Nostrum Oil & Gas PLC

Interim condensed consolidated financial statements (unaudited)

For the three months ended 31 March 2018

Interim condensed consolidated financial statements

Contents

Interim condensed consolidated statement of financial position	2
Interim condensed consolidated statement of comprehensive income	3
Interim condensed consolidated statement of cash flows	4
Interim condensed consolidated statement of changes in equity	5
1. General	6
2. Basis of preparation and consolidation	7
3. Changes in accounting policies and disclosures	7
4. Exploration and evaluation assets	9
5. Property, plant and equipment	9
6. Advances for non-current assets	10
7. Trade receivables	10
8. Prepayments and other current assets	10
9. Cash and cash equivalents	10
10. Share capital and reserves	11
11. Earnings per share	11
12. Borrowings	12
13. Trade payables	15
14. Other current liabilities	15
15. Revenue	15
16. Cost of sales	15
17. General and administrative expenses	16
18. Selling and transportation expenses	16
19. Taxes other than income tax	16
20. Finance costs	16
21. Employee share option plan	17
22. Income tax expense	17
23. Derivative financial instruments	18
24. Related party transactions	18
25. Contingent liabilities and commitments	19
26. Fair values of financial instruments	20
27. Events after the reporting period	21

Interim condensed consolidated statement of financial position

In thousands of US dollars	Notes	**31 March 2018 (unaudited)**	31 December 2017 (audited)
NON-CURRENT ASSETS			
Exploration and evaluation assets	**4**	**48,036**	47,828
Goodwill		**32,425**	32,425
Property, plant and equipment	**5**	**1,968,200**	1,941,894
Restricted cash	**9**	**6,810**	6,663
Advances for non-current assets	**6**	**16,860**	14,598
Total Non-current assets		**2,072,331**	2,043,408
CURRENT ASSETS			
Inventories		**32,395**	29,746
Trade receivables	**7**	**33,585**	34,520
Prepayments and other current assets	**8**	**26,309**	27,103
Income tax prepayment		**7,584**	3,380
Cash and cash equivalents	**9**	**132,257**	126,951
Total Current assets		**232,130**	221,700
TOTAL ASSETS		**2,304,461**	2,265,108
SHARE CAPITAL AND RESERVES	**10**		
Share capital		**3,203**	3,203
Treasury capital		**(1,660)**	(1,660)
Retained earnings and reserves		**679,967**	668,010
Total Share capital and reserves		**681,510**	669,553
NON-CURRENT LIABILITIES			
Long-term borrowings	**12**	**1,089,882**	1,056,541
Abandonment and site restoration provision		**23,671**	23,590
Due to Government of Kazakhstan		**5,280**	5,466
Deferred tax liability	**22**	**382,938**	381,595
Total Non-current liabilities		**1,501,771**	1,467,192
CURRENT LIABILITIES			
Current portion of long-term borrowings	**12**	**14,267**	31,337
Employee share option plan liability	**21**	**1,630**	2,086
Trade payables	**13**	**56,447**	56,855
Advances received		**333**	1,279
Income tax payable		**119**	499
Derivative financial instruments	**23**	**4,220**	–
Current portion of due to Government of Kazakhstan		**1,031**	1,031
Other current liabilities	**14**	**43,133**	35,276
Total Current liabilities		**121,180**	128,363
TOTAL EQUITY AND LIABILITIES		**2,304,461**	2,265,108

The interim condensed consolidated financial statements of Nostrum Oil & Gas PLC, registered number 8717287, were approved by the Board of Directors. Signed on behalf of the Board:

Kai-Uwe Kessel
Chief Executive Officer ____________________

Tom Richardson
Chief Financial Officer ____________________

The accounting policies and explanatory notes on pages 5 through 21 are an integral part of these consolidated financial statements

Interim condensed consolidated statement of comprehensive income

		Three months ended 31 March	
In thousands of US dollars	**Notes**	**2018 (unaudited)**	2017 (unaudited, restated*)
Revenue			
Revenue from export sales		**70,022**	79,167
Revenue from domestic sales		**24,743**	32,702
	15	**94,765**	111,869
Cost of sales	**16**	**(41,410)**	(44,457)
Gross profit		**53,355**	67,412
General and administrative expenses	**17**	**(5,941)**	(8,923)
Selling and transportation expenses	**18**	**(13,105)**	(15,536)
Taxes other than income tax	**19**	**(6,742)**	(5,387)
Finance costs	**20**	**(19,137)**	(10,229)
Employee share options - fair value adjustment	**21**	**456**	(18)
Foreign exchange gain, net		**76**	1,860
Loss on derivative financial instruments	**23**	**(4,220)**	(790)
Interest income		**83**	89
Other income		**1,197**	435
Other expenses		**(3,561)**	(2,758)
Profit before income tax		**2,461**	26,155
Current income tax expense		**(451)**	(16,090)
Deferred income tax benefit		**1,622**	3,672
Income tax benefit / (expense)	**22**	**1,171**	(12,418)
Profit for the period		**3,632**	13,737
Other comprehensive income that could be reclassified to the income statement in subsequent periods			
Currency translation difference		**–**	116
Other comprehensive income		**–**	116
Total comprehensive income for the period		**3,632**	13,853
Profit for the period attributable to the shareholders (in thousands of US dollars)		**3,632**	13,738
Weighted average number of shares		**185,234,079**	185,068,917
Basic and diluted earnings per share (in US dollars)		**0.02**	0.07

* Certain amounts shown here do not correspond to the financial statements for the three months ended 31 March 2017 and reflect adjustments made. Please refer to Note 3 for more details.

All items in the above statement are derived from continuous operations.

The accounting policies and explanatory notes on pages 5 through 21 are an integral part of these consolidated financial statements

Interim condensed consolidated statement of cash flows

		Three months ended 31 March	
In thousands of US dollars	**Notes**	**2018 (unaudited)**	2017 (unaudited, restated*)
Cash flow from operating activities:			
Profit before income tax		**2,461**	26,155
Adjustments for:			
Depreciation, depletion and amortisation	**16,17**	**29,611**	32,243
Finance costs	**20**	**19,137**	10,229
Employee share option plan fair value adjustment		**(456)**	18
Interest income		**(83)**	(89)
Net foreign exchange differences		**(75)**	(1,013)
Loss on disposal of property, plant and equipment		**28**	9
Loss on derivative financial instruments	**23**	**4,220**	790
Accrued expenses		**227**	486
Operating profit before working capital changes		**55,070**	68,828
Changes in working capital:			
Change in inventories		**(2,449)**	199
Change in trade receivables		**935**	2,016
Change in prepayments and other current assets		**3,291**	219
Change in trade payables		**3,327**	1,703
Change in advances received		**(946)**	217
Change in due to Government of Kazakhstan		**(443)**	(516)
Change in other current liabilities		**2,313**	1,419
Payments under Employee share option plan		**–**	(1,162)
Cash generated from operations		**61,098**	72,923
Income tax paid		**(5,132)**	(4,760)
Net cash flows from operating activities		**55,966**	68,163
Cash flow from investing activities:			
Interest received		**83**	89
Purchase of property, plant and equipment		**(51,742)**	(35,719)
Exploration and evaluation works	**4**	**(133)**	(890)
Loans granted		**–**	(246)
Net cash used in investing activities		**(51,792)**	(36,766)
Cash flow from financing activities:			
Finance costs paid		**(38,111)**	(12,749)
Issue of notes		**397,280**	–
Repayment of notes		**(353,192)**	–
Fees and premium paid for early repayment and on arrangement of notes		**(4,579)**	–
Treasury shares sold		**–**	1,853
Payment of finance lease liabilities		**(60)**	(155)
Transfer to restricted cash		**(146)**	(149)
Net cash from/(used in) financing activities		**1,192**	(11,200)
Effects of exchange rate changes on cash and cash equivalents		**(60)**	1,434
Net increase in cash and cash equivalents		**5,306**	21,631
Cash and cash equivalents at the beginning of the period	**9**	**126,951**	101,134
Cash and cash equivalents at the end of the period	**9**	**132,257**	122,765

* Certain amounts shown here do not correspond to the financial statements for the three months ended 31 March 2017 and reflect adjustments made. Please refer to Note 3 for more details.

The accounting policies and explanatory notes on pages 5 through 21 are an integral part of these consolidated financial statements

Interim condensed consolidated statement of changes in equity

In thousands of US dollars	Notes	Share capital	Treasury capital	Other reserves	Retained earnings	Total
As at 1 January 2017 (audited)		**3,203**	**(1,846)**	**260,918**	**429,537**	**691,812**
Profit for the period		–	–	–	13,737	13,737
Other comprehensive income		–	–	116	–	116
Total comprehensive income for the period		**–**	**–**	**116**	**13,737**	**13,853**
Sale of treasury capital		–	186	674	–	860
Transaction costs		–	–	–	(8)	(8)
As at 31 March 2017 (unaudited, restated*)		**3,203**	**(1,660)**	**261,708**	**443,266**	**706,517**
Loss for the period		–	–	–	(37,620)	(37,620)
Other comprehensive income		–	–	709	–	709
Total comprehensive loss for the period		**–**	**–**	**709**	**(37,620)**	**(36,911)**
Transaction costs		–	–	–	(53)	(53)
As at 31 December 2017 (audited)		**3,203**	**(1,660)**	**262,417**	**405,593**	**669,553**
Impact of adopting IFRS 9		–	–	–	8,325	8,325
Restated opening balance under IFRS 9		**3,203**	**(1,660)**	**262,417**	**413,918**	**677,878**
Profit for the period		–	–	–	3,632	3,632
Total comprehensive income for the period		**–**	**–**	**–**	**3,632**	**3,632**
As at 31 March 2018 (unaudited)		**3,203**	**(1,660)**	**262,417**	**417,550**	**681,510**

* Certain amounts shown here do not correspond to the financial statements for the three months ended 31 March 2017 and reflect adjustments made. Please refer to Note 3 for more details.

The accounting policies and explanatory notes on pages 5 through 21 are an integral part of these consolidated financial statements

Notes to the interim condensed consolidated financial statements

1. General

Overview

Nostrum Oil & Gas PLC (“the Company” or “the Parent”) is a public limited company incorporated on 3 October 2013 under the Companies Act 2006 and registered in England and Wales with registered number 8717287. The registered address of Nostrum Oil & Gas PLC is: 9th Floor, 20 Eastbourne Terrace, London, W2 6LG, UK.

The Parent became the holding company of the remainder of the Group (via its subsidiary Nostrum Oil Coöperatief U.A.) on 18 June 2014 and was listed on the London Stock Exchange (“LSE”) on 20 June 2014. On the same date the former parent of the Group, Nostrum Oil & Gas LP, was delisted from the LSE. In addition to the subsidiaries of Nostrum Oil & Gas LP, Nostrum Oil Coöperatief U.A. acquired substantially all of the assets and liabilities of Nostrum Oil & Gas LP on 18 June 2014. The Parent does not have an ultimate controlling party.

These interim condensed consolidated financial statements include the financial position and the results of the operations of Nostrum Oil & Gas PLC and its following wholly owned subsidiaries:

Company	Registered office	Form of capital	Ownership, %
Nostrum Associated Investments LLP	43/1 Karev street 090000 Uralsk Republic of Kazakhstan	Participatory interests	100
Nostrum E&P Services LLC	Liteyniy Prospekt 26 A 191028 St. Petersburg Russian Federation	Participatory interests	100
Nostrum Oil & Gas Coöperatief U.A.	Gustav Mahlerplein 23B 1082MS Amsterdam The Netherlands	Members' interests	100
Nostrum Oil & Gas BV	Gustav Mahlerplein 23B 1082MS Amsterdam The Netherlands	Ordinary shares	100
Nostrum Oil & Gas Finance B.V.	Gustav Mahlerplein 23B 1082MS Amsterdam The Netherlands	Ordinary shares	100
Nostrum Oil & Gas UK Ltd.	20 Eastbourne Terrace London W2 6LA United Kingdom	Ordinary shares	100
Nostrum Services Central Asia LLP	Aksai 3a, 75/38 050031 Almaty Republic of Kazakhstan	Participatory interests	100
Nostrum Services N.V.[1]	Kunstlaan 56 1000 Brussels Belgium	Ordinary shares	100
Zhaikmunai LLP	43/1 Karev street 090000 Uralsk Republic of Kazakhstan	Participatory interests	100

[1] *Merged with Nostrum Services CIS BVBA during 2016*

Grandstil LLC was liquidated as of 6 December 2017.

Nostrum Oil & Gas PLC and its wholly-owned subsidiaries are hereinafter referred to as “the Group”. The Group’s operations comprise of a single operating segment with three exploration concessions and are primarily conducted through its oil and gas producing entity Zhaikmunai LLP located in Kazakhstan.

As at 31 March 2018, the Group employed 964 employees (Q1 2017: 989).

Subsoil use rights terms

Zhaikmunai LLP 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 Zhaikmunai LLP 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 Zhaikmunai LLP 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 Zhaikmunai LLP has 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.

Notes to the interim condensed consolidated financial statements / continued

The term of the Chinarevskoye subsoil use rights originally included a 5-year exploration period and a 25-year production period. Subsequently on 28 December 2016 the thirteenth supplementary agreement to the Contract was signed extending the exploration period for the Bobrikovski reservoir to 26 May 2018.

The contract for exploration and production of hydrocarbons from the Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. Subsequently, the exploration period was extended until 8 February 2019.

The contract for exploration and production of hydrocarbons from the 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 2017. Zhaikmunai LLP's application for further extention of the exploration period is under approval by the MOE.

The contract for exploration and production of hydrocarbons from the 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 2017. Zhaikmunai LLP's application for further extention of the exploration period is under approval by the MOE.

Royalty payments

Zhaikmunai LLP 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"

Zhaikmunai LLP 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 and consolidation

Basis of preparation

These interim condensed consolidated financial statements for the three months ended 31 March 2018 have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting as adopted by the European Union. These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017 prepared in accordance with IFRS as adopted by the European Union.

The interim financial information for three months ended 31 March 2018 and 2017 was neither audited nor reviewed by the auditors and does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. The comparative financial information for the year ended 31 December 2017 has been derived from the statutory financial statements for that year. Statutory accounts for the year ended 31 December 2017 were approved by the Board of directors on 23 March 2018 and filed with the Registrar of Companies. The Independent Auditors' Report on those accounts was unqualified.

Group reorganisation

The Group has been formed through a reorganisation in which Nostrum Oil & Gas PLC became a new parent entity of the Group. The reorganisation is not a business combination and does not result in any change of economic substance of the Group. Accordingly, the interim condensed consolidated financial statements of Nostrum Oil & Gas PLC are a continuation of the existing group (Nostrum Oil & Gas LP and its subsidiaries).

Going concern

These interim condensed consolidated financial statements have been prepared on a going concern basis. The directors 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 this report. Accordingly, they continue to adopt the going concern basis in preparing the interim condensed consolidated financial statements.

3. Changes in accounting policies and disclosures

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of the new standards and interpretations effective as of 1 January 2018. None of the amendments that are effective as of 1 January 2018 had significant impact on the Group's interim condensed consolidated financial statements.

Standards issued, but not yet effective, as at 1 January 2018, have not been adopted early by the Group.

Notes to the interim condensed consolidated financial statements / continued

Transition disclosures

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. As permitted by IFRS 9 the Group elected not to restate comparative information for the three months ended 31 March 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018.

The impact of adopting IFRS 9 on the statement of financial position, and retained earnings includes the effect of measurement of gains or losses on modification applied to 2012 Notes, 2014 Notes and 2017 Notes in accordance with definitions and requirements of IFRS 9.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is as follows:

In thousands of US dollars	**As previously reported**	**Remeasurement**	**As adjusted**
Property, plant and equipment	1,941,894	2,362	1,944,256
Total non-current assets	**2,043,408**	**2,362**	**2,045,770**
Total assets	**2,265,108**	**2,362**	**2,267,470**
Retained earnings	668,010	8,358	676,335
Total equity	**669,553**	**8,358**	**677,878**
Long-term borrowings	1,056,541	(9,065)	1,047,476
Deferred tax liabilities	381,595	3,102	384,697
Total non-current liabilities	**1,467,192**	**(5,996)**	**1,461,229**
Total equity and liabilities	**2,265,108**	**2,362**	**2,267,470**

Correction of an error and changes in presentation

In 2017, the Group carried out a detailed review of the expenditures on construction of its facilities and drilling of wells. As result of the review, certain errors that affects both annual and interim periods were identified. For annual periods, these errors were corrected in the annual consolidated financial statements for the year ended 31 December 2017. However, since these errors were identified and corrected after interim condensed consolidated financial statements for the three months ended 31 March 2017 were issued, the Group decided to correct them in these interim condensed consolidated financial statements by restating comparative information for the three months then ended 31 March 2017. In addition, consistently to the annual consolidated financial statements, the Group decided to make certain reclassifications in the interim condensed consolidated statement of comprehensive income. These errors and reclassifications are described below.

As part of the review, it was discovered that there was an error in capitalization of borrowing costs under IAS 23 Borrowing Costs resulting in understatement of Property, plant and equipment and respective overstatement of Finance costs.

On the other hand, the Group has been providing catering and accommodation services to its providers of construction, drilling and operational services on which Other income has been recognized. At the same time respective expenditures of the suppliers were recharged to the Group and accordingly either capitalized as part of Property, plant and equipment or expensed as Cost of sales or Other expenses, leading to overstatement of these line items.

In the interim condensed consolidated financial statements for the three months ended 31 March 2018, the Group presents "training", "sponsorship" and "social program" expenses within Other expenses in the statement of comprehensive income. Previously, the Group presented these expenses within General and administrative expenses.

In the interim condensed consolidated financial statements for the three months ended 31 March 2018, the Group also presents Taxes other than income tax, a new line item in the consolidated statement of comprehensive income. This new line item includes "royalties" and "government profit share" previously presented within Cost of sales, "export customs duties" previously presented in Other expenses and "other taxes" previously presented within General and administrative expenses.

Notes to the interim condensed consolidated financial statements / continued

These corrections and changes in presentation have been reflected by restating each of the affected financial statement line items for the three months ended 31 March 2017, as follows:

In thousands of US dollars	Reported	Interest capitali-zation correction	Catering and accomo-dation correction	Reclassi-fications	As adjusted
As at 1 January 2017 (audited)					
Retained earnings and reserves	690,617	5,366	(5,528)	–	690,455
For the three months ended 31 March 2017 (unaudited)					
Cost of sales	(50,285)	–	650	5,178	(44,457)
General and administrative expenses	(9,761)	–	–	838	(8,923)
Taxes other than income tax	–	–	–	(5,387)	(5,387)
Finance costs	(10,915)	686	–	–	(10,229)
Other income	2,019	–	(1,584)	–	435
Other expenses	(2,531)	–	402	(629)	(2,758)
Deferred income tax expense benefit	3,672	(206)	206	–	3,672
As at 31 March 2017 (unaudited)					
Retained earnings and reserves	704,981	6,052	(6,059)	–	704,974
Interim condensed consolidated statement of cash flows for the three months ended 31 March 2017					
Depreciation, depletion and amortisation	32,391	–	(148)	–	32,243
Finance costs	10,915	(686)	–	–	10,229
Purchase of property, plant and equipment	(37,315)	–	1,596	–	(35,719)

The Group has not included a third balance sheet as at 1 January 2017 because the adjustment to opening balances was not considered to be material.

4. Exploration and evaluation assets

In thousands of US dollars	31 March 2018 (unaudited)	31 December 2017 (audited)
Subsoil use rights	**15,835**	15,835
Expenditures on geological and geophysical studies	**32,201**	31,993
	48,036	47,828

During the three months ended 31 March 2018 the Group had additions to exploration and evaluation assets of US$208 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (Q1 2017: US$868 thousand). Interest was not capitalised on exploration and evaluation assets.

5. Property, plant and equipment

During the three months ended 31 March 2018 the Group had additions of property, plant and equipment of US$54,231 thousand (Q1 2017: US$46,336 thousand). These additions are mostly associated with drilling costs, construction of a third unit for the gas treatment facility and capitalised interest of US$10,174 thousand (Q1 2017: US$7,323 thousand).

As at 31 March 2018 the net carrying amount of property, plant and equipment held under finance lease was US$12,458 thousand (31 December 2017: 12,632).

See Note 25 for capital commitments.

Notes to the interim condensed consolidated financial statements / continued

6. Advances for non-current assets

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.

In thousands of US dollars	**31 March 2018 (unaudited)**	31 December 2017 (audited)
Advances for construction services	**10,114**	9,512
Advances for pipes and construction materials	**6,746**	5,086
	16,860	14,598

7. Trade receivables

As at 31 March 2018 and 31 December 2017 trade receivables were not interest-bearing and were mainly denominated in US dollars. Their average collection period is 30 days.

As at 31 March 2018 and 31 December 2017 there were neither past due nor impaired trade receivables.

8. Prepayments and other current assets

As at 31 March 2018 and 31 December 2017 prepayments and other current assets comprised the following:

In thousands of US dollars	**31 March 2018 (unaudited)**	31 December 2017 (audited)
VAT receivable	**15,064**	14,960
Advances paid	**6,383**	6,826
Other taxes receivable	**3,830**	4,279
Other	**1,032**	1,038
	26,309	27,103

Advances paid consist primarily of prepayments made to service providers.

9. Cash and cash equivalents

In thousands of US dollars	**31 March 2018 (unaudited)**	31 December 2017 (audited)
Current accounts in US dollars	**125,789**	106,486
Current accounts in tenge	**2,141**	17,342
Current accounts in other currencies	**4,318**	3,111
Petty cash	**9**	12
	132,257	126,951

In addition to the cash and cash equivalents in the table above, the Group has restricted cash accounts as a liquidation fund deposit for the amount of US$ 786 thousand with Sberbank in Kazakhstan and US$ 6,024 thousand with Halyk bank (31 December 2017: a total of US$6,663 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

Notes to the interim condensed consolidated financial statements / continued

10. Share capital and reserves

As at 31 March 2018 the ownership interests in the Parent consists of 188,182,958 issued and fully paid ordinary shares, which are listed on the London Stock Exchange. The ordinary shares have a nominal value of GB£ 0.01.

Number of shares	In circulation	Treasury capital	Total
As at 1 January 2017 (audited)	**184,903,754**	**3,279,204**	**188,182,958**
Share options exercised	330,325	(330,325)	–
As at 31 December 2017 (audited)	**185,234,079**	**2,948,879**	**188,182,958**
Share options exercised	–	–	–
As at 31 March 2018 (unaudited)	**185,234,079**	**2,948,879**	**188,182,958**

Treasury shares were issued to support the Group's obligations to employees under the Employee Share Option Plan ("ESOP") and are held by Intertrust Employee Benefit Trustee Limited, which upon request from employees to exercise options, sells shares on the market and settles respective obligations under the ESOP. This trust constitutes a special purpose entity under IFRS and therefore, these shares are recorded as treasury capital of the Company.

Other reserves of the Group include foreign currency translation reserves accumulated before 2009, when the functional currency of Zhaikmunai LLP was Kazakhstani Tenge and the difference between the partnership capital, treasury capital and additional paid-in capital of Nostrum Oil & Gas LP and the share capital of Nostrum Oil & Gas PLC amounting to US$255,459, that arose during the reorganisation of the Group (Note 2).

Distributions

During the three months ended 31 March 2018 and 2017 there were no distributions made.

Kazakhstan stock exchange disclosure requirement

The Kazakhstan Stock Exchange has enacted on 11 October 2010 (as amended on 18 April 2014) a requirement for disclosure of "the book value per share" (total assets less intangible assets, total liabilities and preferred stock divided by the number of outstanding shares as at the reporting date). As at 31 March 2018 the book value per share amounted to US$3.42 (31 December 2017: US$3.39).

11. Earnings per share

Basic EPS amounts are calculated by dividing the profit for the period by the weighted average number of shares outstanding during the period.

The basic and diluted EPS are the same as there are no instruments that have a dilutive effect on earnings.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

	Three months ended 31 March	
	2018 (unaudited)	2017 (unaudited, restated)
Profit for the period attributable to the shareholders (in thousands of US dollars)	**4,152**	13,738
Weighted average number of shares	**185,234,079**	185,068,917
Basic and diluted earnings per share (in US dollars)	**0.02**	0.07

Notes to the interim condensed consolidated financial statements / continued

12. Borrowings

Borrowings are comprised of the following as at 31 March 2018 and 31 December 2017:

In thousands of US dollars	**31 March 2018 (unaudited)**	31 December 2017 (audited)
Notes issued in 2012 and maturing in 2019	**–**	167,731
Notes issued in 2014 and maturing in 2019	**–**	187,863
Notes issued in 2017 and maturing in 2022	**709,190**	731,474
Notes issued in 2018 and maturing in 2025	**394,150**	–
Finance lease liability	**809**	810
	1,104,149	1,087,878
Less amounts due within 12 months	**(14,267)**	(31,337)
Amounts due after 12 months	**1,089,882**	1,056,541

2012 Notes

On 13 November 2012, Zhaikmunai International B.V. (the "2012 Initial Issuer") issued US$ 560,000 thousand notes (the "2012 Notes").

On 24 April 2013 Zhaikmunai LLP (the "2012 Issuer") replaced the 2012 Initial Issuer of the 2012 Notes, whereupon it assumed all of the obligations of the 2012 Initial Issuer under the 2012 Notes.

The 2012 Notes bear interest at a rate of 7.125% per year. Interest on the 2012 Notes is payable on 14 May and 13 November of each year, beginning on 14 May 2013.

On and after 13 November 2016, the 2012 Issuer shall be entitled at its option to redeem all or a portion of the 2012 Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2012 Note), plus accrued and unpaid interest on the 2012 Notes, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelvemonth period commencing on 13 November of the years set forth below:

Period	Redemption Price
2016	103.56250%
2017	101.78125%
2018 and thereafter	100.00%

The 2012 Notes are jointly and severally guaranteed (the "2012 Guarantees") on a senior basis by Nostrum Oil & Gas PLC and all of its subsidiaries other than the 2012 Issuer (the "2012 Guarantors"). The 2012 Notes are the 2012 Issuer's and the 2012 Guarantors' senior obligations and rank equally with all of the 2012 Issuer's and the 2012 Guarantors' other senior indebtedness. The 2012 Notes and the 2012 Guarantees are unsecured. Claims of secured creditors of the 2012 Issuer or the 2012 Guarantors will have priority with respect to their security over the claims of creditors who do not have the benefit of such security, such as the holders of the 2012 Notes.

2014 Notes

On 14 February 2014, Nostrum Oil & Gas Finance B.V. (the "2014 Initial Issuer") issued US$ 400,000 thousand notes (the "2014 Notes").

On 6 May 2014, Zhaikmunai LLP (the "2014 Issuer") replaced Nostrum Oil & Gas Finance B.V. as issuer of the 2014 Notes, whereupon it assumed all of the obligations of the 2014 Initial Issuer under the 2014 Notes.

The 2014 Notes bear interest at a rate of 6.375% per annum. Interest on the 2014 Notes is payable on 14 February and 14 August of each year, beginning on 14 August 2014.

On and after 14 February 2017, the 2014 Issuer shall be entitled at its option to redeem all or a portion of the 2014 Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2014 Note), plus accrued and unpaid interest on the 2014 Notes, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve month period commencing on 14 February of the years set forth below:

Period	Redemption Price
2017	103.1875%
2018 and thereafter	100.00%

The 2014 Notes are jointly and severally guaranteed (the "2014 Guarantees") on a senior basis by Nostrum Oil & Gas PLC and all of its subsidiaries other than the 2014 Issuer (the "2014 Guarantors"). The 2014 Notes are the 2014 Issuer's and the 2014 Guarantors' senior obligations and rank equally with all of the 2014 Issuer's and the 2014 Guarantors' other senior indebtedness. The 2014 Notes and the 2014 Guarantees are unsecured. Claims of secured creditors of the 2014 Issuer or the 2014 Guarantors will have priority with respect to their security over the claims of creditors who do not have the benefit of such security, such as the holders of the 2014 Notes.

Notes to the interim condensed consolidated financial statements / continued

2017 Notes

On 25 July 2017, a newly incorporated entity, Nostrum Oil & Gas Finance B.V. (the "2017 Issuer") issued US$ 725,000 thousand notes (the "2017 Notes").

The 2017 Notes bear interest at a rate of 8.00% per year, payable on 25 January and 25 July of each year.

On and after 25 July 2019, the 2017 Issuer shall be entitled at its option to redeem all or a portion of the 2017 Notes upon not less than 10 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2017 Note), plus accrued and unpaid interest on the 2017 Notes, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period commencing on 25 July of the years set forth below:

Period	Redemption Price
2019	106.0%
2020	104.0%
2021 and thereafter	100.0%

The 2017 Notes are jointly and severally guaranteed (the "2017 Guarantees") on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V. (the "2017 Guarantors"). The 2017 Notes are the 2017 Issuer's and the 2017 Guarantors' senior obligations and rank equally with all of the 2017 Issuer's and the 2017 Guarantors' other senior indebtedness.

The issue of the 2017 Notes was used primarily to fund the Tender Offer and Consent Solicitation, as described below.

Tender Offer and Consent Solicitation for the 2012 Notes and the 2014 Notes

On 29 June 2017, Nostrum Oil & Gas Finance B.V., a subsidiary of Nostrum Oil & Gas PLC, announced a tender offer and consent solicitation in respect of the 2012 Notes and the 2014 Notes (the "Tender and Consent"). The Tender and Consent closed at 11:59 NY time on 27 July 2017, and was settled on 31 July 2017.

As a result of the Tender and Consent, on 31 July 2017, Nostrum Oil & Gas Finance B.V. purchased from bondholders US$ 390,884 thousand in principal amount of the outstanding 2012 Notes and US$ 215,924 thousand in principal amount of the outstanding 2014 Notes. Total tender consideration was US$ 102.60 per US$ 100 for the outstanding 2012 Notes and US$ 100.60 per US$ 100 for the outstanding 2014 Notes validly tendered during the Early Bird window. In addition, a consent payment of US$ 40c per US$ 100 was paid for all 2012 Notes and 2014 Notes validly tendered during the Early Bird window or if a Consent Only Instruction was received during the Early Bird window. Both consent solicitations were approved by bondholders such that the covenants contained in the 2012 Notes and the 2014 Notes have been aligned with the 2017 Notes.

Transaction costs

Fees and expenses directly attributable to the 2017 Notes and the Tender and Consent Solicitation amounted to US$ 12,256 thousand.

For the purposes of the accounting treatment Nostrum considers part of the purchased 2012 Notes and 2014 Notes to be modified and the remainder is treated as extinguished. Unamortised costs, portion of the premium and fees and expenses related to the extinguished debt, were expensed (Note 24). Fees and expenses directly attributable to the modified portion of the debt were capitalised under the long-term borrowings.

2018 Notes

On 16 February 2018, a newly incorporated entity, Nostrum Oil & Gas Finance B.V. (the "2018 Issuer") issued US$ 400,000 thousand notes (the "2018 Notes").

The 2018 Notes bear interest at a rate of 7.00% per year, payable on 16 August and 16 February of each year.

On and after 16 February 2021, the 2018 Issuer shall be entitled at its option to redeem all or a portion of the 2018 Notes upon not less than 10 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2018 Note), plus accrued and unpaid interest on the 2018 Notes, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period commencing on 16 February of the years set forth below:

Period	Redemption Price
2021	105.25%
2022	103.50%
2023	101.75%
2024 and thereafter	100.00%

The 2018 Notes are jointly and severally guaranteed (the "2018 Guarantees") on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V. (the "2018 Guarantors"). The 2018 Notes are the 2018 Issuer's and the 2018 Guarantors' senior obligations and rank equally with all of the 2018 Issuer's and the 2018 Guarantors' other senior indebtedness.

The issue of the 2018 Notes was used primarily to fund Call of the 2012 Notes and the 2014 Notes, as described below.

Notes to the interim condensed consolidated financial statements / continued

Call of the 2012 Notes and the 2014 Notes

On 18 January 2018, Nostrum issued conditional call notices for all outstanding 2012 Notes and 2014 Notes held by persons other than Nostrum Oil & Gas PLC and its subsidiaries. The 2012 Notes were called at a price of 101.78125% plus accrued interest and the 2014 Notes were called at a price of 100.00% plus accrued interest.

On 16 February 2018, Nostrum announced that the conditions to the call notices had been satisfied by the issue of the 2018 Notes by Nostrum Oil & Gas Finance B.V. (see above). Therefore, with effect on 17 February 2018 (the "Call Date"), 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.

Transaction costs and discounts

Fees and expenses directly attributable to the 2018 Notes amounted to US$ 6,445 thousand, and discount on issue of notes amounted to US$ 2,720 thousand.

Covenants contained in the 2012 Notes, 2014 Notes and the 2017 Notes

Following the consent solicitation discussed above, the 2012 Notes, 2014 Notes and 2017 Notes contain consistent covenants that, among other things, restrict, subject to certain exceptions, the ability of the 2012 Guarantors, the 2014 Guarantors, the 2017 Guarantors, and certain other members of the Group to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to the Parent or any of its restricted subsidiaries;
- sell, lease or transfer certain assets including shares of restricted subsidiaries;
- engage in certain transactions with affiliates;
- enter into unrelated businesses; and
- consolidate or merge with other entities.

Each of these covenants is subject to certain exceptions and qualifications.

Finance lease

On 12 April 2016 Zhaikmunai LLP entered into a finance lease agreement for the main administrative office in Uralsk for a period of 20 years for a fee of US$ 66 thousand per month. As at 31 March 2018 the finance lease prepayment amounted to US$ 12,042 thousand. Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments are as follows:

	31 March 2018 (unaudited)		**31 December 2017 (audited)**	
In thousands of US dollars	**Minimum payments**	**Present value of payments**	**Minimum payments**	**Present value of payments**
No later than one year	**142**	131	**143**	131
Later than one year and no later than five years	**558**	345	**558**	345
Later than five years	**1,864**	333	**1,900**	334
Total minimum lease payments	**2,564**	809	**2,601**	810
Less amounts representing finance charges	**(1,755)**		**(1,791)**	
Present value of minimum lease payments	**809**	809	**810**	810

Notes to the interim condensed consolidated financial statements / continued

13. Trade payables

Trade payables comprise the following as at 31 March 2018 and 31 December 2017:

In thousands of US dollars	31 March 2018 (unaudited)	31 December 2017 (audited)
Tenge denominated trade payables	**23,782**	27,153
US dollar denominated trade payables	**27,242**	22,861
Euro denominated trade payables	**2,476**	5,394
Russian rouble denominated trade payables	**2,079**	1,098
Trade payables denominated in other currencies	**868**	349
	56,447	56,855

14. Other current liabilities

Other current liabilities comprise the following as at 31 March 2018 and 31 December 2017:

In thousands of US dollars	31 March 2018 (unaudited)	31 December 2017 (audited)
Training obligations accrual	**12,372**	11,592
Accruals under the subsoil use agreements	**10,132**	9,941
Taxes payable, other than corporate income tax	**6,338**	6,278
Due to employees	**5,420**	3,627
Other current liabilities	**8,871**	3,838
	43,133	35,276

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

15. Revenue

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 three months ended 31 March 2018 was US$54.7 (Q1 2017: US$45.1)

	Three months ended 31 March	
In thousands of US dollars	2018 (unaudited)	2017 (unaudited)
Oil and gas condensate	**65,818**	72,820
Gas and LPG	**28,947**	39,049
	94,765	111,869

During the three months ended 31 March 2018 the revenue from sales to three major customers amounted to US$61,524 thousand, US$18,983 thousand and US$3,139 thousand respectively (Q1 2017: US$52,008 thousand, US$27,405 thousand and US$15,332 thousand respectively). The Group's exports are mainly represented by deliveries to Belarus and the Black Sea ports of Russia.

16. Cost of sales

	Three months ended 31 March	
In thousands of US dollars	2018 (unaudited)	2017 (unaudited)
Depreciation, depletion and amortisation	**29,110**	31,661
Repair, maintenance and other services	**4,180**	4,881
Payroll and related taxes	**5,026**	4,166
Other transportation services	**1,812**	1,876
Materials and supplies	**1,092**	1,196
Well workover costs	**288**	479
Environmental levies	**73**	81
Change in stock	**(153)**	(138)
Other	**(18)**	255
	41,410	44,457

Notes to the interim condensed consolidated financial statements / continued

17. General and administrative expenses

	Three months ended 31 March	
In thousands of US dollars	**2018 (unaudited)**	**2017 (unaudited)**
Payroll and related taxes	**3,110**	4,000
Professional services	**1,333**	2,751
Depreciation and amortisation	**501**	582
Insurance fees	**171**	323
Business travel	**187**	619
Lease payments	**241**	160
Communication	**104**	99
Materials and supplies	**40**	120
Bank charges	**23**	92
Other	**231**	177
	5,941	8,923

18. Selling and transportation expenses

	Three months ended 31 March	
In thousands of US dollars	**2018 (unaudited)**	**2017 (unaudited)**
Loading and storage costs	**5,017**	8,305
Transportation costs	**3,979**	5,918
Marketing services	**3,102**	71
Payroll and related taxes	**681**	358
Other	**326**	884
	13,105	15,536

19. Taxes other than income tax

	Three months ended 31 March	
In thousands of US dollars	**2018 (unaudited)**	2017 (unaudited)
Royalties	**3,623**	4,159
Export customs duty	**2,279**	196
Government profit share	**799**	1,019
Other taxes	**41**	13
	6,742	5,387

20. Finance costs

	Three months ended 31 March	
In thousands of US dollars	**2018 (unaudited)**	**2017 (unaudited)**
Interest expense on borrowings	**12,501**	9,991
Transaction costs	**6,464**	–
Unwinding of discount on amounts due to Government of Kazakhstan	**71**	93
Unwinding of discount on abandonment and site restoration provision	**67**	58
Unwinding of discount on social obligations liability	**–**	40
Finance charges under finance leases	**34**	47
	19,137	10,229

For more information on the transaction costs please see Note 15.

Notes to the interim condensed consolidated financial statements / continued

21. Employee share option plan

The Group operates one option plan (the Phantom Option Plan), that was adopted by the board of directors of the Company on 20 June 2014. The rights and obligations in relation to this option plan were transferred to Nostrum Oil & Gas PLC from Nostrum Oil & Gas LP following the reorganisation (Note 2).

To date, options relating to 2,199,153 shares remain outstanding (the "Subsisting Options"), 946,153 options with a Base Value of US$4.00 and 1,253,000 options with a Base Value of US$10.00.

Each Subsisting Option is a right for its holder to receive on exercise a cash amount equal to the difference between the aggregate Base Value of the shares to which the Subsisting Option relates; and their aggregate market value on exercise. Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss as part of the employee benefit expenses arising from cash-settled share-based payment transactions.

The Hull-White trinomial lattice valuation model was used to value the share options. The following table lists the inputs to the model used for the plan for the three months ended 31 March 2018 and 2017:

	2018	2017
Price at the reporting date (US$)	**6.1**	6.0
Distribution yield (%)	**0%**	0%
Expected volatility (%)	**40.3%**	45.0%
Risk-free interest rate (%)	**1.1%**	0.5%
Expected life (years)	**10**	10
Option turnover (%)	**10%**	10%
Price trigger	**2.0**	2.0

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. Option turnover rate represents the rate of employees expected to leave the Company during the vesting period, which is based on historical data and is may not necessarily be the actual outcome. The model considers that when share price reaches the level of exercise price multiplied by the price trigger the employees are expected to exercise their options.

22. Income tax expense

	Three months ended 31 March	
In thousands of US dollars	**2018 (unaudited)**	**2017 (unaudited)**
Corporate income tax	**292**	15,978
Withholding tax	**117**	112
Deferred income tax (benefit) / expense	**(1,622)**	(3,672)
Adjustment in respect of the current income tax for the prior periods	**42**	–
Total income tax expense	**(1,171)**	12,418

Corporate income tax is recognised based on the estimated annual effective income tax rate applied to the income before tax for the three months ended 31 March 2018. Differences between the recognition criteria in IFRS and under the statutory taxation regulations give rise to a temporary difference between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the change in temporary differences is recorded at the applicable statutory rates, including the prevailing Kazakhstani tax rate of 30% applicable to income derived from the Chinarevskoye subsoil use license.

The major part of the Group's tax bases of non-monetary assets and liabilities is determined in tenge. Therefore, any change in the US dollar/tenge exchange rates results in a change in the temporary difference between the tax bases of non-current assets and their carrying amounts in the financial statements.

Notes to the interim condensed consolidated financial statements / continued

23. Derivative financial instruments

The movement in the fair value of derivative financial instruments was presented as follows:

In thousands of US dollars		Derivative financial instruments
As at 1 January 2017 (audited)	**current**	**6,658**
	non-current	**–**
Loss on derivative financial instruments		(790)
As at 31 March 2017 (unaudited)	**current**	**5,868**
	non-current	**–**
Loss on derivative financial instruments		(5,868)
As at 31 December 2017 (audited)	**current**	**–**
	non-current	**–**
Loss on derivative financial instruments		(4,220)
As at 31 March 2018 (unaudited)	**current**	**(4,220)**
	non-current	**–**

On 14 December 2015, Zhaikmunai LLP entered, at cost of US$ 92,000 thousand, into a long-term hedging contract covering oil sales of 14,674 bbls/day for the first calculation period and 15,000 bbls/day for the subsequent calculation periods or a total of 10,950,000 bbls running through to 14 December 2017. The counterparty to the hedging agreement is VTB Capital Plc. Based on the hedging contract Zhaikmunai LLP bought a put, which protects it against any fall in the price of oil below US$ 49,16/bbl.

On 4 January 2018, the Group entered into a hedging contract equating to production of 9,000 barrels of oil per day. The hedging contract is a zero-cost capped collar with a floor price of US$60.0/bbl. The Group has covered the cost of the floor price by selling a number of call options with different strike prices for each quarter: Q1:US$67.5/bbl, Q2:US$64.1/bbl, Q3:US$64.1/bbl, Q4:US$64.1/bbl. The amount of upside given away has been capped through the purchase of a number of call options with different strike prices: Q1:US$71.5/bbl, Q2:US$69.1/bbl, Q3:US$69.6/bbl, Q4:US$69.6/bbl. There were no upfront costs to the Group for the hedging contract. The hedging contract matures on 31 December 2018 and is settled in cash on a quarterly basis.

Gains and losses on the derivative financial instruments, which do not qualify for hedge accounting, are taken directly to profit or loss.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 26.

24. Related party transactions

For the purpose of these interim condensed consolidated financial statements transactions with related parties mainly comprise transactions between subsidiaries of the Company and the shareholders and/or their subsidiaries or associated companies.

Accounts receivable from and advances paid to related parties represented by entities controlled by shareholders with significant influence over the Group as at 31 March 2018 and 31 December 2017 consisted of the following:

In thousands of US dollars	**31 March 2018 (unaudited)**	31 December 2017 (audited)
Trade receivables and advances paid		
JSC OGCC KazStroyService	**8,398**	7,573

Accounts payable to related parties represented by entities controlled by shareholders with significant influence over the Group as at 31 March 2018 and 31 December 2017 consisted of the following:

In thousands of US dollars	**31 March 2018 (unaudited)**	31 December 2017 (audited)
Trade payables		
JSC OGCC KazStroyService	**10,464**	10,063

Notes to the interim condensed consolidated financial statements / continued

During the three months ended 31 March 2018 and 2017 the Group had the following transactions with related parties represented by entities controlled by shareholders with significant influence over the Group:

	Three months ended 31 March	
In thousands of US dollars	2018 (unaudited)	2017 (unaudited)
Purchases		
JSC OGCC KazStroyService	**3,871**	6,551
Management fees and consulting services		
Cervus Business Services	–	258
VWEW Advocaten VOF	–	1

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 seven supplemental agreements since 28 July 2014, the "Construction Contract").

The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 March 2018 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

During the three months ended 31 March 2018 management and consulting services were provided in accordance with business centre and consultancy agreements signed between members of the Group and Cervus Business Services BVBA and VWEW Advocaten VOF. Starting from April 2017 these entities ceased to be considered related parties in accordance with IAS 24 definitions.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$659 thousand for the three months ended 31 March 2018 (Q1 2017: US$940 thousand). There were no payments to key management personnel under ESOP for the three months ended 31 March 2018 (Q1 2017: US$531 thousand).

25. 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. 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 2.5. 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 March 2018. As at 31 March 2018 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 March 2018 the Group had contractual capital commitments in the amount of US$163,687 thousand (31 December 2017: US$139,462 thousand) mainly in respect to the Group's oil field exploration and development activities.

Operating lease

In 2010 the Group entered into several agreements on lease of 650 railway tank wagons for transportation of hydrocarbon products for a period of up to seven years for KZT 6,989 (equivalent of US$ 47) per day per one wagon. The lease agreements may be terminated early either upon mutual agreement of the parties, or unilaterally by one of the parties if the other party does not fulfil its obligations under the contract.

Notes to the interim condensed consolidated financial statements / continued

The total of future minimum lease payments under non-cancellable operating lease was represented as follows:

In thousands of US dollars	**31 March 2018 (unaudited)**	31 December 2017 (audited)
No later than one year	**5,756**	7,019
Later than one year and no later than five years	**15,865**	14,057

Lease expenses of railway tank wagons for the three months ended 31 March 2018 amounted to US$1,392 thousand (Q1 2017: US$2,269 thousand).

Social and education commitments

As required by the Contract (as amended by, inter alia, Supplement No. 14), the Group is obliged to:

- spend US$ 300 thousand per annum to finance social infrastructure;
- make an accrual of one percent per annum of the actual investments for the Chinarevskoye field for the purposes of educating Kazakh citizens; and
- 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.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on 26 December 2016) require the subsurface user to:

- spend US$ 1,000 thousand for funding of development of Astana city;
- reimburse historical costs of US$ 383 thousand to the Government upon commencement of production stage;
- fund liquidation expenses equal to US$ 96 thousand; and
- spend US$ 1,250 thousand to finance social infrastructure.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Darjinskoye field (after its amendment on 26 December 2016) require the subsurface user to:

- invest at least US$ 19,413 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US$ 112 thousand;

The outstanding obligations under the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on 26 December 2016) require the subsurface user to:

- invest at least US$ 26,142 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US$ 183 thousand;

Domestic oil sales

In accordance with Supplement # 7 to the Contract, Zhaikmunai LLP 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.

26. 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:

	Carrying amount		**Fair value**	
In thousands of US dollars	**31 March 2018 (unaudited)**	31 December 2017 (audited)	**31 March 2018 (unaudited)**	31 December 2017 (audited)
Financial liabilities measured at amortised cost				
Interest bearing borrowings	**(1,103,340)**	(1,087,068)	**(1,134,498)**	(1,141,803)
Finance lease liabilities	**(809)**	(810)	**(1,267)**	(1,267)
Derivative financial instruments	**(4,220)**	–	**(4,220)**	–
Total	**(1,112,589)**	(1,087,878)	**(1,144,205)**	(1,143,070)

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

Notes to the interim condensed consolidated financial statements / continued

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. The fair value of derivative financial instruments is categorised as Level 3 within the fair value hierarchy and is calculated using Black-Scholes valuation model based on Brent Crude Futures traded on the Intercontinental Exchange, with the relative expiration dates ranging from the current reporting date until December 2018.

The following table shows ranges of the inputs depending on maturity, which are used in the model for calculation of the fair value of the derivative financial instruments as at 31 March 2018:

	31 March 2018 (unaudited)
Future price at the reporting date (US$)	65.58-69.34
Expected volatility (%)	13.31-21.52
Risk-free interest rate (%)	1.70
Maturity (months)	3–9

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The following table reflects the results of the changes in volatilities and oil price assumptions on the fair value of the derivative financial instruments:

	Increase in the assumption	**Decrease in the assumption**
Increase/(decrease) in loss on derivative financial instruments due to change in oil price assumption (+/-US$2/bbl)	1,866	(2,218)
Increase/(decrease) in loss on derivative financial instruments due to change in volatility rate assumption (+/-2%)	(677)	655

There were no movements between levels of fair value of derivative instrument during three months ended 31 March 2018.

27. Events after the reporting period

No significant events have occurred after the reporting period.