

Zhaikmunai LLP

CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2019*

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Independent auditor's report

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## Independent auditor's report

To the Board of directors and Participant of Zhaikmunai LLP

### ***Disclaimer of opinion***

We were engaged to audit the consolidated financial statements of Zhaikmunai LLP and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying consolidated financial statements. Because of the significance of the matter described in the Basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statements of the Group.

### ***Basis for disclaimer of opinion***

As disclosed in note 2 to the consolidated financial statements, the consolidated financial statements of the Group are prepared on the assumption that the Group will continue as a going concern.

With the outbreak of COVID-19 in the post-balance sheet period, and the uncertain demand for oil, the market price for the Group's products has fallen sharply and the outlook remains highly uncertain. There is a significant uncertainty in relation to the extent and period over which these developments will continue, but they will have a significant impact on the Group's financial position, future cashflows and results of operations.

Management prepared a cash flow forecast to support their assessment that the Group will continue as a going concern, including consideration of plausible downside scenarios. Management's assessment highlighted that the liquidity of the Group is highly exposed to commodity prices. The Group's outstanding bonds, including coupon payments in the going concern period, will need to be restructured in the event conditions reflect commodity prices below management's base case. The prices assumed in management's base case are significantly above current market prices.

The ability of management to restructure the outstanding bonds is a key assumption supporting the management's conclusion that it is appropriate to prepare the consolidated financial statements of the Group on a going concern basis. The sharp fall in the market price and demand of the Group's products in the post-balance sheet period, and the estimated impact on the Group's future cashflows, has accelerated the need to negotiate with bondholders. A financial advisor has recently been selected, however, engagement with bondholders has not yet commenced. Consequently, we were unable to obtain sufficient appropriate audit evidence to support the assumption that a restructuring of the Group's bonds, including the deferral of associated interest due in the going concern period, is achievable in the necessary timeframe to provide a basis for us to issue an audit opinion on the consolidated financial statements.

The consolidated financial statements do not reflect any adjustments that would be required should the Group be unable to continue as a going concern.

***Responsibilities of management and the Board of directors of the Participant for the consolidated financial statements***

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of directors of the Participant is responsible for overseeing the Group's financial reporting process.

***Auditor's responsibilities for the audit of the consolidated financial statements***

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matter described in the *Basis for disclaimer of opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statements.

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

The partner in charge of the audit resulting in this independent auditor's report is Paul Cohn.

*Ernst & Young LLP*

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Paul Cohn  
Audit Partner



Kairat Medetbayev  
Auditor

Audit qualification certificate No. МФ-0000137 dated 8 February 2013

050060, Republic of Kazakhstan, Almaty  
Al-Farabi ave., 77/7, Esentai Tower

29 April 2020



Gulmira Turmagambetova  
General Director  
Ernst & Young LLP

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

<i>In thousands of US Dollars</i>	Notes	31 December 2019	31 December 2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Exploration and evaluation assets	6	–	50,241
Property, plant and equipment	7	661,185	1,926,262
Right-of-use assets	5	6,875	–
Restricted cash	12	7,620	7,021
Advances for non-current assets	8	1,368	13,152
		<b>677,048</b>	<b>1,996,676</b>
<b>Current assets</b>			
Inventories	9	35,849	29,584
Trade receivables	11	31,239	35,732
Prepayments and other current assets	10	10,609	19,225
Cash and cash equivalents	12	13,716	7,059
		<b>91,413</b>	<b>91,600</b>
<b>TOTAL ASSETS</b>		<b>768,461</b>	<b>2,088,276</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Capital	13	4,112	4,112
Other reserves		32,586	32,586
(Accumulated losses)/retained earnings		(516,791)	468,579
		<b>(480,093)</b>	<b>505,277</b>
<b>Non-current liabilities</b>			
Long-term borrowings	14	1,100,573	1,070,736
Long-term lease liability	15	641	–
Long-term finance guarantee	14	2,887	4,111
Abandonment and site restoration provision	16	27,502	21,894
Due to Government of Kazakhstan	17	5,070	5,280
Deferred tax liability	27	40,924	395,224
		<b>1,177,597</b>	<b>1,497,245</b>
<b>Current liabilities</b>			
Current portion of long-term borrowings	14	4,013	4,627
Current portion of long-term lease liability	15	6,735	–
Current portion of finance guarantee	14	1,594	1,594
Trade payables	18	29,395	49,679
Advances received		335	394
Income tax payable		216	484
Current portion of due to Government of Kazakhstan	17	1,031	1,031
Other current liabilities	19	27,638	27,945
		<b>70,957</b>	<b>85,754</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>768,461</b>	<b>2,088,276</b>

General Director of Zhaikmunai LLP

Chief Accountant of Zhaikmunai LLP



*Zhomart Darkeev*  
Zhomart Darkeev

*Olga Shoshinova*  
Olga Shoshinova

The accounting policies and explanatory notes on pages 5 to 39 are an integral part of these consolidated financial statements.





## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

<i>In thousands of US Dollars</i>	Notes	Capital	Other reserves	Retained earnings/ (Accumulated losses)	Total
<b>As at 31 December 2017</b>		<b>4,112</b>	<b>32,586</b>	<b>568,236</b>	<b>604,934</b>
Impact of adopting IFRS 9		–	–	6,905	6,905
<b>As at 1 January 2018 (restated under IFRS 9)</b>		<b>4,112</b>	<b>32,586</b>	<b>575,141</b>	<b>611,839</b>
Loss for the year		–	–	(104,505)	(104,505)
<b>Total comprehensive loss for the year</b>		<b>–</b>	<b>–</b>	<b>(104,505)</b>	<b>(104,505)</b>
Issue of finance guarantee	14	–	–	(2,057)	(2,057)
<b>As at 31 December 2018</b>		<b>4,112</b>	<b>32,586</b>	<b>468,579</b>	<b>505,277</b>
Loss for the year		–	–	(985,370)	(985,370)
<b>Total comprehensive loss for the year</b>		<b>–</b>	<b>–</b>	<b>(985,370)</b>	<b>(985,370)</b>
<b>As at 31 December 2019</b>		<b>4,112</b>	<b>32,586</b>	<b>(516,791)</b>	<b>(480,093)</b>

General Director of Zhaikmunai LLP



*Zhomart Darkeev*

Zhomart Darkeev

Chief Accountant of Zhaikmunai LLP

*Olga Shoshinova*

Olga Shoshinova

The accounting policies and explanatory notes on pages 5 to 39 are an integral part of these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2019*

### 1. GENERAL

#### Overview

Zhaikmunai, a Limited Liability Partnership (the “Partnership” or “Zhaikmunai LLP”) was established under the laws of the Republic of Kazakhstan in 1997.

On 28 February 2014 the Partnership acquired in a transaction under common control 1,000 ordinary shares of Nostrum Oil & Gas Finance B.V., representing 100% of its charter capital, from Nostrum Oil & Gas B.V. (formerly known as Zhaikmunai Netherlands B.V.), an entity under control of a common parent. In 2014 the Partnership sold 100% interest in its dormant subsidiaries Zhaikmunai Finance B.V., Zhaikmunai International B.V. and Nostrum Oil & Gas Finance B.V. to Nostrum Oil & Gas B.V.

On 28 December 2018, the Partnership acquired 100% interest in Atom&Co LLP for cash consideration of US\$ 1.7 million for the main purpose of gaining control over the administrative office in Uralsk. This transaction has been accounted as an asset acquisition, which was under finance lease with this entity. On 20 August 2019, the Partnership merged with Atom & Co LLP.

The Group’s operations comprise of a single operating segment and 3 (three) additional exploration concessions located in Kazakhstan.

The Group does not have an ultimate controlling party.

The registered legal address of the Group is: 43/1, Aleksandr Karev street, Uralsk, the Republic of Kazakhstan.

These consolidated financial statements were authorised for issue by the Group’s General Director and Chief Accountant on 29 April 2020.

These consolidated financial statements include the financial position and the results of the operations of the Partnership and its wholly owned subsidiary Atom&Co LLP.

#### Subsoil use rights terms

The Group carries out its activities in accordance with the Contract for Additional Exploration, Production and Production-Sharing of Crude Hydrocarbons in the Chinarevskoye oil and gas condensate field (the “Contract”) dated 31 October 1997 between the State Committee of Investments of the Republic of Kazakhstan and the Group in accordance with the license MG No. 253D for the exploration and production of hydrocarbons in Chinarevskoye oil and gas condensate field.

On 17 August 2012 the Group signed Asset Purchase Agreements to acquire 100% of the subsoil use rights related to three oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye – all located in the Western Kazakhstan region. On 1 March 2013 the Group acquired the subsoil use rights related to these three oil and gas fields in Kazakhstan following the signing of the respective supplementary agreements related thereto by the authority now known as the Ministry of Energy (the “MOE”) of the Republic of Kazakhstan.

The term of the Chinarevskoye subsoil use rights originally included a 5-year exploration period and a 25-year production period. Subsequently the exploration period was extended to 26 August 2018.

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. On 16 August 2019, the contract was amended so as to adopt the terms of the current model contract and the exploration period was extended until 16 August 2022.

The contract for exploration and production of hydrocarbons from Darjinskoye field dated 28 July 2006 originally included a 6-year exploration period and a 19-year production period. Subsequently, the exploration period was extended until 31 December 2021.

The contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field dated 28 July 2006 originally included a 5-year exploration period and a 20-year production period. Subsequently, the exploration period was extended until 31 December 2021.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### Royalty payments

The Group is required to make monthly royalty payments throughout the entire production period, at the rates specified in the Contract.

Royalty rates depend on hydrocarbons recovery levels and the phase of production and can vary from 3% to 7% of produced crude oil and from 4% to 9% of produced natural gas. Royalty is accounted on a gross basis.

### Government “profit share”

The Group makes payments to the Government of its “profit share” as determined in the Contract. The “profit share” depends on hydrocarbon production levels and varies from 10% to 40% of production after deducting royalties and reimbursable expenditures. Reimbursable expenditures include operating expenses, costs of additional exploration and development costs. Government “profit share” is expensed as incurred and paid in cash. Government profit share is accounted on a gross basis.

## 2. BASIS OF PREPARATION

These consolidated financial statements for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by International Accounting Standards Board (“IASB”). The consolidated financial statements have been prepared based on a historical cost basis. The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in *Note 4*.

### Going concern

These consolidated financial statements have been prepared on a going concern basis.

The Group monitors on an ongoing basis its liquidity position, near-term forecasts and key financial ratios to ensure that sufficient funds are available to meet its commitments as they arise. In addition, on a quarterly basis the Group performs sensitivity tests of its liquidity position for changes in crude oil price, production volumes and timing of completion of various ongoing projects. While looking for new opportunities to fill the spare capacity of the Group’s infrastructure, management are also focused on a range of actions aimed at improving the liquidity outlook in the near-term. These include further cost optimization to reduce capital, operating and general & administration expenditures.

The base-case scenario of the going concern model has been prepared using a US\$45/bbl oil price assumption for throughout 2020 and 2021. The base-case liquidity model shows that the Group will be able to operate as usual and have sufficient financial headroom for the 12 months from the date of approval of the consolidated financial statements.

As disclosed in Note 31, subsequent to the year-end the price of oil collapsed following a disagreement between OPEC+ countries on production levels compounded by the perceived lack of future demand for oil caused by disruptions to businesses and economic activity as a result of the novel coronavirus COVID-19 (“COVID-19”). Whilst the OPEC+ countries, together with a wider group of producers have subsequently agreed to lower daily production levels, the continuing uncertainty over the future demand for oil as a result of the continuing impact of COVID-19 is restricting the recovery of the oil price.

Management have also considered any additional risks of COVID-19. Oil and gas production has been classified as an essential business in Kazakhstan and so operations are continuing. Contingency plans have been put in place both to protect the workforce and ensure that there are sufficient personnel to continue operations. Therefore, management have concluded that there is currently no other material impact on the Group’s operations and liquidity at the time of publication of the report as a result of COVID-19. However, it is recognized that there is uncertainty around future developments of this matter which may affect the Group’s ability to deliver the forecast production over 2020 and early 2021.

As a result of these uncertainties, we also ran a plausible downside scenario at US\$30/bbl oil price, reflecting market conditions observed subsequent to the year-end, for the entire period covered by the model. This represents a scenario in which production is as forecast in the base case model but the post year end conditions continue for 12 months.

The results of the plausible downside scenario showed that in the near-term the Group’s liquidity position is exposed to such a fall in oil prices. Without mitigating actions, a sustained period of low oil prices at \$30/bbl would result in the Group being unable to cover its cash operating and interest costs in 2021. The Group’s liquidity position is therefore exposed to events outside of the Group’s control.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Therefore, the Group announced on 31 March 2020 that it will now seek to engage with its bondholders regarding a possible restructuring of the Group's outstanding bonds. The Group is in the process of selecting a financial advisor to commence negotiations with bondholders. The Company will require amendment in the short term to protect the liquidity of the group within the going concern period, and restructuring to ensure ongoing viability. The results of any discussions with bond holders are uncertain. In the event of sustained low oil prices envisaged in the plausible downside case, the company will likely require amendment to the payment terms within the bonds to take effect within the going concern period.

The Group is also taking other, prudent mitigating actions that can be executed in the necessary timeframe and which will protect liquidity. These include cancelling uncommitted capital expenditures over the period without having an impact on forecast production in the going concern period of assessment and identifying further reductions in operating costs and general & administration costs.

Therefore, in forming an assessment on the Group's ability to continue as a going concern, management has made significant judgements about:

- The forecast cash flow of the Group over the next 12 months from the date of approval of the consolidated financial statements depends on the duration of the low oil price environment and the Group's ability to implement the mitigating actions within the Group's control; and
- the Group's ability of successfully engage with its bondholders regarding a restructuring of the Group's outstanding bonds.

These represent material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

After careful consideration of these material uncertainties, management are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of these consolidated financial statements. For these reasons, they continue to adopt the going concern basis in preparing the consolidated financial statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group were unable to continue as a going concern.

### 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

#### New standards, interpretations and amendments adopted by the Group

The accounting policies adopted are consistent with those of the previous financial year, except for the below amendments to IFRS effective as at 1 January 2019. The Group has not adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the impact of the amendment which is applicable to the Group's consolidated financial statements is described below:

#### **IFRS 16 Leases**

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019 without restating prior year figures. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. As a result, the primary statements are shown on IFRS 16 basis for 2019 and on IAS 17 for 2018, where the lease liability and corresponding right-of-use asset are based on future rentals as determined under the standard, and right of use assets were measured at amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease liabilities.

As previously noted, the Group have not restated comparative disclosures for the impact of IFRS 16. To provide meaningful comparatives, the IFRS 16 results have been split out to aid comparison period on period.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The effect of adoption IFRS 16 is as follows:

<i>In thousands of US dollars</i>	<b>1 January 2019</b>
Right-of-use assets	34,184
<b>Total non-current assets</b>	<b>34,184</b>
<b>Total assets</b>	<b>34,184</b>
Long-term lease liability	16,216
<b>Total non-current liabilities</b>	<b>16,216</b>
Current portion of long-term lease liability	17,968
<b>Total current liabilities</b>	<b>17,968</b>
<b>Total equity and liabilities</b>	<b>34,184</b>

Set out below, are the amounts recognised in profit and loss:

<i>In thousands of US Dollars</i>	<b>2019</b>
Depreciation expense of right-of-use assets (included in Selling and transportation expenses)	<b>4,462</b>
Depreciation expense of right-of-use assets (included in Cost of sales)	<b>2,653</b>
Depreciation expense of right-of-use assets (included in General and administrative expenses)	<b>186</b>
Rent expenses (included in Selling and transportation expenses)	<b>(4,984)</b>
Rent expenses (included in Cost of sales)	<b>(2,951)</b>
Rent expenses (included in General and administrative expenses)	<b>(224)</b>
Finance costs	<b>1,287</b>
Other income	<b>(428)</b>
Deferred income tax expense	–
	<b>1</b>

*Nature of the effect of adoption of IFRS 16*

The Group has contracts including lease components for vehicles, drilling rigs and railway cars. Before the adoption of IFRS 16, the Group recognised the expenses classified as lease under IAS 17 at the inception date as either a finance lease or an operating lease.

A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised, and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term.

*Leases previously classified as finance leases*

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

*Leases previously accounted for as operating leases*

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases or service agreements, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate of 11% at the date of initial application.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Under IAS 17, the drilling and transportation contracts were fully recognised as service agreements and therefore not included in operating leasing. Such contracts for lease of drilling rigs and railway cars include various additional services like personnel cost, maintenance, drilling related activities, and other items. Under IFRS 16, the Group has split the lease components and non-lease components and recognised such non-lease components separately. Where the additional services are not separately priced, the consideration paid has been allocated based on the relative stand-alone prices of the lease and non-lease components. The impact of recognition of the lease components of the service agreements amounted to US\$28,356 thousand.

The Group applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The leases for which the lease term ends within 12 months of the date of initial application of IFRS 16 were classified as short-term leases;
- The right-of-use assets were recognised based on the amount equal to the lease liabilities which were recognised based on the present value of the remaining lease payments;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The summary of difference between the operating lease commitments disclosed under IAS 17 at the year ended 31 December 2018 and the lease liabilities recognised in the consolidated statement of financial position on initial application is as follows:

<i>In thousands of US Dollars</i>	<b>2019</b>
Total operating lease commitments disclosed at 31 December 2018	10,848
Add: service agreement contracts reassessed as lease agreements	28,356
<b>Total lease liabilities before discounting</b>	<b>39,204</b>
Discount using incremental borrowing rate	(5,020)
<b>Total lease liabilities as at 1 January 2019</b>	<b>34,184</b>

### *Summary of new accounting policies*

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

#### *Right-of-use assets*

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

#### *Lease liabilities*

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

### Separation of lease and non-lease components

When contracts for lease (like lease of drilling rigs and railway cars) include various additional services like personnel cost, maintenance, drilling related activities, and other items, the Group splits such non-lease components and recognises them separately. Where the additional services are not separately priced, the consideration paid is allocated based on the relative stand-alone prices of the lease and non-lease components.

### Distinguishing fixed and variable lease payment elements

Certain lease contracts include fixed rates for when the asset is in operation, and various alternative rates (like “cold-stack rates” for leases of drilling rigs) for periods where the asset is engaged in specified activities or idle, but still under contract. In general, variability in lease payments under these contracts has its basis in different use and activity levels, and the variable elements have been determined to relate to non-lease components only. Consequently, the lease components of these contractual payments are considered fixed for the purposes of IFRS 16.

### *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below US\$ 5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

### *Significant judgement in determining lease*

The application of IFRS 16 requires the Group to make judgements that affect the valuation of the lease liabilities and the related right-of-use assets, which include determining the contracts in scope of IFRS 16, and the interest rate used for discounting the future cash flows.

IFRS 16 defines the lease term as the non-cancellable period of a lease together with the options to extend or terminate a lease, if the lessee were reasonably certain to exercise that option. Where a lease includes the option for the Group to extend or terminate lease, Group makes a judgement as to whether it is reasonably certain that the option will be taken. This will take into account the length of the time before the option is exercisable, termination fees, and the level and type of planned future capital investments. The judgment is reassessed at each reporting date. A reassessment of the remaining life of the lease could result in a recalculation of the lease liability and a material adjustment to the associated balances.

IFRS 16 requires the Group to determine whether a contract is a lease or contains a lease at the inception of the contract. While, the assessment of whether a contract is or contains a lease is usually straightforward. However, judgement is required in applying the definition of a lease to certain arrangements. For example, in contracts that include significant services determining whether the contract conveys the right to direct the use of an identified asset requires significant judgment.

The present value of the lease payment is determined using the discount rate representing the incremental borrowing rate calculated on the basis of the government bond applicable for the same tenor, adjusted by the country risk premium and by the average credit spread of the entities with rating similar to the Group's rating, observed in the period when the lease contract commences or is modified.

More detailed information related to the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period are shown in Note 5 and Note 15, relatively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### ***IFRIC Interpretation 23 Uncertainty over Income Tax Treatment***

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those related to transfer pricing. The Group determined, based on its tax compliance studies, that it is probable that its tax treatments will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group.

### ***Amendments to IFRS 9: Prepayment Features with Negative Compensation***

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

### ***Annual Improvements 2015-2017 Cycle (issued in December 2017)***

#### *IAS 12 Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, and early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group does not expect to pay dividends in the coming reporting period, these amendments had no effect on its consolidated financial statements.

#### *IAS 23 Borrowing Costs*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the amendments had no impact on the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### Standards issued but not yet effective

The standards and interpretations applicable to the Group's consolidated financial statements that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, when they become effective.

#### IFRS 17 *Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

#### Amendments to IFRS 3: *Definition of a Business*

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

#### Amendments to IAS 1 and IAS 8: *Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material are not expected to have a significant impact on the Group's consolidated financial statements.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Exploration expenditure

Costs directly associated with exploration wells are capitalised within exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials, fuel used, rig costs, payments made to contractors and asset retirement obligation fees.

#### *Significant estimates and assumptions: Exploration expenditures*

If hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as an asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery, which is subject to estimation uncertainties. When this is no longer the case, the costs are written off.

Subsoil use rights acquisition costs are initially capitalised in exploration and evaluation assets. Subsoil use rights acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned or the subsoil use rights have been relinquished or have expired, the carrying value of the subsoil use rights acquisition costs is written off through profit or loss.

The Group owns licenses in the Western Kazakhstan region, including the Rostoshinskoye, Yuzhno-Gremyachinskoye and Darjinskoye fields where the exploration periods will expire respectively on 16 August 2022, 31 December 2021 and 31 December 2021. The Group remains committed to developing its exploration assets and based on the past history of the Group's ability to obtain extension, therefore, continues to carry the capitalized costs on its balance sheet. For more detailed information in relation to the subsoil use rights terms, please see Note 1.

### *Significant accounting judgements: Exploration expenditure*

Management applied judgement when determining all three exploration fields as a single cash generating unit for the purpose of assessment of their recoverable amounts. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

The probable reserves for Rostoshinskoye and Darinskoye fields in the 31 December 2018 reserves report have been moved into the contingent resource category as of 31 December 2019 pending further appraisal. Taking this into account, the Group recognized an impairment charge for the full cost of exploration and evaluation assets equalling US\$50,533 thousand as well as corresponding VAT receivables in the amount of US\$2,478 thousand as of 31 December 2019.

For more detailed information in relation to exploration and evaluation assets, please see Note 6.

## **Property, plant and equipment**

### ***Oil and gas properties***

Expenditure on the construction, installation or completion of infrastructure facilities such as treatment facilities, pipelines and the drilling of development wells, is capitalised within property, plant and equipment as oil and gas properties. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. When a development project moves into the production stage, the capitalisation of certain construction/development costs ceases, and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to oil and gas property asset additions, improvements or new developments.

All capitalised costs of oil and gas properties are depleted using the unit-of-production method based on estimated proved developed reserves of the field, except the Group depreciates its oil pipeline and oil loading terminal on a straight-line basis over the life of the relevant subsoil use rights. In the case of assets that have a useful life shorter than the lifetime of the field the straight-line method is applied.

### ***Other properties***

All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the year in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Buildings and constructions	7-15
Vehicles	8
Machinery and equipment	3-13
Other	3-10

For more detailed information in relation to property, plant and equipment, please refer to *Note 7*.

*Significant accounting judgments: oil and gas reserves*

Oil and gas reserves are a material factor in the Group's computation of depreciation, depletion and amortisation (the "DD&A"). These reserve quantities are used for calculating the unit of production depletion rate as it reflects the expected pattern of consumption of future economic benefits by the Group.

*Significant estimates and assumptions: oil and gas reserves*

The Group uses the internal estimates confirmed by independent reserve engineers on an annual basis to assess the oil and gas reserves of its oil and gas fields. The reserves estimates are made in accordance with the methodology of the Society of Petroleum Engineers (the "SPE"). In estimating its reserves under the SPE methodology, the Group uses long-term planning prices which are also used by management to make investment decisions about development of a field. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices. Management believes that long-term planning price assumptions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves. All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability. Estimates are reviewed and revised annually.

Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A, whereby changes in proved reserves are dealt with prospectively by amortizing the remaining carrying value of the asset over the expected future production. Downward revision of the proved reserves estimates in the future could lead to relative increase in depreciation expense. Estimates of economically recoverable oil and gas reserves and related future net cash flows also impact the impairment assessment of the Group. Details on carrying values of oil and gas properties and related depreciation, depletion and amortization are shown in *Note 7*.

In addition, provisions for decommissioning may require revision — where changes to reserves estimates affect expectations about when such activities will occur and the associated cost of these activities (see Decommissioning related significant judgements, estimates and assumptions for further details). Also, the recognition and carrying value of deferred tax assets may change due to changes in the judgements regarding the existence of such assets and in estimates of the likely recovery of such assets.

***Impairment of property, plant and equipment, exploration and evaluation assets***

The Group assesses assets or groups of assets, called cash-generating units (CGUs), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable; for example, changes in the Group's business plans, significant decreases in the market commodity prices, low plant utilisation, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. If any such indication of impairment exists, the Group makes an estimate of the asset's recoverable amount. Individual assets are grouped into CGU for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. A CGU's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The business cash flow internal model, which is approved on an annual basis by senior management, is the primary source of information for the determination of recoverable amount. It contains forecasts for oil and gas production, sales volumes for various types of products, revenues, costs and capital expenditure. As an initial step in the preparation of this model, various assumptions are set by senior management. These assumptions take account of commodity prices, global supply-demand equilibrium for oil and natural gas, other macroeconomic factors and historical trends and variability. In assessing recoverable amount, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax rate.

### *Significant accounting judgment: identification of cash-generating unit*

Judgement is required to identify cash-generating units for the purpose of testing the assets for impairment. Management has determined a single cash-generating unit within the Group's non-current assets consisting of all Group's assets related to its Chinarevskoye and exploration fields and gas treatment facilities. This is mainly based on the fact that hydrocarbons extracted from the Chinarevskoye field are processed and passed through a combination of various facilities.

### *Significant accounting estimates and assumptions: impairment of property, plant and equipment, exploration and evaluation assets*

Determination as to whether, and by how much, the CGU is impaired involves management's best estimates on highly uncertain matters such as future commodity prices, operating expenses and capital expenditures estimates, discount rate, proved and probable reserves and respective future production volumes and fiscal regimes.

The recoverable amount is determined by calculation of the CGU's value-in-use and fair value less costs of disposal based on the discounted cash flow model as no recent third party transactions exist on which a reliable market-based fair value can be established. In 2019 the recoverable amount reflected the CGUs fair value less costs of disposal (2018: value in use). The discounted cash flow model takes into consideration cashflows, which are expected to arise until 2032, i.e. during the license term of the Chinarevskoye field, and is considered a level 3 valuation under the fair value hierarchy. The period exceeding five years is believed to be appropriate based on the proved and probable reserves audited by independent engineers.

The key assumptions used in the Group's discounted cash flow model reflecting past experience and taking in account of external factors are subject to periodic review. These assumptions are:

- (a) Oil prices (in real terms): US\$45/bbl for 2020, US\$50/bbl for 2021, US\$55/bbl for 2022, and US\$60/bbl for 2023-2032 (2018: US\$67.5/bbl for 2019-2032);
- (b) Proved and probable hydrocarbon reserves confirmed by independent reserve engineers;
- (c) Production profiles based on Group's internal estimates confirmed by independent reserve engineers;
- (d) All cash flows are projected on the basis of stable prices, i.e. inflation/growth rates are ignored;
- (e) Cost profiles for the development of the fields and subsequent operating costs consistent with reserves estimates; and production profiles; and
- (f) Pre-tax discount rate of 10.5% (2018: 15.4%);

Considering the results of operational performance and the associated various analytical studies, the Group has decided to halt drilling in 2020 and focus on adding additional third-party gas streams through the gas treatment facility in the future. As per the Ryder Scott reserves report, further drilling is planned to take place on the Chinarevskoye field from late 2021, but this is dependent on Group being able to maintain sufficient liquidity to fund such a programme.

As a result of these changes, and consequential further significant reduction of the 2P reserves expected to be recovered from the Chinarevskoye field over the period of 2020-2032, in addition to oil price trends, the Group identified indicators of impairment. The CGUs recoverable amount was estimated, and compared to its carrying amount, and a further impairment charge on oil and gas assets in the amount of US\$1,301,640 thousand was recorded, in addition to the US\$117,575 thousand impairment charge recognized in 2018.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In 2018 US\$117,575 thousand impairment charge was allocated between working oil & gas assets and construction in progress proportionate to their carrying amounts at 31 December 2018 (US\$67,740 thousand and US\$49,835 thousand, respectively).

Following a consistent approach, the impairment charge in 2019 has been allocated between working oil & gas assets (US\$1,169,828 thousand), construction in progress (US\$106,825 thousand) and other property, plant and equipment (US\$24,987 thousand) proportionate to their carrying amounts at 31 December 2019, resulting in the recoverable amount of property, plant and equipment of US\$ 661,185 thousand (2018: US\$1,926,262 thousand), equaling its recoverable amount.

Considering the significant oil price decline subsequent to 31 December 2019 (see Note 31), the Group has analysed the sensitivity of the recoverable amount to a scenario where the oil price assumption is US\$40/bbl throughout the license period and noted that this would result in a further impairment charge of US\$256,388 thousand. Additionally, further downgrades of reserves by 10%, or an increase in the post-tax discount rate by 2% would lead to US\$98,245 thousand and US\$68,194 thousand additional impairment charge, respectively, while increase in field development and operating costs by 10% throughout the license period would lead to further impairment charge of US\$65,122 thousand.

On the other hand, certain positive development like successful mitigation of reservoir risks in the future and respective changes in the drilling plans and results, with the relevant increase in 2P reserves, or increase in utilisation of the Group's processing facilities, could have the effect of reversing the impairment. Any reversal would be limited so that the carrying amount of the CGU does not exceed the lower of its recoverable amount, or the carrying amount that would have been determined, net of depreciation, had no impairment charge been recognised for the CGU in prior years.

More detailed information related to carrying values of oil and gas properties and related depreciation, depletion, amortisation and impairment are shown in Note 7.

### Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax bases of income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authority of the country in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Group and the tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the domicile of the Group.

#### **Current income tax**

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that apply to the relevant taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### **Deferred income tax**

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For more detailed information on current and deferred income tax disclosure as at 31 December 2019 and 2018, please see *Note 27*.

### *Significant accounting estimation uncertainty: taxation*

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2019.

The Group is subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the tax authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for taxes for which it is considered probable will be payable, based on professional advice and consideration of the nature of current discussions with the tax authority.

As at 31 December 2019 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained. To the extent that actual outcomes differ from management's estimates, income tax charges or credits, and changes in current and deferred tax assets or liabilities, may arise in future periods. For more information, see *Note 27*.

### **Foreign currency translation**

The functional currency of the Partnership is the United States dollar (the "US dollar" or "US\$"). The functional currency of the subsidiary Atom&Co LLP is Tenge.

### ***Transactions and balances denominated in foreign currencies***

Transactions in foreign currencies are initially recorded by the Group at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

### **Advances for non-current assets**

Advances paid for capital investments/acquisition of non-current assets are qualified as advances for non-current assets regardless of the period of supplies of relevant assets or the supply of work or services to close advances. Advances paid for the purchase of non-current assets are recognised by the Group as non-current assets and are not discounted.

For more detailed information in relation to advances for non-current assets, please refer to *Note 8*.

### **Borrowing costs**

The Group capitalises borrowing costs on qualifying assets. Assets qualifying for borrowing costs capitalisation include all assets under construction that are not being depreciated, depleted, or amortised, provided that work is in progress at that time. Qualifying assets mostly include wells and other operations field infrastructure under construction. Capitalised borrowing costs are calculated by applying the capitalisation rate to the expenditures on qualifying assets. The capitalisation rate is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the period. All other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred.

For more detailed information in relation to capitalisation of borrowing costs, please refer to *Note 7*.

### **Inventories**

Inventories are stated at the lower of cost or net realisable value ("NRV"). Cost of oil, gas condensate and liquefied petroleum gas ("LPG") is determined on the weighted-average method based on the production cost including the relevant expenses on depreciation, depletion and impairment and overhead costs based on production volume. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For more information in relation to the breakdown of inventories as at 31 December 2019 and 2018, please see *Note 9*.

### Provisions and contingencies

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed by the Group at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

The Group classifies as contingent liabilities those possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise and the present obligations that arise from past events but are not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Group does not recognise contingent liabilities but discloses contingent liabilities in *Note 29*, unless the possibility of an outflow of resources embodying economic benefits is remote.

### Decommissioning

Provision for decommissioning is recognised in full, when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made.

The Group estimates future dismantlement and site restoration costs for oil and gas properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement and the extent of site restoration required in accordance with current legislation and industry practice. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the obligation at current year prices adjusted for expected long-term inflation rate and discounted at the applicable rate.

The unwinding of the discount related to the obligation is recorded in finance costs. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related oil and gas properties. This asset is subsequently depreciated as part of the capital costs of the oil and gas properties on a unit-of-production basis.

The Group reviews site restoration provisions at each financial reporting date and adjusts them to reflect current best estimates in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

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

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

Movements in the abandonment and site restoration provision are disclosed in *Note 16*.

### *Significant accounting judgments: provisions and contingencies*

Provisions and liabilities are recognized in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events and the amount of cash outflow can be reliably estimated. The timing of recognition and quantification of the liability require the application of judgment to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take account of changing facts and circumstances.

Significant management judgment is required to evaluate any claims and actions to determine whether a provision relating to a specific litigation should be recognized or revised, or contingent liability is required to be disclosed, since the outcome of litigation is difficult to predict.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### *Significant accounting estimates and assumptions: provisions and contingencies*

The Group holds provision for the future decommissioning of oil and gas properties and site restoration. The estimation of the future dismantlement and site restoration costs involves significant estimates and judgments by management, specifically for determining the timing of the future cash outflows and discount rate.

The management made its estimates based on the assumption that cash flow will take place at the expected end of the subsoil use rights. Therefore, most decommissioning events are many years in the future and the precise date of wells abandonment and site restoration may change with the relative impact on the cash outflows. Management of the Group believes that the long-term interest rates on the Eurobonds issued by the Ministry of Finance of the Republic of Kazakhstan denominated in US Dollars provides the best estimates of applicable risk uncorrected discount rate. Any changes in the expected future costs are reflected in both the provision and the asset. Moreover, actual decommissioning costs can differ from estimates because of constantly changing decommissioning technologies as well as changes in environmental laws and regulations and public expectations. As a result, there could be significant adjustments to the provisions established which would affect future financial results. For more details on abandonment and site restoration provision please refer to *Note 16*.

### **Other current liabilities**

The Group makes accruals for liabilities related to the underperformance and/or adjustments of work programs under subsoil use agreements (the "SUA") on a regular basis. When evaluating the adequacy of an accrual, management bases its estimates on the latest work program included in the SUA and relevant signed supplements and potential future changes in payment terms (including the currency in which these liabilities are to be settled). Future changes in the work programs may require adjustments to the accrual recorded in the consolidated financial statements.

### **Financial assets**

#### ***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The Group determines the classification of its financial assets at initial recognition.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

#### ***Subsequent measurement***

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Financial assets at fair value through profit or loss

### Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

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

### ***Derecognition***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

### ***Impairment of financial assets***

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12 month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### Financial liabilities

#### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, long-term borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of long-term borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables and borrowings.

#### *Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

##### Long-term borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

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

This category generally applies to interest-bearing borrowings. For more information, refer to Note 14.

#### *Derecognition*

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

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Cash and short-term deposits

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less, but exclude any restricted cash which is not available for use by the Group and therefore is not considered highly liquid – for example, cash set aside to cover decommissioning obligations.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank overdrafts.

For more detailed information in relation to cash and cash equivalents as at 31 December 2019 and 2018, please see *Note 12*.

### Revenue recognition

The Group sells crude oil, gas condensate and LPG under agreements priced by reference to Platt's and/or Argus' index quotations and adjusted for freight, insurance and quality differentials where applicable. The Group sells gas under agreements at fixed prices.

Revenue from contracts with customers is recognised when control of the goods is transferred to the customer. For sales of crude oil, gas condensate and LPG, this generally occurs when the product is physically transferred into a vessel, pipe, railcar, trucks or other delivery mechanism; for sales of gas, it is when the product is physically transferred into a pipe.

The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods before transferring them to the customer.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## 5. RIGHT-OF-USE ASSETS

<i>In thousands of US Dollars</i>	Machinery & equipment	Vehicles	Total
<b>Balance at 1 January 2019, net of accumulated depreciation</b>	<b>26,825</b>	<b>7,359</b>	<b>34,184</b>
Modification of lease agreements	(1,467)	(16)	(1,483)
Termination of lease agreements	(10,086)	–	(10,086)
Depreciation	(12,089)	(3,651)	(15,740)
<b>Balance at 31 December 2019, net of accumulated depreciation</b>	<b>3,183</b>	<b>3,692</b>	<b>6,875</b>
<b>As at 31 December 2019</b>			
Cost	7,643	7,339	14,982
Accumulated depreciation	(4,460)	(3,647)	(8,107)
<b>Balance, net of accumulated depreciation</b>	<b>3,183</b>	<b>3,692</b>	<b>6,875</b>

The right-of-use assets are recognized for leases of vehicles, drilling rigs and railway cars previously classified as operating leases, service expenses or finance lease under IAS 17. The right-of-use assets were recognised based on the amount equal to the lease liabilities.

As a result of the early termination of the drilling rigs lease agreements the relevant right-of-use assets and respective lease liabilities were derecognized with net result reflected within profit and loss.

See Note 15 for lease liabilities.

## 6. EXPLORATION AND EVALUATION ASSETS

<i>In thousands of US dollars</i>	31 December 2019	31 December 2018
Subsoil use rights	15,835	15,835
Expenditures on geological and geophysical studies	34,698	34,406
Impairment of exploration and evaluation assets	(50,533)	–
	–	50,241

During the year ended 31 December 2019, the Group had additions to exploration and evaluation assets of US\$920 thousand offset with derecognition of the capitalised social expenditures US\$628 thousand in the view of the amendments to the subsoil agreement for Rostoshinskoye field (FY 2018: US\$2,413 thousand). Interest was not capitalised on exploration and evaluation assets.

For information in relation to impairment testing, please see Note 4.

## 7. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2019 and 2018 property, plant and equipment comprised the following:

<i>In thousands of US Dollars</i>	31 December 2019	31 December 2018
Oil and gas properties	648,495	1,886,844
Other property, plant and equipment	12,690	39,418
	<b>661,185</b>	<b>1,926,262</b>

## Oil and gas properties

The category "Oil and Gas properties" represents mainly wells, oil and gas treatment facilities, oil transportation and other related assets. The movement of oil and gas properties for the years ended 31 December 2019 and 2018 was as follows:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

<i>In thousands of US Dollars</i>	Working assets	Construction in progress	Total
<b>Balance at 1 January 2018, net of accumulated depreciation and depletion</b>	<b>1,130,385</b>	<b>768,326</b>	<b>1,898,711</b>
Additions	1,330	216,936	218,266
Transfers	131,900	(131,900)	–
Disposals	(2,203)	–	(2,203)
Disposals depreciation	842	–	842
Depreciation and depletion charge	(111,197)	–	(111,197)
Impairment charge	(67,740)	(49,835)	(117,575)
<b>Balance at 31 December 2018, net of accumulated depreciation, depletion and impairment</b>	<b>1,083,317</b>	<b>803,527</b>	<b>1,886,844</b>
Additions	15,044	156,405	171,449
Transfers	839,331	(842,083)	(2,752)
Disposals	(90)	–	(90)
Disposals depreciation	41	–	41
Depreciation and depletion charge	(130,344)	–	(130,344)
Impairment transfers	(43,234)	43,234	–
Impairment charge	(1,169,828)	(106,825)	(1,276,653)
<b>Balance at 31 December 2019, net of accumulated depreciation, depletion and impairment</b>	<b>594,237</b>	<b>54,258</b>	<b>648,495</b>
<b>As at 31 December 2017</b>			
Cost	1,898,361	768,326	2,666,687
Accumulated depreciation and depletion	(767,976)	–	(767,976)
<b>Balance, net of accumulated depreciation and depletion</b>	<b>1,130,385</b>	<b>768,326</b>	<b>1,898,711</b>
<b>As at 31 December 2018</b>			
Cost	1,961,397	803,527	2,764,924
Accumulated depreciation, depletion and impairment	(878,080)	–	(878,080)
<b>Balance, net of accumulated depreciation, depletion and impairment</b>	<b>1,083,317</b>	<b>803,527</b>	<b>1,886,844</b>
<b>As at 31 December 2019</b>			
Cost	2,883,423	167,684	3,051,107
Accumulated depreciation, depletion and impairment	(2,289,186)	(113,426)	(2,402,612)
<b>Balance, net of accumulated depreciation, depletion and impairment</b>	<b>594,237</b>	<b>54,258</b>	<b>648,495</b>

The category “Construction in progress” is represented by employee remuneration, materials and fuel used, rig costs, payments made to contractors, and asset retirement obligation fees directly associated with development of wells until the drilling of the well is complete and results have been evaluated.

The depletion rate for oil and gas working assets was 12.04% and 10.33% in 2019 and 2018, respectively.

The Group engaged independent petroleum engineers to perform a reserves evaluation as at 31 December 2019 and 2018. Depletion has been calculated using the unit of production method based on these reserves estimates.

The change in the long-term inflation rate and discount rate used to determine the abandonment and site restoration provision (*Note 16*) in the year ended 31 December 2019 resulted in the increase of the oil and gas properties by US\$ 4,354 thousand (31 December 2018: the decrease of US\$ 2,823 thousand).

The Group incurred borrowing costs including amortisation of arrangement fees. Capitalization rate and capitalised borrowing costs were as follows as at 31 December 2019 and 2018:

<i>In thousands of US Dollars</i>	31 December 2019	31 December 2018
Borrowing costs including amortisation of arrangement fee	100,220	107,572
Capitalisation rate	9.32%	8.95%
<b>Capitalised borrowing costs</b>	<b>55,691</b>	<b>53,153</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019 the Group's property, plant and equipment of US\$ 229,176 thousand were pledged as security for the loans due to Nostrum Oil & Gas Finance B.V. (Note 14) (31 December 2018: US\$ 246,414 thousand).

## Other property, plant and equipment

<i>In thousands of US Dollars</i>	Buildings	Machinery & equipment	Vehicles	Others	Construction in progress	Total
<b>Balance at 1 January 2018, net of accumulated depreciation</b>	<b>31,565</b>	<b>5,164</b>	<b>776</b>	<b>7,726</b>	<b>44</b>	<b>45,275</b>
Additions	552	463	9	344	–	1,368
Transfers	115	(168)	–	97	(44)	–
Disposals	(324)	(78)	–	(240)	–	(642)
Disposals depreciation	222	76	–	195	–	493
Depreciation	(4,048)	(1,463)	(142)	(1,423)	–	(7,076)
<b>Balance at 31 December 2018, net of accumulated depreciation and depletion</b>	<b>28,082</b>	<b>3,994</b>	<b>643</b>	<b>6,699</b>	<b>–</b>	<b>39,418</b>
Additions	–	564	–	1,231	–	1,795
Transfers	135	25	–	2,592	–	2,752
Disposals	(33)	(68)	(16)	(466)	–	(583)
Disposals depreciation	33	26	7	450	–	516
Depreciation	(3,867)	(1,087)	(142)	(1,125)	–	(6,221)
Impairment charge	(16,147)	(2,291)	(326)	(6,223)	–	(24,987)
<b>Balance at 31 December 2019, net of accumulated depreciation and impairment</b>	<b>8,203</b>	<b>1,163</b>	<b>166</b>	<b>3,158</b>	<b>–</b>	<b>12,690</b>
<b>As at 31 December 2017</b>						
Cost	50,251	20,194	1,602	14,673	44	86,764
Accumulated depreciation	(18,686)	(15,030)	(826)	(6,947)	–	(41,489)
<b>Balance, net of accumulated depreciation</b>	<b>31,565</b>	<b>5,164</b>	<b>776</b>	<b>7,726</b>	<b>44</b>	<b>45,275</b>
<b>As at 31 December 2018</b>						
Cost	50,602	20,410	1,566	14,881	–	87,459
Accumulated depreciation	(22,520)	(16,416)	(923)	(8,182)	–	(48,041)
<b>Balance, net of accumulated depreciation</b>	<b>28,082</b>	<b>3,994</b>	<b>643</b>	<b>6,699</b>	<b>–</b>	<b>39,418</b>
<b>As at 31 December 2019</b>						
Cost	49,598	20,931	1,551	18,239	–	90,319
Accumulated depreciation and impairment	(41,395)	(19,768)	(1,385)	(15,081)	–	(77,629)
<b>Balance, net of accumulated depreciation and impairment</b>	<b>8,203</b>	<b>1,163</b>	<b>166</b>	<b>3,158</b>	<b>–</b>	<b>12,690</b>

## 8. ADVANCES FOR NON-CURRENT ASSETS

<i>In thousands of US Dollars</i>	31 December 2019	31 December 2018
Advances for pipes and construction materials	927	520
Advances for construction services	441	12,632
	<b>1,368</b>	<b>13,152</b>

Advances for non-current assets mainly comprised prepayments made to suppliers of services and equipment for construction of a third unit for the Group's gas treatment facility.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**9. INVENTORIES**

As at 31 December 2019 and 2018 inventories comprised the following:

<i>In thousands of US Dollars</i>	31 December 2019	31 December 2018
Spare parts and other inventories	23,591	23,479
Gas condensate	8,446	4,198
Crude oil	3,650	1,761
LPG	113	126
Dry Gas	49	20
	<b>35,849</b>	<b>29,584</b>

As at 31 December 2019 and 2018 inventories are carried at cost.

**10. PREPAYMENTS AND OTHER CURRENT ASSETS**

As at 31 December 2019 and 2018 prepayments and other current assets comprised the following:

<i>In thousands of US Dollars</i>	31 December 2019	31 December 2018
Advances paid	5,357	4,772
VAT receivable	2,732	10,784
Other taxes receivable	1,713	2,947
Other	807	722
	<b>10,609</b>	<b>19,225</b>

Advances paid consist primarily of prepayments made to service providers.

**11. TRADE RECEIVABLES**

As at 31 December 2019 and 2018 trade receivables were not interest bearing and were mainly denominated in US dollars, their average collection period is 30 days.

As at 31 December 2019 and 31 December 2018 there were neither past due nor impaired trade receivables.

**12. CASH AND CASH EQUIVALENTS**

<i>In thousands of US Dollars</i>	31 December 2019	31 December 2018
Current accounts in US Dollars	12,954	6,194
Current accounts in Tenge	712	857
Current accounts in other currencies	45	–
Petty cash	5	8
	<b>13,716</b>	<b>7,059</b>

In addition to the cash and cash equivalents in the table above, the Group has restricted cash accounts as liquidation fund deposit in the amount of US\$ 805 thousand with Sberbank in Kazakhstan and US\$ 6,815 thousand with Halyk bank (31 December 2018: US\$ 7,021 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

**13. GROUP CAPITAL**

The charter capital of the Partnership was formed in tenge and amounted to tenge 600 thousand, equivalent to US\$ 4 thousand as at 31 December 2013. As at 31 December 2013, the shares of Nostrum Associated Investments LLP and Claydon Industrial Ltd in the charter capital of the Group constituted 55% and 45%, respectively, equivalent to US\$ 2.2 thousand and US\$ 1.8 thousand, respectively.

On 23 May 2014, Nostrum Oil & Gas Coöperatief U.A. made a contribution to the charter capital of the Group in the amount of 749,400 thousand tenge, equivalent to US\$ 4,108 thousand.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

On 21 April 2016 Zhaikmunai LLP bought back the 0.036% interest in the Group formerly held by Claydon Industrial Limited for US\$ 220 thousand and the 0.044% interest formerly held by Nostrum Associated Investments LLP for KZT 92,526 thousand (equivalent to US\$ 274 thousand).

On 30 June 2016 the Group sold the repurchased interest of 0.08% to Nostrum Oil & Gas Coöperatief U.A. for US\$ 640 thousand. The surplus on the sale was recorded in other reserves. As the result of the transactions Nostrum Oil & Gas Coöperatief U.A. became the sole participant of the Group.

### 14. BORROWINGS

Borrowings comprise the following as at 31 December 2019 and 2018:

<i>In thousands of US Dollars</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Notes issued in 2012 and maturing in 2033	559,714	559,617
Notes issued in 2014 and maturing in 2033	399,372	399,282
Nostrum Oil & Gas Finance B.V.	145,500	–
Nostrum Oil & Gas B.V.	–	116,464
	<b>1,104,586</b>	<b>1,075,363</b>
Less amounts due within 12 months	<b>(4,013)</b>	<b>(4,627)</b>
<b>Amounts due after 12 months</b>	<b>1,100,573</b>	<b>1,070,736</b>

#### 2012 and 2014 Notes

On 13 November 2012, Zhaikmunai International B.V. issued US\$ 560,000 thousand notes (the “2012 Notes”). On 24 April 2013 Zhaikmunai LLP replaced Zhaikmunai International B.V. as issuer of the 2012 Notes and assumed all of the obligations of the issuer under the 2012 Notes.

On 14 February 2014, Nostrum Oil & Gas Finance B.V. issued US\$ 400,000 thousand notes (the “2014 Notes”). On 6 May 2014, Zhaikmunai replaced Nostrum Oil & Gas Finance B.V. as issuer of the 2014 Notes and assumed all of the obligations of the issuer under the 2014 Notes.

On 17 February 2018, the outstanding 2012 Notes and the 2014 Notes held by persons other than Nostrum Oil & Gas PLC and its subsidiaries were purchased from the bondholders by Nostrum Oil & Gas Finance B.V.

On 2 May 2018, certain amendments to the terms and conditions of the 2012 and 2014 Notes became effective, whereby the interest rate on the 2012 and 2014 Notes was changed to 9.5%, being effective from 19 February 2018. The maturity dates of the 2012 and 2014 were moved to 25 June 2033 and 14 January 2033, respectively.

Interest on the 2012 and 2014 Notes is payable on 14 June and 14 December of each year.

#### Guarantee of 2017 Notes

On 25 July 2017, Nostrum Oil & Gas Finance B.V., an indirect wholly-owned subsidiary of Nostrum Oil & Gas PLC, issued US\$ 725,000 thousand notes (the “2017 Notes”).

The 2017 Notes are jointly and severally guaranteed on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V.

As at 25 July 2017, the Group recognised the granted guarantee liability at the fair value of US\$ 5,177 thousand, which is present value of the guarantee premium estimated based on the assessment of credit risk of the 2017 Issuer. The present value of the estimated guarantee premium is discounted by the 2017 Notes’ interest rate. During the year ended 31 December 2019, the Group recognised guarantee gain in the amount of US\$ 974 thousand and the outstanding balance as at 31 December 2019 of the guarantee, both current and non-current totaled US\$ 2,888 thousand (31 December 2018: US\$ 3,861 thousand).

#### Guarantee of 2018 Notes

On 16 February 2018, Nostrum Oil & Gas Finance B.V. issued US\$ 400,000 thousand notes (the “2018 Notes”).

The 2018 Notes are jointly and severally guaranteed on a senior basis by Zhaikmunai LLP, Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A. and Nostrum Oil & Gas B.V.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As at 16 February 2018, the Group recognised the granted guarantee liability at the fair value of US\$ 2,057 thousand, which is present value of the guarantee premium estimated based on the assessment of credit risk of the 2018 Issuer. The present value of the estimated guarantee premium is discounted by the 2018 Notes' interest rate. During the year ended 31 December 2019, the Group recognized guarantee gain in the amount of US\$ 250 thousand and the outstanding balance as at 31 December 2019 of the guarantee, both current and non-current totaled US\$ 1,593 thousand (31 December 2018: US\$ 1,844 thousand).

**Loans due to Nostrum Oil & Gas B.V.**

On 1 July 2008 the Group signed a loan agreement with Frans van der Schoot B.V. under which the latter provided the Group with a US\$ 90,276 thousand loan at an annual interest rate of two times LIBOR.

On 15 September 2009 Frans van der Schoot B.V. provided an additional loan of US\$ 261,650 thousand at then prevailing interest rate of 2.6% per year.

Subsequently, the interest rate was changed to 6.625% and the maturity date was moved to 31 December 2022.

The outstanding balance of the loan as at 31 December 2019 has an interest rate of 6.625% (31 December 2018: 6.625%).

With effect from 1 October 2019, under the intra-group loan agreement, the rights in respect of outstanding nominal amounts and unpaid interest were transferred from Nostrum Oil & Gas B.V. to Nostrum Oil & Gas Finance B.V. On 11 December 2019 the Group received additional loan of US\$ 24,650 thousand from Nostrum Oil & Gas Finance B.V.

Changes in borrowings arising from financing activities are as follows:

	1 January 2019	Impact of IFRS 9 adoption	Cash inflows	Cash outflows	Borrowing costs including amortisation of arrangement fees	Finance charges under leases	Modification and termination of leases	Other	31 December 2019
Long-term borrowings	1,070,736	–	29,650	–	187	–	–	–	1,100,573
Current portion of long-term borrowings	4,627	–	–	(100,647)	100,033	–	–	–	4,013
Long-term lease liability	16,216	–	–	–	–	–	(11,997)	(3,578)	641
Current portion of long-term lease liability	17,968	–	–	(17,543)	–	2,732	–	3,578	6,735
	<b>1,109,547</b>	<b>–</b>	<b>29,650</b>	<b>(118,190)</b>	<b>100,220</b>	<b>2,732</b>	<b>(11,997)</b>	<b>–</b>	<b>1,104,586</b>

	1 January 2018	Impact of IFRS 9 adoption	Cash inflows	Cash outflows	Borrowing costs including amortisation of arrangement fees	Finance charges under finance leases	Modification and termination of leases	Other	31 December 2018
Long-term borrowings	1,012,913	(7,612)	60,350	(8,000)	3,899	–	–	9,186	1,070,736
Current portion of long-term borrowings	15,173	–	–	(104,459)	88,577	135	–	5,201	4,627
	<b>1,028,086</b>	<b>(7,612)</b>	<b>60,350</b>	<b>(112,459)</b>	<b>92,476</b>	<b>135</b>	<b>–</b>	<b>14,387</b>	<b>1,075,363</b>

**15. LEASE LIABILITIES**

*In thousands of US Dollars*

	2019
Lease liability as at 1 January	34,184
Modification of lease agreements	(1,483)
Termination of lease agreements	(10,514)
Finance charges	2,732
Paid during the period	(17,543)
	7,376
Less: current portion of Long-term lease liability	6,735
<b>Long-term lease liability as at 31 December</b>	<b>641</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The lease liabilities are recognized for leases of vehicles, drilling rigs and railway cars previously classified as operating leases, service expenses or finance lease under IAS 17. The finance lease was recognized based on the future rentals as determined under IFRS 16. See Note 5 for right-of-use assets.

As a result of the early termination of the drilling rigs lease agreements the relevant right-of-use assets and respective lease liabilities were derecognized with net result reflected within profit and loss.

### 16. ABANDONMENT AND SITE RESTORATION PROVISION

The summary of changes in abandonment and site restoration provision during the years ended 31 December 2019 and 2018 is as follows:

<i>In thousands of US Dollars</i>	<b>2019</b>	<b>2018</b>
Abandonment and site restoration provision as at 1 January	<b>21,894</b>	23,590
Additional provision	<b>1,100</b>	728
Unwinding of discount	<b>164</b>	399
Provision used	<b>(10)</b>	–
Change in estimates	<b>4,354</b>	(2,823)
<b>Abandonment and site restoration provision as at 31 December</b>	<b>27,502</b>	21,894

The management made its estimate based on the assumption that cash flow will take place at the expected end of the subsoil use rights in 2033. There are uncertainties in estimation of future costs as Kazakh laws and regulations concerning site restoration evolve.

The long-term inflation and discount rates used to determine the abandonment and site restoration provision at 31 December 2019 were 1.9 % and 2.49 %, respectively (31 December 2018: 2.3 % and 4.33 %).

The change in the discount rate and inflation rate in the year ended 31 December 2019 resulted in the increase of the abandonment and site restoration provision by US\$ 4,354 thousand (31 December 2018: the decrease by US\$2,823 thousand).

### 17. DUE TO GOVERNMENT OF KAZAKHSTAN

The amount due to Government of the Republic of Kazakhstan has been recorded to reflect the present value of a liability in relation to the expenditures made by the Government in the time period prior to signing the Contract that were related to exploration of the Contract territory and the construction of surface facilities in fields discovered therein and that are reimbursable by the Group to the Government during the production period. The total amount of liability due to Government as stipulated by the Contract is US\$ 25,000 thousand.

Repayment of this liability commenced in 2008 with the first payment of US\$ 1,030 thousand in March 2008 and with further payments by equal quarterly instalments of US\$ 258 thousand until 26 May 2031. The liability was discounted at 13%.

The summary of the changes in the amounts due to Government of Kazakhstan during the years ended 31 December 2019 and 2018 is as follows:

<i>In thousands of US Dollars</i>	<b>2019</b>	<b>2018</b>
Due to Government of Kazakhstan as at 1 January	<b>6,311</b>	6,497
Unwinding of discount	<b>820</b>	845
Paid during the year	<b>(1,030)</b>	(1,031)
	<b>6,101</b>	6,311
Less: current portion of due to Government of Kazakhstan	<b>(1,031)</b>	(1,031)
<b>Due to Government of Kazakhstan as at 31 December</b>	<b>5,070</b>	5,280

## NOTES TO THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

**18. TRADE PAYABLES**

Trade payables comprise the following as at 31 December 2019 and 2018:

<i>In thousands of US Dollars</i>	31 December 2019	31 December 2018
Tenge denominated trade payables	15,292	20,672
US Dollar denominated trade payables	9,646	23,088
Euro denominated trade payables	4,325	4,948
Russian Rouble denominated trade payables	132	971
	<b>29,395</b>	<b>49,679</b>

**19. OTHER CURRENT LIABILITIES**

Other current liabilities comprise the following as at 31 December 2019 and 2018:

<i>In thousands of US Dollars</i>	31 December 2019	31 December 2018
Training obligations accrual	11,325	11,609
Other accruals	7,597	5,682
Taxes payable, other than corporate income tax	4,685	4,926
Due to employees	1,974	1,690
Accruals under the subsoil use agreements	1,270	2,174
Other current liabilities	787	1,864
	<b>27,638</b>	<b>27,945</b>

Accruals under subsoil use agreements mainly include amounts estimated in respect of the contractual obligations for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields.

**20. REVENUE**

<i>In thousands of US Dollars</i>	2019	2018
Revenue from oil and gas condensate sales	196,175	267,815
Revenue from gas and LPG sales	125,948	122,112
Revenue from sulphur sales	5	–
	<b>322,128</b>	<b>389,927</b>

The pricing for all of the Group's crude oil, condensate and LPG is directly or indirectly, related to the price of Brent crude oil. The average Brent crude oil price during the year ended 31 December 2019 was US\$ 64.16 (2018: US\$ 71.69).

During the year ended 31 December 2019 the revenue from sales to three major customers amounted to US\$ 190,343 thousand, US\$ 96,064 thousand and US\$ 9,252 thousand, respectively (2018: US\$ 258,898 thousand, US\$ 80,499 thousand and US\$ 11,924 thousand, respectively).

The Group's exports are mainly represented by deliveries to Belarus and Black Sea ports of Russia.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**21. COST OF SALES**

<i>In thousands of US Dollars</i>	<b>2019</b>	<b>2018</b>
Depreciation, depletion and amortisation	<b>136,776</b>	115,347
Repair, maintenance and other services	<b>14,173</b>	16,133
Payroll and related taxes	<b>12,781</b>	11,677
Management fees	<b>7,811</b>	7,726
Materials and supplies	<b>4,499</b>	5,253
Transportation services	<b>2,094</b>	6,116
Well workover costs	<b>2,077</b>	2,767
Environmental levies	<b>167</b>	367
Change in stock	<b>(6,153)</b>	136
Other	<b>(21)</b>	741
	<b>174,204</b>	166,263

**22. GENERAL AND ADMINISTRATIVE EXPENSES**

<i>In thousands of US Dollars</i>	<b>2019</b>	<b>2018</b>
Payroll and related taxes	<b>3,493</b>	3,595
Management fees	<b>2,570</b>	2,992
Professional services	<b>2,047</b>	1,155
Depreciation and amortisation	<b>1,812</b>	1,651
Insurance fees	<b>989</b>	1,282
Communication	<b>276</b>	357
Materials and supplies	<b>157</b>	168
Business travel	<b>147</b>	170
Bank charges	<b>82</b>	124
Lease payments	<b>33</b>	–
Transportation services	<b>–</b>	430
Other	<b>1,052</b>	456
	<b>12,658</b>	12,380

**23. SELLING AND TRANSPORTATION EXPENSES**

<i>In thousands of US Dollars</i>	<b>2019</b>	<b>2018</b>
Transportation costs	<b>12,405</b>	15,017
Loading and storage costs	<b>11,783</b>	18,881
Marketing services	<b>11,560</b>	12,077
Depreciation of right-of-use assets	<b>4,489</b>	–
Payroll and related taxes	<b>1,763</b>	2,058
Other	<b>4,362</b>	2,557
	<b>46,362</b>	50,590

Depreciation expense is related to the right-of-use assets recognized under IFRS 16 in respect of the rented railway cars effective from 1 January 2019, the corresponding lease expenses were previously included in transportation costs for the year ended 31 December 2018.

**24. FINANCE COSTS**

<i>In thousands of US Dollars</i>	<b>2019</b>	<b>2018</b>
Interest expense on borrowings	<b>44,529</b>	54,419
Unwinding of discount on lease liability	<b>1,234</b>	135
Unwinding of discount on amounts due to Government of Kazakhstan	<b>820</b>	845
Unwinding of discount on abandonment and site restoration provision	<b>164</b>	399
	<b>46,747</b>	55,798

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**25. TAXES OTHER THAN INCOME TAX**

<i>In thousands of US Dollars</i>	<b>2019</b>	<b>2018</b>
Royalties	<b>12,802</b>	15,155
Export customs duty	<b>7,281</b>	11,233
Government profit share	<b>2,802</b>	3,277
Other taxes	<b>45</b>	63
	<b>22,930</b>	29,728

Export customs duty is comprised of customs duties for export of crude oil and customs fees for services such as processing of declarations, temporary warehousing etc.

**26. OTHER EXPENSES**

<i>In thousands of US Dollars</i>	<b>2019</b>	<b>2018</b>
Compensation	<b>3,576</b>	–
Training	<b>2,808</b>	2,382
Impairment of tax asset	<b>2,480</b>	–
Fines and penalties	<b>1,873</b>	–
Accruals under subsoil use agreements	<b>1,181</b>	(3,327)
Social program	<b>313</b>	316
Currency converting	<b>211</b>	375
Other accruals	<b>133</b>	2,691
Loss on disposal of property, plant and equipment	<b>96</b>	1,510
Sponsorship	<b>77</b>	52
Liquidity management fees	–	40,600
Bad debt provision	–	85
Other expense	<b>253</b>	1,519
	<b>13,001</b>	46,203

Liquidity management fees include the transaction costs incurred by Nostrum Oil & Gas Finance B.V. in relation to the issue of the 2018 Notes and the 2017 Notes and rebilled to the Group (Notes 14).

Accruals under subsoil use agreements mainly include net amounts estimated in respect of the contractual obligations for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields. Compensation includes the costs related to early termination of agreements for use of drilling rigs.

**27. INCOME TAX**

The income tax expense consisted of the following:

<i>In thousands of US Dollars</i>	<b>2019</b>	<b>2018</b>
Corporate income tax expense	<b>3,096</b>	11,007
Deferred income tax (benefit) / expense	<b>(354,300)</b>	10,565
Adjustment in respect of the current income tax for the prior periods	<b>(72)</b>	(851)
<b>Total income tax (benefit) / expense</b>	<b>(351,276)</b>	20,721

The Group's profits are assessed for income taxes only in the Republic of Kazakhstan. A reconciliation between tax expense and the product of accounting profit multiplied by the Kazakhstani tax rate applicable to the Chinarevskoye subsoil use rights is as follows:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

<i>In thousands of US Dollars</i>	2019	2018
Loss before income tax	(1,336,646)	(83,784)
Tax rate applicable to the subsoil use rights	30%	30%
<b>Expected tax provision</b>	<b>(400,994)</b>	<b>(25,135)</b>
Effect of exchange rate on the tax base	13,302	18,284
Adjustments in respect of current income tax of previous years	(72)	(851)
Non-deductible interest expense on borrowings	26,210	29,055
Non-deductible impairment charges*	9,012	–
Non-deductible penalties	484	(998)
Loss on disposal of property, plant and equipment and inventories	–	453
Net foreign exchange gain	(241)	(1,261)
Non-deductible provision for impairment of advances paid	–	26
Other non-deductible expenses	1,023	1,148
<b>Income tax (benefit)/ expenses reported in the consolidated financial statements</b>	<b>(351,276)</b>	<b>20,721</b>

\* The Group has not recognized deferred tax assets on the deductible temporary differences related to the exploration and evaluation assets in the amount of US\$ 9,012 thousand.

Activities not related to the Contract are subject to the applicable statutory tax rate of 20%.

The Group's effective tax rate for the year ended 31 December 2019 is 26.2% (2018: 24.73%). The Group's effective tax rate, excluding effect of movements in exchange rates and non-deductible interest expense on borrowings, for the year ended 31 December 2019 is 23.1% (2018: 31.8%).

Deferred tax balances are calculated by applying the Kazakhstani statutory tax rate applicable to the Chinarevskoye subsoil use rights to the temporary differences between the tax amounts and the amounts reported in the consolidated financial statements and are comprised of the following:

<i>In thousands of US Dollars</i>	2019	2018
<b>Deferred tax asset</b>		
Accounts payable and provisions	8,721	4,883
<b>Deferred tax liability</b>		
Inventories	(3,646)	–
Property, plant and equipment	(45,999)	(400,107)
	<b>(40,924)</b>	<b>(395,224)</b>

The movements in the deferred tax liability were as follows:

<i>In thousands of US Dollars</i>	2019	2018
<b>Balance as at 1 January</b>	<b>395,224</b>	<b>381,590</b>
IFRS 9 adoption	–	3,069
Current period charge to statement of comprehensive income	(354,300)	10,565
<b>Balance as at 31 December</b>	<b>40,924</b>	<b>395,224</b>

## 28. RELATED PARTY TRANSACTIONS

For the purpose of these consolidated financial statements transactions with related parties mainly comprise transactions between the Group and the participants and/or their subsidiaries or associated companies.

Accounts receivable from and advances paid to related parties as at 31 December 2019 and 2018 consisted of the following:

<i>In thousands of US Dollars</i>	31 December 2019	31 December 2018
<b>Trade receivables and advances paid</b>		
With significant influence over Group:		
JSC OGCC KazStroyService	–	11,408

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Accounts payable to related parties as at 31 December 2019 and 2018 consisted of the following:

<i>In thousands of US Dollars</i>	31 December 2019	31 December 2018
<b>Borrowings</b>		
Under common control:		
Nostrum Oil & Gas B.V.	–	115,850
Nostrum Oil & Gas Finance B.V.	145,500	–
<b>Trade payables</b>		
With significant influence over the Group:		
JSC OGCC KazStroyService	430	11,420
Under common control:		
Nostrum Services N.V.	2,441	1,505

During the years ended 31 December 2019 and 2018 the Group had the following transactions with related parties:

<i>In thousands of US Dollars</i>	2019	2018
<b>Repayment of borrowings</b>		
Under common control:		
Nostrum Oil & Gas B.V.	–	8,000
<b>Received borrowings</b>		
Under common control:		
Nostrum Oil & Gas B.V.	5,000	60,350
Nostrum Oil & Gas Finance B.V.	24,650	–
<b>Interest paid</b>		
Under common control:		
Nostrum Oil & Gas B.V.	6,471	4,912
Nostrum Oil & Gas Finance B.V.	2,092	–
<b>Purchases</b>		
With significant influence over the Group:		
JSC OGCC KazStroyService	11,322	13,975
<b>Liquidity management fees</b>		
Under common control:		
Nostrum Oil & Gas Finance B. V.	–	40,618
<b>Management fees and consulting services</b>		
Under common control:		
Nostrum Services Central Asia LLP	–	543
Nostrum Services N.V.	14,444	14,726

On 28 July 2014 the Group entered into a contract with JSC “OGCC KazStroyService” (the “Contractor”) for the construction of the third unit of the Group’s gas treatment facility (as amended by fourteen supplemental agreements since 28 July 2014, the “Construction Contract”).

The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 December 2019 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Management fees are payable in accordance with the Technical Assistance Agreements signed between the Partnership and Nostrum Services Central Asia LLP and Nostrum Services N.V. related to the rendering of geological, geophysical, drilling, technical and other consultancy services. Remuneration (represented by short-term employee benefits) of key management personnel amounted to US\$ 1,935 thousand for the year ended 31 December 2019 (year ended 31 December 2018: US\$ 1,570 thousand). Other key management personnel were employed and paid by Nostrum Services N.V. and their remuneration forms part of management fees and consulting services above.

### 29. CONTINGENT LIABILITIES AND COMMITMENTS

#### Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including opinions with respect to IFRS treatment of revenues, expenses and other items in the consolidated financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2019.

As at 31 December 2019 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

#### Abandonment and site restoration (decommissioning)

As Kazakh laws and regulations concerning site restoration and clean-up evolve, the Group may incur future costs, the amount of which is currently indeterminable. Such costs, when known, will be provided for as new information, legislation and estimates evolve.

#### Environmental obligations

The Group may also be subject to loss contingencies relating to regional environmental claims that may arise from the past operations of the related fields in which it operates. Kazakhstan's environmental legislation and regulations are subject to ongoing changes and varying interpretations. As Kazakh laws and regulations evolve concerning environmental assessments and site restoration, the Group may incur future costs, the amount of which is currently indeterminable due to such factors as the ultimate determination of responsible parties associated with these costs and the Government's assessment of respective parties' ability to pay for the costs related to environmental reclamation.

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

#### Capital commitments

As at 31 December 2019 the Group had contractual capital commitments in the amount of US\$ 27,552 thousand (31 December 2018: US\$ 131,373 thousand) mainly in respect to the Group's oil field exploration and development activities.

#### Social and education commitments

As required by the Contract (after its amendment on 2 September 2019), the Group is obliged to:

- (i) spend US\$ 300 thousand per annum to finance social infrastructure;
- (ii) make an accrual of one percent per annum of the actual investments for the Chinarevskoye field for the purposes of educating Kazakh citizens; and
- (iii) adhere to a spending schedule on education which lasts until (and including) 2020.

The contracts for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields require fulfilment of several social and other obligations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (after its amendment on 16 August 2019) require the subsurface user to:

- (i) invest at least US\$ 10,982 thousand for exploration of the field during the exploration period;
- (ii) create liquidation fund to cover the Group's asset retirement obligations.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Darjinskoye field (after its amendment on 31 October 2018) require the subsurface user to:

- (i) invest at least US\$ 19,443 thousand for exploration of the field during the exploration period;
- (ii) spend US\$ 147 thousand to finance social infrastructure;
- (iii) fund liquidation expenses equal to US\$ 177 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on 10 October 2018) require the subsurface user to:

- (i) invest at least US\$ 20,151 thousand for exploration of the field during the exploration period;
- (ii) spend US\$ 146 thousand for education of personnel engaged to work under the contract during the exploration stage;
- (iii) spend US\$ 147 thousand to finance social infrastructure;
- (iv) fund liquidation expenses equal to US\$ 202 thousand.

### Domestic oil sales

In accordance with Supplement No. 7 to the Contract, the Group is required to deliver at least 15% of produced oil to the domestic market on a monthly basis for which prices are materially lower than export prices.

## 30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise borrowings, payables to Government of Kazakhstan, trade payables and other current liabilities. The main purpose of these financial liabilities is to finance the development of the Chinarevskoye oil and gas condensate field and its operations as well as exploration of the three new oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye. The Group's financial assets consist of trade and other receivables and cash and cash equivalents.

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk, liquidity risk, credit risk and commodity price risk. The Group's management reviews and agrees policies for managing each of these risks, which are summarized below.

### Commodity price risk

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

### Interest rate risk

The Group is not exposed to interest rate risk in 2019 and 2018 as the Group had no financial instruments with floating-rate as at years ended 31 December 2019 and 2018.

### Foreign currency risk

The Group's consolidated statement of financial position can be affected by movements in the US dollar / tenge exchange rates. The Group mitigates the effect of its structural currency exposure by borrowing in US dollars and denominating sales in US dollars.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollars exchange rate, with all other variables held constant, of the Group's profit before tax. The impact on equity is the same as the impact on profit before tax.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	Change in Tenge to US dollar exchange rate	Effect on profit before tax
2019		
US Dollar thousand	12.00%	631
US Dollar thousand	(9.00)%	(473)
2018		
US Dollar thousand	14.00%	(2,790)
US Dollar thousand	(10.00)%	1,993

The Group's foreign currency denominated monetary assets and liabilities were as follows:

As at 31 December 2019	Tenge	Russian Roubles	Euro	Other	Total
Cash and cash equivalents	717	–	–	45	762
Trade receivables	24,276	–	–	–	24,276
Trade payables	(15,292)	(132)	(4,325)	–	(19,749)
Other current liabilities	(14,957)	–	–	–	(14,957)
	<b>(5,256)</b>	<b>(132)</b>	<b>(4,325)</b>	<b>45</b>	<b>(9,668)</b>

As at 31 December 2018	Tenge	Russian Roubles	Euro	Other	Total
Cash and cash equivalents	865	–	–	–	865
Trade receivables	16,231	–	–	–	16,231
Trade payables	(20,672)	(971)	(4,948)	–	(26,591)
Other current liabilities	(16,336)	–	–	–	(16,336)
	<b>(19,912)</b>	<b>(971)</b>	<b>(4,948)</b>	<b>–</b>	<b>(25,831)</b>

### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Group monitors its risk to a shortage of funds using a liquidity planning tool. The tool allows selecting severe stress test scenarios. To ensure an adequate level of liquidity a minimum cash balance has been defined as a cushion of liquid assets. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of notes, loans, hedges, export financing and financial leases.

The Group's total outstanding debt consists of US\$ 145,500 thousand of loan due to Nostrum Oil & Gas Finance B.V. and two notes: US\$ 560 million issued in 2012 and maturing on 25 June 2033 and US\$ 400 million issued in 2014 and maturing on 14 January 2033.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2019 and 2018 based on contractual undiscounted payments:

As at 31 December 2019	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	25,210	75,630	529,579	1,716,939	2,347,358
Trade payables	23,442	–	5,953	–	–	29,395
Other current liabilities	17,984	–	–	–	–	17,984
Due to Government of Kazakhstan	–	258	773	4,124	6,443	11,598
Lease liability	–	1,924	5,197	766	–	7,887
	<b>41,426</b>	<b>27,392</b>	<b>87,553</b>	<b>534,469</b>	<b>1,723,382</b>	<b>2,414,222</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

<i>As at 31 December 2018</i>	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	24,719	74,156	503,675	1,808,139	2,410,689
Trade payables	34,646	–	15,033	–	–	49,679
Other current liabilities	18,228	–	–	–	–	18,228
Due to Government of Kazakhstan	–	258	773	4,124	7,474	12,629
	<b>52,874</b>	<b>24,977</b>	<b>89,962</b>	<b>507,799</b>	<b>1,815,613</b>	<b>2,491,225</b>

**Credit risk**

Financial instruments, which potentially subject the Group to credit risk, consist primarily of accounts receivable and cash in banks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. The Group considers that its maximum exposure is reflected by the amount of trade accounts receivable, cash and cash equivalents.

The Group places its tenge denominated cash with SB Sberbank JSC, which has a credit rating of Ba1 (stable) from Moody's rating agency and ING with a credit rating of Aa3 (stable) from Moody's rating agency at 31 December 2019. The Group does not guarantee obligations of other parties.

The Group sells its products and makes advance payments only to recognized, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts and recoverability of prepayments made is not significant and thus risk of credit default is low. Also, the Group's policy is to mitigate the payment risk on its off-takers by requiring all purchases to be prepaid or secured by a letter of credit from an international bank.

An impairment analysis is performed at each reporting date on an individual basis for major clients. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

**Fair values of financial instruments**

Set out below, is a comparison by class of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts reasonably approximating their fair values:

<i>In thousands of US Dollars</i>	Carrying amount		Fair value	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
<b>Financial liabilities measured at amortised cost</b>				
Interest bearing borrowings	(1,104,586)	(1,075,363)	(453,270)	(620,440)
Lease liability	(7,376)	–	(7,376)	–
<b>Total</b>	<b>(1,111,962)</b>	<b>(1,075,363)</b>	<b>(460,646)</b>	<b>(620,440)</b>

The management assessed that cash and cash equivalents, current investments, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities represents the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value of the quoted notes is based on price quotations at the reporting date and respectively categorised as Level 1 within the fair value hierarchy.

During the year ended 31 December 2019 there were no transfers between the levels of fair value hierarchy of the Group's financial instruments.

**Capital management**

For the purpose of the Group's capital management, capital includes issued capital, additional paid-in capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the notes that define capital structure requirements. Breaches in meeting the financial covenants would permit the lenders to immediately call borrowings. There have been no breaches in the financial covenants of the notes in the current period nor the prior period.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the distribution payment to participants, return capital to participants or increase Group capital. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings, less cash, short-term deposits and long-term deposits.

<i>In thousands of US Dollars</i>	2019	2018
Borrowings and lease liability	1,111,962	1,075,363
Less: cash and cash equivalents and restricted cash	(21,336)	(14,080)
<b>Net debt</b>	<b>1,090,626</b>	<b>1,061,283</b>
Equity	(480,093)	505,277
<b>Total capital</b>	<b>(480,093)</b>	<b>505,277</b>
<b>Capital and net debt</b>	<b>610,533</b>	<b>1,566,560</b>
<b>Gearing ratio</b>	<b>179%</b>	<b>68%</b>

No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2019.

### 31. EVENTS AFTER THE REPORTING PERIOD

#### OPEC and non-OPEC allies

On 6 March 2020, OPEC and non-OPEC allies (OPEC+) met to discuss the need to cut oil supply to balance oil markets in the wake of the COVID-19 outbreak which has had a material impact on oil demand. The parties failed to reach agreement on 7 March 2020, and Saudi Aramco aggressively cut its Official Selling Prices (OSP) in an attempt to prioritise market share rather than price stability and effectively started a price war. As a result, on 9 March 2020, Brent oil prices fell by around 20%, and the forward curve for 2020 and 2021 fell to approximately \$38/bbl and \$43/bbl, respectively. This was compounded by a perceived lack of future demand for oil caused by disruptions to businesses and economic activity as a result of the novel coronavirus COVID-19 ('COVID-19'). Whilst the OPEC+ countries together with a wider group of producers have subsequently agreed to lower daily production levels, the continuing uncertainty over the future demand for oil as a result of the continuing impact of COVID-19 is restricting the recovery of the oil price. These events continue to have an impact on oil price volatility with spot prices for Brent reaching a low of \$20/bbl in March 2020. The Group's realised oil prices for January and February 2020 averaged around \$55/bbl.

#### Coronavirus outbreak

The existence of COVID-19 was confirmed in early 2020 and has spread across China and beyond, causing disruptions to businesses and economic activity. Governments in affected countries are imposing travel bans, quarantines and other emergency public safety measures. Those measures, though temporary in nature, may continue and increase depending on developments in the virus' outbreak. The Group's offices and facilities in Kazakhstan remain open with certain travel restrictions in place, but necessary workers are able to operate and maintain the assets to the high standards. The ultimate severity of the Covid-19 outbreak is uncertain at this time, and therefore the Group cannot reasonably estimate the impact it may have on future operations.

There is a significant uncertainty in relation to the extent and period over which these developments will continue, but they could have a significant impact on the Group's financial position, future cashflows and results of operations. For more details as to how these uncertainties have been considered in preparing these financial statements, please see the 'Going Concern' section of the financial statements.

In addition, the significant estimates and judgements that will be made in preparing future financial statements may also be impacted if the current macro-economic uncertainty continues and estimates of long-term commodity prices decrease. In particular, we expect the impact to be as follows:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- The estimated recoverable amount of our cash generating unit related to the Chinarevskoye field and related facilities would reduce. An additional impairment could be required as the CGU was impaired in 2019 and so is sensitive to changes in commodity prices as described in Note 4; and
- The estimate of oil and gas reserves would be lower if the long-term planning price on which our estimates of reserves are based decreases.

### Engagement with bondholders

On 31 March 2020 the Group announced that it will now seek to engage with its bondholders regarding a possible restructuring of the Group's outstanding bonds.