing any of DTC’s records or any Participant’s or Indirect Participant’s records relating to the beneficial ownership interests in the Global Notes; or
- (2) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised the Company that its current practice, upon receipt of any payment in respect of securities such as the Notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe that it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the Participants and the Indirect Participants to the beneficial owners of Notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the trustee or the Company. Neither the Company nor the trustee will be liable for any delay by DTC or any of the Participants or the Indirect Participants in identifying the beneficial owners of the Notes, and the Company and the trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Subject to the transfer restrictions set forth under “Notice to Investors,” transfers between the Participants will be effected in accordance with DTC’s procedures, and will be settled in same-day funds, and transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes described herein, cross-market transfers between the Participants, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC’s rules on behalf of Euroclear or Clearstream, as the case may be, by their respective depositaries; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver

instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

DTC has advised the Company that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Participants to whose account DTC has credited the interests in the Global Notes and only in respect of such portion of the aggregate principal amount of the Notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the Notes, DTC reserves the right to exchange the Global Notes for legended Notes in certificated form, and to distribute such Notes to its Participants.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the Rule 144A Global Notes and the Regulation S Global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and may discontinue such procedures at any time. None of the Company, the trustee and any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

#### **Exchange of Global Notes for Certificated Notes**

A Global Note is exchangeable for Certificated Notes if:

- (1) DTC (a) notifies the Company that it is unwilling or unable to continue as depository for the Global Notes or (b) has ceased to be a clearing agency registered under the Exchange Act and, in either case, the Company fails to appoint a successor depository;
- (2) the Company, at its option, notifies the trustee in writing that it elects to cause the issuance of the Certificated Notes; or
- (3) there has occurred and is continuing a Default or Event of Default with respect to the Notes.

In addition, beneficial interests in a Global Note may be exchanged for Certificated Notes upon prior written notice given to the trustee by or on behalf of DTC in accordance with the indenture. In all cases, Certificated Notes delivered in exchange for any Global Note or beneficial interests in Global Notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depository (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in “*Notice to Investors*,” unless that legend is not required by applicable law.

#### **Exchange of Certificated Notes for Global Notes**

Certificated Notes may not be exchanged for beneficial interests in any Global Note unless the transferor first delivers to the trustee a written certificate (in the form provided in the indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such Notes. See “*Notice to Investors*.”

#### **Exchanges Between Regulation S Notes and Rule 144A Notes**

Prior to the expiration of the Restricted Period, beneficial interests in the Regulation S Global Note may be exchanged for beneficial interests in the Rule 144A Global Note only if:

- (1) such exchange occurs in connection with a transfer of the Notes pursuant to Rule 144A; and
- (2) the transferor first delivers to the trustee a written certificate (in the form provided in the indenture) to the effect that the Notes are being transferred to a Person:

- (a) who the transferor reasonably believes to be a qualified institutional buyer within the meaning of Rule 144A;
- (b) purchasing for its own account or the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; and
- (c) in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Beneficial interests in a Rule 144A Global Note may be transferred to a Person who takes delivery in the form of an interest in the Regulation S Global Note, whether before or after the expiration of the Restricted Period, only if the transferor first delivers to the trustee a written certificate (in the form provided in the indenture) to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S or Rule 144 (if available) and that, if such transfer occurs prior to the expiration of the Restricted Period, the interest transferred will be held immediately thereafter through Euroclear or Clearstream.

Transfers involving exchanges of beneficial interests between the Regulation S Global Notes and the Rule 144A Global Notes will be effected by DTC by means of an instruction originated by the trustee through the DTC Deposit/Withdraw at Custodian system. Accordingly, in connection with any such transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note or vice versa, as applicable. Any beneficial interest in one of the Global Notes that is transferred to a Person who takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to be an interest in such Global Note and will become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for so long as it remains such an interest. The policies and practices of DTC may prohibit transfers of beneficial interests in the Regulation S Global Note prior to the expiration of the Restricted Period.

#### **Same Day Settlement and Payment**

The Company will make payments in respect of the Notes represented by the Global Notes (including principal, premium, if any, Additional Amounts, if any, interest) by wire transfer of immediately available funds to the accounts specified by DTC or its nominee. The Company will make all payments of principal, interest and premium, if any, and Additional Amounts, if any, and Liquidated Damages, if any, with respect to Certificated Notes by wire transfer of immediately available funds to the accounts specified by the holders of the Certificated Notes or, if no such account is specified, by mailing a check to each such holder's registered address. The Notes represented by the Global Notes are expected to be eligible to trade in The PORTAL Market<sup>®</sup> and to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. The Company expects that secondary trading in any Certificated Notes will also be settled in immediately available funds.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a Participant will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. DTC has advised the Company that cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a Participant will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

#### **Certain Definitions**

Set forth below are certain defined terms used in the indenture. Reference is made to the indenture for a full disclosure of all defined terms used therein, as well as any other capitalized terms used herein for which no definition is provided.

“*Acquired Debt*” means, with respect to any specified Person:

- (1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Restricted Subsidiary of, such specified Person; and
- (2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

“*Affiliate*” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, “control,” as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; *provided* that beneficial ownership of 10% or more of the Voting Stock of a Person will be deemed to be control. For purposes of this definition, the terms “controlling,” “controlled by” and “under common control with” have correlative meanings.

“*Asset Sale*” means:

- (1) the sale, lease, conveyance or other disposition of any assets or rights; *provided* that the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Company, KPM and its Subsidiaries taken as a whole and TNG and its Subsidiaries taken as a whole will be governed by the provisions of the indenture described above under the caption “—*Repurchase at the Option of Holders—Change of Control*” and/or the provisions described above under the caption “—*Certain Covenants—Merger, Consolidation or Sale of Assets*” and not by the provisions of the Asset Sale covenant; and
- (2) the sale of Equity Interests in any Subsidiary of any Guarantor.

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

- (1) any single transaction or series of related transactions that involves assets having a Fair Market Value of less than \$2.0 million;
- (2) a transfer of assets between or among the Company and the Guarantors;
- (3) the sale or lease of products, services or accounts receivable in the ordinary course of business and any sale or other disposition of damaged, worn-out or obsolete assets in the ordinary course of business;
- (4) the sale or other disposition of cash or Cash Equivalents;
- (5) a Restricted Payment that does not violate the covenant described above under the caption “—*Certain Covenants—Restricted Payments*” or a Permitted Investment;
- (6) the sale or transfer (whether or not in the ordinary course of business) of oil and gas properties or direct or indirect interests in real property, *provided* that at the time of such sale or transfer such properties do not have associated with them any proved reserves;
- (7) the abandonment, farm-out, lease or sublease of developed or undeveloped oil and gas properties in the ordinary course of business;
- (8) the trade or exchange by any of the Guarantors of any oil and gas property owned or held by such Guarantor for any oil and gas property owned or held by another Person; and
- (9) the sale or transfer of hydrocarbons or other mineral products in the ordinary course of business.

“*Asset Sale Offer*” has the meaning assigned to that term in the indenture governing the Notes.

“*Beneficial Owner*” has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular “person” (as that term is used in Section 13(d)(3) of the Exchange Act), such “person” will be deemed to have beneficial ownership of all securities that such “person” has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms “Beneficially Owns” and “Beneficially Owned” have a corresponding meaning.

“*Board of Directors*” means:

- (1) with respect to a corporation, the board of directors of the corporation or any committee thereof duly authorized to act on behalf of such board;
- (2) with respect to a partnership, the board of directors of the general partner of the partnership;
- (3) with respect to a limited liability company, the managing member or members or any controlling committee of managing members thereof; and
- (4) with respect to any other Person, the board or committee of such Person serving a similar function.

“*Capital Lease Obligation*” means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet prepared in accordance with IFRS, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

“*Capital Stock*” means:

- (1) in the case of a corporation, corporate stock;
- (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;
- (3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and
- (4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

“*Cash Equivalents*” means:

- (1) United States dollars;
- (2) securities issued or directly and fully guaranteed or insured by the United States government or any agency or instrumentality of the United States government (*provided* that the full faith and credit of the United States is pledged in support of those securities) having maturities of not more than six months from the date of acquisition;
- (3) certificates of deposit and eurodollar time deposits with maturities of six months or less from the date of acquisition, bankers’ acceptances with maturities not exceeding six months and overnight bank deposits, in each case, with any United States domestic commercial bank having capital and surplus in excess of \$500.0 million and a Thomson Bank Watch Rating of “B” or better;

- (4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above;
- (5) commercial paper having one of the two highest ratings obtainable from Moody's or S&P and, in each case, maturing within six months after the date of acquisition; and
- (6) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (5) of this definition.

*"Change of Control"* means the occurrence of any of the following:

- (1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company, KPM and its Subsidiaries taken as a whole or TNG and its Subsidiaries taken as a whole to any "person" (as that term is used in Section 13(d) of the Exchange Act) other than the Principal or a Related Party of the Principal;
- (2) the adoption of a plan relating to the liquidation or dissolution of the Company, KPM or TNG;
- (3) the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which Principal and Related Parties of the Principal, cease to Beneficially Own more than 50% of the Voting Stock of the Company, KPM or TNG, in each case measured by voting power rather than number of shares; or
- (4) the expiration or termination of the KPM Subsoil Use Contract or the TNG Subsoil Use Contract, or if either of these contracts ceases to be in full force or effect for any reason.

*"Change of Control Offer"* has the meaning assigned to that term in the indenture governing the Notes.

*"Collateral"* has the meaning assigned to it in the Pledge Agreement.

*"Combined Group"* means the Company and the Guarantors.

*"Combined Consolidated Cash Flow"* means, for any period, the aggregate Consolidated Cash Flow of the Company, KPM and TNG.

*"Combined Consolidated Net Income"* means, for any period, the aggregate Consolidated Net Income of the Company, KPM and TNG.

*"Combined Fixed Charges"* means, for any period, the aggregate Fixed Charges of the Company, KPM and TNG.

*"Consolidated Cash Flow"* means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period *plus*, without duplication:

- (1) an amount equal to any extraordinary loss plus any net loss realized by such Person or any of its Restricted Subsidiaries in connection with an Asset Sale, to the extent such losses were deducted in computing such Consolidated Net Income; *plus*
- (2) provision for taxes based on income or profits of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income, but excluding from the foregoing, excess profit taxes; *plus*
- (3) the Fixed Charges of such Person and its Restricted Subsidiaries for such period, to the extent that such Fixed Charges were deducted in computing such Consolidated Net Income; *plus*



- (4) depreciation, depletion, amortization (including amortization of intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) and other non-cash expenses (excluding any such non-cash expense to the extent that it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period) of such Person and its Restricted Subsidiaries for such period to the extent that such depreciation, depletion, amortization and other non-cash expenses were deducted in computing such Consolidated Net Income; *minus*
- (5) non-cash items increasing such Consolidated Net Income for such period, other than the accrual of revenue in the ordinary course of business; *minus*

in each case, on a consolidated basis and determined in accordance with IFRS.

Notwithstanding the preceding, the provision for taxes based on the income or profits of, and the depreciation and amortization and other non-cash expenses of, a Restricted Subsidiary of a Guarantor will be added to Consolidated Net Income to compute Consolidated Cash Flow of such Guarantor only to the extent that a corresponding amount would be permitted at the date of determination to be dividended to such Guarantor by such Restricted Subsidiary without prior governmental approval (that has not been obtained), and without direct or indirect restriction pursuant to the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to that Restricted Subsidiary or its stockholders.

“*Consolidated Net Income*” means, with respect to any specified Person for any period, the aggregate of the Net Income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with IFRS; *provided that*:

- (1) the Net Income (but not loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions paid in cash to the specified Person or a Restricted Subsidiary of the Person;
- (2) the Net Income of any Restricted Subsidiary will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that Net Income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders;
- (3) the cumulative effect of a change in accounting principles will be excluded; and
- (4) notwithstanding clause (1) above, the Net Income of any Unrestricted Subsidiary will be excluded, whether or not distributed to the specified Person or one of its Subsidiaries.

“*Default*” means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

“*Disqualified Stock*” means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case, at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the Notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require the issuer thereof to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale will not constitute Disqualified Stock if the terms of such Capital Stock provide that the issuer thereof may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption “—*Certain*

*Covenants—Restricted Payments.*” The amount of Disqualified Stock deemed to be outstanding at any time for purposes of the indenture will be the maximum amount that the applicable Person may become obligated to pay upon the maturity of, or pursuant to any mandatory redemption provisions of, such Disqualified Stock, exclusive of accrued dividends.

“*Dollar-Denominated Production Payment Obligations*” means production payment obligations recorded as liabilities in accordance with IFRS, together with all undertakings and obligations in connection therewith.

“*Equity Interests*” means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

“*Excess Cash Flow*” means, for any Relevant Fiscal Year, the following: the excess of (i) Combined Consolidated Cash Flow for such period over (ii) the sum of (A) capital expenditures made in cash during such period (other than any such capital expenditures made with issuance proceeds) by any of the Combined Group, (B) the aggregate principal amount of Indebtedness of any of the Combined Group that is repaid or prepaid during such period, (C) the cash portion of Fixed Charges paid by any of the Combined Group during such period, (D) the aggregate amount (without duplication) of all income and franchise taxes paid in cash and (E) any increase in working capital (excluding cash and cash equivalents) during such period (any decrease in working capital will be added to Combined Consolidated Cash Flow).

“*Existing Affiliate Transactions*” means Affiliate Transactions existing on the date of the indenture, in each case as in effect on the date of the indenture.

“*Existing Indebtedness*” means Indebtedness of the Company and the Guarantors outstanding on the date of the indenture as may be modified from time to time solely to extend the maturity.

“*Fair Market Value*” means the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving distress or necessity of either party, determined in good faith by the Board of Directors of the Company (unless otherwise provided in the indenture).

“*Fixed Charge Coverage Ratio*” means with respect to any specified Person for any period, the ratio of the Consolidated Cash Flow of such Person for such period to the Fixed Charges of such Person for such period. In the event that the specified Person or any of its Restricted Subsidiaries incurs, assumes, guarantees, repays, repurchases, redeems, defeases or otherwise discharges any Indebtedness (other than ordinary working capital borrowings) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the “*Calculation Date*”), then the Fixed Charge Coverage Ratio will be calculated giving pro forma effect to such incurrence, assumption, Guarantee, repayment, repurchase, redemption, defeasance or other discharge of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable four-quarter reference period.

In addition, for purposes of calculating the Fixed Charge Coverage Ratio:

- (1) acquisitions that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers or consolidations, or any Person or any of its Restricted Subsidiaries acquired by the specified Person or any of its Restricted Subsidiaries, and including any related financing transactions and including increases in ownership of Restricted Subsidiaries, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date will be given pro forma effect (in accordance with Regulation S-X under the Securities Act) as if they had occurred on the first day of the four-quarter reference period.

- (2) the Consolidated Cash Flow attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded;
- (3) the Fixed Charges attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date;
- (4) any Person that is a Restricted Subsidiary on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period;
- (5) any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period; and
- (6) if any Indebtedness bears a floating rate of interest, the interest expense on such Indebtedness will be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period (taking into account any Hedging Obligation applicable to such Indebtedness if such Hedging Obligation has a remaining term as at the Calculation Date in excess of 12 months).

“*Fixed Charges*” means, with respect to any specified Person for any period, the sum, without duplication, of:

- (1) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued, including, without limitation, amortization of debt issuance costs and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers’ acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations in respect of interest rates; *plus*
- (2) the consolidated interest expense of such Person and its Restricted Subsidiaries that was capitalized during such period; *plus*
- (3) any interest on Indebtedness of another Person that is guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries, whether or not such Guarantee or Lien is called upon; *plus*
- (4) the product of (a) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of such Person or any of its Restricted Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests of the Company or any of the Guarantors (other than Disqualified Stock) or to the Company or any of the Guarantors, *times* (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal, in each case, determined on a consolidated basis in accordance with IFRS.

“*Government Securities*” means direct obligations of, or obligations guaranteed by, the United States of America, and the payment for which the United States pledges its full faith and credit.

“*Guarantee*” means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise).

“*Guarantors*” means each of KPM, TNG and each Subsidiary Guarantor and their respective successors and assigns, in each case, until the Note Guarantee of such Person has been released in accordance with the provisions of the indenture.

“*Hedging Obligations*” means, with respect to any specified Person, the obligations of such Person under:

- (1) interest rate swap agreements (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements;
- (2) other agreements or arrangements designed to manage interest rates or interest rate risk; and
- (3) other agreements or arrangements designed to protect such Person against fluctuations in currency exchange rates or commodity prices.

“*IFRS*” means International Financial Reporting Standards.

“*Indebtedness*” means, with respect to any specified Person, any indebtedness of such Person (excluding accrued expenses and trade payables), whether or not contingent:

- (1) in respect of borrowed money;
- (2) evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);
- (3) in respect of banker’s acceptances;
- (4) representing Capital Lease Obligations or Attributable Debt in respect of sale and leaseback transactions;
- (5) representing the balance deferred and unpaid of the purchase price of any property or services due more than six months after such property is acquired or such services are completed;
- (6) representing any Hedging Obligations;
- (7) representing any Production Payment Obligations; or
- (8) in respect of Oil and Gas Hedging Contracts;

if and to the extent any of the preceding items (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with IFRS. In addition, the term “*Indebtedness*” includes all *Indebtedness* of others secured by a Lien on any asset of the specified Person (whether or not such *Indebtedness* is assumed by the specified Person) and, to the extent not otherwise included, the Guarantee by the specified Person of any *Indebtedness* of any other Person.

“*Independent Director*” means a member of the Company’s Board of Directors that (1) is not a legal or Beneficial Owner, directly or indirectly, of any Equity Interests of the Company or any of its Affiliates and does not have any other material, direct or indirect, financial interest in the Company or any of its Affiliates (2) is not a director, officer, employee, manager, contractor or partner of the Company or any of its Affiliates (other than in respect of his or her service as an Independent Director of the Company), (3) is not a customer, supplier or creditor of the Company or any of its Affiliates, (4) does not control, directly or indirectly, the Company, any of its Affiliates or any Person described in clauses (1), (2) or (3) above and (5) is not a parent, sibling or child of any Person in clauses (1), (2), (3) or (4) above.

“*Investments*” means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other obligations), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of *Indebtedness*, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with IFRS. If the Company, the Guarantors or their Subsidiaries sell or otherwise dispose

of any Equity Interests of any direct or indirect Subsidiary of the Company or a Guarantor such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary of the Company or such Guarantor, the Company or such Guarantor will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Company's or such Guarantor's Investments in such Subsidiary that were not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption "*—Certain Covenants—Restricted Payments.*" The acquisition by the Company, the Guarantors or their Subsidiaries of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Company, such Guarantor or such Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of the covenant described above under the caption "*—Certain Covenants—Restricted Payments.*" Except as otherwise provided in the indenture, the amount of an Investment will be determined at the time the Investment is made and without giving effect to subsequent changes in value.

"*KPM Subsoil Use Contract*" means the Contract for Exploration and Production of Hydrocarbons, as it relates to the Borankol field, dated March 30, 1999, and expiring on May 23, 2022, by and between the Kazakh State Agency on Investments and KPM, as in effect on the date of the Indenture.

"*Lien*" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction.

"*Moody's*" means Moody's Investors Service, Inc.

"*Net Income*" means, with respect to any specified Person, the net income (loss) of such Person, determined in accordance with IFRS and before any reduction in respect of preferred stock dividends, excluding, however:

- (1) any gain (but not loss), together with any related provision for taxes on such gain (but not loss), realized in connection with: (a) any Asset Sale; or (b) the disposition of any securities by such Person or any of its Restricted Subsidiaries or the extinguishment of any Indebtedness of such Person or any of its Restricted Subsidiaries; and
- (2) any extraordinary gain (but not loss), together with any related provision for taxes on such extraordinary gain (but not loss).

"*Net Proceeds*" means the aggregate cash proceeds received by the Company or any of the Guarantors in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of the direct costs relating to such Asset Sale, including, without limitation, legal, accounting and investment banking fees, and sales commissions, and any relocation expenses incurred as a result of the Asset Sale, taxes paid or payable as a result of the Asset Sale, in each case, after taking into account any available tax credits or deductions and any tax sharing arrangements, and amounts required to be applied to the repayment of Indebtedness, other than Senior Debt secured by a Lien on the asset or assets that were the subject of such Asset Sale and any reserve for adjustment in respect of the sale price of such asset or assets established in accordance with IFRS.

"*Non-Recourse Debt*" means Indebtedness:

- (1) as to which neither the Company nor any of the Guarantors (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (b) is directly or indirectly liable as a guarantor or otherwise, or (c) constitutes the lender;

- (2) no default with respect to which (including any rights that the holders of the Indebtedness may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness of the Company or any of the Guarantors to declare a default on such other Indebtedness or cause the payment of the Indebtedness to be accelerated or payable prior to its Stated Maturity; and
- (3) as to which the lenders have been notified in writing that they will not have any recourse to the stock or assets of the Company or any of the Guarantors.

“*Note Documents*” means the indenture, the Notes, the Note Guarantees and the Pledge Agreements.

“*Note Guarantee*” means the Guarantee by each Guarantor of the Company’s obligations under the indenture and the Notes, executed pursuant to the provisions of the indenture.

“*Obligations*” means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

“*Officers’ Certificate*” has the meaning assigned to that term in the indenture governing the Notes.

“*Oil and Gas Business*” means (i) the acquisition, exploration, development, operation and disposition of interests in oil, gas and other hydrocarbon properties, (ii) the gathering, marketing, treating, processing, storage, selling and transporting of any production from such interests or properties, (iii) any business relating to exploration for or development, production, treatment, processing, storage, transportation or marketing of oil, gas and other minerals and products produced in association therewith and (iv) any activity that is ancillary to or necessary or appropriate for the activities described in clauses (i) through (iii) of this definition.

“*Oil and Gas Business Investments*” means investments made in the ordinary course of, and of a nature that is or shall have become customary in, the Oil and Gas Business as a means of actively exploiting, exploring for, acquiring, developing, processing, gathering, marketing or transporting oil and gas through agreements, transactions, interests or arrangements which permit one to share risks or costs, comply with regulatory requirements regarding local ownership or satisfy other objectives customarily achieved through the conduct of Oil and Gas Business jointly with third parties, including, without limitation, (i) ownership interests in oil and gas properties or gathering systems and (ii) Investments in the form of or pursuant to operating agreements, processing agreements, farm-in agreements, farm-out agreements, developments agreements, area of mutual interest agreements, unitization agreements, pooling agreements, joint bidding agreements, service contracts, joint venture agreements, partnership agreements (whether general or limited), subscription agreements, stock purchase agreements and other similar agreements with third parties.

“*Oil and Gas Hedging Contracts*” means any oil and gas purchase or hedging agreement, and other agreements or arrangements designed to provide protection against oil and gas price fluctuations.

“*Permitted Investments*” means:

- (1) any Investment in the Company or any of the Guarantors;
- (2) any Investment in Cash Equivalents;
- (3) any Investment by the Company or any of the Guarantors in a Person, if as a result of such Investment:
  - (a) such Person becomes a Restricted Subsidiary and a Guarantor; or
  - (b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, a Guarantor;

- (4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption “—Repurchase at the Option of Holders—Asset Sales;”
- (5) any acquisition of assets or Capital Stock solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of the Company, KPM or TNG;
- (6) any Investments received in compromise or resolution of (A) obligations of trade creditors or customers that were incurred in the ordinary course of business of any of the Guarantors, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (B) litigation, arbitration or other disputes with Persons who are not Affiliates;
- (7) Investments outstanding on the date of the indenture;
- (8) Investments represented by Hedging Obligations and Oil and Gas Hedging Contracts;
- (9) loans or advances to employees made in the ordinary course of business of the Guarantors in an aggregate principal amount not to exceed \$1.0 million at any one time outstanding;
- (10) repurchases of the Notes;
- (11) Oil and Gas Business Investments; and
- (12) other Investments in any Person other than an Affiliate of the Company or a Guarantor having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (12) that are at the time outstanding not to exceed \$3.0 million.

“Permitted Liens” means:

- (1) Liens held by the Collateral Agent securing Notes and the Note Guarantees;
- (2) Liens in favor of the Company or the Guarantors;
- (3) Liens on property of a Person existing at the time such Person is merged with or into or consolidated with any of the Guarantors; *provided* that such Liens were in existence prior to the contemplation of such merger or consolidation and do not extend to any assets other than those of the Person merged into or consolidated with such Guarantor;
- (4) Liens on property (including Capital Stock) existing at the time of acquisition of the property by any of the Guarantors; *provided* that such Liens were in existence prior to, such acquisition, and not incurred in contemplation of, such acquisition;
- (5) Liens to secure the performance of statutory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature incurred in the ordinary course of business;
- (6) Liens to secure Indebtedness (including Capital Lease Obligations) permitted by clause (3) of the second paragraph of the covenant entitled “—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock” covering only the assets acquired with or financed by such Indebtedness;
- (7) Liens existing on the date of the indenture;
- (8) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; *provided* that any reserve or other appropriate provision as is required in conformity with IFRS has been made therefor;
- (9) Liens imposed by law, such as carriers’, warehousemen’s, landlord’s and mechanics’ Liens, in each case, incurred in the ordinary course of business;

- (10) survey exceptions, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property that were not incurred in connection with Indebtedness and that do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;
- (11) Liens to secure any Permitted Refinancing Indebtedness permitted to be incurred under the indenture; *provided, however, that:*
  - (a) the new Lien shall be limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to, such property or proceeds or distributions thereof); and
  - (b) the Indebtedness secured by the new Lien is not increased to any amount greater than the sum of (x) the outstanding principal amount, or, if greater, committed amount, of the Permitted Refinancing Indebtedness and (y) an amount necessary to pay any fees and expenses, including premiums, related to such renewal, refunding, refinancing, replacement, defeasance or discharge;
- (12) Liens in pipeline or pipeline facilities that arise under operation of law;
- (13) Liens arising under operating agreements, joint venture agreements, partnership agreements, oil and gas leases, farm-out agreements, division orders, contracts for the sale transportation or exchange of oil or natural gas, unitization and pooling declarations and agreements, area of mutual interest agreements and other agreements that are customary in the Oil and Gas Business;
- (14) Liens reserved in oil and gas mineral leases for bonus or rental payments and for compliance with the terms of such leases; and
- (15) Liens incurred in the ordinary course of business of the Company, the Guarantors or any of their Subsidiaries with respect to obligations that do not exceed \$2.0 million at any one time outstanding.

“*Permitted Refinancing Indebtedness*” means any Indebtedness of the Company or any of the Guarantors issued in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge other Indebtedness of the Company or any of the Guarantors (other than Indebtedness between or among the Company and the Guarantors); *provided that:*

- (1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness renewed, refunded, refinanced, replaced, defeased or discharged (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith);
- (2) such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged;
- (3) if the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged is subordinated in right of payment to the Notes, such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and is subordinated in right of payment to, the Notes on terms at least as favorable to the holders of Notes as those contained in the documentation governing the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged; and
- (4) such Indebtedness is incurred either by the Company or the Guarantor who is the obligor on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged.

“*Person*” means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.



“*Pledge Agreements*” means the Pledge Agreements dated as of the date of the Indenture, by and among the Company, KPM, TNG, the holders of the outstanding Capital Stock of the Company, KPM and TNG and the trustee, as such agreements may be amended modified or supplemented from time to time.

“*Principal*” means Mr. Anatol Stati.

“*Production Payment Obligations*” means Dollar-Denominated Production Payment Obligations and Volumetric Production Payment Obligations, collectively.

“*Related Party*” means:

- (1) any immediate family member of the Principal; or
- (2) any trust, corporation, partnership, limited liability company or other entity, the beneficiaries, stockholders, partners, members, owners or Persons beneficially holding an 80% or more controlling interest of which consist of the Principal and/or such other Persons referred to in the immediately preceding clause (1).

“*Restricted Investment*” means an Investment other than a Permitted Investment.

“*Restricted Subsidiary*” of a Person means any Subsidiary of the referent Person that is not an Unrestricted Subsidiary.

“*S&P*” means Standard & Poor’s Ratings Group.

“*Significant Subsidiary*” means any Subsidiary that would be a “significant subsidiary” as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date of the indenture.

“*Stated Maturity*” means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the documentation governing such Indebtedness as of the date of the indenture, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

“*Subsidiary*” means, with respect to any specified Person:

- (1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders’ agreement that effectively transfers voting power) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and
- (2) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are that Person or one or more Subsidiaries of that Person (or any combination thereof).

“*Subsidiary Guarantor*” means any Subsidiary of KPM or TNG that executes a Note Guarantee in accordance with the provisions of the indenture.

“*TNG Subsoil Use Contract*” means the Contract for Exploration and Production of Hydrocarbons, as it relates to the Tolkyin field, dated August 12, 1998, and expiring on December 4, 2018, by and between the Kazakh State Agency on Investments and TNG, as in effect on the date of the Indenture.

“*Treasury Rate*” means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to July 1, 2009; *provided, however*, that if the period from the redemption date to July 1, 2009, is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

“*Unrestricted Subsidiary*” means any Subsidiary of KPM or TNG that is designated by the Board of Directors of KPM or TNG as an Unrestricted Subsidiary pursuant to a resolution of its Board of Directors, but only to the extent that such Subsidiary:

(1) has no Indebtedness other than Non-Recourse Debt;

(2) except as permitted by the covenant described above under the caption “—*Certain Covenants—Transactions with Affiliates*,” is not party to any agreement, contract, arrangement or understanding with the Company, KPM, TNG or any Restricted Subsidiary unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to the Company, KPM, TNG or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Company, KPM, TNG;

(3) is a Person with respect to which none of the Company, KPM, TNG or any of their Restricted Subsidiaries has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person’s financial condition or to cause such Person to achieve any specified levels of operating results; and

(4) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of the Company, KPM, TNG or any of their Restricted Subsidiaries.

“*Volumetric Production Payment Obligations*” means production payment obligations recorded as deferred revenue in accordance with IFRS, together with all undertakings and obligations in connection therewith.

“*Voting Stock*” of any specified Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

“*Weighted Average Life to Maturity*” means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

- (1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by
- (2) the then outstanding principal amount of such Indebtedness.

“*Wholly-Owned Restricted Subsidiary*” of any specified Person means a Subsidiary of such Person all of the outstanding Capital Stock or other ownership interests of which (other than directors’ qualifying shares) will at the time be owned by such Person or by one or more Wholly-Owned Restricted Subsidiaries of such Person.

## UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a description of the principal U.S. federal income tax consequences that may be relevant with respect to the acquisition, ownership and retirement of Notes by a holder thereof. This description only applies to Notes held as capital assets and does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as:

- financial institutions;
- insurance companies;
- real estate investment trusts;
- regulated investment companies;
- certain former citizens and long-term residents of the United States;
- grantor trusts;
- holders that have a functional currency other than the U.S. dollar;
- tax-exempt organizations;
- dealers or traders in securities or foreign currencies; or
- holders that will hold a Note as part of a straddle, a hedging, conversion or other integrated transaction for U.S. federal income tax purposes.

Moreover, this description does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership or retirement of the Notes and does not address the U.S. federal income tax treatment of holders that do not hold Notes as capital assets or acquire Notes as part of the initial distribution at their issue price, which will equal the first price to the public (not acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money. Each prospective purchaser should consult its tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding and disposing of Notes.

This description is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), existing and proposed U.S. Treasury Regulations, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing is subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein.

For purposes of this description, a U.S. Holder is a beneficial owner of Notes who for U.S. federal income tax purposes is:

- a citizen or resident of the United States;
- a corporation or partnership organized in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust (1) that validly elects to be treated as a U.S. person for U.S. federal income tax purposes or (2)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more U.S. persons have the authority to control.

A Non-U.S. Holder is a beneficial owner of Notes other than a U.S. Holder.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor as to the consequences of holding Notes.

## Internal Revenue Service Circular 230 Disclosure

**Pursuant to Internal Revenue Service Circular 230, we hereby inform you that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. Such description was written to support the marketing of the Notes. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.**

### Interest

It is expected and this discussion assumes that the issue price of the Notes will equal the stated principal amount of the Notes. Therefore, if you are a U.S. Holder, interest paid to you on a Note, including any Additional Amounts with respect thereto as described under "*Description of Notes—Additional Amounts*," will be includible in your gross income as ordinary interest income at the time it accrues or is received, in accordance with your usual method of tax accounting. In addition, interest on the Notes will be treated as foreign source income for your U.S. federal income tax purposes. For U.S. foreign tax credit limitation purposes, interest on the Notes generally will constitute passive income, or, in the case of certain U.S. Holders, financial services income, and will constitute "high withholding tax interest" if the interest is subject to withholding at a rate of 5% or more. U.S. Holders should note, however, that the "financial services income" and "high withholding tax interest" categories will be eliminated for taxable years beginning after December 31, 2006. Thereafter, the foreign tax credit limitation categories will be limited to "passive category income" and "general category income."

We may redeem all or part of the Notes at any time after July 1, 2009 by, in some cases, paying a specified premium (see "*Description of Notes—Optional Redemption*"). U.S. Treasury Regulations regarding Notes issued with original issue discount ("OID") contain special rules for determining the maturity date and the stated redemption price at maturity of a debt instrument where the issuer of such debt instrument has an unconditional option to make payments under such debt instrument under an alternative payment schedule. Under such rules, it is assumed that the issuer of such debt instrument will exercise an option to redeem a debt instrument if such exercise will lower the yield to maturity of such debt instrument. Since the terms of our option to redeem the Notes after July 1, 2009 by, in some case, paying a specified premium would not lower the yield to maturity of the Notes, this discussion of tax consequences disregards this optional redemption provision in determining the amount or timing of any OID inclusions thereon.

We may also redeem up to 35% of the Notes on or before July 1, 2009, at a premium with the proceeds of an initial public offering of Tristan Oil, KPM or TNG (see "*Description of Notes—Optional Redemption*"). Under the U.S. Treasury Regulations regarding Notes issued with OID, if based on all the facts and circumstances as of the date on which the Notes are issued there is a remote likelihood that a contingent redemption option will be exercised, it is assumed that such redemption will not occur. We believe that as of the expected issue date of the Notes, the likelihood of our rights to redeem up to 35% of the Notes on or before July 1, 2009 with the proceeds of one or more equity offerings being exercised is for this purpose remote. Similarly, with respect to your option to require us to redeem the Notes in the event of a Change of Control (see "*Description of Notes—Repurchase at the Option of Holders—Change of Control*"), we believe that as of the expected issue date of the Notes, the likelihood of such events is for this purpose remote. In each case, our determination is not binding on the U.S. Internal Revenue Service, or the IRS, and if the IRS were to challenge this determination, you may be required to accrue income on Notes that you own in excess of stated interest, and to treat as ordinary income rather than capital gain any income realized on the taxable disposition of Notes before the resolution of the contingency. In the event that any of these contingencies were to occur, it would affect the amount and timing of the income that you recognize.

Subject to the discussion below under the caption "*—U.S. Backup Withholding Tax and Information Reporting*," if you are a Non-U.S. Holder, payments to you of interest on a Note generally will not be subject to U.S. federal income tax unless the income is effectively connected with your conduct of a trade or business in the United States.

## **Sale, Exchange or Retirement**

If you are a U.S. Holder, upon the sale, exchange or retirement of a Note you will recognize taxable gain or loss equal to the difference, if any, between the amount realized on the sale, exchange or retirement, other than accrued but unpaid interest which will be taxable as such, and your adjusted tax basis in the Note. Your adjusted tax basis in a Note generally will equal the cost of the Note to you, and any such gain or loss will be capital gain or loss. If you are a non-corporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to the gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income (other than certain dividends) if your holding period for the Notes exceeds one year (*i.e.*, such gain is long-term capital gain). Any gain or loss realized on the sale, exchange or retirement of a Note by a U.S. Holder generally will be treated as U.S. source gain or loss, as the case may be. The deductibility of capital losses is subject to limitations.

Subject to the discussion below under the caption “—*U.S. Backup Withholding Tax and Information Reporting*,” if you are a Non-U.S. Holder, any gain realized by you upon the sale, exchange or retirement of a Note generally will not be subject to U.S. federal income tax, unless:

- the gain is effectively connected with your conduct of a trade or business in the United States; or
- if you are an individual Non-U.S. Holder, you are present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met.

## **U.S. Backup Withholding Tax and Information Reporting**

A backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation and to proceeds of the sale or redemption of an obligation, to certain non-corporate holders of Notes that are U.S. persons. The payor will be required to withhold backup withholding tax on payments made within the United States, or by a U.S. payor or U.S. middleman, on a Note to a holder of a Note that is a U.S. person, other than an exempt recipient, such as a corporation, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States, or by a U.S. payor or U.S. middleman, of principal and interest to a holder of a Note that is not a U.S. person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect. The backup withholding tax rate is 28% for taxable years through 2010.

In the case of payments to a foreign simple trust, a foreign grantor trust or a foreign partnership, other than payments to a foreign simple trust, a foreign grantor trust or foreign partnership that qualifies as a withholding foreign trust or a withholding foreign partnership within the meaning of the applicable U.S. Treasury Regulations and payments to a foreign simple trust, a foreign grantor trust or a foreign partnership that are effectively connected with the conduct of a trade or business in the United States, the beneficiaries of the foreign simple trust, the persons treated as the owners of the foreign grantor trust or the partners of the foreign partnership, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from backup withholding tax and information reporting requirements. Moreover, a payor may rely on a certification provided by a payee that is not a U.S. person only if the payor does not have actual knowledge or a reason to know that any information or certification stated in the certificate is incorrect.

**The above description is not intended to constitute a complete analysis of all tax consequences relating to the ownership of Notes. Prospective purchasers of Notes should consult their own tax advisors concerning the tax consequences of their particular situations.**

## KAZAKHSTAN TAXATION CONSIDERATIONS

*The following is a general summary of Kazakhstan tax consequences as at the date hereof in relation to payments made under the Notes and in relation to the sale or transfer of Notes. It is not exhaustive and purchasers are urged to consult their professional advisors as to the tax consequences to them of holding or transferring Notes.*

Under the current laws of Kazakhstan, payments of principal and interest on the Notes to a non-Kazakhstan resident individual, or to a legal entity that (i) is not established in accordance with the laws of Kazakhstan, (ii) does not have its place of actual management in Kazakhstan, (iii) does not maintain a permanent establishment in Kazakhstan, or (iv) otherwise has no taxable presence in Kazakhstan (together, “Non-Kazakhstan Holders”), will not be subject to taxation in Kazakhstan, and no withholding of any Kazakh tax will be required on any such payments. In addition, gains realized by Non-Kazakhstan Holders from the disposal, sale, exchange or transfer of Notes will not be subject to Kazakh income or profits tax.

Payments of interest from the guarantors to the Company to fund the Company’s obligations to make payments under the Notes will be subject to withholding tax at a rate of 15% under the Tax Code of the Republic of Kazakhstan. Under the loan agreements to be entered into between the guarantors and the Company in relation to this offering, the guarantors will agree to pay the cost of such withholding.

Payments of interest under the guarantees provided to the Company by KPM and TNG (the “Guarantee”) will be subject to tax withholding at a rate of 15% to 20%, and payment of fees and commissions will be subject to withholding tax at a rate of 20%, unless reduced or exempt by an applicable double taxation treaty. Under the loan agreements to be entered into between the guarantors and the Company, the guarantors will agree to pay the cost of the withholding, subject to certain exceptions set out in the loan agreements. Payments, if any, pursuant to the guarantee to a holder of the Notes may be subject to a reduced rate of withholding tax. For example, holders of the Notes entitled to the benefits of the Kazakhstan Tax Treaty with the United States would be entitled to a reduced rate of withholding tax of 10%.

The sale of the pledged capital stock of either of the guarantors is considered capital gains and is generally subject to 20% taxation. However, the capital gains from the sale of a participating interest in a Kazakhstan limited liability partnership is not subject to Kazakhstan withholding tax if the transaction is between two non-resident companies which do not have a permanent establishment in Kazakhstan. If the Trustee sells the pledged capital stock of the guarantors and/or future Kazakh subsidiaries is located in a jurisdiction that has a double taxation treaty with Kazakhstan, then capital gains from the sale of shares of a company are generally exempt from Kazakhstan tax.

## LUXEMBOURG TAX CONSIDERATIONS

*This is a general summary and the tax consequences as described here may not apply to a holder of Notes. Any potential investor should consult his own tax adviser for more information about the tax consequences of acquiring, owning and disposing of Notes in his particular circumstances.*

This taxation summary solely addresses the principal Luxembourg tax consequences of the acquisition, the ownership and disposition of Notes to be issued by the Company. Where in this summary English terms and expressions are used to refer to Luxembourg concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Luxembourg concepts under Luxembourg tax law. It does not discuss every aspect of taxation that may be relevant to a particular holder of Notes under special circumstances or who is subject to special treatment under applicable law.

This summary is based on the tax laws of Luxembourg as they are in force and in effect on the date of this Offering Circular. The laws upon which this summary is based are subject to change, perhaps with retroactive effect. A change to such laws may invalidate the contents of this summary, which will not be updated to reflect any such changes in laws. This summary assumes that each transaction with respect to Notes is at arm's length.

This summary only applies to a holder of Notes who is neither resident nor deemed to be resident in Luxembourg for tax purposes (a "Non-Resident holder of Notes").

### **Withholding tax**

Luxembourg implemented the Directive of the Council of the European Union regarding the taxation of savings income (Council Directive 2003/48/EC of 3 June 2003) in its domestic legislation. In case interest payments on the Notes are made or secured by paying agents located in Luxembourg for the immediate benefit of beneficial owners, who are resident in an EU Member State, other than Luxembourg or in one of the territories dependent or associated with an EU Member State, and being either (i) individuals or (ii) certain "residual entities" (generally entities other than legal entities, UCITs and entities taxed as enterprises), such paying agent must withhold a withholding tax at a rate of 15%. This rate is increased to 20% as of 1 July 2008 and to 35% as of 1 July 2011. Such beneficial owners and residual entities can avoid such withholding by either authorizing the relevant paying agent to exchange information regarding the interest payment to the relevant tax authorities or providing it with a certificate issued by the latter.

No other Luxembourg withholding taxes are applicable on payments under the Notes.

### **Taxes on income, capital gains, and wealth**

A Non-Resident holder of Notes will not be subject to any Luxembourg taxes on income or capital gains in respect of any benefit derived or deemed to be derived from Notes, including any payment under Notes and any gain realized on the disposal of Notes, provided that the holding of Notes is not effectively connected to a permanent establishment in Luxembourg through which the holder carries on a business or trade in Luxembourg. Such Non-Resident holders of Notes will not be subject to any Luxembourg net wealth tax with regard to the Notes either.

### **Luxembourg gift and inheritance taxes**

Inheritance tax is levied in Luxembourg at progressive rates (depending on the value of the assets inherited and the degree of relationship). No Luxembourg inheritance tax will be due in respect of the Notes unless the holder of Notes resides in Luxembourg at the time of his decease. No gift tax is due upon the donation of Notes unless such donation is registered in Luxembourg (which is generally not required).

## PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in our Purchase Agreement dated December 13, 2006 with Jefferies & Company, Inc., as the initial purchaser, we will sell to the initial purchaser, and the initial purchaser has agreed to purchase from us, the entire principal amount of the Notes.

The Purchase Agreement provides that the obligations of the initial purchaser are subject to certain conditions precedent and the initial purchaser is committed to take and pay for all of the Notes if any are purchased. We and the guarantors have agreed to indemnify the initial purchaser against certain liabilities in connection with this offering, including liabilities under the Securities Act, and to contribute to payments that the initial purchaser may be required to make arising out of such liabilities.

The initial purchaser will purchase the Notes at a customary discount from the price indicated on the cover of this offering circular and it proposes to offer the Notes for resale at the offering price that appears on the cover of this offering circular in transactions not requiring registration under the Securities Act. After the initial offering, the initial purchaser may change the offering price and any other selling terms. Each purchaser of the Notes will, by its purchase of the Notes, be deemed to have made certain acknowledgments, representations and agreements as set forth under “*Notice to Investors*”. The price at which the Notes are being offered may be changed at any time without notice.

In the Purchase Agreement, the initial purchaser will agree that it will sell the Notes only:

- to non-U.S. persons (as defined in Regulation S (“Regulation S”) under the Securities Act of 1933, as amended (the “Securities Act”) in offshore transactions (as defined in Regulation S) in reliance on Regulation S; and
- within the United States or to, or for the account or benefit of, U.S. Persons, in reliance on Rule 144A under the Securities Act (“Rule 144A”) to persons who are both (a) qualified institutional buyers (as defined in Rule 144A) and (b) qualified purchasers (for the purposes of Section 3(c)(7) of the Investment Company Act of 1940, as amended (the “Investment Company Act”)).

We have not authorized the Notes to be offered to the public in the United Kingdom, within the meaning of the Public Offers of Securities Regulations 1995, as amended, and this offering circular may not be passed on to any person in the United Kingdom unless that person is of a kind described in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 or is a person to whom the document may otherwise lawfully be issued or passed to. The offering circular is only directed at persons having professional experience in matters relating to investments and the offering described in the offering circular is only available to such persons and only such persons will be permitted to participate in the offering. Persons who do not have professional experience in matters relating to investments should not rely on the offering circular. All applicable provisions of the Financial Services and Markets Act 2000, as amended, must be complied with in respect of anything done in relation to the Notes in, from or otherwise involving the United Kingdom.

The Notes have not been registered under the Securities Act or qualified for sale under the securities laws of any state or any jurisdiction outside the United States. In addition, we will not be registered under the Investment Company Act. Accordingly, the Notes are subject to restrictions on resale and transfer as described under “*Notice to Investors*”. The Notes are a new issue of securities, and there is currently no established trading market for the Notes. The initial purchaser has advised us that, following the completion of this offering, it intends to make a market in the Notes, as permitted by applicable laws and regulations. However, the initial purchaser is not obligated to do so and it may discontinue any market making in the Notes at any time in its sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the prices that you receive when you sell will be favorable.

It is expected that delivery of the Notes will be made against payment therefor on or about the date specified in the last paragraph of the cover page of this offering circular, which is the fifth business day following



the date hereof. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle within three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date hereof and on the succeeding four business days thereafter will be required, by virtue of the fact that the Notes will settle in five business days, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next succeeding four business days should consult their own advisor.

In connection with the offering of the Notes, the initial purchaser may engage in overallotment, stabilizing transactions and syndicate covering transactions. Overallotment involves sales in excess of the offering size, which creates a short position for the initial purchaser. Stabilizing transactions involve bids to purchase the Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Notes. Syndicate covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions and syndicate-covering transactions may cause the price of the Notes to be higher than it would otherwise be in the absence of those transactions. The initial purchaser is not required to engage in stabilizing or syndicate covering transactions, and it may discontinue these activities at any time. Neither we nor the initial purchaser make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes.

The initial purchaser and its affiliates from time to time have provided in the past and may provide in the future other investment banking and financial advisory services to us and our affiliates in the ordinary course of business. The initial purchaser and its affiliates, as applicable, have received or will receive customary compensation in connection with such services.

## NOTICE TO INVESTORS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of the Notes.

Each person who becomes a beneficial owner of Notes will be deemed to have acknowledged, represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

(i) With respect to Notes offered and sold within the United States or to, or for the account of or benefit of, U.S. Persons, in reliance on Rule 144A under the Securities Act (the "Rule 144A Notes"), the beneficial owner (1) is a Qualified Institutional Buyer and is aware that the sale of the Notes to it is being made in reliance on the exemption from the registration requirements under the Securities Act provided by Rule 144A under the Securities Act and (2) is acquiring the Notes or any beneficial interest therein for its own account or for one or more accounts, each of which is a Qualified Institutional Buyer, and as to each of which the beneficial owner exercises sole investment discretion, and in a principal amount of not less than the Applicable Minimum Amount, as applicable, in each case for the beneficial owner and for each such account. The beneficial owner has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, as applicable, and the beneficial owner, and any accounts for which it is acting are each able to bear the economic risk of its investment.

(ii) With respect to Rule 144A Notes, such beneficial owner is a Qualified Purchaser, such beneficial owner is acquiring such Rule 144A Notes as principal for its own account for investment and not for sale in connection with any distribution thereof, such beneficial owner was not formed for the specific purpose of investing in such Rule 144A Notes or any other securities of the Issuer, and additional capital or similar contributions were not specifically solicited from any person owning a beneficial interest in such beneficial owner for the purpose of enabling such beneficial owner to purchase any Rule 144A Notes. Such beneficial owner is not a (i) corporation, (ii) partnership, (iii) common trust fund or (iv) special trust, pension, profit sharing or other retirement trust fund or plan in which the shareholders, equity owners, partners, beneficiaries, beneficial owners or participants, as applicable, may designate the particular investments to be made or the allocation of any investment among such shareholders, equity owners, partners, beneficiaries, beneficial owners or participants, and such beneficial owner represents and agrees that it shall not hold such Rule 144A Notes for the benefit of any other person and shall be the sole beneficial owner thereof for all purposes and that it shall not sell participation interests in such Rule 144A Notes or enter into any other arrangement pursuant to which any other person shall be entitled to a beneficial interest in the distributions on such Rule 144A Notes and further that such Rule 144A Notes purchased directly or indirectly by it constitute an investment of no more than 40.0% of such beneficial owner's assets after giving effect to its purchase of Rule 144A Notes and/or other securities of the Issuer. Such beneficial owner is not an investment company that relies on the exclusion from the definition of "investment company" provided by Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act (or a foreign investment company under Section 7(d) thereof relying on Section 3(c)(1) or 3(c)(7) with respect to its holders that are U.S. Persons), which was formed on or before April 30, 1996, unless it has received the consent of its beneficial owners who acquired their interests on or before April 30, 1996, with respect to its treatment as a Qualified Purchaser in the manner required by Section 2(a)(51)(C) of the Investment Company Act and the rules and regulations thereunder. Such beneficial owner understands and agrees that any purported transfer of such Rule 144A Notes to a purchaser (including, without limitation, the transfer of Rule 144A Notes to such beneficial owner) that does not comply with the requirements of this paragraph or clause (i) of paragraph (i) above shall be null and void ab initio.

(iii) Such beneficial owner understands that such Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, such Notes have not been and will not be registered under the Securities Act, and, if in the future such

beneficial owner decides to offer, resell, pledge or otherwise transfer such Notes, such Notes may be offered, resold, pledged or otherwise transferred only in accordance with the provisions of the Indenture and the legend on such Notes. Such beneficial owner acknowledges that no representation has been made as to the availability of any exemption under the Securities Act or any state securities laws for resale of such Notes. Such beneficial owner understands that the Issuer has not been registered under the Investment Company Act, and that the Issuer is relying on Section 3(c)(7) of the Investment Company Act for its exemption from registration thereunder and that no representation has been made as to the availability of such exemption.

(iv) The beneficial owner is not purchasing any Notes or any beneficial interest therein with a view to the resale, distribution or other disposition thereof in violation of the Securities Act. The beneficial owner understands that an investment in the Notes involves certain risks, including the risk of loss of its entire investment in the Notes under certain circumstances. The beneficial owner has had access to such financial and other information concerning the Issuer and the Notes, as applicable, as it deemed necessary or appropriate in order to make an informed investment decision with respect to its purchase of the Notes or any beneficial interest therein, including an opportunity to ask questions of and request information from the Issuers.

(v) In connection with the purchase of such Notes: (A) none of the Issuer, the initial purchaser or any of their respective Affiliates is acting as a fiduciary or financial or investment advisor for such beneficial owner; (B) such beneficial owner is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Issuer, the initial purchaser or any of their respective Affiliates other than, solely in the case of the Issuer, any statements in the final offering memorandum for such Notes, and such beneficial owner has read and understands such final offering memorandum; (C) such beneficial owner has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisors to the extent it has deemed necessary and has made its own investment decisions (including decisions regarding the suitability of any transaction pursuant to the Indenture) based upon its own judgment and upon any advice from such advisors as it has deemed necessary and not upon any view expressed by the Issuers, the initial purchaser or any of their respective Affiliates; (D) such beneficial owner has determined that the rates, prices or amounts and other terms of the purchase and sale of the Notes or any beneficial interest therein reflect those in the relevant market for similar transactions; (E) the beneficial owner is purchasing the Notes or any beneficial interest therein with a full understanding of all of the terms, conditions and risks thereof (economic or otherwise), and it is capable of assuming and willing to assume (financially and otherwise) those risks.

(vi) The beneficial owner understands that the Notes offered to Qualified Institutional Buyers in reliance on the exemption from the registration requirements under the Securities Act provided by Rule 144A, (1) will bear the legend set forth below, as applicable, unless the Issuers determine otherwise in accordance with applicable law, (2) will be represented by one or more Rule 144A Global Notes, and (3) may not at any time be held by or on behalf of U.S. Persons that are not Qualified Institutional Buyers and Qualified Purchasers. Before any interest in a Rule 144A Note may be offered, resold, pledged or otherwise transferred to a Person who takes delivery in the form of an interest in notes sold to non-U.S. Persons (as defined in Regulation S) in offshore transactions (“Regulation S Notes”), the transferor will be required to provide the Trustee with a transfer certificate (in a form required by the Indenture) as to compliance with the transfer restrictions.

(vii) Such beneficial owner will provide notice to each person to whom it proposes to transfer any interest in the Notes of the transfer restrictions and representations set forth in the Indenture.

(viii) The beneficial owner understands that the Indenture permits the Issuer to require any holder of the Notes or any beneficial interest therein who is a U.S. Person and who is determined not to have been a Qualified Institutional Buyer and a Qualified Purchaser at the time of acquisition of the Notes or any beneficial interest therein to sell such interest, or to sell such interest on behalf of such

holder, to a person that is a Qualified Institutional Buyer and a Qualified Purchaser in a transaction meeting the requirements of Rule 144A or in an Offshore Transaction to a person that is a non-U.S. Person in a transaction meeting the requirements of Regulation S.

(ix) The beneficial owner acknowledges that no action was taken or is being contemplated by the Issuers that would permit a public offering of the Notes or possession or distribution of the offering circular with respect thereto or any amendment thereof or supplement thereto or any other offering material relating to the Notes in any jurisdiction where, or in any circumstances in which, action for those purposes is required. Nothing contained in the offering circular relating to the Notes shall constitute an offer to sell or a solicitation of an offer to purchase such Notes in any jurisdiction where it is unlawful to do so absent the taking of such availability of an exemption therefrom.

(x) The beneficial owner will not, at any time, offer to buy or offer to sell the Notes or any beneficial interest therein by any form of general solicitation or advertising, including, but not limited to, any advertisement, article, notice or other communication published in any newspaper, magazine, or similar medium or broadcast over television or radio or seminar or meeting whose attendees have been invited by general solicitations or advertising.

(xi) On each day from the date on which such beneficial owner acquires its interest in such Note through and including the date on which such beneficial owner disposes of its interest in such Note (I) either (A) it is not, and is not acting on behalf of (and for so long as it holds the Notes or any interest therein will not be, and will not be acting on behalf of), an employee benefit plan or other plan subject to the prohibited transaction provisions of the United States Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and/or Section 4975 of the United States Internal Revenue Code of 1986, as amended (“Code”), or any entity whose underlying assets include plan assets by reason of any such employee benefit plan’s or plan’s investment in such entity, or a governmental, church or non-U.S. plan which is subject to any federal, state, local or non-U.S. law that is similar to the prohibited transaction provisions of Section 406 of ERISA and/or Section 4975 of the Code, and no part of the assets to be used by it to purchase or hold such Note or any interest therein constitutes the assets of any such employee benefit plan or plan, or (B) its purchase, holding and disposition of such Note or any interest therein does not and will not constitute or otherwise result in a non-exempt prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code (or, in the case of a governmental, church or non-U.S. plan, a violation of any similar federal, state, local or non-U.S. law); and (II) it will not sell or otherwise transfer a Note or any interest therein otherwise than to a purchaser or transferee that makes, or is deemed to make, these same representations, warranties and agreements with respect to its purchase, holding and disposition of such Note or interest therein.

(xii) The beneficial owner understands that the 2006-1 Indenture permits the Issuer to compel any beneficial owner of the Notes or any beneficial interest therein who has made an ERISA-related representation required by the 2006-1 Indenture that was at the time made, or has subsequently become, false or misleading to sell such interest, or to sell such interest on behalf of such purchaser, to a person able to make such ERISA-related representation.

(xiii) The beneficial owner understands that (A) the Issuer may receive a list of participants holding positions in the Notes from one or more book-entry depositories, (B) the Issuer may request from the Depository, and the holder authorizes the Depository to provide, the identity of participants holding positions in the Notes, and (C) the Issuer may request from each of the Depository’s participants, and the holder authorizes such participants to provide, the identity of each beneficial holder in the Global Notes.

(xiv) Such beneficial owner understands and agrees that the trustee shall have no responsibility or obligation to any beneficial owner, a member of, or a participant in the Depository or other person with respect to the accuracy of the records of the Depository or its nominee or of any participant or member thereof, with respect to any ownership interest in the Notes or with respect to the delivery to

any participant, member, beneficial owner or other person (other than the Depository) of any notice (including any notice of redemption) or the payment of any amount or delivery of any Notes (or other security or property) under or with respect to such Notes. All notices and communications to be given to the noteholders and all payments to be made to noteholders in respect of the Notes shall be given or made only to or upon the order of the registered noteholders (which shall be the Depository or its nominee for so long as the Notes are deposited in a Depository). The trustee may rely and shall be fully protected in relying upon information furnished by the Depository with respect to its members, participants and any beneficial owners.

(xv) The beneficial owner acknowledges that the Issuers, the initial purchaser and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that if any of the acknowledgments, representations or agreements deemed to have been made by it by its purchase of the Notes or any beneficial interest therein are no longer accurate, it shall promptly notify the Issuer and the initial purchaser. If the holder is acquiring any Notes or any beneficial interest therein as a fiduciary or agent for one or more institutional accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of such account.

(xvi) With respect to a beneficial owner of an interest in a Regulation S Note, such beneficial owner is aware that none of the Notes have been and will be registered under the Securities Act or any other applicable state securities law and the sale of the Notes or any beneficial interest therein to it is being made in reliance on the exemption from registration provided by Regulation S and understands that the Notes offered in reliance on Regulation S will bear the appropriate legend set forth below, and be represented by one or more Regulation S Global Notes and that in each case beneficial interests therein may be held only through the Depository for the respective accounts of Euroclear or Clearstream. The beneficial owner acknowledges that no representation is made by the Issuers and the initial purchaser as to the availability of any exemption under the Securities Act or other applicable laws of any other jurisdiction for resale of the Notes. Such beneficial owner and each other beneficial owner of the Notes or any beneficial interest therein that it holds is not, and will not be, a U.S. Person as defined in Regulation S under the Securities Act and its purchase of the Notes or any beneficial interest therein will comply with all applicable laws in any jurisdiction in which it resides or is located and will be in a principal amount of not less than the applicable minimum amount. Such beneficial owner has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes or any beneficial interest therein, and it, and any accounts for which it is acting are each able to bear the economic risk of its investment. Such beneficial owner understands that any resale or other transfer of beneficial interests in a Regulation S Note to U.S. Persons shall not be permitted. Before any interest in a Regulation S Note may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A Note, the transferor will be required to provide the Trustee with a transfer certificate as to compliance with the transfer restrictions.

### **Legends For Global Notes**

Each purchaser acknowledges that the Notes will bear a legend substantially to the following effect unless the issuer determines otherwise in compliance with applicable law:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), ANY STATE SECURITIES LAWS IN THE UNITED STATES OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION AND THE ISSUER HAS NOT BEEN REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT"). THIS NOTE MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT AS PERMITTED BY THIS LEGEND. THE HOLDER HEREOF, BY ITS ACCEPTANCE OF THIS NOTE, REPRESENTS, ACKNOWLEDGES AND

AGREES THAT IT WILL NOT REOFFER, RESELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE EXCEPT IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND EXCEPT (A) TO A TRANSFEREE (1) THAT IS A “QUALIFIED INSTITUTIONAL BUYER”, AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT, WHO IS ALSO A “QUALIFIED PURCHASER” (WITHIN THE MEANING OF SECTION 2(a)(51) OF THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED, AND THE RULES THEREUNDER) PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHO IS ALSO A QUALIFIED PURCHASER AND (2) THAT (i) WAS NOT FORMED FOR THE SPECIFIC PURPOSE OF INVESTING IN EITHER OF THE ISSUER, AND ADDITIONAL CAPITAL OR SIMILAR CONTRIBUTIONS WERE NOT SPECIFICALLY SOLICITED FROM ANY PERSON OWNING A BENEFICIAL INTEREST IN SUCH BENEFICIAL OWNER FOR THE PURPOSE OF ENABLING SUCH BENEFICIAL OWNER TO PURCHASE ANY RULE 144A NOTES, (ii) IS NOT AN INVESTMENT COMPANY THAT RELIES ON THE EXCLUSION FROM THE DEFINITION OF “INVESTMENT COMPANY” PROVIDED BY SECTION 3(c)(1) OR SECTION 3(c)(7) OF THE INVESTMENT COMPANY ACT (OR A FOREIGN INVESTMENT COMPANY UNDER SECTION 7(d) THEREOF RELYING ON SECTION 3(c)(1) OR 3(c)(7) WITH RESPECT TO ITS HOLDERS THAT ARE U.S. PERSONS), WHICH WAS FORMED ON OR BEFORE APRIL 30, 1996, UNLESS IT HAS RECEIVED THE CONSENT OF ITS BENEFICIAL OWNERS WHO ACQUIRED THEIR INTERESTS ON OR BEFORE APRIL 30, 1996, WITH RESPECT TO ITS TREATMENT AS A QUALIFIED PURCHASER IN THE MANNER REQUIRED BY SECTION 2(a)(51)(C) OF THE INVESTMENT COMPANY ACT AND THE RULES AND REGULATIONS THEREUNDER, (iii) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS, (iv) IS NOT A CORPORATION, PARTNERSHIP, COMMON TRUST FUND, SPECIAL TRUST, PENSION, PROFIT SHARING OR OTHER RETIREMENT TRUST FUND OR PLAN IN WHICH THE SHAREHOLDERS, EQUITY OWNERS, PARTNERS, BENEFICIARIES, BENEFICIAL OWNERS OR PARTICIPANTS, AS APPLICABLE, MAY DESIGNATE THE PARTICULAR INVESTMENTS TO BE MADE OR THE ALLOCATION OF ANY INVESTMENT AMONG SUCH SHAREHOLDERS, EQUITY OWNERS, PARTNERS, BENEFICIARIES, BENEFICIAL OWNERS OR PARTICIPANTS, AS APPLICABLE, AND IN A TRANSACTION THAT MAY BE EFFECTED WITHOUT LOSS OF ANY APPLICABLE INVESTMENT COMPANY ACT EXEMPTION, (v) IS NOT AN ENTITY THAT, IMMEDIATELY SUBSEQUENT TO ITS PURCHASE OR OTHER ACQUISITION OF A BENEFICIAL INTEREST IN THIS NOTE, WILL HAVE INVESTED MORE THAN 40% OF ITS ASSETS IN BENEFICIAL INTERESTS IN THIS NOTE AND/OR IN OTHER SECURITIES OF THE ISSUER, (vi) UNDERSTANDS, ON BEHALF OF ITSELF AND EACH PERSON FOR WHICH IT IS ACTING, THAT THE ISSUER MAY RECEIVE A LIST OF DEPOSITORY PARTICIPANTS HOLDING NOTES (*I.E.* BENEFICIAL INTERESTS IN THE NOTES) FROM THE DEPOSITORY AND ANY OTHER DEPOSITORY THROUGH WHICH THE NOTES (OR BENEFICIAL INTERESTS THEREIN) MAY BE HELD, AND (vii) AGREES TO PROVIDE NOTICE TO ANY SUBSEQUENT TRANSFEREE OF THE TRANSFER RESTRICTIONS PROVIDED IN THIS LEGEND OR (B) TO A PERSON THAT IS NOT A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT AND (C) IN EACH CASE (1) UPON DELIVERY OF ALL CERTIFICATIONS, OPINIONS AND OTHER DOCUMENTS THAT THE ISSUERS OR THE TRUSTEE MAY REQUIRE AND (2) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAW OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION.

EACH BENEFICIAL HOLDER OF THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN WILL BE DEEMED TO HAVE MADE THE APPLICABLE REPRESENTATIONS AND AGREEMENTS TO THE EXTENT SET FORTH IN THE INDENTURE. ANY TRANSFER IN

VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUERS, THE TRUSTEE OR ANY INTERMEDIARY. IN ADDITION TO THE FOREGOING, THE ISSUER MAINTAINS THE RIGHT TO RESELL NOTES OR ANY BENEFICIAL INTEREST THEREIN PREVIOUSLY TRANSFERRED TO NON-PERMITTED U.S. HOLDERS (AS DEFINED IN THE INDENTURE) IN ACCORDANCE WITH AND SUBJECT TO THE TERMS OF THE INDENTURE.

EACH BENEFICIAL OWNER OF THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN UNDERSTANDS THAT THE ISSUERS MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS OFFERED NOTES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES.

THIS NOTE IS NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED HEREIN AND IN THE INDENTURE. ANY SALE OR TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE AND EFFECT, WILL BE VOID AB INITIO, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE CO ISSUERS, THE TRUSTEE OR ANY INTERMEDIARY. EACH TRANSFEROR OF THIS NOTE AGREES TO PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE INDENTURE TO THE TRANSFEREE. A BENEFICIAL INTEREST IN A RULE 144A NOTE WITHIN THE MEANING OF THE INDENTURE MAY BE HELD ONLY BY PERSONS SPECIFIED IN CLAUSE (A) OF THE FIRST PARAGRAPH HEREOF AND A BENEFICIAL INTEREST IN A REGULATION S NOTE WITHIN THE MEANING OF THE INDENTURE MAY BE HELD ONLY BY PERSONS SPECIFIED IN CLAUSE (B) OF THE FIRST PARAGRAPH HEREOF.

THE ISSUER HAS THE RIGHT, UNDER THE INDENTURE, TO COMPEL ANY BENEFICIAL OWNER OF AN INTEREST IN A NOTE (AS DEFINED IN THE INDENTURE) THAT IS A U.S. PERSON AND IS NOT A QUALIFIED PURCHASER AND A QUALIFIED INSTITUTIONAL BUYER TO SELL ITS INTEREST IN THE GLOBAL NOTES, OR MAY SELL SUCH INTEREST ON BEHALF OF SUCH OWNER.

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PRINCIPAL OF THIS NOTE IS PAYABLE AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF. ANY PERSON ACQUIRING THIS NOTE MAY ASCERTAIN ITS CURRENT PRINCIPAL AMOUNT BY INQUIRY OF THE TRUSTEE.

## **LEGAL MATTERS**

The validity of the issuance of the Notes will be passed upon for us by our attorneys, Salans, New York, New York. Certain legal matters will be passed upon for the initial purchaser in connection with the offering by White & Case LLP, New York, New York.



## **RESERVE ENGINEERS**

The estimates included in this offering circular relating to the quantities of our reserves of oil/condensate and gas, reserve life and reserves value is based on estimates of our reserves and the related future cash flows prepared by Ryder Scott Company, L.P., an independent petroleum engineering firm, in reliance upon their authority as experts in reserve determination.

## **INDEPENDENT AUDITORS**

The financial statements of the guarantors, KPM and TNG, as of December 31, 2005, 2004 and 2003 and for each of the three fiscal years in the period ended December 31, 2005 prepared on both a combined and individual basis, included in this offering circular have been audited by Deloitte Audit S.R.L., Independent Public Registered Accounting Firm, as stated in their reports appearing herein.

**INDEX TO COMBINED AND INDIVIDUAL FINANCIAL STATEMENTS**

	<u>Page</u>
<b>Kazpolmunay LLP and Tolkyneftegaz LLP</b>	
<b>Unaudited Combined Condensed Interim Financial Statements for the nine months ended September 30, 2006 and 2005</b>	
Unaudited Combined Condensed Balance Sheets as at September 30, 2006 and December 31, 2005 . . . . .	F-2
Unaudited Combined Condensed Income Statements for the nine months ended September 30, 2006 and 2005 . . . . .	F-3
Unaudited Combined Condensed Statement of Changes in Shareholders' Equity for the nine months ended September 30, 2006 and 2005 . . . . .	F-4
Unaudited Combined Condensed Cash Flow Statements for the nine months ended September 30, 2006 and 2005 . . . . .	F-5
Notes to the Unaudited Combined Condensed Interim Financial Statements for the nine months ended September 30, 2006 and 2005 . . . . .	F-6
<b>Kazpolmunay LLP and Tolkyneftegaz LLP</b>	
<b>Audited Combined Financial Statements for the years ended December 31, 2005, 2004 and 2003</b>	
Independent Auditors' Report . . . . .	F-8
Combined Balance Sheets as at December 31, 2005, 2004 and 2003 . . . . .	F-9
Combined Income Statements for the years ended December 31, 2005, 2004 and 2003 . . . . .	F-10
Combined Statements of Changes in Shareholders' Equity for the years ended December 31, 2005, 2004 and 2003 . . . . .	F-11
Combined Cash Flow Statements for the years ended December 31, 2005, 2004 and 2003 . . . . .	F-12
Notes to the Combined Financial Statements for the years ended December 31, 2005, 2004 and 2003 . . . . .	F-13
<b>Tolkyneftegaz LLP</b>	
<b>Unaudited Condensed Interim Financial Statements for the nine months ended September 30, 2006 and 2005</b>	
Unaudited Condensed Balance Sheets as at September 30, 2006 and December 31, 2005 . . . . .	F-36
Unaudited Condensed Income Statements for the nine months ended September 30, 2006 and 2005 . . . . .	F-37
Unaudited Condensed Statement of Changes in Shareholders' Equity for the nine months ended September 30, 2006 and 2005 . . . . .	F-38
Unaudited Condensed Cash Flow Statements for the nine months ended September 30, 2006 and 2005 . . . . .	F-39
Notes to the Unaudited Condensed Interim Financial Statements for the nine months ended September 30, 2006 and 2005 . . . . .	F-40
<b>Tolkyneftegaz LLP</b>	
<b>Audited Financial Statements for the years ended December 31, 2005, 2004 and 2003</b>	
Independent Auditors' Report . . . . .	F-42
Balance Sheets as at December 31, 2005, 2004 and 2003 . . . . .	F-43
Income Statements for the years ended December 31, 2005, 2004 and 2003 . . . . .	F-44
Statements of Changes in Shareholders' Equity for the years ended December 31, 2005, 2004 and 2003 . . . . .	F-45
Cash Flow Statements for the years ended December 31, 2005, 2004 and 2003 . . . . .	F-46
Notes to the Financial Statements for the years ended December 31, 2005, 2004 and 2003 . . . . .	F-47
<b>Kazpolmunay LLP</b>	
<b>Unaudited Condensed Interim Financial Statements for the nine months ended September 30, 2006 and 2005</b>	
Unaudited Condensed Balance Sheets as at September 30, 2006 and December 2005 . . . . .	F-70
Unaudited Condensed Income Statements for the nine months ended September 30, 2006 and 2005 . . . . .	F-71
Unaudited Condensed Statement of Changes in Shareholders' Equity for the nine months ended September 30, 2006 and 2005 . . . . .	F-72
Unaudited Condensed Cash Flow Statements for the nine months ended September 30, 2006 and 2005 . . . . .	F-73
Notes to the Unaudited Condensed Interim Financial Statements for the nine months ended September 30, 2006 and 2005 . . . . .	F-74
<b>Kazpolmunay LLP</b>	
<b>Audited Financial Statements for the years ended December 31, 2005, 2004 and 2003</b>	
Independent Auditors' Report . . . . .	F-76
Balance Sheets as at December 31, 2005, 2004 and 2003 . . . . .	F-77
Income Statements for the years ended December 31, 2005, 2004 and 2003 . . . . .	F-78
Statements of Changes in Shareholders' Equity for the years ended December 31, 2005, 2004 and 2003 . . . . .	F-79
Cash Flow Statements for the years ended December 31, 2005, 2004 and 2003 . . . . .	F-80
Notes to the Financial Statements for the years ended December 31, 2005, 2004 and 2003 . . . . .	F-81

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**KAZPOLMUNAY LLP AND  
TOLKYNNEFTEGAZ LLP**

**UNAUDITED COMBINED CONDENSED  
INTERIM FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED  
SEPTEMBER 30, 2006 AND 2005**

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**COMBINED CONDENSED BALANCE SHEETS**  
**AS AT SEPTEMBER 30, 2006 AND DECEMBER 31, 2005**  
(all amounts expressed in US dollars)

	<u>September 30,</u> 2006 <u>(Unaudited)</u>	<u>December 31,</u> 2005 <u>(Audited)</u>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets .....	19,315,008	19,115,979
Property, plant and equipment .....	282,135,377	205,647,649
<b>Total non-current assets</b>	<b>301,450,385</b>	<b>224,763,628</b>
<b>Current assets</b>		
Inventories .....	9,876,175	7,324,359
Trade and other receivables .....	215,141,116	104,747,581
Cash and cash equivalents .....	18,847,757	1,184,867
<b>Total current assets</b>	<b>243,865,048</b>	<b>113,256,807</b>
<b>Total assets</b>	<b>545,315,433</b>	<b>338,020,435</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Shareholders' equity</b>		
Share capital .....	123,257	123,257
Retained earnings .....	169,458,505	106,464,777
<b>Total shareholders' equity</b>	<b>169,581,762</b>	<b>106,588,034</b>
<b>Non-current liabilities</b>		
Long-term bank loans .....	125,132,824	77,390,688
Other long-term borrowings .....	69,541,503	45,479,210
Deferred tax liability .....	96,032,509	61,455,357
<b>Total non-current liabilities</b>	<b>290,706,836</b>	<b>184,325,255</b>
<b>Current liabilities</b>		
Trade and other payables .....	32,614,577	20,695,533
Tax payables .....	29,813,618	17,423,221
Short-term bank loans .....	22,598,640	8,988,392
<b>Total current liabilities</b>	<b>85,026,835</b>	<b>47,107,146</b>
<b>Total liabilities and shareholders' equity</b>	<b>545,315,433</b>	<b>338,020,435</b>

The notes on page F-6 form an integral part of these combined financial statements.

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**COMBINED CONDENSED INCOME STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**  
(all amounts expressed in US dollars)

	<u>Nine months ended September 30, 2006 (Unaudited)</u>	<u>Nine months ended September 30, 2005 (Unaudited)</u>
Sales .....	187,016,805	154,839,426
Cost of sales .....	(54,032,018)	(38,165,947)
<b>Gross Profit</b> .....	<b>132,984,787</b>	<b>116,673,479</b>
Other income .....	2,310,048	1,136,200
Distribution costs .....	(8,578,578)	(8,001,652)
Administrative expenses .....	(8,191,985)	(2,205,259)
Other operating expenses .....	(2,097,977)	(3,420,742)
<b>Operating Profit</b> .....	<b>116,426,295</b>	<b>104,182,026</b>
Interest expense .....	(2,412,388)	(2,595,196)
Exchange gains .....	4,171,608	1,967,672
<b>Net profit before tax</b> .....	<b>118,185,515</b>	<b>103,554,502</b>
Income tax expense .....	(55,191,787)	(43,613,723)
<b>Net profit</b> .....	<b>62,993,728</b>	<b>59,940,779</b>

The notes on page F-6 form an integral part of these combined financial statements.

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**COMBINED CONDENSED**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**  
**(all amounts expressed in US dollars)**

	<u>Share Capital (Unaudited)</u>	<u>Retained Earnings (Unaudited)</u>	<u>Total (Unaudited)</u>
<b>Balance at December 31, 2004</b> .....	<b>123,257</b>	<b>34,157,342</b>	<b>34,280,599</b>
Net profit for the nine months ended September 30, 2005 .....	—	59,940,779	59,940,779
<b>Balance at September 30, 2005</b> .....	<b>123,257</b>	<b>94,098,121</b>	<b>94,221,378</b>
Net profit for the three months ended December 31, 2005 .....	—	12,366,656	12,366,656
<b>Balance at December 31, 2005</b> .....	<b>123,257</b>	<b>106,464,777</b>	<b>106,588,034</b>
Net profit for the nine months ended September 30, 2006 .....	—	62,993,728	62,993,728
<b>Balance at September 30, 2006</b> .....	<b>123,257</b>	<b>169,458,505</b>	<b>169,581,762</b>

The notes on page F-6 form an integral part of these combined financial statements.



**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**COMBINED CONDENSED CASH FLOW STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**  
(all amounts expressed in US dollars)

	Nine months ended September 30, 2006 (Unaudited)	Nine months ended September 30, 2005 (Unaudited)
<b>Cash flow from operating activities</b>		
<b>Net profit before tax</b> .....	<b>118,185,515</b>	<b>103,554,502</b>
<i>Adjustments for:</i>		
Depreciation of plant, property and equipment .....	25,644,621	16,668,896
Interest expense .....	2,412,387	2,595,196
Change in provision for doubtful debts .....	(1,423,075)	576,230
Loss on disposals of property, plant and equipment .....	30,599	45,293
<b>Cash provided by operations before working capital changes</b> .....	<b>144,850,047</b>	<b>123,440,117</b>
Increase in trade and other receivables .....	(32,353,338)	(66,016,282)
Increase in inventories .....	(2,551,816)	(761,188)
Increase in trade and other payables .....	3,221,149	9,872,557
<b>Cash provided by operations</b> .....	<b>113,166,042</b>	<b>66,535,204</b>
Income tax paid .....	(7,659,549)	(3,322,376)
Interest paid .....	(14,162,586)	(11,218,434)
<b>Net cash provided by operating activities</b> .....	<b>91,343,907</b>	<b>51,994,394</b>
Purchase of property, plant and equipment .....	(158,918,125)	(57,952,249)
Increase in intangible assets .....	(199,029)	(1,863,827)
Proceeds from sales of property, plant and equipment .....	21,461	10,194
<b>Net cash used in investing activities</b> .....	<b>(159,095,693)</b>	<b>(59,805,882)</b>
Cash flow from financing activities		
Repayment of borrowings .....	(1,318,179)	(10,758,520)
Proceeds from long-term borrowing .....	86,732,855	22,781,572
<b>Net cash provided by financing activities</b> .....	<b>85,414,676</b>	<b>12,023,052</b>
Net increase in cash and cash equivalents .....	17,662,890	4,211,564
<b>Cash and cash equivalents at beginning of the period</b> .....	<b>1,184,867</b>	<b>374,813</b>
<b>Cash and cash equivalents at the end of the period</b> .....	<b>18,847,757</b>	<b>4,586,377</b>

The notes on page F-6 form an integral part of these combined financial statements.

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE UNAUDITED COMBINED CONDENSED**  
**INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**  
**(all amounts expressed in US dollars)**

**1. BASIS OF PREPARATION**

The interim financial information in this report is prepared on the basis of the accounting policies set out in the Financial Statements of Kazpolmunay LLP and Tolkyneftegaz LLP (respectively “KPM” and “TNG”, together “the Companies”) for the year ended December 31, 2005 and using accounting policies consistent with International Financial Reporting Standards, including IAS 34 “Interim Financial Reporting” (except for the non-inclusion of information related to the most recent quarter). The interim financial information for the nine months ended September 30, 2006 and 2005 presented here is unaudited.

**2. COMMITMENTS**

*(a) Minimum investment commitments*

Commitments for the Taby1 oil-field represents \$27,300,000 from which as at September 2006 was spent \$19,315,008. The remaining value of investment to be done is \$7,984,992.

*(b) Capital commitment*

At September 30, 2006 the Companies had entered into contractual commitments for the acquisition of property, plant and equipment amounting to approximately \$115,000,000 from which the outstanding unpaid balance amounted to \$46,845,204.

**3. SUBSEQUENT EVENTS**

In November 2006 the Companies agreed to act as guarantors in respect of a \$300,000,000 Offering of Senior Secured Notes by Tristan Oil Ltd. (“Tristan”), a related party. The Offering is due to be completed after the date of this report. On completion it is intended that Tristan will lend approximately \$211,000,000 of the proceeds to the Companies. On receipt of the proceeds it is intended that KPM will pay a dividend of \$25,000,000, while TNG will repay in full its loan from Kazcommerzbank. At September 30, 2006 the amount due to Kazcommerzbank, including accrued interest was \$149,182,950. In accordance with the terms of the loan agreement TNG will also pay an early repayment penalty of approximately \$13,000,000. No provision has been made at September 30, 2006 for this repayment penalty.

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**AUDITED COMBINED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2005, 2004 AND 2003**



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To the Shareholders  
Kazpolmunay LLP and Tolkyneftegaz LLP  
Aktau, Republic of Kazakhstan

### Independent Auditors' Report

We have audited the accompanying combined balance sheets of Kazpolmunay LLP and Tolkyneftegaz LLP, ("the Companies") as of December 31, 2005, 2004 and 2003, and the related combined statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with International Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Prior to the year ended December 31, 2005 we were appointed auditors subsequent to each year end. In consequence we were not able to observe the counting of the physical inventories at December 31, 2004 or at any prior year end. As we could not satisfy ourselves as to inventory quantities by alternative means, we were unable to determine whether adjustments might have been required to opening retained earnings at January 1, 2003, to the balance sheets at December 31, 2003 or 2004, or to the results for the years ended December 31, 2003, 2004 or 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to inventory quantities at year ends prior to December 31, 2005, the combined financial statements present fairly, in all material respects, the financial position of the Companies as of December 31, 2005, 2004 and 2003 and the combined results of their operations, changes in shareholders' equity and their combined cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte Audit S.R.L.  
Bucharest, Romania  
November 14, 2006

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Deloitte Touche Tohmatsu

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**

**COMBINED BALANCE SHEETS  
AS AT DECEMBER 31, 2005, 2004 AND 2003  
(all amounts expressed in US dollars)**

	<u>Notes</u>	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Intangible assets .....	4	19,115,979	16,825,161	6,375,794
Property, plant and equipment .....	5	205,647,649	109,172,311	91,910,015
<b>Total non-current assets</b> .....		<b>224,763,628</b>	<b>125,997,472</b>	<b>98,285,809</b>
<b>Current Assets</b>				
Inventories .....	6	7,324,359	12,468,106	1,972,496
Trade and other receivables .....	7	104,747,581	48,950,624	30,428,565
Cash and cash equivalents .....	8	1,184,867	374,813	5,612,518
<b>Total current assets</b> .....		<b>113,256,807</b>	<b>61,793,543</b>	<b>38,013,579</b>
<b>Total assets</b> .....		<b>338,020,435</b>	<b>187,791,015</b>	<b>136,299,388</b>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Shareholders' Equity</b>				
Share capital .....	9	123,257	123,257	123,257
Retained earnings .....		106,464,777	34,157,342	5,444,351
<b>Total shareholders' equity</b> .....		<b>106,588,034</b>	<b>34,280,599</b>	<b>5,567,608</b>
<b>Non-Current Liabilities</b>				
Long-term bank loans .....	10	77,390,688	61,079,080	31,694,003
Other long-term borrowings .....	10	45,479,210	47,996,554	44,339,643
Deferred tax liability .....	11	61,455,357	22,460,379	7,041,948
<b>Total non-current liabilities</b> .....		<b>184,325,255</b>	<b>131,536,013</b>	<b>83,075,594</b>
<b>Current Liabilities</b>				
Trade and other payables .....	12	20,695,533	4,335,469	14,172,842
Tax payables .....		17,423,221	6,880,414	1,932,327
Short-term bank loans .....	10	8,988,392	10,758,520	31,551,017
<b>Total current liabilities</b> .....		<b>47,107,146</b>	<b>21,974,403</b>	<b>47,656,186</b>
<b>Total liabilities and shareholders' equity</b> .....		<b>338,020,435</b>	<b>187,791,015</b>	<b>136,299,388</b>

The notes on pages F-13 to F-34 form an integral part of these combined financial statements.

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**COMBINED INCOME STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

	<u>Notes</u>	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004</u>	<u>Year ended December 31, 2003</u>
Sales .....	<b>13</b>	209,552,082	125,978,487	64,671,612
Cost of sales .....	<b>14</b>	<u>(60,098,864)</u>	<u>(54,404,628)</u>	<u>(29,587,295)</u>
<b>Gross profit</b> .....		<b>149,453,218</b>	<b>71,573,859</b>	<b>35,084,317</b>
Other income .....	<b>15</b>	1,704,517	1,347,380	1,188,425
Distribution costs .....	<b>16</b>	(10,217,142)	(15,704,263)	(11,230,507)
Administrative expenses .....	<b>17</b>	(3,082,169)	(2,507,788)	(1,734,238)
Other operating expenses .....		<u>(4,846,168)</u>	<u>(2,674,069)</u>	<u>(1,842,837)</u>
<b>Operating profit</b> .....		<b>133,012,256</b>	<b>52,035,119</b>	<b>21,465,160</b>
Interest expense .....	<b>18</b>	(3,406,344)	(7,183,558)	(3,792,292)
Exchange gains .....		<u>145,214</u>	<u>2,146,569</u>	<u>157,807</u>
<b>Net profit before tax</b> .....		<b>129,751,126</b>	<b>46,998,130</b>	<b>17,830,675</b>
Income tax expense .....		<u>(57,443,691)</u>	<u>(18,285,139)</u>	<u>(6,080,562)</u>
<b>Net profit</b> .....		<b><u>72,307,435</u></b>	<b><u>28,712,991</u></b>	<b><u>11,750,113</u></b>

The notes on pages F-13 to F-34 form an integral part of these combined financial statements.

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**COMBINED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Balance at December 31, 2002</b> .....	<b>123,257</b>	<b>(6,305,762)</b>	<b>(6,182,505)</b>
Profit for the year .....	—	11,750,113	11,750,113
<b>Balance at December 31, 2003</b> .....	<b>123,257</b>	<b>5,444,351</b>	<b>5,567,608</b>
Profit for the year .....	—	28,712,991	28,712,991
<b>Balance at December 31, 2004</b> .....	<b>123,257</b>	<b>34,157,342</b>	<b>34,280,599</b>
Profit for the year .....	—	72,307,435	72,307,435
<b>Balance at December 31, 2005</b> .....	<b>123,257</b>	<b>106,464,777</b>	<b>106,588,034</b>

The notes on pages F-13 to F-34 form an integral part of these combined financial statements.

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**COMBINED CASH FLOW STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

	Notes	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
<b>Cash Flow from Operating Activities</b>				
Net profit before tax .....		129,751,126	46,998,130	17,830,675
<i>Adjustment for:</i>				
Depreciation of plant, property and equipment .....		28,317,664	23,411,738	12,246,632
Interest expense .....		3,406,344	7,183,558	3,792,292
Change in provision for doubtful debts .....		683,776	—	—
Loss / (gain) on disposals of property, plant and equipment .....		519,158	6,078	6,748
<b>Cash provided by operations before working capital changes .....</b>		<b>162,678,068</b>	<b>77,599,504</b>	<b>33,876,347</b>
(Increase) / decrease in trade and other receivables .....		(54,614,156)	(15,407,659)	(10,628,175)
Decrease / (increase) in inventories .....		5,143,747	(10,495,610)	(902,188)
Increase / (decrease) in trade and other payables .....		10,271,769	(1,110,474)	(11,357,851)
<b>Cash provided by operations .....</b>		<b>123,479,428</b>	<b>50,585,761</b>	<b>10,988,133</b>
Income tax paid .....		(14,626,162)	(732,000)	(3,975)
Interest paid .....		(16,889,693)	(24,172,382)	(6,359,206)
<b>Net cash provided by operating activities .....</b>		<b>91,963,573</b>	<b>25,681,379</b>	<b>4,624,952</b>
<b>Cash Flow from Investing Activities</b>				
Purchase of property, plant and equipment .....		(100,909,148)	(32,736,939)	(12,493,816)
Increase in intangible assets .....		(2,290,818)	(10,449,367)	(4,520,291)
Proceeds from sales of property, plant and equipment .....		22,311	17,731	112,763
<b>Net cash used in investing activities .....</b>		<b>(103,177,655)</b>	<b>(43,168,575)</b>	<b>(16,901,344)</b>
<b>Cash Flow from Financing Activities</b>				
Repayment of borrowings .....		(13,187,687)	(59,551,782)	(21,846,654)
Proceeds from long-term borrowing .....		25,211,823	71,801,273	39,508,034
<b>Net cash provided by financing activities .....</b>		<b>12,024,136</b>	<b>12,249,491</b>	<b>17,661,380</b>
Net increase / (decrease) in cash and cash equivalents .....		810,054	(5,237,705)	5,384,988
<b>Cash and cash equivalents at beginning of the year .....</b>	<b>8</b>	<b>374,813</b>	<b>5,612,518</b>	<b>227,530</b>
<b>Cash and cash equivalents at the end of the year .....</b>	<b>8</b>	<b>1,184,867</b>	<b>374,813</b>	<b>5,612,518</b>

The notes on pages F-13 to F-34 form an integral part of these combined financial statements.



**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**1 GENERAL INFORMATION**

Tolkynneftegaz LLP and Kazpolmunay LLP (the “Companies” or “TNG” and “KPM”) are companies incorporated in Republic of Kazakhstan. The address of their registered offices is 130000, Republic of Kazakhstan, Mangistau region, Aktau, micro-district 3 “a”, building 5.

The Companies were originally formed as Joint Stock Corporations (“JSC”). Following the introduction of Kazakhstan legislation that increased significantly the minimum share capital of JSCs, in May 2005 the Companies changed their legal forms of ownership from JSC to Limited Liability Partnership (LLP). This change had no impact on the Companies’ tax position.

TNG and KPM are 100% subsidiaries of Terra Raf Trans Trading Ltd. (registered in Gibraltar) and Ascom S.A. (registered in Republic of Moldova) respectively. The ultimate shareholders of both TNG and KPM are Anatol Stati, Larisa Stati and Gabriel Stati, all citizens of Republic of Moldova.

The Companies’ operations are located in the Caspian region and the Companies’ principal business activities are oil and gas well drilling and extraction, exploration of promising oil and gas bearing terrains, construction of oil-field facilities, pipelines and reservoirs.

Exploration and development activities are carried out in Kazakhstan on three oil-fields presented in the table below:

<u>Company</u>	<u>Oil field</u>	<u>License Number</u>	<u>Type of License</u>	<u>Period of exploitation</u>
Tolkynneftegaz LLP .....	Tolkyn	242	Oil and gas	Until 2018
	Tabyll	243	Oil and gas	Not yet granted
Kazpolmunay LLP .....	Borankol	309	Oil and gas	Until 2022

**2 STATEMENT OF ACCOUNTING POLICIES**

**Basis of Preparation**

The combined financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The financial statements have been prepared on a historical cost basis.

Transactions between the Companies and related balances are eliminated on combination.

The principal accounting policies adopted are set out below.

**Adoption of New and Revised International Financial Reporting Standards (“IFRS”)**

During the year, the Companies adopted a number of new and revised International Financial Reporting Standards. None of these had a material impact on the financial statements for the current or prior years.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

*IFRS*

IFRS 6 Exploration for and Evaluation of Mineral Resources (effective date annual periods beginning on or after January 1, 2006)

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**2 STATEMENT OF ACCOUNTING POLICIES—(Continued)**

IFRS 7 Financial Instruments: Disclosures (effective date annual periods beginning on or after January 1, 2007)

*IFRIC Interpretations*

IFRIC 4 Determining Whether an Arrangement Contains a Lease (effective date annual periods beginning on or after January 1, 2006)

IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective date annual periods beginning on or after January 1, 2006)

IFRIC 6 Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective date annual periods beginning on or after December 1, 2005)

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective date annual periods beginning on or after March 1, 2006)

IFRIC 8 Scope of IFRS 2 (effective date annual periods beginning on or after May 1, 2006)

IFRIC 9 Reassessment of Embedded Derivatives (effective date annual periods beginning on or after June 1, 2006)

IFRIC 10 Interim Financial Reporting and Impairment (effective date annual periods beginning on or after November 1, 2006)

Management anticipates that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Companies.

**Property, Plant and Equipment and Intangible Assets**

All property, plant and equipment is shown at cost less subsequent accumulated depreciation and subsequent accumulated impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Companies and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

*(a) Oil and Gas Exploration, Evaluation and Development Expenditure*

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

Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement. Expenditure incurred on the acquisition of a license interest is initially capitalized as an intangible asset on a license by license basis. Costs are held, undepleted, within exploration until such time as the exploration phase on the license area is complete or commercial reserves have been discovered.

Exploration expenditure incurred in the process of determining exploration targets and exploration and appraisal drilling costs are capitalized on a well by well basis.

Following appraisal of successful exploration of a field, if commercial reserves are established and technical feasibility for extraction demonstrated, then the related capitalized cost are transferred to property, plant and equipment.

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**2 STATEMENT OF ACCOUNTING POLICIES—(Continued)**

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

*(b) Depreciation of Oil and Gas Producing Assets*

The Companies depreciate their oil and gas properties on a unit of production basis that is calculated to write off the historic cost of each asset including license costs, in line with the depletion of proved developed reserves from the commencement of production. The net book values of producing assets are depreciated on a field by field basis by reference to the ratio of oil and gas production in the period to the estimated quantity of commercial reserves at the end of the period plus the production in the period.

*(c) Other*

Depreciation on other property, plant and equipment (except land, which is not depreciated) is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

Buildings . . . . .	50 years
Machinery and equipment . . . . .	10 to 15 years
Vehicles . . . . .	5 years
Furniture and office equipment . . . . .	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

*(d) Impairment of Value*

An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount. The carrying value is compared against the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves and based on management's expectations of future oil prices and future costs.

The cash generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a single cash generating unit where the cash flows of each field are inter-dependent. Any impairment loss is recognised in the income statement as additional depreciation and separately disclosed.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**2 STATEMENT OF ACCOUNTING POLICIES—(Continued)**

their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Provision is made for slow-moving and obsolete inventories.

**Trade Receivables**

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

**Financial Liability and Equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Companies after deducting all of their liabilities.

**Bank Loans**

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

**Accounts Payable**

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

**Provisions**

Provisions are recognised when the Companies have a present obligation as a result of a past event, and it is probable that the Companies will be required to settle that obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

**Retirement Benefit Costs**

The Companies made payments to the State Pension fund for their employees during the reporting period. The Companies have no other liabilities in respect of future pension, health and other costs for their employees.

**Cash and Cash Equivalents**

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with three months or less remaining to maturity from the date of acquisition and that are subject to an insignificant risk of change in value.

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**2 STATEMENT OF ACCOUNTING POLICIES—(Continued)**

**Revenue Recognition**

Revenue represents the fair value of the Companies' share of oil, condensate and gas sold during the year and is recognised when the product has been lifted (in the case of own production) and title has passed.

Revenue on sale of purchased oil and gas and other products represents the fair value of oil and gas and other products sold during the year. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable in the normal course of business, net of discounts and sales related taxes.

**Foreign Currencies**

The functional currency of the Companies is the US Dollar ("USD"). Transactions in currencies other than the Companies' functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

**Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Share Capital**

Dividends are recognised in equity in the period in which they are declared.

**Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax as well as excess profit tax and deferred tax calculated on excess profit tax.

*(a) Current Income Tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Companies' liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**2 STATEMENT OF ACCOUNTING POLICIES—(Continued)**

*(b) Deferred Tax*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

*(c) Excess Profit Tax*

The Companies calculate excess profit tax based on the achieved level of domestic profit rate at the end of the reporting year at tax rates established on a sliding scale ranging from 0% to 30%. Excess profit tax is paid separately in respect of every subsurface use contract and can be adjusted for expenditures actually incurred on education of Kazakhstan work force and/or investment in oil and gas properties but not exceeding 10% of the taxable amount.

**Financial Instruments**

Financial assets and financial liabilities are recognised on the balance sheet when the Companies become party to the contractual provisions of the instrument.

**Contingencies**

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

**Segmental Disclosures**

The Companies operate as a single operating business unit.

**3 CRITICAL JUDGEMENTS IN APPLYING THE COMPANIES' ACCOUNTING POLICIES**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the balance sheet date, and the reported amounts of revenue and expenses during the reporting period. Actual results could vary from these estimates. The estimates and underlying assumptions are reviewed on an ongoing

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**3 CRITICAL JUDGEMENTS IN APPLYING THE COMPANIES' ACCOUNTING POLICIES—(Continued)**

basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Companies' accounting policies, which are described in Note 2, management has made the following judgements and estimates that have the most significant effect on the amounts recognised in the financial statements.

*(a) Recoverability of Intangibles—Exploration and Evaluation Costs*

Under the successful efforts method of accounting, all license acquisition, exploration and appraisal costs are initially capitalised on a field by field basis, pending determination. Expenditure incurred during the various exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process has not been completed. This assessment involves judgement as to (i) the likely future commerciality of the asset and when such commerciality should be determined, and (ii) future revenues and costs pertaining to any wider cost pool with which the asset in question is associated, and the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value. Note 4 discloses the carrying amounts of the Companies' intangible assets.

*(b) Decommissioning*

The Companies have potential decommissioning obligations in respect of their producing interests in Kazakhstan. The extent to which a provision is required in respect of these potential obligations depends, inter alia, on the legal requirements at the time of decommissioning, the cost and timing of any necessary decommissioning works, and the discount rate to be applied to such costs. In addition, the Kazakh authorities assume liability for such costs if they elect to continue production activities at the end of the license. This will depend on the level of commercial reserves remaining at the time of expiry. Based on these factors, management does not believe that there is a material decommissioning liability at December 31, 2005 or at preceding year ends.

*(c) Reserves*

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

Reserves are determined using estimates of oil in place, recovery factors and future oil prices. The carrying amount of development and production assets at December 31, 2005 is shown in Note 5. Management uses established industry techniques to generate its estimates. However, the amount of reserves that will ultimately be recovered from the field cannot be known with certainty until the end of the field's life.

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

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**4 INTANGIBLE ASSETS**

	Licenses	Exploration costs	Total
<b>At January 1, 2003</b> .....	<b>1,854,256</b>	<b>1,247</b>	<b>1,855,503</b>
Additions during the year .....	87,413	4,432,878	4,520,291
<b>At January 1, 2004</b> .....	<b>1,941,669</b>	<b>4,434,125</b>	<b>6,375,794</b>
Additions during the year .....	1,556,222	8,893,145	10,449,367
<b>At January 1, 2005</b> .....	<b>3,497,891</b>	<b>13,327,270</b>	<b>16,825,161</b>
Additions during the year .....	140,900	2,149,918	2,290,818
<b>At December 31, 2005</b> .....	<b>3,638,791</b>	<b>15,477,188</b>	<b>19,115,979</b>

Licenses and exploration costs relate to Taby1 oil field which was in its exploratory phase as at the balance sheet date.



**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**5 PROPERTY, PLANT AND EQUIPMENT**

	Land and buildings	Vehicles	Oil and gas producing assets	Total
<b>COST</b>				
<b>At January 1, 2003</b> .....	<b>155,568</b>	<b>249,690</b>	<b>80,967,053</b>	<b>81,372,311</b>
Additions .....	783,816	160,658	23,099,732	24,044,206
Disposals .....	—	(33,939)	(100,716)	(134,655)
<b>At January 1, 2004</b> .....	<b>939,384</b>	<b>376,409</b>	<b>103,966,069</b>	<b>105,281,862</b>
Additions .....	—	49,073	40,648,770	40,697,843
Disposals .....	(7,977)	—	(19,209)	(27,186)
<b>At January 1, 2005</b> .....	<b>931,407</b>	<b>425,482</b>	<b>144,595,630</b>	<b>145,952,519</b>
Additions .....	—	1,139,881	124,194,590	125,334,471
Disposals .....	—	(166,011)	(456,557)	(622,568)
<b>At December 31, 2005</b> .....	<b>931,407</b>	<b>1,399,352</b>	<b>268,333,663</b>	<b>270,664,422</b>

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**5 PROPERTY, PLANT AND EQUIPMENT—(Continued)**

	Land and buildings	Vehicles	Oil and gas producing assets	Total
<b>ACCUMULATED DEPRECIATION</b>				
<b>At January 1, 2003</b> .....	<b>(10,083)</b>	<b>(87,006)</b>	<b>(1,043,270)</b>	<b>(1,140,359)</b>
Charge for the year .....	(4,449)	(55,390)	(12,186,793)	(12,246,632)
Eliminated on disposals .....	—	15,144	—	15,144
<b>At January 1, 2004</b> .....	<b>(14,532)</b>	<b>(127,252)</b>	<b>(13,230,063)</b>	<b>(13,371,847)</b>
Charge for the year .....	(34,261)	(86,159)	(23,291,318)	(23,411,738)
Eliminated on disposals .....	1,276	—	2,101	3,377
<b>At January 1, 2005</b> .....	<b>(47,517)</b>	<b>(213,411)</b>	<b>(36,519,280)</b>	<b>(36,780,208)</b>
Charge for the year .....	(35,138)	(125,814)	(28,156,712)	(28,317,664)
Eliminated on disposals .....	—	7,413	73,686	81,099
<b>At December 31, 2005</b> .....	<b>(82,655)</b>	<b>(331,812)</b>	<b>(64,602,306)</b>	<b>(65,016,773)</b>
<b>CARRYING AMOUNT</b>				
At December 31, 2002 .....	145,485	162,684	79,923,783	80,231,952
At December 31, 2003 .....	924,852	249,157	90,736,006	91,910,015
At December 31, 2004 .....	883,890	212,071	108,076,350	109,172,311
At December 31, 2005 .....	848,752	1,067,540	203,731,357	205,647,649

Licenses for oil and gas exploration and exploitation at net book value of USD 4,150,093 (2004: USD 2,671,479) and other oil and gas equipment at net book value of USD 22,591,194 (2004: USD 26,790,026) are pledged to secure the Companies' borrowings.

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**6 INVENTORIES**

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Spare parts and other materials .....	3,593,529	1,070,071	1,269,636
Consumable materials .....	3,132,721	11,344,831	610,966
Construction materials .....	376,053	5,004	674
Finished goods .....	222,056	48,200	91,220
<b>Total inventories .....</b>	<b><u>7,324,359</u></b>	<b><u>12,468,106</u></b>	<b><u>1,972,496</u></b>

**7 TRADE AND OTHER RECEIVABLES**

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Trade receivables .....	72,247,105	37,529,127	23,893,265
Advances to suppliers .....	22,243,202	8,249,907	3,876,032
Tax and other receivable .....	11,066,312	3,296,852	2,784,530
Provision for doubtful debts .....	(809,038)	(125,262)	(125,262)
<b>Total trade and other receivables .....</b>	<b><u>104,747,581</u></b>	<b><u>48,950,624</u></b>	<b><u>30,428,565</u></b>

Trade receivables include USD 66,523,302 (2004: USD 34,151,775; 2003: USD 20,051,378) receivables for sales of petroleum products to related parties. Refer to Note 19 for details.

Advances to suppliers contain USD 16,073,611 (2004: USD 3,598,033; 2003: USD 3,162,421) paid to related parties. Refer to Note 19 for details.

Taxes receivable comprise mainly VAT due from the state amounting to USD 7,515,163 (2004: USD 3,206,265; 2003: USD 1,971,424) related to purchases of services, materials and spare parts.

There is no material difference between the carrying amount of trade and other receivable and their fair value.

**8 CASH AND CASH EQUIVALENTS**

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Cash at bank .....	1,035,371	269,749	5,520,501
Cash in hand .....	28,363	5,646	15,778
Cash equivalents .....	121,133	99,418	76,239
<b>Total cash and cash equivalents .....</b>	<b><u>1,184,867</u></b>	<b><u>374,813</u></b>	<b><u>5,612,518</u></b>

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**9 SHARE CAPITAL**

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

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

As described in Note 1, in May 2005 the Companies changed their legal form from Closed Joint Stock Corporation to Limited Liability Partnership.

**10 LOANS AND BORROWINGS**

The loans and borrowings are repayable as follows:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
On demand or within one year .....	8,988,392	10,758,520	31,551,017
In the second year .....	16,249,516	5,824,764	24,744,770
In the third to fifth years inclusive .....	48,748,548	34,948,584	6,949,233
After five years .....	<u>57,871,834</u>	<u>68,302,286</u>	<u>44,339,643</u>
<b>Total</b> .....	<b><u>131,858,290</u></b>	<b><u>119,834,154</u></b>	<b><u>107,584,663</u></b>
Less: Amount due for settlement within 12 months (shown under current liabilities) .....	(8,988,392)	(10,758,520)	(31,551,017)
<b>Amount due for settlement after 12 months</b> .....	<b><u>122,869,898</u></b>	<b><u>109,075,634</u></b>	<b><u>76,033,646</u></b>
Including:			
Long-term bank loans .....	77,390,688	61,079,080	31,694,003
Long-term borrowings from non-financial institutions .....	<u>45,479,210</u>	<u>47,996,554</u>	<u>44,339,643</u>

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**10. LOANS AND BORROWINGS—(Continued)**

<u>Lender</u>	<u>Borrowing entity</u>	<u>Original currency</u>	<u>Collateral</u>	<u>Interest rate</u>	<u>Loan facility outstanding as at December 31, 2005</u>	<u>Loan facility outstanding as at December 31, 2004</u>	<u>Loan facility outstanding as at December 31, 2003</u>
Kazkommerzbank .....	Tolkymneftegaz LLP	USD	Syndicated loan originally subscribed by Kazkommerzbank and National Saving Bank of Kazakhstan and entirely taken over by Kazkommerzbank in 2005 is secured by the right to exploitation and exploration of oil-fields with net book value USD 4.1 m (2004: USD 0.8 m); fixed assets such as fixtures, pipe lines and equipment owned by Tolkymneftegaz with net book value USD 22.6 m (2004: USD 24.6 m).	11%	86,379,080	42,389,540	38,651,566
National Savings Bank of Kazakhstan	Tolkymneftegaz LLP	USD		11%	—	18,689,540	—
Kazkommerzbank .....	Kazpolmunay LLP	USD	Right to exploration and exploitation of oil-fields with net book value of USD 1.9 m; fixed assets such as fixtures, pipe-lines and other assets with net book value of USD 2.2 m.	13.5% From Aug 2004 - 10%	—	5,689,484	24,593,454
National Savings Bank of Kazakhstan	Kazpolmunay LLP	USD	Guarantee from Kazkommerzbank in amount of USD 5.1 m.	11%	—	5,069,036	—
<b>Total bank loans</b> .....					<u>86,379,080</u>	<u>71,837,600</u>	<u>63,245,020</u>

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**10 LOANS AND BORROWINGS—(Continued)**

<u>Lender</u>	<u>Borrowing entity</u>	<u>Original currency</u>	<u>Collateral</u>	<u>Interest rate</u>	<u>Loan facility outstanding as at December 31, 2005</u>	<u>Loan facility outstanding as at December 31, 2004</u>	<u>Loan facility outstanding as at December 31, 2003</u>
Terra Raf Trans Traiding Ltd. . . . .	Kazpolmunay LLP	USD	Unsecured	16.52%	14,250,579	14,676,803	12,276,803
Terra Raf Trans Traiding Ltd. . . . .	Tolkynneftegaz LLP	USD	Unsecured	15%	28,711,054	30,713,997	29,714,012
Terra Raf Trans Traiding Ltd. . . . .	Tolkynneftegaz LLP	KZT	Unsecured	15%	2,517,577	2,605,754	2,348,828
<b>Total borrowings from related parties . . . . .</b>					<b>45,479,210</b>	<b>47,996,554</b>	<b>44,339,643</b>
<b>Total loans and borrowings . . . . .</b>					<b>131,858,290</b>	<b>119,834,154</b>	<b>107,584,663</b>

The loan from Kazcommerzbank is repayable in installments, as follows:

<u>Year</u>	<u>Amount</u>
2006 . . . . .	8,988,392
2007 . . . . .	16,249,516
2008 . . . . .	16,249,516
2009 . . . . .	16,249,516
2010 . . . . .	16,249,516
2011 . . . . .	12,392,624
<b>Total . . . . .</b>	<b>86,379,080</b>

The loans from Terra Raf Trans Traiding Ltd. are repayable upon expiry of the field licenses.

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**11 INCOME TAX**

Structure of tax expense is as follows:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Corporate income tax .....	23,591,977	2,866,708	37,292
Excess profit tax .....	6,469,634	—	—
<b>Current tax</b> .....	<b>30,061,611</b>	<b>2,866,708</b>	<b>37,292</b>
Corporate income tax .....	15,769,183	15,418,431	6,043,270
Excess profit tax .....	11,612,897	—	—
<b>Deferred tax</b> .....	<b>27,382,080</b>	<b>15,418,431</b>	<b>6,043,270</b>
<b>Income tax expense</b> .....	<b>57,443,691</b>	<b>18,285,139</b>	<b>6,080,562</b>

According to Kazakh tax legislation specific for extraction industry the Companies' operations are subject to excess profit tax. Excess profit tax is charged at rates of between 0 and 30% on net income according to the level of domestic profit rate as defined by Kazakh legislation. For 2005 excess profit tax was charged on the profits of KPM at 18% (2004 and 2003: 0%). TNG did not have an excess profit tax liability for any of the three years.

The total tax charge for the year can be reconciled to the accounting profit as follows:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Profit before tax .....	129,751,126	46,998,130	17,830,675
Statutory tax rate .....	30%	30%	30%
Profit tax on profit for the year .....	38,925,338	14,099,439	5,349,203
Effect of excess profit tax .....	18,082,531	—	—
Effect of penalties .....	682,000	622,000	487,000
Effect of exchange differences .....	(898,413)	2,016,983	78,803
Effect of permanent differences .....	652,235	1,546,717	165,556
<b>Income tax expense in income statement</b> .....	<b>57,443,691</b>	<b>18,285,139</b>	<b>6,080,562</b>

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**11 INCOME TAX—(Continued)**

	As at January 1, 2005	Effect of foreign exchange differences	Net movement	As at December 31, 2005
<b>Deferred Tax Assets</b>				
Intangible assets	1,251,052	(35,258)	(144,896)	1,070,898
Tax losses brought forward	10,656,878	(300,340)	(4,375,289)	5,981,249
Other	1,379,400	(38,875)	6,467,058	7,807,583
<b>Net deferred tax assets</b>	<b>13,287,330</b>	<b>(374,473)</b>	<b>1,946,873</b>	<b>14,859,730</b>
<b>Deferred Tax Liabilities</b>				
Property, plant and equipment	(35,660,909)	1,005,021	(38,264,551)	(72,920,439)
Intangible assets	(86,800)	2,446	(3,310,294)	(3,394,648)
<b>Deferred tax liabilities</b>	<b>(35,747,709)</b>	<b>1,007,467</b>	<b>(41,574,845)</b>	<b>(76,315,087)</b>
<b>Net deferred tax position</b>	<b>(22,460,379)</b>	<b>632,994</b>	<b>(39,627,972)</b>	<b>(61,455,357)</b>

**12 TRADE AND OTHER PAYABLES**

	December 31, 2005	December 31, 2004	December 31, 2003
Trade payables	8,212,871	2,828,372	4,019,573
Historical cost obligation to state (See Note 20)	10,858,642	—	—
Salaries and related taxes	537,838	495,611	184,295
Interest payable	898,899	815,567	9,843,487
Other payables	187,283	195,919	125,487
<b>Total trade and other payables</b>	<b>20,695,533</b>	<b>4,335,469</b>	<b>14,172,842</b>

Trade payables include USD 6,747,234 (2004: USD 1,610,685; 2003: USD 2,077,042) payable to related parties. Refer to Note 19 for details.

There is no material difference between the carrying amount of trade and other payables and their fair value.

**13 SALES**

	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
Sales of extracted products	207,147,195	125,574,554	62,087,097
Sales of purchased products	2,404,887	403,933	2,584,515
<b>Total sales</b>	<b>209,552,082</b>	<b>125,978,487</b>	<b>64,671,612</b>



**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**13 SALES—(Continued)**

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

	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004</u>	<u>Year ended December 31, 2003</u>
Sales of crude oil and condensate .....	182,202,790	102,469,007	53,606,628
Sales of gas .....	27,310,303	23,486,194	11,064,984
Sales of self-produced electricity .....	38,989	23,286	—
<b>Total sales</b> .....	<b><u>209,552,082</u></b>	<b><u>125,978,487</u></b>	<b><u>64,671,612</u></b>

Sales of crude oil include sales made in Kazakhstan in accordance with the requirement of local legislation amounted to USD 3,386,435 during 2005 (2004: USD 3,446,179; 2003: USD 3,896,704) and export sales to related parties amounted to USD 178,816,355 (2004: USD 99,022,828; 2003: 49,709,924). Refer to Note 19 for details.

**14 COST OF SALES**

	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004</u>	<u>Year ended December 31, 2003</u>
Depreciation and amortization .....	28,156,712	23,296,470	12,142,441
Royalty .....	7,904,366	3,521,294	1,411,580
Salaries and related costs .....	6,269,840	4,253,582	2,067,215
Material costs .....	5,239,901	4,931,439	212,332
Transportation expenses .....	3,332,852	3,931,736	3,498,543
Maintenance services .....	1,938,645	1,122,579	—
Security services .....	974,653	271,277	669,754
Other expenses .....	4,094,523	12,787,887	9,510,816
<b>Cost of sales of extracted products</b> .....	<b><u>57,911,492</u></b>	<b><u>54,116,264</u></b>	<b><u>29,512,681</u></b>
Cost of sales of products purchased for resale .....	2,187,372	288,364	74,614
<b>Total cost of sales</b> .....	<b><u>60,098,864</u></b>	<b><u>54,404,628</u></b>	<b><u>29,587,295</u></b>

Royalties are calculated on the value of the produced mineral resources and are paid in cash on a monthly basis. Royalties for hydrocarbons are calculated on the basis of the average selling price for a month, exclusive of indirect taxes and reduce by the cost of transportation expenses to the place of sale. The Operating Contracts of the Companies specify Royalty payment at rates of between 2 and 7%.

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**15 OTHER INCOME**

Other operating income refers to revenues other than from sale of hydrocarbons and mainly arises from transactions with related parties.

	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
Sales of materials and other services net of cost .....	67,777	108,462	350,295
Rental income .....	1,523,362	1,116,656	837,674
Other income .....	113,378	122,262	456
<b>Total other income .....</b>	<b>1,704,517</b>	<b>1,347,380</b>	<b>1,188,425</b>

**16 DISTRIBUTION COSTS**

	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
Pipeline transportation of oil, condensate and gas .....	6,959,827	13,741,375	9,915,614
Oil storage .....	2,987,661	1,377,271	—
Oil processing and transportation .....	187,406	338,669	681,823
Other expenses .....	82,248	246,948	633,070
<b>Total distribution costs .....</b>	<b>10,217,142</b>	<b>15,704,263</b>	<b>11,230,507</b>

**17 ADMINISTRATIVE EXPENSES**

	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
Salaries and related costs .....	802,894	508,677	667,023
Taxes and duties .....	759,585	486,391	174,691
Personnel training .....	341,840	496,314	150,221
Depreciation and amortization .....	160,952	115,268	104,191
Other expenses .....	1,016,898	901,138	638,112
<b>Total administrative expenses .....</b>	<b>3,082,169</b>	<b>2,507,788</b>	<b>1,734,238</b>

**18 INTEREST EXPENSE**

	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
Interest on bank overdrafts and loans .....	9,261,535	7,447,430	9,696,805
Interest on borrowings .....	7,711,490	7,697,032	5,645,877
<b>Total borrowing costs .....</b>	<b>16,973,025</b>	<b>15,144,462</b>	<b>15,342,682</b>
Less: amounts included in the cost of qualifying assets .....	(13,566,681)	(7,960,904)	(11,550,390)
<b>Interest expense .....</b>	<b>3,406,344</b>	<b>7,183,558</b>	<b>3,792,292</b>

Interest included in the cost of qualifying asset relates to loans taken for specific projects.

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**19 RELATED PARTY TRANSACTIONS**

Related parties are entities with common direct or indirect shareholders, directors or management. A significant proportion of the Companies' business is conducted through transactions with related parties and effect of these on the basis determined between the related parties is reflected below. The transactions between the related parties are based on mutual agreements and may not always be on an arms length basis.

During the year, the Companies entered into the following transactions with related parties:

	Sales of goods and services			Purchase of goods and services, interest payable		
	Year ended			Year ended		
	December 31, 2005	December 31, 2004	December 31, 2003	December 31, 2005	December 31, 2004	December 31, 2003
Arpega Trading S.R.L .....	—	—	—	—	—	—
Ascom S.A. ....	—	—	—	919,315	752,624	637,500
General Affinity Ltd .....	29,554,495	—	—	—	—	—
Kasko LLP .....	2,469,153	2,083,503	1,256,989	76,622,356	46,474,860	19,245,605
Portlend Oil Processing Inc. ....	49,646,380	41,502,050	16,078,505	—	—	—
Stadoil Ltd. ....	34,905,129	—	—	—	—	—
Stanley Trading Company Ltd .....	64,710,351	57,520,778	—	—	—	—
Terra Raf Trans Trading Ltd. ....	—	—	33,631,419	7,736,490	7,697,032	6,140,285
<b>Total</b> .....	<b>181,285,508</b>	<b>101,106,331</b>	<b>50,966,913</b>	<b>85,278,161</b>	<b>54,924,516</b>	<b>26,023,390</b>

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**19 RELATED PARTY TRANSACTIONS—(Continued)**

	Amounts owed by related parties		Amounts owed to related parties	
	Year ended		Year ended	
	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004
Arpega Trading S.R.L . . . . .	22,560	36,284	—	—
Ascom S.A. . . . .	—	—	160,880	173,120
General Affinity Ltd . . . . .	29,240,705	—	—	—
Kasko LLP . . . . .	16,051,051	3,562,462	6,586,354	1,437,565
Portlend Oil Processing Inc. . . . .	10,957,763	16,766,514	—	—
Stadoil Ltd. . . . .	26,324,834	—	—	—
Stanley Trading Company Ltd . . . . .	—	17,384,548	—	—
Terra Raf Trans Traiding Ltd. . . . .	—	—	45,479,210	47,996,554
<b>Total</b> . . . . .	<b>82,596,913</b>	<b>37,749,808</b>	<b>52,226,444</b>	<b>49,607,239</b>
				<b>46,416,685</b>

Transactions and balances with General Affinity Ltd, Portlend Oil Processing Inc, Stadoil Ltd and Stanley Trading Company Ltd relate to the sale of oil.

Transactions with Arpega Trading S.R.L., a fellow subsidiary of KPM, represent acquisition of equipment.

Transactions with Ascom S.A., the parent company of KPM, represent seismic services.

The Companies receive loans from Terra Raf Traiding Ltd, the parent company of TNG (See Note 10 for details).

Kasko LLP supplies drilling, maintenance and construction services to the Companies.

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**20 COMMITMENTS**

*(a) Commercial Discovery Bonus*

The Companies are liable for a commercial discovery bonus (the “Bonus”) payable to the Kazakh State at the point at which the commerciality of a field is formally declared. It is expected that this will occur in early 2007 in respect of the Tolky field and in late 2007 in respect of the Borankol field. The Bonus is payable at a rate of 0.05% on the additional reserves discovered in excess of those stipulated in the relevant contract. Although not clearly stipulated by the contracts, management believes that the Bonus will be paid at the market prices current at the date of the declaration of commerciality. As at December 31, 2005 management is not able to estimate reliably the amount that will be payable.

*(b) Historical Obligation*

The Companies are liable under the Operating Contracts to reimburse the Government for exploration costs incurred prior to the beginning of the current license agreements at the point at which commerciality is declared. The costs in respect of the Borankol and Tolky fields, amounting to USD 6,760,332 and USD 4,098,310 respectively, have been accrued in the 2005 financial statements at the point at which management determined that it was probable that commerciality would be declared. No liability has been recorded for the historical costs related to the Tabyl field, amounting to USD 3,108,430 as it has not yet been determined whether the field will be commercial.

*(c) Commitments on Training Kazakh Employees*

Under the conditions of the Operating Agreement the Companies are liable to train Kazakh employees. The size of annual training expense is calculated based on the results of Companies’ operations and is not expected to be significant.

*(d) Minimum Investment Commitments*

Commitments for the Tabyl oil-field represents USD 27,300,000 from which as at December 31, 2005 was spent USD 16,825,161. The remaining value of investment to be done is USD 10,474,839.

**21 CONTINGENT LIABILITIES**

There were no significant contingent liabilities as at December 31, 2005.

**22 FINANCIAL INSTRUMENTS**

Following is a summary of the nature of activities and management policies with respect to financial instruments.

**Foreign Exchange**

The Companies undertake transactions denominated in foreign currencies and exposure in foreign currencies fluctuation results from these activities. The Companies do not hedge their foreign currency risks.

**Interest Rate**

The Companies have borrowings on both fixed and floating interest rate terms and are therefore exposed to both interest price and interest rate cash flow risk.

**KAZPOLMUNAY LLP AND TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE COMBINED FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**22 FINANCIAL INSTRUMENTS—(Continued)**

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate that applies to the financial instrument. Interest rate flow risk is the risk that the interest cost will fluctuate over time.

Management monitors its interest rate risk exposure on a continuous basis.

**Credit Risk**

In the normal course of their business, the Companies incur credit risk on trade debts and on funds deposited with financial institutions. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Companies' management based on prior experience.

**TOLKYNNEFTEGAZ LLP**

**UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED  
SEPTEMBER 30, 2006 AND 2005**

**TOLKYNNEFTEGAZ LLP**  
**CONDENSED BALANCE SHEETS**  
**AS AT SEPTEMBER 30, 2006 AND DECEMBER 31, 2005**  
(all amounts expressed in US dollars)

	<u>September 30, 2006 (Unaudited)</u>	<u>December 31, 2005 (Audited)</u>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets .....	19,315,008	19,115,979
Property, plant and equipment .....	182,050,446	123,261,172
<b>Total non-current assets .....</b>	<b>201,365,454</b>	<b>142,377,151</b>
<b>Current assets</b>		
Inventories .....	8,175,822	5,573,363
Trade and other receivables .....	154,412,039	72,255,034
Cash and cash equivalents .....	17,085,225	442,866
<b>Total current assets .....</b>	<b>179,673,086</b>	<b>78,271,263</b>
<b>Total assets .....</b>	<b>381,038,540</b>	<b>220,648,414</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Shareholders' equity</b>		
Share capital .....	73,257	73,257
Retained earnings .....	105,880,771	59,309,507
<b>Total shareholders' equity .....</b>	<b>105,954,028</b>	<b>59,382,764</b>
<b>Non-current liabilities</b>		
Long-term bank loans .....	125,132,824	77,390,688
Other long-term borrowings .....	55,290,924	31,228,631
Deferred tax liability .....	51,343,030	30,487,631
<b>Total non-current liabilities .....</b>	<b>231,766,778</b>	<b>139,106,950</b>
<b>Current liabilities</b>		
Trade and other payables .....	14,422,155	8,790,411
Tax payables .....	6,296,939	4,379,897
Short-term bank loans .....	22,598,640	8,988,392
<b>Total current liabilities .....</b>	<b>43,317,734</b>	<b>22,158,700</b>
<b>Total liabilities and shareholders' equity .....</b>	<b>381,038,540</b>	<b>220,648,414</b>

The notes on page F-40 form an integral part of these financial statements.



**TOLKYNNEFTEGAZ LLP**  
**CONDENSED INCOME STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**  
(all amounts expressed in US dollars)

	Nine months ended September 30, 2006 (Unaudited)	Nine months ended September 30, 2005 (Unaudited)
Sales .....	96,261,822	80,165,738
Cost of sales .....	(30,342,325)	(23,731,172)
<b>Gross profit</b> .....	<b>65,919,497</b>	<b>56,434,566</b>
Other income .....	4,142,366	3,923,008
Distribution costs .....	(707,802)	(592,177)
Administrative expenses .....	(4,881,995)	(1,340,282)
Other operating expenses .....	(1,941,034)	(2,207,915)
<b>Operating profit</b> .....	<b>62,531,032</b>	<b>56,217,200</b>
Interest expense .....	(1,305,211)	(1,337,240)
Exchange gains .....	6,200,843	2,983,662
<b>Net profit before tax</b> .....	<b>67,426,664</b>	<b>57,863,622</b>
Income tax expense .....	(20,855,400)	(16,613,190)
<b>Net profit</b> .....	<b>46,571,264</b>	<b>41,250,432</b>

The notes on page F-40 form an integral part of these financial statements.

**TOLKYNNEFTEGAZ LLP**  
**CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**  
(all amounts expressed in US dollars)

	<u>Share capital (Unaudited)</u>	<u>Retained earnings (Unaudited)</u>	<u>Total (Unaudited)</u>
<b>Balance at December 31, 2004</b> .....	<b>73,257</b>	<b>9,845,275</b>	<b>9,918,532</b>
Net profit for the nine months ended September 30, 2005 .....	—	41,250,432	41,250,432
<b>Balance at September 30, 2005</b> .....	<b>73,257</b>	<b>51,095,707</b>	<b>51,168,964</b>
Net profit for the three months ended December 31, 2005 .....		8,213,800	8,213,800
<b>Balance at December 31, 2005</b> .....	<b>73,257</b>	<b>59,309,507</b>	<b>59,382,764</b>
Net profit for the nine months ended September 30, 2006 .....	—	46,571,264	46,571,264
<b>Balance at September 30, 2006</b> .....	<b>73,257</b>	<b>105,880,771</b>	<b>105,954,028</b>

The notes on page F-40 form an integral part of these financial statements.

**TOLKYNNEFTEGAZ LLP**  
**CONDENSED CASH FLOW STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**  
(all amounts expressed in US dollars)

	Nine months ended September 30, 2006 (Unaudited)	Nine months ended September 30, 2005 (Unaudited)
<b>Cash flow from operating activities</b>		
Net profit before tax .....	<b>67,426,664</b>	<b>57,863,622</b>
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment .....	18,685,534	13,006,839
Interest expense .....	1,305,210	1,337,240
Change in provision for doubtful debts .....	(1,423,075)	576,230
Loss on disposals of property, plant and equipment .....	41,083	45,293
<b>Cash provided by operations before working capital changes .....</b>	<b>86,035,416</b>	<b>72,829,224</b>
Increase in trade and other receivables .....	(10,462,814)	(49,304,589)
(Decrease)/Increase in inventories .....	(2,602,459)	342,851
Increase in trade and other payables .....	5,010,605	4,686,875
<b>Cash provided by operations .....</b>	<b>77,980,748</b>	<b>28,554,361</b>
Interest paid .....	(12,906,155)	(9,679,957)
<b>Net cash provided by operating activities .....</b>	<b>65,074,593</b>	<b>18,874,404</b>
Purchase of property, plant and equipment .....	(133,647,881)	(37,671,338)
Increase in intangible assets .....	(199,029)	(1,863,827)
Proceeds from sales of property, plant and equipment .....	—	10,194
<b>Net cash used in investing activities .....</b>	<b>(133,846,910)</b>	<b>(39,524,971)</b>
<b>Cash flow from financing activities</b>		
Repayment of borrowings .....	(1,318,179)	—
Proceeds from long-term borrowing .....	86,732,855	23,207,796
<b>Net cash from financing activities .....</b>	<b>85,414,676</b>	<b>23,207,796</b>
Net increase in cash and cash equivalents .....	16,642,359	2,557,229
<b>Cash and cash equivalents at beginning of the period .....</b>	<b>442,866</b>	<b>215,273</b>
<b>Cash and cash equivalents at the end of the period .....</b>	<b>17,085,225</b>	<b>2,772,502</b>

The notes on page F-40 form an integral part of these financial statements.

## TOLKYNNEFTEGAZ LLP

### NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (all amounts expressed in US dollars)

#### 1. BASIS OF PREPARATION

The interim financial information in this report is prepared on the basis of the accounting policies set out in the Financial Statements of Tolkynneftegaz LLP (“the Company”) for the year ended December 31, 2005 and using accounting policies consistent with International Financial Reporting Standards, including IAS 34 “Interim Financial Reporting” (except for the non-inclusion of information related to the most recent quarter). The interim financial information for the nine months ended September 30, 2006 and 2005 presented here is unaudited.

#### 2. COMMITMENTS

##### *(a) Minimum investment commitments*

Commitments for the Taby1 oil-field represent USD 27,300,000 from which as at September 2006 was spent USD 19,315,008. The remain value of investment to be done is USD 7,984,992.

##### *(b) Capital commitments*

At September 30, 2006 the Company had entered into contractual commitments for the acquisition of property, plant and equipment amounting to approximately USD 115,000,000 from which the outstanding unpaid balance amounted to USD 46,845,204.

#### 3. SUBSEQUENT EVENTS

In November 2006 the Company agreed to act as guarantor in respect of a \$300,000,000 Offering of Senior Secured Notes by Tristan Oil Ltd. (“Tristan”), a related party. The Offering is due to be completed after the date of this report. On completion Tristan will lend approximately \$172,000,000 of the proceeds to the Company. On receipt of the proceeds it is intended that the Company will repay in full its loan from Kazcommerzbank. At September 30, 2006 the amount due to Kazcommerzbank, including accrued interest, was \$149,182,950. In accordance with the terms of the loan agreement the Company will also pay an early repayment penalty of approximately \$13,000,000. No provision has been made at September 30, 2006 for this repayment penalty.

**TOLKYNNEFTEGAZ LLP**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2005, 2004 AND 2003**



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To the Shareholders  
Tolkynneftegaz LLP  
Aktau, Republic of Kazakhstan

### Independent Auditors' Report

We have audited the accompanying balance sheets of Tolkynneftegaz LLP (the "Company") as of December 31, 2005, 2004 and 2003 and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Prior to the year ended December 31, 2005 we were appointed auditors subsequent to each year end. In consequence we were not able to observe the counting of the physical inventories at December 31, 2004 or at any prior year end. As we could not satisfy ourselves as to inventory quantities by alternative means, we were unable to determine whether adjustments might have been required to opening retained earnings at January 1, 2003, to the balance sheets at December 31, 2003 or 2004, or to the results for the years ended December 31, 2003, 2004 or 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to inventory quantities at year ends prior to December 31, 2005, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2005, 2004 and 2003 and the results of its operations, changes in shareholders' equity and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte Audit S.R.L.  
Bucharest, Romania  
November 14, 2006

Audit • Tax • Consulting • Financial Advisory •

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**TOLKYNNEFTEGAZ LLP**  
**BALANCE SHEETS**  
**AS AT DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

	<u>Notes</u>	<u>December 31, 2005</u>	<u>December 31, 2004 (As restated)</u>	<u>December 31, 2003 (As restated)</u>
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Intangible assets .....	4	19,115,979	16,825,161	6,375,794
Property, plant and equipment .....	5	<u>123,261,172</u>	<u>58,660,153</u>	<u>55,488,582</u>
<b>Total non-current assets .....</b>		<b>142,377,151</b>	<b>75,485,314</b>	<b>61,864,376</b>
<b>Current Assets</b>				
Inventories .....	6	5,573,363	12,079,230	1,381,274
Trade and other receivables .....	7	72,255,034	28,950,013	16,816,199
Cash and cash equivalents .....	8	<u>442,866</u>	<u>215,273</u>	<u>3,859,304</u>
<b>Total current assets .....</b>		<b>78,271,263</b>	<b>41,244,516</b>	<b>22,056,777</b>
<b>Total assets .....</b>		<b>220,648,414</b>	<b>116,729,830</b>	<b>83,921,153</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Shareholders' Equity</b>				
Share capital .....	9	73,257	73,257	73,257
Retained earnings .....		<u>59,309,507</u>	<u>9,845,275</u>	<u>(3,129,798)</u>
<b>Total shareholders' equity .....</b>		<b>59,382,764</b>	<b>9,918,532</b>	<b>(3,056,541)</b>
<b>Non-Current Liabilities</b>				
Long-term bank loans .....	10	77,390,688	61,079,080	24,751,393
Other long-term borrowings .....	10	31,228,631	33,319,751	32,062,840
Deferred tax liability .....	11	<u>30,487,631</u>	<u>8,336,711</u>	<u>1,224,367</u>
<b>Total non-current liabilities .....</b>		<b>139,106,950</b>	<b>102,735,542</b>	<b>58,038,600</b>
<b>Current Liabilities</b>				
Trade and other payables .....	12	8,790,411	1,914,492	14,089,665
Tax payables .....		4,379,897	2,161,264	949,256
Short-term bank loans .....	10	<u>8,988,392</u>	<u>—</u>	<u>13,900,173</u>
<b>Total current liabilities .....</b>		<b>22,158,700</b>	<b>4,075,756</b>	<b>28,939,094</b>
<b>Total liabilities and shareholders' equity .....</b>		<b>220,648,414</b>	<b>116,729,830</b>	<b>83,921,153</b>

The notes on pages F-47 to F-68 form an integral part of these financial statements.

**TOLKYNNEFTEGAZ LLP**  
**INCOME STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

	Notes	Year ended December 31, 2005	Year ended December 31, 2004 (As restated)	Year ended December 31, 2003 (As restated)
Sales .....	13	109,351,000	61,847,404	28,751,162
Cost of sales .....	14	(37,685,071)	(35,651,933)	(17,432,158)
<b>Gross profit</b> .....		<b>71,665,929</b>	<b>26,195,471</b>	<b>11,319,004</b>
Other income .....	15	5,093,727	5,670,693	2,539,815
Distribution costs .....	16	(654,380)	(6,086,893)	(3,562,306)
Administrative expenses .....	17	(1,782,550)	(1,607,662)	(1,318,507)
Other operating expenses .....		(2,994,096)	(1,236,522)	(1,017,656)
<b>Operating profit</b> .....		<b>71,328,630</b>	<b>22,935,087</b>	<b>7,960,350</b>
Interest expense .....	18	(1,778,459)	(4,925,903)	(3,792,292)
Exchange gains .....		2,064,981	2,078,233	134,101
<b>Net profit before tax</b> .....		<b>71,615,152</b>	<b>20,087,417</b>	<b>4,302,159</b>
Income tax expense .....	11	(22,150,920)	(7,112,344)	(1,536,179)
<b>Net profit</b> .....		<b>49,464,232</b>	<b>12,975,073</b>	<b>2,765,980</b>

The notes on pages F-47 to F-68 form an integral part of these financial statements.



**TOLKYNNEFTEGAZ LLP**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

	<u>Share Capital</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Balance at December 31, 2002 (as previously reported)</b> .....	<b>73,257</b>	<b>(2,614,683)</b>	<b>(2,541,426)</b>
Prior period impact of restatements (see Note 23) .....		(3,281,095)	(3,281,095)
<b>Balance at December 31, 2002</b> .....	<b>73,257</b>	<b>(5,895,778)</b>	<b>(5,822,521)</b>
Profit for the year .....	—	2,765,980	2,765,980
<b>Balance at December 31, 2003</b> .....	<b>73,257</b>	<b>(3,129,798)</b>	<b>(3,056,541)</b>
Profit for the year .....	—	12,975,073	12,975,073
<b>Balance at December 31, 2004</b> .....	<b>73,257</b>	<b>9,845,275</b>	<b>9,918,532</b>
Profit for the year .....	—	49,464,232	49,464,232
<b>Balance at December 31, 2005</b> .....	<b>73,257</b>	<b>59,309,507</b>	<b>59,382,764</b>

The notes on pages F-47 to F-68 form an integral part of these financial statements.

**TOLKYNNEFTEGAZ LLP**  
**CASH FLOW STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

	<u>Notes</u>	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004 (As restated)</u>	<u>Year ended December 31, 2003 (As restated)</u>
<b>Cash Flow from Operating Activities</b>				
<b>Net profit before tax</b> .....		<b>71,615,152</b>	<b>20,087,417</b>	<b>4,302,159</b>
<i>Adjustments for:</i>				
Depreciation of property, plant and equipment .....		22,859,079	19,370,948	8,921,026
Interest expense .....		1,778,459	4,925,903	3,792,292
Change in provision for doubtful debts .....		683,776	—	—
Loss/(gain) on disposals of fixed assets .....		519,158	(9,040)	(70)
<b>Cash provided by operations before working capital changes</b> .....		<b>97,455,624</b>	<b>44,375,228</b>	<b>17,015,407</b>
Increase in trade and other receivables .....		(43,988,797)	(12,133,814)	(7,759,264)
Decrease / (increase) in inventories .....		6,505,867	(10,697,956)	(700,125)
Increase / (decrease) in trade and other payables .....		4,845,902	(2,605,598)	(8,412,666)
<b>Cash provided by operations</b> .....		<b>64,818,596</b>	<b>18,937,860</b>	<b>143,352</b>
Income tax paid .....		—	—	—
Interest paid .....		(14,157,691)	(19,316,117)	(1,279,832)
<b>Net cash provided by operating activities</b> .....		<b>50,660,905</b>	<b>(378,258)</b>	<b>(1,136,480)</b>
<b>Cash Flow from Investing Activities</b>				
Purchase of fixed assets .....		(71,373,685)	(16,517,123)	(7,006,312)
Increase in intangible assets .....		(2,290,818)	(10,449,367)	(4,520,291)
Proceeds from sales of fixed assets .....		22,311	16,291	100,786
<b>Net cash used in investing activities</b> .....		<b>(73,642,192)</b>	<b>(26,950,199)</b>	<b>(11,425,817)</b>
<b>Cash Flow from Financing Activities</b>				
Repayment of borrowings .....		(2,002,943)	(32,592,584)	(2,157,903)
Proceeds from long-term borrowing .....		25,211,823	56,277,009	18,407,084
<b>Net cash used in financing activities</b> .....		<b>23,208,880</b>	<b>23,684,425</b>	<b>16,249,181</b>
Net increase / (decrease) in cash and cash equivalents .....		227,593	(3,644,031)	3,686,884
<b>Cash and cash equivalents at beginning of the year</b> .....	<b>8</b>	<b>215,273</b>	<b>3,859,304</b>	<b>172,420</b>
<b>Cash and cash equivalents at the end of the year</b> .....	<b>8</b>	<b>442,866</b>	<b>215,273</b>	<b>3,859,304</b>

The notes on pages F-47 to F-68 form an integral part of these financial statements.

**TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**1 GENERAL INFORMATION**

Tolkynneftegaz LLP (further referred to as the “Company” or “Tolkynneftegaz”) is a company incorporated in Republic of Kazakhstan. The address of the registered office is 130000, Republic of Kazakhstan, Mangistau region, Aktau, micro-district 3”a”, building 5.

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

Tolkynneftegaz is a 100% subsidiary of Terra Raf Trans Trading Ltd. (registered in Gibraltar). The ultimate shareholders of Tolkynneftegaz are Anatol Stati, Larisa Stati and Gabriel Stati, all citizens of the Republic of Moldova.

The Company’s operations are located in the Caspian region and the Company’s principal business activities include oil and gas well drilling and extraction, exploration of promising oil and gas bearing terrains, construction of oil-field facilities, pipelines and reservoirs.

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

<u>Oil-field</u>	<u>License Number</u>	<u>Type of License</u>	<u>Stage of Development</u>	<u>Period of production</u>
Tolkyn .....	242	Oil and gas	Production	Until 2018
Tabyl .....	243	Oil and gas	Exploration	Not yet granted

**2 STATEMENT OF ACCOUNTING POLICIES**

**Basis of Preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The financial statements have been prepared on a historical cost basis. The principal accounting policies adopted are set out below.

**Adoption of New and Revised International Financial Reporting Standards (“IFRS”)**

During the year the Company adopted a number of new and revised International Financial Reporting Standards. None of these had a material impact on the financial statements for the current or prior years.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

*IFRS*

IFRS 6 Exploration for and Evaluation of Mineral Resources (effective date annual periods beginning on or after January 1, 2006)

IFRS 7 Financial Instruments: Disclosures (effective date annual periods beginning on or after January 1, 2007).

**TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**2 STATEMENT OF ACCOUNTING POLICIES—(Continued)**

*IFRIC Interpretations*

IFRIC 4 Determining Whether an Arrangement Contains a Lease (effective date annual periods beginning on or after January 1, 2006)

IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective date annual periods beginning on or after January 1, 2006)

IFRIC 6 Liabilities Arising from Participating in a specific Market – Waste Electrical and Electronic Equipment (effective date annual periods beginning on or after December 1, 2005)

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective date annual periods beginning on or after March 1, 2006)

IFRIC 8 Scope of IFRS 2 (effective date annual periods beginning on or after May 1, 2006)

IFRIC 9 Reassessment of Embedded Derivatives (effective date annual periods beginning on or after June 1, 2006)

IFRIC 10 Interim Financial Reporting and Impairment (effective date annual periods beginning on or after November 1, 2006)

Management anticipates that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Company.

**Property, Plant and Equipment and Intangible Assets**

All property, plant and equipment is shown at cost less subsequent accumulated depreciation and subsequent accumulated impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and when the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

*(a) Oil and Gas Exploration, Evaluation and Development Expenditure*

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

Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement. Expenditure incurred on the acquisition of a license interest is initially capitalized as an intangible asset on a license by license basis. Costs are held, undepleted, within exploration until such time as the exploration phase on the license area is complete or commercial reserves have been discovered.

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

Following appraisal of successful exploration of a field, if commercial reserves are established and technical feasibility for extraction demonstrated, then the related capitalized costs are transferred to property, plant and equipment.

**TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**2 STATEMENT OF ACCOUNTING POLICIES—(Continued)**

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

*(b) Depreciation of Oil and Gas Producing Assets*

In 2005 the Company changed its accounting policy for the depreciation of its oil and gas properties to a unit of production basis that is calculated to write off the historic cost of each asset including license cost in line with the depletion of proved developed reserves from the commencement of production. The net book values of producing assets are depreciated on a field by field basis by reference to the ratio of oil and gas production in the period to the estimated quantity of commercial reserves at the end of the period plus the production in the period.

In previous periods such properties were depreciated, in the absence of reliable reserves data, on a straight-line basis starting with commissioning date, over the lower of the remaining exploration and exploitation period under the license and the average useful life of the oil and gas properties considered to be 15 years.

Following the provisions of the revised IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* (“IAS 8”), prior year financial statements have been restated, as detailed in note 25 “Changes in Accounting Policy and Errors” below.

*(c) Other*

Depreciation on other property, plant and equipment (except land, which is not depreciated) is calculated using the straight-line method to allocate their costs less their residual values over their estimated useful lives, as follows:

Buildings . . . . .	50 years
Machinery and equipment . . . . .	10 to 15 years
Vehicles . . . . .	5 years
Furniture and office equipment . . . . .	5 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

*(d) Impairment of Value*

An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount. The carrying value is compared against the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves and based on management’s expectations of future oil prices and future costs.

The cash generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a single cash generating unit where the cash flows of each field are inter-dependent. Any impairment loss is recognised in the income statement as additional depreciation and separately disclosed.

**TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**2 STATEMENT OF ACCOUNTING POLICIES—(Continued)**

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Provision is made for slow-moving and obsolete inventories.

**Trade Receivables**

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

**Financial Liability and Equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

**Bank Loans**

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

**Accounts Payable**

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

**Provisions**

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

**Retirement Benefit Costs**

The Company made payments to the State Pension fund for its employees during the reporting period. The Company has no other liabilities in respect of future pension, health and other costs for their employees.

**Cash and Cash Equivalents**

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with three months or less remaining to maturity from the date of acquisition and that are subject to an insignificant risk of change in value.

**TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**2 STATEMENT OF ACCOUNTING POLICIES—(Continued)**

**Revenue Recognition**

Revenue represents the fair value of the Company's share of oil, gas condensate and gas sold during the year and is recognised when the product has been lifted (in the case of own production) and title has passed.

Revenue on sale of purchased oil and gas and other products represents the fair value of oil and gas and other products sold during the year. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable in the normal course of business, net of discounts and sales related taxes.

**Foreign Currencies**

The functional currency of the Company is the US Dollar ("USD"). Transactions in currency other than the Company's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

**Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Share Capital**

Dividends are recognized in equity in the period in which they are declared.

**Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax as well as excess profit tax and deferred tax calculated on excess profit tax.

*(a) Current Income Tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

**TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**2 STATEMENT OF ACCOUNTING POLICIES—(Continued)**

*(b) Deferred Tax*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

*(c) Excess Profit Tax*

The Company calculates Excess Profit Tax based on the achieved level of domestic profit rate at the end of the reporting year at tax rates established on a sliding scale ranging from 0% to 30%. Excess profit tax is paid separately in respect of every subsurface use contract and can be adjusted for expenditures actually incurred on education of Kazakhstan work force and/or investment in oil and gas properties but not exceeding 10% of the taxable amount.

**Financial Instruments**

Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument.

**Contingencies**

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

**Segmental Disclosures**

The Company operates as a single operating business unit.

**3 CRITICAL JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the balance sheet date, and the reported amounts of revenue and expenses during the reporting period. Actual results could vary from these estimates. The estimates and underlying assumptions are reviewed on an ongoing



**TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**3 CRITICAL JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES—(Continued)**

basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Company's accounting policies, which are described in Note 2, management has made the following judgements and estimates that have the most significant effect on the amounts recognised in the financial statements.

*a) Recoverability of Intangibles—Exploration and Evaluation Costs*

Under the successful efforts method of accounting, all license acquisition, exploration and appraisal costs are initially capitalised on a field by field basis, pending determination. Expenditure incurred during the various exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process has not been completed. This assessment involves judgement as to (i) the likely future commerciality of the asset and when such commerciality should be determined, and (ii) future revenues and costs pertaining to any wider cost pool with which the asset in question is associated, and the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value. Note 4 discloses the carrying amounts of the Company's intangible assets.

*(b) Decommissioning*

The Company has potential decommissioning obligations in respect of its producing interests in Kazakhstan. The extent to which a provision is required in respect of these potential obligations depends, inter alia, on the legal requirements at the time of decommissioning, the cost and timing of any necessary decommissioning works, and the discount rate to be applied to such costs. In addition, the Kazakh authorities assume liability for such costs if they elect to continue production activities at the end of the license. This will depend on the level of commercial reserves remaining at the time of expiry. Based on these factors, management does not believe that there is a material decommissioning liability at December 31, 2005 or at preceding year ends.

*(c) Reserves*

Oil and gas producing assets within Property, Plant and Equipment are depreciated on a unit of production basis at a rate calculated by reference to proven developed reserves.

Reserves are determined using estimates of oil in place, recovery factors and future oil prices. The carrying amount of development and production assets at December 31, 2005 is shown in note 4. Management uses established industry techniques to generate its estimates. However, the amount of reserves that will ultimately be recovered from the field cannot be known with certainty until the end of the field's life.

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

**TOLKYNNEFTEGAZ LLP**

**NOTES TO THE FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003  
(all amounts expressed in US dollars)**

**4 INTANGIBLE ASSETS**

	<u>Licenses</u>	<u>Exploration costs</u>	<u>Total</u>
<b>At January 1, 2003</b> .....	<b>1,854,256</b>	<b>1,247</b>	<b>1,855,503</b>
Additions during the year .....	87,413	4,432,878	4,520,291
<b>At January 1, 2004</b> .....	<b>1,941,669</b>	<b>4,434,125</b>	<b>6,375,794</b>
Additions during the year .....	1,556,222	8,893,145	10,449,367
<b>At January 1, 2005</b> .....	<b>3,497,891</b>	<b>13,327,270</b>	<b>16,825,161</b>
Additions during the year .....	140,900	2,149,918	2,290,818
<b>At December 31, 2005</b> .....	<b>3,638,791</b>	<b>15,477,188</b>	<b>19,115,979</b>

Licenses and exploration costs relate to Taby1 oil field which was in its exploratory phase as at the balance sheet date.

**TOLKYNNEFTEGAZ LLP**

**NOTES TO THE FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003  
(all amounts expressed in US dollars)**

**5 PROPERTY, PLANT AND EQUIPMENT**

**COST**

	L and and buildings	Vehicles	Oil and gas producing assets	Total
<b>At January 1, 2003</b> .....	<b>12,645</b>	<b>155,668</b>	<b>51,269,016</b>	<b>51,437,329</b>
Additions .....	783,816	94,466	12,250,816	13,129,098
Disposals .....	—	—	(100,716)	(100,716)
<b>At January 1, 2004</b> .....	<b>796,461</b>	<b>250,134</b>	<b>63,419,116</b>	<b>64,465,711</b>
Additions .....	—	7,456	22,542,314	22,549,770
Disposals .....	—	—	(8,432)	(8,432)
<b>At January 1, 2005</b> .....	<b>796,461</b>	<b>257,590</b>	<b>85,952,998</b>	<b>87,007,049</b>
Additions .....	—	987,108	87,014,459	88,001,567
Disposals .....	—	(166,011)	(456,557)	(622,568)
<b>At December 31, 2005</b> .....	<b>796,461</b>	<b>1,078,687</b>	<b>172,510,900</b>	<b>174,386,048</b>

TOLKYNNEFTEGAZ LLP

NOTES TO THE FINANCIAL STATEMENTS—(Continued)  
 FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003  
 (all amounts expressed in US dollars)

5 PROPERTY, PLANT AND EQUIPMENT—(Continued)

	Land and buildings	Vehicles	Oil and gas producing assets	Total
<b>ACCUMULATED DEPRECIATION</b>				
At January 1, 2003	(858)	(55,245)	—	(56,103)
Charge for the year	(506)	(40,246)	(8,880,274)	(8,921,026)
Eliminated on disposals	—	—	—	—
At January 1, 2004	(1,364)	(95,491)	(8,880,274)	(8,977,129)
Charge for the year	(31,754)	(50,897)	(19,288,297)	(19,370,948)
Eliminated on disposals	—	—	1,181	1,181
At January 1, 2005	(33,118)	(146,388)	(28,167,390)	(28,346,896)
Charge for the year	(31,754)	(85,103)	(22,742,222)	(22,859,079)
Eliminated on disposals	—	7,413	73,686	81,099
At December 31, 2005	(64,872)	(224,078)	(50,835,926)	(51,124,876)
<b>CARRYING AMOUNT</b>				
At December 31, 2002	11,787	100,423	51,269,016	51,381,226
At December 31, 2003	795,097	154,643	54,538,842	55,488,582
At December 31, 2004	763,343	111,202	57,785,608	58,660,153
At December 31, 2005	731,589	854,609	121,674,974	123,261,172

The Company's license for oil and gas exploration and exploitation of the Tolkyn field with a net book value of USD 4,150,093 (2004: USD 818,279) and other oil and gas equipment with a net book value of USD 22,591,194 (2004: USD 24,612,516) is pledged to secure the Company's borrowings.

**TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**6 INVENTORIES**

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Spare parts and other materials .....	2,062,096	744,015	901,690
Consumable materials .....	3,046,981	11,311,158	457,844
Construction materials .....	376,053	5,004	674
Finished goods .....	88,233	19,053	21,066
<b>Total inventories .....</b>	<b><u>5,573,363</u></b>	<b><u>12,079,230</u></b>	<b><u>1,381,274</u></b>

**7 TRADE AND OTHER RECEIVABLES**

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Trade receivables .....	50,650,204	21,728,483	12,672,206
Advances to suppliers .....	18,514,966	5,870,599	2,730,964
Tax and other receivables .....	3,898,902	1,476,193	1,538,291
Provision for bad debts .....	(809,038)	(125,262)	(125,262)
<b>Total trade and other receivables .....</b>	<b><u>72,255,034</u></b>	<b><u>28,950,013</u></b>	<b><u>16,816,199</u></b>

Trade receivables include USD 45,180,883 (2004: USD 18,633,804; 2003: USD 9,342,492) receivables for sales of petroleum products to related parties. Refer to Note 19 for details.

Advances to suppliers contain USD 16,181,844 (2004: USD 3,598,033; 2003: USD 2,679,872) receivables from related parties. Refer to Note 19 for details.

Taxes receivable comprise mainly VAT due from the state amounting to USD 3,436,988 (2004: USD 1,418,644; 2003: USD 1,233,359) related to purchases of services, materials and spare parts.

There is no material difference between the carrying amount of trade and other receivable and their fair value.

**8 CASH AND CASH EQUIVALENTS**

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Cash at bank .....	371,185	169,045	3,821,239
Cash in hand .....	13,692	912	4,912
Cash equivalents .....	57,989	45,316	33,153
<b>Total cash and cash equivalents .....</b>	<b><u>442,866</u></b>	<b><u>215,273</u></b>	<b><u>3,859,304</u></b>

**TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**9 SHARE CAPITAL**

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

As described in Note 1, in May 2005 the Company changed its legal form of ownership from Closed Joint Stock Corporation to Limited Liability Partnership.

**10 LOANS AND BORROWINGS**

The borrowings are repayable as follows:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
On demand or within one year .....	8,988,392	—	13,900,173
In the second year .....	16,249,516	5,824,764	17,802,160
In the third to fifth years inclusive .....	48,748,548	34,948,584	6,949,233
After five years .....	43,621,255	53,625,483	32,062,840
<b>Total</b> .....	<b><u>117,607,711</u></b>	<b><u>94,398,831</u></b>	<b><u>70,714,406</u></b>
Less: Amount due for settlement within 12 months (shown under current liabilities) .....	(8,988,392)	—	(13,900,173)
<b>Amount due for settlement after 12 months including:</b> .....	<b><u>108,619,319</u></b>	<b><u>94,398,831</u></b>	<b><u>56,814,233</u></b>
Long-term bank loans .....	77,390,688	61,079,080	24,751,393
Long-term borrowings from non-financial institutions .....	31,228,631	33,319,751	32,062,840

TOLKYNNEFTEGAZ LLP

NOTES TO THE FINANCIAL STATEMENTS—(Continued)  
 FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003  
 (all amounts expressed in US dollars)

10 LOANS AND BORROWINGS—(Continued)

<u>Lender</u>	<u>Original currency</u>	<u>Collateral</u>	<u>Interest rate</u>	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Kazkommerzbank .....	USD	Syndicated loan originally subscribed by Kazkommerzbank and National Saving Bank of Kazakhstan and entirely taken over by Kazkommerzbank in 2005 is secured by the right to exploitation and exploration of oil-fields with net book value USD 4.1 m (2004: USD 0.8 m); fixed assets such as fixtures, pipelines and equipment owned by Tolkynneftegaz with net book value USD 22.6 m (2004: USD 24.6 m)	11%	86,379,080	42,389,540	38,651,566
National Saving Bank of Kazakhstan .....	USD		11%	—	18,689,540	—
<b>Total bank loans</b> .....				<b>86,379,080</b>	<b>61,079,080</b>	<b>38,651,566</b>
Terra Raf Trans Trading Ltd. ....	USD	Unsecured	15%	28,711,054	30,713,997	29,714,012
Terra Raf Trans Trading Ltd. ....	KZT	Unsecured	15%	2,517,577	2,605,754	2,348,828
<b>Total borrowings from non-financial institutions</b> .....				<b>31,228,631</b>	<b>33,319,751</b>	<b>32,062,840</b>
<b>Total loans and borrowings</b> .....				<b>117,607,711</b>	<b>94,398,831</b>	<b>70,714,406</b>

**TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**10 LOANS AND BORROWINGS—(Continued)**

The syndicated loan from Kazcommerzbank is repayable in instalments, as follows:

<u>Year</u>	<u>Amount</u>
2006 .....	8,988,392
2007 .....	16,249,516
2008 .....	16,249,516
2009 .....	16,249,516
2010 .....	16,249,516
2011 .....	12,392,624
<b>Total</b> .....	<b>86,379,080</b>

The loans from Terra Raf Trans Trading Ltd. are repayable upon expiry of the field license.

**11 INCOME TAX**

The total tax charge for the year can be reconciled to the accounting profit as follows:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Profit before tax .....	71,615,152	20,087,417	4,302,159
Statutory tax rate .....	30%	30%	30%
Profit tax on profit for the year .....	21,484,546	6,026,225	1,290,648
Effect of exchange differences .....	(384,887)	394,377	(21,975)
Effect of permanent differences .....	1,051,261	691,742	267,506
<b>Income tax expense in income statement</b> .....	<b>22,150,920</b>	<b>7,112,344</b>	<b>1,536,179</b>

Structure of tax expense is as follows:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Corporate income tax .....	—	—	33,317
Excess profit tax .....	—	—	—
<b>Current tax</b> .....	<b>—</b>	<b>—</b>	<b>33,317</b>
Corporate income tax .....	22,150,920	7,112,344	1,502,862
Excess profit tax .....	—	—	—
<b>Deferred tax</b> .....	<b>22,150,920</b>	<b>7,112,344</b>	<b>1,502,862</b>
<b>Income tax expense</b> .....	<b>22,150,920</b>	<b>7,112,344</b>	<b>1,536,179</b>

According to Kazakh tax legislation specific for extraction industry the Company's operations are subject to excess profit tax. Excess profit tax is charged at rates of between 0 and 30% on net income according to the level of domestic profit rate as defined by Kazakh legislation.



**TOLKYNNEFTEGAZ LLP**

**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**11 INCOME TAX—(Continued)**

	As at January 1, 2005	Effect of exchange differences	Net movement	As at December 31, 2005
<b>Deferred Tax Assets</b>				
Intangible assets .....	1,251,052	(35,258)	(144,896)	1,070,898
Tax losses brought forward .....	10,656,878	(300,340)	(4,375,289)	5,981,249
Other .....	617,400	(17,400)	1,897,664	2,497,664
<b>Net deferred tax assets .....</b>	<b>12,525,330</b>	<b>(352,998)</b>	<b>(2,622,521)</b>	<b>9,549,811</b>
<b>Deferred Tax Liabilities</b>				
Property, plant and equipment .....	(20,862,041)	587,949	(19,763,350)	(40,037,442)
<b>Deferred tax liabilities .....</b>	<b>(20,862,041)</b>	<b>587,949</b>	<b>(19,763,350)</b>	<b>(40,037,442)</b>
<b>Net deferred tax position .....</b>	<b>(8,336,711)</b>	<b>234,951</b>	<b>(22,385,871)</b>	<b>(30,487,631)</b>

**12 TRADE AND OTHER PAYABLES**

	December 31, 2005	December 31, 2004	December 31, 2003
Trade payables .....	3,404,005	823,466	4,843,843
Historical cost obligation to state (see Note 22) .....	4,098,310	—	—
Interest payable .....	898,899	748,559	9,106,126
Salaries and related taxes .....	338,084	275,887	115,572
Other payables .....	51,113	66,580	24,124
<b>Total trade and other payables .....</b>	<b>8,790,411</b>	<b>1,914,492</b>	<b>14,089,665</b>

Trade payables include USD 2,310,848 (2004: USD 90,560; 2003: USD 3,317,599) payable to related parties. Refer to Note 19 for details.

There is no material difference between the carrying amount of trade and other payables and their fair value.

**13 SALES**

	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
Sales of extracted products .....	109,197,943	61,847,404	28,205,063
Sales of purchased products .....	153,057	—	546,099
<b>Total sales .....</b>	<b>109,351,000</b>	<b>61,847,404</b>	<b>28,751,162</b>

**TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**13 SALES—(Continued)**

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

	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
Sales of crude oil and condensate .....	82,853,945	43,606,455	19,199,873
Sales of gas .....	26,380,593	18,217,663	9,551,289
Sales of self-produced electricity .....	116,462	23,286	—
<b>Total sales .....</b>	<b>109,351,000</b>	<b>61,847,404</b>	<b>28,751,162</b>

Sales of crude oil and condensate include sales made in Kazakhstan in accordance with the requirement of local legislation amounting to USD 3,653,069 during 2005 (2004: USD 2,104,405; 2003: 3,121,368) and export sales to related parties amounting to USD 79,200,876 (2004: USD 41,502,050; 2003: USD 16,078,505).

**14 COST OF SALES**

	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
Depreciation and amortization .....	22,741,222	19,288,297	8,835,921
Material costs .....	3,723,090	4,190,693	1,202,216
Salaries and related costs .....	3,655,110	2,984,211	1,249,776
Royalty .....	3,516,683	1,840,879	837,164
Transportation expenses .....	1,786,024	2,614,675	1,346,054
Security .....	521,693	175,067	467,530
Other expenses .....	1,585,478	4,558,111	2,989,971
<b>Cost of sales of extracted products .....</b>	<b>37,529,300</b>	<b>35,651,933</b>	<b>16,928,632</b>
Cost of sales of products purchased for resale .....	155,771	—	503,526
<b>Total cost of sales .....</b>	<b>37,685,071</b>	<b>35,651,933</b>	<b>17,432,158</b>

Royalties are calculated on the value of the produced mineral resources and are paid in cash on a monthly basis. Royalties for hydrocarbons are calculated on the basis of the average selling price for a month, exclusive of indirect taxes and reduce by the cost of transportation expenses to the place of sale. The Operating Agreement of the Company specifies Royalty payment at rates of between 2 and 7%.

**15 OTHER INCOME**

Other operating income refers to revenues other than from the sale of hydrocarbons and mainly arises from transactions with related parties.

	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
Sales of materials and other services net of cost .....	3,848,255	4,780,482	1,638,687
Rental income .....	1,166,466	873,481	799,977
Other income .....	79,006	16,730	101,151
<b>Total other income .....</b>	<b>5,093,727</b>	<b>5,670,693</b>	<b>2,539,815</b>

**TOLKYNNEFTEGAZ LLP**

**NOTES TO THE FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003  
(all amounts expressed in US dollars)**

**16 DISTRIBUTION COSTS**

	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004</u>	<u>Year ended December 31, 2003</u>
Pipeline transportation of oil and gas .....	595,975	5,999,036	3,108,835
Commission services .....	21,662	19,121	430,874
Other expenses .....	36,743	68,736	22,597
<b>Total distribution costs .....</b>	<b><u>654,380</u></b>	<b><u>6,086,893</u></b>	<b><u>3,562,306</u></b>

**17 ADMINISTRATIVE EXPENSES**

	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004</u>	<u>Year ended December 31, 2003</u>
Taxes and duties .....	407,872	417,177	169,341
Salaries and related costs .....	384,316	282,600	474,563
Personnel training .....	204,813	225,965	119,965
Depreciation and amortization .....	117,857	82,651	85,105
Banking services .....	26,056	183,808	27,130
Travel allowances .....	30,877	26,344	62,100
Other expenses .....	610,759	389,117	380,303
<b>Total administrative expenses .....</b>	<b><u>1,782,550</u></b>	<b><u>1,607,662</u></b>	<b><u>1,318,507</u></b>

**18 INTEREST EXPENSE**

	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004</u>	<u>Year ended December 31, 2003</u>
Interest on bank overdrafts and loans .....	8,992,406	5,507,973	5,316,162
Interest on borrowings .....	5,315,625	5,450,577	4,598,916
<b>Total borrowing costs .....</b>	<b><u>14,308,031</u></b>	<b><u>10,958,550</u></b>	<b><u>9,915,078</u></b>
Less: amounts included in the cost of qualifying assets .....	<u>(12,529,572)</u>	<u>(6,032,647)</u>	<u>(6,122,786)</u>
<b>Interest expense .....</b>	<b><u>1,778,459</u></b>	<b><u>4,925,903</u></b>	<b><u>3,792,292</u></b>

Interest included in the cost of qualifying assets related to loans taken for specific projects.

TOLKYNNEFTEGAZ LLP

NOTES TO THE FINANCIAL STATEMENTS—(Continued)  
 FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003  
 (all amounts expressed in US dollars)

19 RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders, directors or management. A significant proportion of Company's business is conducted through transactions with related parties and effect of these on the basis determined between the related parties is reflected below. The transactions between the related parties are based on mutual agreements and may not always be on arms length.

During the year, the Company entered into the following transactions with related parties:

	Sales of goods and services			Purchases goods and services		
	Year ended			Year ended		
	December 31, 2005	December 31, 2004	December 31, 2003	December 31, 2005	December 31, 2004	December 31, 2003
Ascom S.A. ....	—	—	—	487,375	386,283	448,300
General Affinity Ltd. ....	29,554,496	—	—	—	—	—
Kasko LLP ....	1,769,204	1,590,047	1,027,799	50,319,117	25,746,403	9,190,557
Kazpolmunay LLP ....	6,341,948	5,148,220	2,981,160	480,275	150,005	674,833
Portlend Oil Processing Inc. ....	49,646,380	41,502,050	16,078,505	—	—	—
Terra Raf Trans Traiding Ltd. ....	—	—	—	5,340,625	5,450,577	4,598,915
<b>Total</b> .....	<b>87,312,028</b>	<b>48,240,317</b>	<b>20,087,464</b>	<b>56,627,392</b>	<b>31,733,268</b>	<b>14,912,605</b>

TOLKYNNEFTEGAZ LLP

NOTES TO THE FINANCIAL STATEMENTS—(Continued)  
 FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003  
 (all amounts expressed in US dollars)

19 RELATED PARTY TRANSACTIONS—(Continued)

	Amounts owed by related parties			Amounts owed to related parties		
	Year ended			Year ended		
	December 31, 2005	December 31, 2004	December 31, 2003	December 31, 2005	December 31, 2004	December 31, 2003
Arpega Trading S.R.L. ....	22,560	36,284	8,251	—	—	—
Ascom S.A. ....	—	—	—	88,240	90,560	203,200
General Affinity Ltd. ....	29,240,705	—	—	—	—	—
Kasko LLP ....	16,051,051	3,562,462	3,935,516	2,222,608	—	—
Kazpolmunay LLP ....	5,090,648	1,866,577	—	—	—	3,114,399
Portland Oil Processing Inc. ....	10,957,763	16,766,514	8,078,597	—	—	—
Terra Raf Trans Traiding Ltd. ....	—	—	—	31,228,631	33,319,751	32,062,840
<b>Total</b> .....	<b>61,362,727</b>	<b>22,231,837</b>	<b>12,022,364</b>	<b>33,539,479</b>	<b>33,410,311</b>	<b>35,380,439</b>

Transactions with Arpega Trading S.R.L. represent acquisition of equipment.

Transactions and balances with General Affinity Ltd. and Portland Oil Processing Inc. relate to the sale of oil.

Transactions with Ascom S.A. relate to seismic services.

The Company receives loans from Terra Raf Trans Traiding Ltd., its parent company (refer to Note 10 for details).

Kasko LLP supplies drilling, maintenance and construction services to the Company.

The Company is provided with processing facilities by, and sells gas to Kazpolmunay LLP.

**TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**20 COMMITMENTS**

*(a) Commercial Discovery Bonus*

The Company is liable for a commercial discovery bonus (the “Bonus”) payable to the Kazakh State at the point at which the commerciality of a field is formally declared. It is expected that this will occur in early 2007 in respect of the Tolkyln field. The Bonus is payable at a rate of 0.05% on the additional reserves discovered in excess of those stipulated in the relevant contract. Although not clearly stipulated by the contracts, management believes that the Bonus will be paid at the market prices current at the date of the declaration of commerciality. As at December 31, 2005 Management is not able reliably to estimate the amount that will be payable.

*(b) Historical Obligation*

The Company is liable under its operating contracts to reimburse the Government for exploration costs incurred prior to the beginning of the current license agreements at the point at which commerciality is declared. The costs in respect of the Tolkyln field, amounting to USD 4,098,310, have been accrued in the 2005 financial statements. No liability has been recorded for the historical costs related to the Tabyl field, amounting to USD 3,108,430 as it has not yet been determined whether the field will be commercial.

*(c) Commitments on Training Kazakh Employees*

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

*(d) Minimum Investment Commitments*

Commitments for the Tabyl oil-field represents USD 27,300,000 from which as at December 31, 2005 was spent USD 16,825,161. The remain value of investment to be done is USD 10,474,839.

**21 CONTINGENT LIABILITIES**

There were no significant contingent liabilities as at December 31, 2005.

**22 FINANCIAL INSTRUMENTS**

Following is a summary of the nature of activities and management policies with respect to financial instruments.

**Foreign Exchange**

The Company undertakes transactions denominated in foreign currencies and exposure in foreign currencies fluctuation results from these activities. The Company does not hedge its foreign currency risks.

**Interest Rate**

The Company has borrowings on both fixed and floating interest rate terms and is therefore exposed to both interest price and interest rate cash flow risk.

**TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**22 FINANCIAL INSTRUMENTS—(Continued)**

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate that applies to the financial instrument. Interest rate flow risk is the risk that the interest cost will fluctuate over time.

Management monitors its interest rate risk exposure on a continuous basis.

**Credit Risk**

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

**23 CHANGES IN ACCOUNTING POLICY AND ERRORS**

Deferred tax has been restated in accordance with IAS 12, to reflect changes in the carrying value of assets resulting from the change in the depreciation accounting policy.

Deferred tax has been further restated to correct an error in the financial statements of the years to December 31, 2004, whereby an incorrect interpretation of Kazakh tax legislation led to the establishment of a deferred tax asset in respect of property, plant and equipment in place of the deferred tax liability that should have been recognised.

Until December 31, 2004, oil and gas producing assets were depreciated on a straight line basis over the shorter of the remaining term of the life and the average useful life of the oil and gas properties considered to be 15 years. Management have concluded that the method is not in accordance with the generally accepted practice among international oil and gas exploration and production companies of depreciating such assets on a unit of production basis. Accordingly, the Company has adopted the unit of production basis and restated prior periods accordingly.

Certain reclassifications have also been made to bring the Company's financial statement presentation into line with industry practice.

**TOLKYNNEFTEGAZ LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**23 CHANGES IN ACCOUNTING POLICY AND ERRORS—(Continued)**

	2004 (As originally reported)	IAS16 Property plant and equipment	IAS 12 Income tax	Additional tax provisions	Reclassification for consistent presentation	2004 (As restated)
Non current assets	111,336,092	(27,855,024)	(7,964,328)	—	(31,426)	75,485,314
Current assets	41,213,090	—	—	—	31,426	41,244,516
<b>Total assets</b>	<b>152,549,182</b>	<b>(27,855,024)</b>	<b>(7,964,328)</b>	<b>—</b>	<b>—</b>	<b>116,729,830</b>
Current liabilities	1,994,419	—	—	2,081,337	—	4,075,756
Non current liabilities	94,398,831	—	8,336,711	—	—	102,735,542
<b>Total liabilities</b>	<b>96,393,250</b>	<b>—</b>	<b>8,336,711</b>	<b>2,081,337</b>	<b>—</b>	<b>106,811,298</b>
Net assets	56,155,932	(27,855,024)	(16,301,039)	(2,081,337)	—	9,918,532
Share capital	73,257	—	—	—	—	73,257
Retained earnings	56,082,675	(27,855,024)	(16,301,039)	(2,081,337)	—	9,845,275
<b>Equity</b>	<b>56,155,932</b>	<b>(27,855,024)</b>	<b>(16,301,039)</b>	<b>(2,081,337)</b>	<b>—</b>	<b>9,918,532</b>
Revenue	61,636,218	—	—	—	211,186	61,847,404
Cost of sales	(22,838,390)	(12,377,701)	—	—	(435,842)	(35,651,933)
Other	(5,545,345)	376,635	—	(1,164,000)	224,656	(6,108,054)
Profit from continuing operations before taxation	33,252,483	(12,001,066)	—	(1,164,000)	—	20,087,417
Taxation	7,716,214	—	(14,828,558)	—	—	(7,112,344)
<b>Net profit for the year</b>	<b>40,968,697</b>	<b>(12,001,066)</b>	<b>(14,828,558)</b>	<b>(1,164,000)</b>	<b>—</b>	<b>12,975,073</b>
	2003 (As originally reported)	IAS16 Property plant and equipment	IAS 12 Income tax	Additional tax provisions	Reclassification for consistent presentation	2003 (As restated)
Non current assets	69,222,253	(7,109,763)	(248,114)	—	—	61,864,376
Current assets	30,824,311	(8,767,534)	—	—	—	22,056,777
<b>Total assets</b>	<b>100,046,564</b>	<b>(15,877,297)</b>	<b>(248,114)</b>	<b>—</b>	<b>—</b>	<b>83,921,153</b>
Current liabilities	28,045,096	—	—	893,998	—	28,939,094
Non current liabilities	56,814,233	—	1,224,367	—	—	58,038,600
<b>Total liabilities</b>	<b>84,859,329</b>	<b>—</b>	<b>1,224,367</b>	<b>893,998</b>	<b>—</b>	<b>86,977,694</b>
Net assets	15,187,235	(15,877,297)	(1,472,481)	(893,998)	—	(3,056,541)
Share capital	73,257	—	—	—	—	73,257
Retained earnings	15,113,978	(15,877,297)	(1,472,481)	(893,998)	—	(3,129,798)
<b>Equity</b>	<b>15,187,235</b>	<b>(15,877,297)</b>	<b>(1,472,481)</b>	<b>(893,998)</b>	<b>—</b>	<b>(3,056,541)</b>
Revenue	28,751,162	—	—	—	—	28,751,162
Cost of sales	(7,759,618)	(12,676,954)	—	—	3,004,414	(17,432,158)
Other	(3,477,680)	359,247	—	(893,998)	(3,004,414)	(7,016,845)
Profit from continuing operations before taxation	17,513,864	(12,317,707)	—	(893,998)	—	4,302,159
Taxation	214,797	—	(1,750,976)	—	—	(1,536,179)
<b>Net profit for the year</b>	<b>17,728,661</b>	<b>(12,317,707)</b>	<b>(1,750,976)</b>	<b>(893,998)</b>	<b>—</b>	<b>2,765,980</b>



**KAZPOLMUNAY LLP**

**UNAUDITED CONDENSED  
INTERIM FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED  
SEPTEMBER 30, 2006 AND 2005**

**KAZPOLMUNAY LLP**  
**CONDENSED BALANCE SHEETS**  
**AS AT SEPTEMBER 30, 2006 AND DECEMBER 2005**  
**(ALL AMOUNTS EXPRESSED IN US DOLLARS)**

	<u>September 30, 2006 (Unaudited)</u>	<u>December 31, 2005 (Audited)</u>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment .....	100,084,931	82,386,477
<b>Total non-current assets .....</b>	<b>100,084,931</b>	<b>82,386,477</b>
<b>Current assets</b>		
Inventories .....	1,700,353	1,750,996
Trade and other receivables .....	64,179,634	37,583,195
Cash and cash equivalents .....	1,762,531	742,001
<b>Total current assets .....</b>	<b>67,642,518</b>	<b>40,076,192</b>
<b>Total assets .....</b>	<b>167,727,449</b>	<b>122,462,669</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Shareholders' equity</b>		
Share capital .....	50,000	50,000
Retained earnings .....	63,577,735	47,155,270
<b>Total shareholders' equity .....</b>	<b>63,627,735</b>	<b>47,205,270</b>
<b>Non-current liabilities</b>		
Other long-term borrowings .....	14,250,579	14,250,579
Deferred tax liability .....	44,689,479	30,967,726
<b>Total non current liabilities .....</b>	<b>58,940,058</b>	<b>45,218,305</b>
<b>Current liabilities</b>		
Trade and other payables .....	21,642,977	16,995,770
Tax payables .....	23,516,679	13,043,324
<b>Total current liabilities .....</b>	<b>45,159,656</b>	<b>30,039,094</b>
<b>Total liabilities and shareholders' equity .....</b>	<b>167,727,449</b>	<b>122,462,669</b>

The notes on page F-74 form an integral part of these financial statements.

**KAZPOLMUNAY LLP**  
**CONDENSED INCOME STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**  
**(ALL AMOUNTS EXPRESSED IN US DOLLARS)**

	<u>Nine months ended September 30, 2006 (Unaudited)</u>	<u>Nine months ended September 30, 2005 (Unaudited)</u>
Sales .....	90,843,328	76,723,605
Cost of sales .....	(23,906,811)	(17,091,313)
<b>Gross profit</b> .....	<b>66,936,517</b>	<b>59,632,292</b>
Other income .....	1,383,173	433,632
Distribution costs .....	(10,217,035)	(9,738,846)
Administrative expenses .....	(3,463,780)	(1,005,142)
Other operating expenses .....	(743,611)	(1,357,110)
<b>Operating Profit</b> .....	<b>53,895,264</b>	<b>47,964,826</b>
Interest expense .....	(1,107,177)	(1,257,956)
Exchange (losses) .....	(2,029,235)	(1,015,990)
<b>Net profit before tax</b> .....	<b>50,758,852</b>	<b>45,690,880</b>
Income tax expense .....	(34,336,387)	(27,000,533)
<b>Net profit</b> .....	<b>16,422,465</b>	<b>18,690,347</b>

The notes on page F-74 form an integral part of these financial statements.

**KAZPOLMUNAY LLP**  
**CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**  
(all amounts expressed in US dollars)

	<u>Share capital (Unaudited)</u>	<u>Retained earnings (Unaudited)</u>	<u>Total (Unaudited)</u>
<b>Balance at December 31, 2004</b> .....	<b>50,000</b>	<b>24,312,067</b>	<b>24,362,067</b>
Net profit for the nine months ended September 30, 2005 .....	—	18,690,347	18,690,347
<b>Balance at September 30, 2005</b> .....	<b>50,000</b>	<b>43,002,414</b>	<b>43,052,414</b>
Net profit for the three months ended December 31, 2005 .....	—	4,152,856	4,152,856
<b>Balance at December 31, 2005</b> .....	<b>50,000</b>	<b>47,155,270</b>	<b>47,205,270</b>
Net profit for the nine months ended September 30, 2006 .....	—	16,422,465	16,422,465
<b>Balance at September 30, 2006</b> .....	<b>50,000</b>	<b>63,577,735</b>	<b>63,627,735</b>

The notes on page F-74 form an integral part of these financial statements.

**KAZPOLMUNAY LLP**  
**CONDENSED CASH FLOW STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**  
(all amounts expressed in US dollars)

	Nine months ended September 30, 2006 (Unaudited)	Nine months ended September 30, 2005 (Unaudited)
<b>Cash flow from operating activities</b>		
<b>Net profit before tax</b> .....	<b>50,758,852</b>	<b>45,690,880</b>
<b>Adjustments for:</b>		
Depreciation of property, plant and equipment .....	6,959,087	3,662,057
Interest expense .....	1,107,177	1,257,956
Gain on disposals of property, plant and equipment .....	(10,484)	—
<b>Cash provided by operations before working capital changes</b> .....	<b>58,814,632</b>	<b>50,610,893</b>
Increase in trade and other receivables .....	(25,341,081)	(22,741,697)
(Decrease)/Increase in inventories .....	50,643	(1,104,039)
Increase in trade and other payables .....	1,661,099	11,215,686
<b>Cash provided by operations</b> .....	<b>35,185,293</b>	<b>37,980,843</b>
Income tax paid .....	(7,659,549)	(3,322,376)
Interest paid .....	(1,256,431)	(1,538,477)
<b>Net cash provided by operating activities</b> .....	<b>26,269,313</b>	<b>33,119,990</b>
Purchase of property, plant and equipment .....	(25,270,244)	(20,280,911)
Proceeds from sales of property, plant and equipment .....	21,461	—
<b>Net cash used in investing activities</b> .....	<b>(25,248,783)</b>	<b>(20,280,911)</b>
<b>Cash flow from financing activities</b>		
Repayment of borrowings .....	—	(10,758,520)
Proceeds from long-term borrowing .....	—	(426,224)
<b>Net cash used in financing activities</b> .....	<b>—</b>	<b>(11,184,744)</b>
<b>Net increase in cash and cash equivalents</b> .....	<b>1,020,530</b>	<b>1,654,335</b>
<b>Cash and cash equivalents at the beginning of the period</b> .....	<b>742,001</b>	<b>159,540</b>
<b>Cash and cash equivalents at the end of the period</b> .....	<b>1,762,531</b>	<b>1,813,875</b>

The notes on page F-74 form an integral part of these financial statements.

**KAZPOLMUNAY LLP**

**NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**

**(all amounts expressed in US dollars)**

**1. BASIS OF PREPARATION**

The interim financial information in this report is prepared on the basis of the accounting policies set out in the Financial Statements of Kazpolmunay LLP (“the Company”) for the year ended December 31, 2005 and using accounting policies consistent with International Financial Reporting Standards, including IAS 34 “Interim Financial Reporting” (except for the non-inclusion of information related to the most recent quarter). The interim financial information for the nine months ended September 30, 2006 and 2005 presented here is unaudited.

**2. SUBSEQUENT EVENTS**

In November 2006 the Company agreed to act as guarantor in respect of a \$300,000,000 Offering of Senior Secured Notes by Tristan Oil Ltd. (“Tristan”), a related party. The Offering is due to be completed after the date of this report. On completion Tristan will lend approximately \$39,000,000 of the proceeds to the Company. On receipt of the proceeds it is intended that the Company will pay a dividend of \$25,000,000.

**KAZPOLMUNAY LLP**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2005, 2004 AND 2003**



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To the Shareholders  
Kazpolmunay LLP  
Aktau, Republic of Kazakhstan

### **Independent Auditors' Report**

We have audited the accompanying balance sheets of Kazpolmunay LLP (the "Company") as of December 31, 2005, 2004 and 2003 and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Prior to the year ended December 31, 2005 we were appointed auditors subsequent to each year end. In consequence we were not able to observe the counting of the physical inventories at December 31, 2004 or at any prior year end. As we could not satisfy ourselves as to inventory quantities by alternative means, we were unable to determine whether adjustments might have been required to opening retained earnings at January 1, 2003, to the balance sheets at December 31, 2003 or 2004, or to the results for the years ended December 31, 2003, 2004 or 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to inventory quantities at year ends prior to December 31, 2005, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2005, 2004 and 2003 and the results of its operations, changes in shareholders' equity and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte Audit S.R.L.  
Bucharest, Romania  
November 14, 2006

Audit • Tax • Consulting • Financial Advisory •

Member of  
Deloitte Touche Tohmatsu



**KAZPOLMUNAY LLP**  
**BALANCE SHEETS**  
**AS AT DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

	<u>Notes</u>	<u>December 31, 2005</u>	<u>December 31, 2004 (As restated)</u>	<u>December 31, 2003 (As restated)</u>
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment .....	4	82,386,477	50,512,158	36,421,433
<b>Total non-current assets .....</b>		<b>82,386,477</b>	<b>50,512,158</b>	<b>36,421,433</b>
<b>Current Assets</b>				
Inventories .....	5	1,750,996	388,876	591,222
Trade and other receivables .....	6	37,583,195	21,867,188	16,726,766
Cash and cash equivalents .....	7	742,001	159,540	1,753,214
<b>Total current assets .....</b>		<b>40,076,192</b>	<b>22,415,604</b>	<b>19,071,202</b>
<b>Total assets .....</b>		<b>122,462,669</b>	<b>72,927,762</b>	<b>55,492,635</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Shareholders' Equity</b>				
Share capital .....	8	50,000	50,000	50,000
Retained earnings .....		47,155,270	24,312,067	8,574,149
<b>Total shareholders' equity .....</b>		<b>47,205,270</b>	<b>24,362,067</b>	<b>8,624,149</b>
<b>Non-Current Liabilities</b>				
Long-term bank loans .....	9	—	—	6,942,610
Other long-term borrowings .....	9	14,250,579	14,676,803	12,276,803
Deferred tax liability .....	10	30,967,726	14,123,668	5,817,581
<b>Total non-current liabilities .....</b>		<b>45,218,305</b>	<b>28,800,471</b>	<b>25,036,994</b>
<b>Current Liabilities</b>				
Trade and other payables .....	11	16,995,770	4,287,554	3,197,577
Tax payables .....		13,043,324	4,719,150	983,071
Short-term bank loans .....	9	—	10,758,520	17,650,844
<b>Total current liabilities .....</b>		<b>30,039,094</b>	<b>19,765,224</b>	<b>21,831,492</b>
<b>Total liabilities and shareholders' equity .....</b>		<b>122,462,669</b>	<b>72,927,762</b>	<b>55,492,635</b>

The notes on pages F-81 to F-101 form an integral part of these financial statements.

**KAZPOLMUNAY LLP**  
**INCOME STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

	Notes	Year ended December 31, 2005	Year ended December 31, 2004 (As restated)	Year ended December 31, 2003 (As restated)
Sales .....	12	102,401,371	64,475,458	38,002,939
Cost of sales .....	13	<u>(25,295,444)</u>	<u>(22,103,590)</u>	<u>(15,639,050)</u>
<b>Gross Profit</b> .....		<b>77,105,927</b>	<b>42,371,868</b>	<b>22,363,889</b>
Other income .....	14	620,314	385,990	221,352
Distribution costs .....	15	(12,684,925)	(11,308,865)	(7,668,201)
Administrative expenses .....	16	(1,502,717)	(911,414)	(415,731)
Other operating expenses .....		<u>(1,854,974)</u>	<u>(1,437,547)</u>	<u>(996,499)</u>
<b>Operating Profit</b> .....		<b>61,683,625</b>	<b>29,100,032</b>	<b>13,504,810</b>
Interest expense .....	17	(1,627,885)	(2,257,655)	—
Exchange (losses)/gains .....		<u>(1,919,766)</u>	<u>68,336</u>	<u>23,706</u>
<b>Net profit before tax</b> .....		<b>58,135,974</b>	<b>26,910,713</b>	<b>13,528,516</b>
Income tax expense .....	10	<u>(35,292,771)</u>	<u>(11,172,795)</u>	<u>(4,544,383)</u>
<b>Net profit</b> .....		<b>22,843,203</b>	<b>15,737,918</b>	<b>8,984,133</b>

The notes on pages F-81 to F-101 form an integral part of these financial statements.

**KAZPOLMUNAY LLP**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Balance at December 31, 2002 (as previously reported)</b> .....	<b>50,000</b>	<b>10,234,319</b>	<b>10,284,319</b>
Prior period impact of restatements (see Note 23) .....	—	(10,644,303)	(10,644,303)
<b>Balance at December 31, 2002 (as restated)</b> .....	<b>50,000</b>	<b>(409,984)</b>	<b>(359,984)</b>
Profit for the year .....	—	8,984,133	8,984,133
<b>Balance at December 31, 2003</b> .....	<b>50,000</b>	<b>8,574,149</b>	<b>8,624,149</b>
Profit for the year .....	—	15,737,918	15,737,918
<b>Balance at December 31, 2004</b> .....	<b>50,000</b>	<b>24,312,067</b>	<b>24,362,067</b>
Profit for the year .....	—	22,843,203	22,843,203
<b>Balance at December 31, 2005</b> .....	<b>50,000</b>	<b>47,155,270</b>	<b>47,205,270</b>

The notes on pages F-81 to F-101 form an integral part of these financial statements.

**KAZPOLMUNAY LLP**  
**CASH FLOW STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

	<u>Notes</u>	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004 (As restated)</u>	<u>Year ended December 31, 2003 (As restated)</u>
<b>Cash Flow from Operating Activities</b>				
<b>Net Profit Before Tax</b>		<b>58,135,974</b>	<b>26,910,713</b>	<b>13,528,516</b>
<b>Adjustments for:</b>				
Depreciation of property, plant and equipment . . . . .		5,458,585	4,040,790	3,325,606
Interest expense . . . . .		1,627,885	2,257,655	—
Loss on disposals of property, plant and equipment . . . . .		—	15,118	6,818
		<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Cash provided by operations before working capital changes . . . . .</b>		<b>65,222,444</b>	<b>33,224,276</b>	<b>16,860,940</b>
Increase in trade and other receivables . . . . .		(15,716,007)	(5,140,422)	(5,983,311)
(Increase) / decrease in inventories . . . . .		(1,362,120)	202,346	(202,063)
Increase in trade and other payables . . . . .		10,516,515	3,361,701	169,215
		<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Cash provided by operations . . . . .</b>		<b>58,660,832</b>	<b>31,647,901</b>	<b>10,844,781</b>
Income tax paid . . . . .		(14,626,162)	(732,000)	(3,975)
Interest paid . . . . .		(2,732,002)	(4,856,265)	(5,079,374)
		<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Net cash provided by operating activities . . . . .</b>		<b>41,302,668</b>	<b>26,059,636</b>	<b>5,761,432</b>
<b>Cash Flow from Investing Activities</b>				
Purchase of fixed assets . . . . .		(29,535,463)	(16,219,816)	(5,487,504)
Proceeds from sales of fixed assets . . . . .		—	1,440	11,977
		<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Net cash (used in) investing activities . . . . .</b>		<b>(29,535,463)</b>	<b>(16,218,376)</b>	<b>(5,475,527)</b>
<b>Cash Flow from Financing Activities</b>				
Repayment of borrowings . . . . .		(11,184,744)	(26,959,198)	(19,688,751)
Proceeds from long-term borrowing . . . . .		—	15,524,264	21,100,950
		<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Net cash (used in) provided by financing activities . . . . .</b>		<b>(11,184,744)</b>	<b>(11,434,934)</b>	<b>1,412,199</b>
Net increase / (decrease) in cash and cash equivalents . . . . .		582,461	(1,593,674)	1,698,104
<b>Cash and cash equivalents at beginning of the year . . . . .</b>	<b>7</b>	<b>159,540</b>	<b>1,753,214</b>	<b>55,110</b>
		<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Cash and cash equivalents at the end of the year . . . . .</b>	<b>7</b>	<b>742,001</b>	<b>159,540</b>	<b>1,753,214</b>
		<u>                    </u>	<u>                    </u>	<u>                    </u>

The notes on pages F-81 to F-101 form an integral part of these financial statements.

**KAZPOLMUNAY LLP**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**1 GENERAL INFORMATION**

Kazpolmunay LLP (further the “Company” or “Kazpolmunay”) is a company incorporated in Republic of Kazakhstan. The address of the registered office is 130000, Republic of Kazakhstan, Mangistau region, Aktau, micro-district 3 “a”, building 5.

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

Kazpolmunay is 100% subsidiary of Ascom S.A. (registered in Republic of Moldova). The ultimate shareholders of the Company are Anatol Stati, Larisa Stati and Gabriel Stati, all citizens of Republic of Moldova.

The Company’s operations are located in the Caspian region and the Company’s principal business activities include oil and gas well drilling and extraction, exploration of promising oil and gas bearing terrains, construction of oil-field facilities, pipelines and reservoirs.

Exploration and development activities are carried out in Kazakhstan on one oil-field presented in the table below:

<u>Oil-field</u>	<u>License Number</u>	<u>Type of License</u>	<u>Period of Exploitation</u>
Borankol .....	309	Oil and gas	until 2022

**2 STATEMENT OF ACCOUNTING POLICIES**

**Basis of Preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The financial statements have been prepared on a historical cost basis. The principal accounting policies adopted are set out below.

**Adoption of New and Revised International Financial Reporting Standards (“IFRS”)**

During the year the Company adopted a number of new and revised International Financial Reporting Standards. None of these had a material impact on the financial statements for the current or prior years.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

*IFRS*

IFRS 6 Exploration for and Evaluation of Mineral Resources (effective date annual periods beginning on or after January 1, 2006)

IFRS 7 Financial Instruments: Disclosures (effective date annual periods beginning on or after January 1, 2007).

**KAZPOLMUNAY LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**2 STATEMENT OF ACCOUNTING POLICIES—(Continued)**

*IFRIC Interpretations*

IFRIC 4 Determining Whether an Arrangement Contains a Lease (effective date annual periods beginning on or after January 1, 2006)

IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective date annual periods beginning on or after January 1, 2006)

IFRIC 6 Liabilities Arising from Participating in a specific Market – Waste Electrical and Electronic Equipment (effective date annual periods beginning on or after December 1, 2005)

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective date annual periods beginning on or after March 1, 2006)

IFRIC 8 Scope of IFRS 2 (effective date annual periods beginning on or after May 1, 2006)

IFRIC 9 Reassessment of Embedded Derivatives (effective date annual periods beginning on or after June 1, 2006)

IFRIC 10 Interim Financial Reporting and Impairment (effective date annual periods beginning on or after November 1, 2006)

Management anticipates that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Company.

**Property, Plant and Equipment and Intangible Assets**

All property, plant and equipment is shown at cost less subsequent accumulated depreciation and subsequent accumulated impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and when the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

*(a) Oil and Gas Exploration, Evaluation and Development Expenditure*

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

Costs incurred prior to obtaining the legal rights to explore an area are expensed immediately to the Income Statement. Expenditure incurred on the acquisition of a license interest is initially capitalized as an intangible asset on a license by license basis. Costs are held, undepleted, within exploration until such time as the exploration phase on the license area is complete or commercial reserves have been discovered.

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

Following appraisal of successful exploration of a field, if commercial reserves are established and technical feasibility for extraction demonstrated, then the related capitalized costs are transferred to property, plant and equipment.

**KAZPOLMUNAY LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**2 STATEMENT OF ACCOUNTING POLICIES—(Continued)**

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

*(b) Depreciation of Oil and Gas Producing Assets*

In 2005 the Company changed its accounting policy for the depreciation of its oil and gas properties to a unit of production basis that is calculated to write off the historic cost of each asset including license cost in line with the depletion of proved developed reserves from the commencement of production. The net book values of producing assets are depreciated on a field by field basis by reference to the ratio of oil and gas production in the period to the estimated quantity of commercial reserves at the end of the period plus the production in the period.

In previous periods such properties were depreciated, in the absence of reliable reserves data, on a straight-line basis starting with commissioning date, over the lower of the remaining exploration and exploitation period under the license and the average useful life of the oil and gas properties considered to be 15 years.

Following the provisions of the revised IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* (“IAS 8”), prior year financial statements have been restated, as detailed in note 25 “Changes in Accounting Policy and Errors” below.

*(c) Other*

Depreciation on other assets (except land, which is not depreciated) is calculated using the straight-line method to allocate their costs less their residual values over their estimated useful lives, as follows:

Buildings . . . . .	50 years
Machinery and equipment . . . . .	10 to 15 years
Vehicles . . . . .	5 years
Furniture and office equipment . . . . .	5 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

*(d) Impairment of Value*

An impairment test is performed whenever events and circumstances arising during the development or production phase indicate that the carrying value of a development or production asset may exceed its recoverable amount. The carrying value is compared against the expected recoverable amount of the asset, generally by reference to the present value of the future net cash flows expected to be derived from production of commercial reserves and based on management’s expectations of future oil prices and future costs.

The cash generating unit applied for impairment test purposes is generally the field, except that a number of field interests may be grouped as a single cash generating unit where the cash flows of each field are inter-dependent. Any impairment loss is recognised in the income statement as additional depreciation and separately disclosed.

**KAZPOLMUNAY LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**2 STATEMENT OF ACCOUNTING POLICIES—(Continued)**

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Provision is made for slow-moving and obsolete inventories.

**Trade Receivables**

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

**Financial Liability and Equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

**Bank Loans**

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

**Accounts Payable**

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

**Provisions**

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

**Retirement Benefit Costs**

The Company made payments to the State Pension fund for its employees during the reporting period. The Company has no other liabilities in respect of future pension, health and other costs for their employees.

**Cash and Cash Equivalents**

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with three months or less remaining to maturity from the date of acquisition and that are subject to an insignificant risk of change in value.



**KAZPOLMUNAY LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**2 STATEMENT OF ACCOUNTING POLICIES—(Continued)**

**Revenue Recognition**

Revenue represents the fair value of the Company's share of oil, gas condensate and gas sold during the year and is recognised when the product has been lifted (in the case of own production) and title has passed.

Revenue on sale of purchased oil and gas and other products represents the fair value of oil and gas and other products sold during the year. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable in the normal course of business, net of discounts and sales related taxes.

**Foreign Currencies**

The functional currency of the Company is the US Dollar ("USD"). Transactions in currency other than the Company's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

**Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Share Capital**

Dividends are recognized in equity in the period in which they are declared.

**Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax as well as excess profit tax and deferred tax calculated on excess profit tax.

*(a) Current Income Tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

**KAZPOLMUNAY LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**2 STATEMENT OF ACCOUNTING POLICIES—(Continued)**

*(b) Deferred Tax*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

*(c) Excess Profit Tax*

The Company calculates excess profit tax based on the achieved level of domestic profit rate at the end of the reporting year at tax rates established on a sliding scale ranging from 0% to 30%. Excess profit tax is paid separately in respect of every subsurface use contract and can be adjusted for expenditures actually incurred on education of Kazakhstan work force and/or investment in oil and gas properties but not exceeding 10% of the taxable amount.

**Financial Instruments**

Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument.

**Contingencies**

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

**Segmental Disclosures**

The Company operates as a single operating business unit.

**KAZPOLMUNAY LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**3 CRITICAL JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the balance sheet date, and the reported amounts of revenue and expenses during the reporting period. Actual results could vary from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Company's accounting policies, which are described in Note 2, management has made the following judgements and estimates that have the most significant effect on the amounts recognised in the financial statements.

*a) Recoverability of Intangibles—Exploration and Evaluation Costs*

Under the successful efforts method of accounting, all license acquisition, exploration and appraisal costs are initially capitalised on a field by field basis, pending determination. Expenditure incurred during the various exploration and appraisal phases is then written off unless commercial reserves have been established or the determination process has not been completed. This assessment involves judgement as to (i) the likely future commerciality of the asset and when such commerciality should be determined, and (ii) future revenues and costs pertaining to any wider cost pool with which the asset in question is associated, and the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value. Note 4 discloses the carrying amounts of the Company's intangible assets.

*(b) Decommissioning*

The Company has potential decommissioning obligations in respect of its producing interests in Kazakhstan. The extent to which a provision is required in respect of these potential obligations depends, inter alia, on the legal requirements at the time of decommissioning, the cost and timing of any necessary decommissioning works, and the discount rate to be applied to such costs. In addition, the Kazakh authorities assume liability for such costs if they elect to continue production activities at the end of the license. This will depend on the level of commercial reserves remaining at the time of expiry. Based on these factors, management does not believe that there is a material decommissioning liability at December 31, 2005 or at preceding year ends.

*(c) Reserves*

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

Reserves are determined using estimates of oil in place, recovery factors and future oil prices. The carrying amount of development and production assets at December 31, 2005 is shown in Note 4. Management uses established industry techniques to generate its estimates. However, the amount of reserves that will ultimately be recovered from the field cannot be known with certainty until the end of the field's life.

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

KAZPOLMUNAY LLP

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS—(Continued)  
 FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003  
 (all amounts expressed in US dollars)

4 PROPERTY, PLANT AND EQUIPMENT

COST

	Land and buildings	Vehicles	Oil and gas producing assets	Total
At January 1, 2003	142,923	94,022	29,698,037	29,934,982
Additions	—	66,192	10,848,916	10,915,108
Disposals	—	(33,939)	—	(33,939)
At January 1, 2004	142,923	126,275	40,546,953	40,816,151
Additions	—	41,617	18,106,456	18,148,073
Disposals	(7,977)	—	(10,777)	(18,754)
At January 1, 2005	134,946	167,892	58,642,632	58,945,470
Additions	—	152,773	37,180,131	37,332,904
Disposals	—	—	—	—
At December 31, 2005	134,946	320,665	95,822,763	96,278,374

**KAZPOLMUNAY LLP**

**NOTES TO THE FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003  
(all amounts expressed in US dollars)**

**4 PROPERTY, PLANT AND EQUIPMENT—(Continued)**

**ACCUMULATED DEPRECIATION**

	<u>Land and buildings</u>	<u>Vehicles</u>	<u>Oil and gas producing assets</u>	<u>Total</u>
<b>At January 1, 2003</b> .....	(9,225)	(31,761)	(1,043,270)	(1,084,256)
Charge for the year .....	(3,943)	(15,144)	(3,306,519)	(3,325,606)
Eliminated on disposals .....	—	15,144	—	15,144
<b>At January 1, 2004</b> .....	<b>(13,168)</b>	<b>(31,761)</b>	<b>(4,349,789)</b>	<b>(4,394,718)</b>
Charge for the year .....	(2,507)	(35,262)	(4,003,021)	(4,040,790)
Eliminated on disposals .....	1,276	—	920	2,196
<b>At January 1, 2005</b> .....	<b>(14,399)</b>	<b>(67,023)</b>	<b>(8,351,890)</b>	<b>(8,433,312)</b>
Charge for the year .....	(3,384)	(40,711)	(5,414,490)	(5,458,585)
Eliminated on disposals .....	—	—	—	—
<b>At December 31, 2005</b> .....	<b>(17,783)</b>	<b>(107,734)</b>	<b>(13,766,380)</b>	<b>(13,891,897)</b>

**CARRYING AMOUNT**

At December 31, 2002 .....	133,698	62,261	28,654,767	28,850,726
At December 31, 2003 .....	129,755	94,514	36,197,164	36,421,433
At December 31, 2004 .....	120,547	100,869	50,290,742	50,512,158
At December 31, 2005 .....	117,163	212,931	82,056,383	82,386,477

**KAZPOLMUNAY LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**5 INVENTORIES**

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Spare parts and other materials .....	1,531,433	326,056	367,946
Finished goods .....	133,823	29,147	70,154
Consumable materials .....	85,740	33,673	153,122
<b>Total inventories .....</b>	<b><u>1,750,996</u></b>	<b><u>388,876</u></b>	<b><u>591,222</u></b>

**6 TRADE AND OTHER RECEIVABLES**

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Trade receivables .....	26,579,315	17,667,221	11,379,747
Advances to suppliers .....	3,836,470	2,379,308	4,100,780
Tax and other receivables .....	7,167,410	1,820,659	1,246,239
<b>Total trade and other receivables .....</b>	<b><u>37,583,195</u></b>	<b><u>21,867,188</u></b>	<b><u>16,726,766</u></b>

Trade receivables include USD 26,324,834 (2004: USD 17,384,548; 2003: USD 10,867,573) receivables for sales of petroleum products to related parties. Refer to Note 18 for details.

Taxes receivable comprise VAT due from the state amounting to USD 4,078,175 (2004: USD 1,787,621; 2003: USD 738,065) related to purchases of services, materials and spare parts.

There is no material difference between the carrying amount of trade and other receivable and their fair value.

**7 CASH AND CASH EQUIVALENTS**

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Cash at bank .....	664,186	100,704	1,699,262
Cash in hand .....	14,671	4,734	10,866
Cash equivalents .....	63,144	54,102	43,086
<b>Total cash and cash equivalents .....</b>	<b><u>742,001</u></b>	<b><u>159,540</u></b>	<b><u>1,753,214</u></b>

**8 SHARE CAPITAL**

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

As described in Note 1, in May 2005 the Company changed its legal form of ownership from Closed Joint Stock Corporation to Limited Liability Partnership.

**KAZPOLMUNAY LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**9 LOANS AND BORROWINGS**

The loans and borrowings are repayable as follows:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
On demand or within one year . . . . .	—	10,758,520	17,650,844
In the second year . . . . .	—	—	6,942,610
In the third to fifth years inclusive . . . . .	—	—	—
After five years . . . . .	<u>14,250,579</u>	<u>14,676,803</u>	<u>12,276,803</u>
<b>Total</b> . . . . .	<b><u>14,250,579</u></b>	<b><u>25,435,323</u></b>	<b><u>36,870,257</u></b>
Less: Amount due for settlement within 12 months (shown under current liabilities) . . . . .	—	<u>(10,758,520)</u>	<u>(17,650,844)</u>
<b>Amount due for settlement after 12 months including:</b> . . . . .	<b><u>14,250,579</u></b>	<b><u>14,676,803</u></b>	<b><u>19,219,413</u></b>
Long-term bank loans . . . . .	—	—	6,942,610
Long-term borrowings from non-financial institutions . . . . .	<u>14,250,579</u>	<u>14,676,803</u>	<u>12,276,803</u>

**KAZPOLMUNAY LLP**

**NOTES TO THE FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003  
(all amounts expressed in US dollars)**

**9 LOANS AND BORROWINGS—(Continued)**

<u>Lender</u>	<u>Original currency</u>	<u>Collateral</u>	<u>Interest rate</u>	<u>Loan facility outstanding as at Dec 31, 2005</u>	<u>Loan facility outstanding as at Dec 31, 2004</u>	<u>Loan facility outstanding as at Dec 31, 2003</u>
Kazkommerzbank .....	USD	Right to exploration and exploitation of oil-fields with net book value of USD 1.9 m; fixed assets such as fixtures, pipe-lines and other assets with net book value of USD 2.2 m.	Up to Aug 2004 -13.5% From Aug 2004- 10%	—	5,689,484	24,593,454
National Saving Bank of Kazakhstan .....	USD	Guarantee from Kazkommerzbank in amount of USD 5.1 m.	11%	—	5,069,036	—
<b>Total bank loans</b>				<u>—</u>	<u>10,758,520</u>	<u>24,593,454</u>
Terra Raf Trans Trading Ltd. ....	USD	Unsecured	16.52%	14,250,579	14,676,803	12,276,803
<b>Total borrowings from related parties</b> .....				<u>14,250,579</u>	<u>14,676,803</u>	<u>12,276,803</u>
<b>Total bank loans and borrowings</b> .....				<u>14,250,579</u>	<u>25,435,323</u>	<u>36,870,257</u>

The loan from Terra Raf Trans Trading Ltd. is repayable upon the expiry of the oil-field license.



**KAZPOLMUNAY LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**10 INCOME TAX**

The total tax charge for the year can be reconciled to the accounting profit as follows:

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Profit before tax .....	58,135,974	26,910,713	13,528,516
Statutory tax rate .....	30%	30%	30%
Profit tax on profit for the year .....	17,440,792	8,073,214	4,058,555
Effect of excess profit tax .....	18,082,531	—	—
Effect of penalties .....	682,000	622,000	487,000
Effect of exchange differences .....	(513,527)	1,622,606	100,778
Effect of permanent differences .....	(399,025)	854,975	(101,950)
<b>Income tax expense in income statement</b>	<b><u>35,292,771</u></b>	<b><u>11,172,795</u></b>	<b><u>4,544,383</u></b>

Structure of tax expense is as follows:

	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004</u>	<u>Year ended December 31, 2003</u>
Corporate income tax .....	11,843,254	2,866,708	3,975
Excess profit tax .....	6,605,459	—	—
<b>Current tax</b> .....	<b><u>18,448,713</u></b>	<b><u>2,866,708</u></b>	<b><u>3,975</u></b>
Corporate income tax .....	5,231,161	8,306,087	4,540,408
Excess profit tax .....	11,612,897	—	—
<b>Deferred tax</b> .....	<b><u>16,844,058</u></b>	<b><u>8,306,087</u></b>	<b><u>4,540,408</u></b>
<b>Income tax expense</b> .....	<b><u>35,292,771</u></b>	<b><u>11,172,795</u></b>	<b><u>4,544,383</u></b>

According to Kazakh tax legislation specific for extraction industry the Company's operations are subject to excess profit tax. Excess profit tax is charged at rates of between 0 and 30% on net income according to the level of domestic profit rate as defined by Kazakh legislation. For 2005 excess profit tax was charged on Company's profits at applicable rate of 18% (2004 and 2003: 0%).

	<u>As at January 1, 2005</u>	<u>Effect of foreign exchange differences</u>	<u>Net movement</u>	<u>As at December 31, 2005</u>
<b>Deferred Tax Assets</b>				
Other .....	762,000	(21,476)	4,569,394	5,309,919
<b>Net deferred tax assets</b> .....	<b><u>762,000</u></b>	<b><u>(21,476)</u></b>	<b><u>4,569,394</u></b>	<b><u>5,309,919</u></b>
<b>Deferred Tax Liabilities</b>				
Property, plant and equipment .....	(14,798,868)	417,072	(18,501,200)	(32,882,997)
Intangibles .....	(86,800)	2,446	(3,310,294)	(3,394,648)
<b>Deferred tax liabilities</b> .....	<b><u>(14,885,668)</u></b>	<b><u>419,518</u></b>	<b><u>(21,811,495)</u></b>	<b><u>(36,277,645)</u></b>
<b>Net deferred tax position</b> .....	<b><u>(14,123,668)</u></b>	<b><u>398,042</u></b>	<b><u>(17,242,100)</u></b>	<b><u>(30,967,726)</u></b>

**KAZPOLMUNAY LLP**

**NOTES TO THE FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003  
(all amounts expressed in US dollars)**

**11 TRADE AND OTHER PAYABLES**

	<u>December 31, 2005</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Trade payables . . . . .	9,899,514	3,871,483	2,290,130
Historical cost obligation to state . . . . .	6,760,332	—	—
Salaries and related taxes . . . . .	199,754	219,724	68,723
Interest payable . . . . .	—	67,008	737,361
Other payables . . . . .	136,170	129,339	101,363
<b>Total trade and other payables . . . . .</b>	<b><u>16,995,770</u></b>	<b><u>4,287,554</u></b>	<b><u>3,197,577</u></b>

Trade payables include USD 9,527,034 (2004: USD 3,386,702; 2003: USD 1,873,842) payable to related parties. Refer to Note 18 for details.

There is no material difference between the carrying amount of trade and other payables and their fair value.

**12 SALES**

	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004</u>	<u>Year ended December 31, 2003</u>
Sales of extracted products . . . . .	100,149,541	64,071,525	35,957,544
Sales of purchased products . . . . .	2,251,830	403,933	2,045,395
<b>Total sales . . . . .</b>	<b><u>102,401,371</u></b>	<b><u>64,475,458</u></b>	<b><u>38,002,939</u></b>

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

	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004</u>	<u>Year ended December 31, 2003</u>
Sales of crude oil and condensate . . . . .	101,315,890	59,206,927	36,147,672
Sales of gas . . . . .	1,085,481	5,268,531	1,855,267
<b>Total sales . . . . .</b>	<b><u>102,401,371</u></b>	<b><u>64,475,458</u></b>	<b><u>38,002,939</u></b>

Sales of crude oil and condensate include sales made in Kazakhstan in accordance with the requirements of local legislation amounted to USD 1,700,410 during 2005 (2004: USD 1,686,149; 2003: USD 2,516,253) and export sales to related parties amounted to USD 99,615,480 (2004: USD 57,520,778; 2003: 33,631,419). Refer to Note 18 for details.

**KAZPOLMUNAY LLP**

**NOTES TO THE FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003  
(all amounts expressed in US dollars)**

**13 COST OF SALES**

	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004</u>	<u>Year ended December 31, 2003</u>
Depreciation and amortization .....	5,414,490	4,008,173	3,306,520
Royalty .....	4,387,683	1,950,760	574,416
Salaries and related costs .....	2,614,730	1,473,587	817,439
Maintenance services .....	1,938,645	1,303,179	—
Transportation expenses .....	1,622,516	1,528,950	2,152,489
Material costs .....	1,516,811	859,917	411,540
Security .....	452,960	111,688	202,224
Other expenses .....	<u>5,316,008</u>	<u>10,578,972</u>	<u>6,520,845</u>
<b>Cost of sales of extracted products .....</b>	<b><u>23,263,843</u></b>	<b><u>21,815,226</u></b>	<b><u>13,985,473</u></b>
Cost of sales of products purchased for resale .....	<u>2,031,601</u>	<u>288,364</u>	<u>1,653,577</u>
<b>Total cost of sales .....</b>	<b><u>25,295,444</u></b>	<b><u>22,103,590</u></b>	<b><u>15,639,050</u></b>

Royalties are calculated on the value of the produced mineral resources and are paid in cash on a monthly basis. Royalties for hydrocarbons are calculated on the basis of the average selling price for a month, exclusive of indirect taxes and reduced by the cost of transportation expenses to the place of sale. The Operating Agreement of the Company specifies Royalty payment at rates of between 2 and 7%.

**14 OTHER INCOME**

Other operating income refers to revenues other than from sale of hydrocarbons and mainly arises from transactions with related parties.

	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004</u>	<u>Year ended December 31, 2003</u>
Sales of materials and other services net of cost .....	226,144	37,283	12,246
Rental income .....	359,798	243,175	37,697
Other income .....	<u>34,372</u>	<u>105,532</u>	<u>171,409</u>
<b>Total other income .....</b>	<b><u>620,314</u></b>	<b><u>385,990</u></b>	<b><u>221,352</u></b>

**15 DISTRIBUTION COSTS**

	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004</u>	<u>Year ended December 31, 2003</u>
Pipeline transportation of oil, condensate and gas .....	9,486,015	9,433,834	6,806,779
Oil storage .....	2,987,661	1,377,271	—
Oil processing and transportation .....	187,406	338,669	681,823
Other expenses .....	<u>23,843</u>	<u>159,091</u>	<u>179,599</u>
<b>Total distribution costs .....</b>	<b><u>12,684,925</u></b>	<b><u>11,308,865</u></b>	<b><u>7,668,201</u></b>

**KAZPOLMUNAY LLP**

**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
 (all amounts expressed in US dollars)

**16 ADMINISTRATIVE EXPENSES**

	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004</u>	<u>Year ended December 31, 2003</u>
Salaries and related costs .....	418,578	226,077	192,460
Taxes and duties .....	351,713	69,214	5,350
Personnel training .....	137,027	270,349	30,256
Depreciation and amortization .....	44,095	32,617	19,086
Travel allowances .....	33,219	31,427	52,699
Banking services .....	29,124	20,611	12,352
Other expenses .....	488,961	261,119	103,528
<b>Total administrative expenses .....</b>	<b><u>1,502,717</u></b>	<b><u>911,414</u></b>	<b><u>415,731</u></b>

**17 INTEREST EXPENSE**

	<u>Year ended December 31, 2005</u>	<u>Year ended December 31, 2004</u>	<u>Year ended December 31, 2003</u>
Interest on bank overdrafts and loans .....	269,129	1,939,457	4,380,643
Interest on borrowings .....	2,395,865	2,246,455	1,046,961
<b>Total borrowing costs .....</b>	<b><u>2,664,994</u></b>	<b><u>4,185,912</u></b>	<b><u>5,427,604</u></b>
Less: amounts included in the cost of qualifying assets .....	<u>(1,037,109)</u>	<u>(1,928,257)</u>	<u>(5,427,604)</u>
<b>Interest expense .....</b>	<b><u>1,627,885</u></b>	<b><u>2,257,655</u></b>	<b><u>—</u></b>

**KAZPOLMUNAY LLP**

**NOTES TO THE FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003  
(all amounts expressed in US dollars)**

**18 RELATED PARTY TRANSACTIONS**

Related parties are entities with common direct or indirect shareholders, directors or management. A significant proportion of Company's business is conducted through transactions with related parties and effect of these on the basis determined between the related parties is reflected below. The transactions between the related parties are based on mutual agreements and may not always be on an arms length basis.

During the year, the Company entered into the following transactions with related parties:

	Sales of goods and services			Purchase of goods and services, interest payable		
	Dec 31, 2005	Year ended Dec 31, 2004	Dec 31, 2003	Dec 31, 2005	Year ended Dec 31, 2004	Dec 31, 2003
Ascom S.A. ....	—	—	—	431,940	366,341	189,200
Kasko LLP .....	699,949	493,456	229,190	26,303,239	20,728,457	10,055,048
Stadoil Ltd. ....	34,905,129	—	—	—	—	—
Stanley Trading Company Ltd. ....	64,710,351	57,520,778	—	—	—	—
Terra Raf Trans Trading Ltd. ....	—	—	33,631,419	2,395,865	2,246,455	1,541,370
Tolkynneftegaz LLP .....	480,275	150,005	674,833	6,341,948	5,148,220	2,981,160
<b>Total</b> .....	<b>100,795,704</b>	<b>58,164,239</b>	<b>34,535,442</b>	<b>35,472,992</b>	<b>28,489,473</b>	<b>14,766,778</b>

**KAZPOLMUNAY LLP**

**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
(all amounts expressed in US dollars)

**18 RELATED PARTY TRANSACTIONS—(Continued)**

	Amounts owed by related parties		Amounts owed to related parties	
	Year ended		Year ended	
	Dec 31, 2005	Dec 31, 2004	Dec 31, 2005	Dec 31, 2004
Ascorm S.A. ....	—	—	72,640	82,560
Kasko LLP .....	—	—	4,363,746	1,437,565
Stadoil Ltd. ....	26,324,834	—	—	—
Stanley Trading Company Ltd. ....	—	17,384,548	—	—
Terra Raf Trans Trading Ltd. ....	—	—	14,250,579	14,676,803
Tolkynneftegaz LLP .....	—	—	5,090,648	1,866,577
<b>Total</b> .....	<b>26,324,834</b>	<b>17,384,548</b>	<b>23,777,613</b>	<b>18,063,505</b>
				<b>14,150,645</b>

Transactions and balances with Stadoil Ltd. and Stanley Trading Company Ltd. relate to the sale of oil.

Transactions with Ascorm S.A., its parent company, relate to seismic services.

The Company receives loans from and sells oil to Terra Raf Trans Trading Ltd. (refer to Note 9 for details).

Kasko LLP supplies drilling, maintenance and construction services to the Company.

The Company provides processing facilities to and purchases gas from Tolkynneftegaz LLP.

**KAZPOLMUNAY LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**19 COMMITMENTS**

*(a) Commercial Discovery Bonus*

The Company is liable for a commercial discovery bonus (the “Bonus”) payable to the Kazakh State at the point at which the commerciality of a field is formally declared. It is expected that this will occur in late 2007 in respect of the Borankol field. The Bonus is payable at a rate of 0.05% on the additional reserves discovered in excess of those stipulated in the relevant contract. Although not clearly stipulated by the contracts, management believes that the Bonus will be paid at the market prices current at the date of the declaration of commerciality. As at December 31, 2005 management is not able to estimate reliably the amount that will be payable.

*(b) Commitments on Training Kazakh Employees*

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

**20 CONTINGENT LIABILITIES**

There were no significant contingent liabilities as at December 31, 2005.

**21 FINANCIAL INSTRUMENTS**

Following is a summary of the nature of activities and management policies with respect to financial instruments.

**Foreign Exchange**

The Company undertakes transactions denominated in foreign currencies and exposure in foreign currencies fluctuation results from these activities. The Company does not hedge its foreign currency risks.

**Interest Rate**

The Company has borrowings on fixed interest rate terms and is therefore exposed to interest price risk.

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate that applies to the financial instrument.

Management monitors its interest rate risk exposure on a continuous basis.

**Credit Risk**

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

**KAZPOLMUNAY LLP**  
**NOTES TO THE FINANCIAL STATEMENTS—(Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003**  
**(all amounts expressed in US dollars)**

**22 CHANGES IN ACCOUNTING POLICY AND ERRORS**

Until December 31, 2004, oil and gas producing assets were depreciated on a straight line basis over the shorter of the remaining term of the life and the average useful life of the oil and gas properties considered to be 15 years. Management have concluded that the method is not in accordance with the generally accepted practice among international oil and gas exploration and production companies of depreciating such assets on a unit of production basis. Accordingly, the Company has adopted the unit of production basis and restated prior periods accordingly.

Deferred tax has been restated in accordance with IAS 12, to reflect changes in the carrying value of assets resulting from the change in the depreciation accounting policy.

Deferred tax has been further restated to correct an error in the financial statements of the years to December 31, 2004, whereby an incorrect interpretation of Kazakh tax legislation led to the establishment of a deferred tax asset in respect of property, plant and equipment in place of the deferred tax liability that should have been recognised.

Certain reclassifications have also been made to bring the Company's financial statement presentation into line with industry practice.



KAZPOLMUNAY LLP

NOTES TO THE FINANCIAL STATEMENTS—(Continued)  
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003  
(all amounts expressed in US dollars)

22 CHANGES IN ACCOUNTING POLICY AND ERRORS—(Continued)

	2004 (As originally reported)	IAS16 Property plant and equipment	IAS 12 Income tax	Additional tax provisions	Reclassification for consistent presentation	2004 (As restated)
Non current assets	80,460,872	(22,915,807)	(7,023,175)	—	(9,732)	50,512,158
Current assets	22,405,872	—	—	—	9,732	22,415,604
<b>Total assets</b>	<b>102,866,744</b>	<b>(22,915,807)</b>	<b>(7,023,175)</b>	<b>—</b>	<b>—</b>	<b>72,927,762</b>
Current liabilities	15,082,097	—	—	4,683,127	—	19,765,224
Non current liabilities	14,676,803	—	14,123,668	—	—	28,800,471
<b>Total liabilities</b>	<b>29,758,900</b>	<b>—</b>	<b>14,123,668</b>	<b>4,683,127</b>	<b>—</b>	<b>48,565,695</b>
Net assets	73,107,844	(22,915,807)	(21,146,843)	(4,683,127)	—	24,362,067
Share capital	50,000	—	—	—	—	50,000
Retained earnings	73,057,844	(22,915,807)	(21,146,843)	(4,683,127)	—	24,312,067
<b>Equity</b>	<b>73,107,844</b>	<b>(22,915,807)</b>	<b>(21,146,843)</b>	<b>(4,683,127)</b>	<b>—</b>	<b>24,362,067</b>
Revenue	64,475,458	—	—	—	—	64,475,458
Cost of sales	(19,046,579)	(4,483,297)	—	(256,000)	1,682,286	(22,103,590)
Other	(12,579,800)	147,931	—	(1,347,000)	(1,682,286)	(15,461,155)
Profit from continuing operations before taxation	32,849,079	(4,335,366)	—	(1,603,000)	—	26,910,713
Taxation	5,302,581	—	(14,351,376)	(2,124,000)	—	(11,172,795)
<b>Net profit for the year</b>	<b>38,151,660</b>	<b>(4,335,366)</b>	<b>(14,351,376)</b>	<b>(3,727,000)</b>	<b>—</b>	<b>15,737,918</b>

	2003 (As originally reported)	IAS16 Property plant and equipment	IAS 12 Income tax	Additional tax provisions	Reclassification for consistent presentation	2003 (As restated)
Non current assets	55,997,639	(18,588,093)	(977,889)	—	(10,224)	36,421,433
Current assets	19,060,978	—	—	—	10,224	19,071,202
<b>Total assets</b>	<b>75,058,617</b>	<b>(18,588,093)</b>	<b>(977,889)</b>	<b>—</b>	<b>—</b>	<b>55,492,635</b>
Current liabilities	20,883,020	—	—	948,472	—	21,831,492
Non current liabilities	19,219,413	—	5,817,581	—	—	25,036,994
<b>Total liabilities</b>	<b>40,102,433</b>	<b>—</b>	<b>5,817,581</b>	<b>948,472</b>	<b>—</b>	<b>46,868,486</b>
Net assets	34,956,184	(18,588,093)	(6,795,470)	(948,472)	—	8,624,149
Share capital	50,000	—	—	—	—	50,000
Retained earnings	34,906,184	(18,588,093)	(6,795,470)	(948,472)	—	8,574,149
<b>Equity</b>	<b>34,956,184</b>	<b>(18,588,093)</b>	<b>(6,795,470)</b>	<b>(948,472)</b>	<b>—</b>	<b>8,624,149</b>
Revenue	35,957,544	—	—	—	2,045,395	38,002,939
Cost of sales	(9,868,121)	(14,019,121)	—	—	8,248,192	(15,639,050)
Other	628,266	1,778,420	—	(948,472)	(10,293,587)	(8,835,373)
Profit from continuing operations before taxation	26,717,689	(12,240,701)	—	(948,472)	—	13,528,516
Taxation	973,914	—	(5,518,297)	—	—	(4,544,383)
<b>Net profit for the year</b>	<b>27,691,603</b>	<b>(12,240,701)</b>	<b>(5,518,297)</b>	<b>(948,472)</b>	<b>—</b>	<b>8,984,133</b>

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## GLOSSARY OF OIL, CONDENSATE AND GAS TERMS

The following is a description of the meanings of some of the oil, condensate and gas industry terms used in this offering circular.

**API.** American Petroleum Institute.

**Appraisal well.** A well drilled several spacing locations away from a producing well to determine the boundaries or extent of a productive formation and to establish the existence of additional reserves.

**Bbl.** One barrel, 42 U.S. gallons liquid volume, or .136426 tonnes of oil.

**BBtu.** One billion btu.

**Bcf.** One billion cubic feet of gas.

**Bcfe.** One billion cubic feet of gas equivalent, using the ratio of one barrel of oil or condensate to 6 mcf of gas.

**Boe.** Barrel of oil equivalent, using the ratio of 6 mcf of gas to one barrel of oil or condensate.

**Bopd.** Barrel of oil per day.

**Btu.** British thermal unit, the quantity of heat required to raise the temperature of one pound of water by one degree Fahrenheit.

**Completion.** For a well, the installation of permanent equipment for the production of oil or gas, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.

**Condensate.** Hydrocarbons which are in a gaseous state under reservoir conditions but which become liquid at the surface and may be recovered by conventional separators.

**Developed acreage.** The number of acres which are allocated or assignable to producing wells or wells capable of production.

**Development drilling or development wells.** Drilling or wells drilled within the proved area of an oil or gas reservoir, as indicated by reasonable interpretation of available data, to the depth of a stratigraphic horizon known to be productive.

**Dry well or dry hole.** A well found to be incapable of producing either oil or gas in sufficient quantities to justify completion of the well.

**Exploitation.** Drilling and other operating activities on oil and gas properties that, due to the presence of existing production or proved reserves, are lower-risk activities than exploratory drilling.

**Exploratory well.** A well drilled to find and produce oil or gas reserves not classified as proved, to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir or to extend a known reservoir.

**FCA.** Free carrier, a trade term requiring the seller to deliver goods to a named airport, terminal, or other place where the carrier operates.

**Field.** A unit of area with reserves of recoverable oil or natural gas, especially one with several oil or gas producing wells.

**FOB.** Free on board, describes a price which includes goods plus the services of loading those goods onto some vehicle or vessel at a named location.

**Gas.** Natural gas and natural gas liquids.

**Gross acres or gross wells.** The total acres or wells, as applicable, in which a working interest is owned.

**Hydrocarbon.** Any of a class of organic compounds composed only of carbon and hydrogen. The carbon atoms form the framework, and the hydrogen atoms attach to them. Hydrocarbons, the principal constituents of petroleum and natural gas, serve as fuels, lubricants, and raw materials for production of plastics, fibers, rubbers, solvents, explosives, and industrial chemicals.

**Infill drilling.** Drilling of an additional well or wells provided by an existing spacing in order to more adequately drain a reservoir.

**License.** The right to explore and/or develop a block.

**LPG.** Liquid petroleum gas.

**Mbbl.** One thousand barrels.

**Mbo.** One thousand barrels of oil.

**Mbopd.** One thousand barrels of oil per day.

**Mboe.** One thousand barrels of oil equivalent.

**Mboed.** One thousand barrels of oil equivalent per day.

**Mcf.** One thousand cubic feet of gas or 0.028157 thousand cubic meters. For the purposes of this document, this volume is stated at the reference pressure base and temperature of the state or area in which the reserves are located.

**Mcfe.** One thousand cubic feet of gas equivalent, using the ratio of one barrel of oil or condensate to 6 mcf of gas.

**MEMR.** Ministry of Energy and Mineral Resources of Kazakhstan.

**MMbbl.** One million barrels.

**MMbo.** One million barrels of oil.

**MMbopd.** One million barrels of oil per day.

**MMboe.** One million barrels of oil equivalent.

**MMbtu.** One million British thermal units. One MMBtu approximates one mcf of gas.

**MMcf.** One million cubic feet of gas.

**MMcfpd.** One million cubic feet of gas per day.

**MMscfg/d.** One million square cubic feet of gas per day.

**Gas liquids (NGLs).** Hydrocarbons found in gas which may be extracted as liquefied petroleum gas and gasoline.

**Net acres or net wells.** The gross acres or wells, as applicable, multiplied by the working interest owned.

**Net shrinkage.** The volume of natural gas that is produced but not sold due to transformation into liquid products during processing, primarily at natural gas liquid processing plants, or gas used on site as fuel or other lease use.

**Oil.** Oil and condensate.

**Probable developed reserves.** Probable reserves which are expected by a petroleum engineer to be recovered from completion zones that are open at the time of the estimate and are producing.

**Producing well or productive well.** A well that is producing oil or gas or that is capable of production, including gas wells awaiting pipeline connections to commence deliveries and oil wells awaiting connection to production facilities.

**Proved developed producing (PDP) reserves.** Reserves that can be recovered through existing wells with existing equipment and operating methods.

**Proved developed (PD) reserves.** Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

**Proved reserves or proved oil and gas reserves.** The estimated quantities of oil, condensate, gas and gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.

**Proved undeveloped (PUD) reserves.** Reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required.

**PV-10 value.** The present value of estimated future net cash flows from proved reserves, probable reserves, proved plus probable reserves or total reserves, as applicable, in each case after income taxes, discounted at 10.0% per year, calculated using constant oil pricing and variable gas pricing. This analysis is not equivalent to the “standardized” measure calculated in accordance with the requirements of SFAS 69.

**Remaining reserve life.** The time required, in years, to produce reserves to their economic limit, which is when sales equal operating costs.

**Reserve life index.** A static measure of the number of years it would take to produce reserves at the current rate of production. It is calculated using the most current proved or proved plus probable reserves data, as applicable, divided by trailing twelve month production.

**Reservoir.** A porous and permeable underground formation containing a natural accumulation of producible oil and/or gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.

**Tcf.** One trillion cubic feet of gas.

**Undeveloped acreage.** Acreage held under lease, permit, contract or option that is not in a spacing unit for a producing well, including leasehold interests identified for exploitation or exploratory drilling.

**Working interest.** The operating interest that gives the owner the right to receive a share of production, subject to all royalties, overriding royalties and other burdens and to pay a share of all costs of exploration, development and operations and all risks in connection therewith.

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Borankol Oil Well Pumping Unit



New Tolkyn Gas Plant



Oil and Condensate Storage Tanks at Opornaya



Condensate Storage at Tolkyn Gas Plant



New Gas Compression Plant at Borankol



Current Tolkyn Gas Plant

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No person has been authorized to give any information or to make any representations other than those contained in this offering circular, and, if given or made, such information and representations must not be relied upon as having been authorized. This offering circular does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or any offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this offering circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

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#### TABLE OF CONTENTS

Offering Circular Summary .....	1
Risk Factors .....	11
Use of Proceeds .....	24
Capitalization .....	25
Selected Combined Financial and Operating Data .....	26
Management's Discussion and Analysis of Financial Condition and Results of Operations .....	27
Overview of Kazakhstan and the Oil and Gas Industry .....	36
Business .....	40
Management .....	48
Principal Stockholders .....	50
Certain Relationships and Related Party Transactions .....	51
Description of Other Indebtedness .....	53
Description of the Notes .....	54
United States Federal Income Tax Considerations .....	97
Kazakhstan Taxation Considerations .....	100
Luxembourg Tax Considerations .....	101
Plan of Distribution .....	102
Notice to Investors .....	104
Legal Matters .....	110
Reserve Engineers .....	111
Independent Auditors .....	112
Index to Combined and Individual Financial Statements .....	F-A
Glossary of Oil, Condensate and Gas Terms ..	G-1

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**US\$300,000,000**



**Tristan Oil Ltd.**

**10½% Senior Secured Notes due 2012**

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**OFFERING CIRCULAR**

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**Jefferies & Company**

*December 13, 2006*