Interim financial report

For the six months ended 30 June 2015

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Nostrum Oil & Gas PLC

Interim Management report

For the six months ended 30 June 2015

BUSINESS REVIEW

Some of the statements in this Interim Financial Report are forward-looking. Forward-looking statements include statements regarding the intent, belief and current expectations of the Group or its officers with respect to various matters. When used in this document, the words "expects," "believes," "anticipates," "plans," "may," "will," "should" and similar expressions, and the negatives thereof, are intended to identify forward-looking statements. Such statements are not promises or guarantees, and are subject to risks and uncertainties that could cause actual outcomes to differ materially from those suggested by any such statements.

Overview

Nostrum Oil & Gas PLC (the "Company" and together with its subsidiaries the "Group" or "Nostrum") is an independent oil and gas enterprise engaged in the exploration and production of hydrocarbons. Through its indirectly wholly-owned subsidiary Zhaikmunai LLP, Nostrum is the owner and operator of four fields in North-Western Kazakhstan: the Chinarevskoye production field and the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye exploration fields.

The Group's primary field and license area is the Chinarevskoye field, located in the northern part of the oil-rich Pre-Caspian Basin, close to the main international railway lines in and out of Kazakhstan as well as to several major oil and gas pipelines. Based on the 2014 Ryder Scott Report, as at 31 December 2014, the estimated gross proved plus probable hydrocarbon reserves at the Chinarevskoye field were 472.9 million boe, of which 197.6 million boe was crude oil and condensate, 68.3 million boe was liquefied petroleum gas ("LPG") and 207 million boe was sales gas.

Nostrum's exploration fields are located in the vicinity of Chinarevskoye field and according to the 2014 Ryder Scott Report, as at 31 December 2014, the estimated net probable hydrocarbon reserves at these three fields were 98.2 million boe.

Nostrum's operational facilities are located in the Chinarevskoye field and consist of an oil treatment unit capable of processing 400,000 tonnes of crude oil per year, multiple oil gathering and transportation lines including an oil pipeline from the field to its oil loading rail terminal in Rostoshi near Uralsk, a 17 kilometer gas pipeline from the field to the Orenburg-Novopskov pipeline, a gas powered electricity generation system, warehouse facilities, an employee field camp and a gas treatment facility with a throughput capacity of 1.7 billion cubic meters raw gas for the production of condensate, dry gas and LPG.

Nostrum's range of products includes crude oil, stabilized condensate, dry gas and LPG. The Group exports 100% of its condensate, and approximately 85-95% of its LPG. The Group sells 100% of its dry gas not used in production domestically in Kazakhstan at prices that are broadly in line with domestic gas prices. As for the crude oil, pursuant to the Production Sharing Agreement (the "PSA"), the Group is required to deliver 15% of its crude oil production sourced from wells in production in the domestic Kazakhstan market at government-regulated prices. The remainder of the Group's crude oil is free to be exported.

Business strategy

The Company is in a phase of consolidation at a production level of close to 50,000 boe/day until inception of an expansion of the gas treatment capacities for a total capacity up to 100,000 boe/day.

As stated in the Group's most recent annual report, Nostrum's long-term objective is to further consolidate its position as one of the leading independent oil and gas exploration and production companies in the former Soviet Union (FSU).

In pursuit of this objective the Group identifies the following key focus areas:

Delivering near term production growth

The Group aims to complete the construction of a third unit for the gas treatment facility (GTU3) in the vicinity of the existing two units by the end of 2016 and to more than double the Company's annual production from the 2014 level by the end of 2018.

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Appraising and developing near term projects

Over the last five years, drilling has focused mainly on production wells in order to secure feedstock for the gas treatment facility. Now the focus will be on transferring more of the Group's possible and probable reserves into proved reserves.

Exploration upside through M&A

The Group is also pursuing a strategy of growth through value-accretive acquisitions. This is in line with its desire to leverage existing infrastructure to add further reserves at low costs. The acquisition of the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields, all within a 120 kilometer radius of Chinarevskoye, represented the first such acquisition pursuant to this strategy. The acquisition of data on these three fields commenced in 2013.

The Group evaluates opportunities for acquisitive growth on a continuous basis, with a focus on North-Western Kazakhstan, where practicable, but it will also consider opportunities in the surrounding regions. Nostrum will continue to look for further acquisitions which have the potential to further improve shareholder value.

Linking corporate responsibility to the growth of the Company

The Group sees corporate social responsibility as an important indicator of non-financial risk and is regularly developing internal best practices to improve its standards. This is an important standalone part of Nostrum's strategy while it is also complementary to all of the other strategic initiatives. Sustainable development will remain a priority in the second half of 2015 and onwards.

Focusing on delivering shareholder value

The Group aims to strike a balance between reinvesting in future growth and returning cash to the shareholders.

Material events during the period

Distribution

On 26 June 2015, Nostrum Oil & Gas PLC made a distribution of US$0.27 per share to the shareholders.

OPERATIONAL AND FINANCIAL PERFORMANCE

Results of operations for the six months ended 30 June 2015 and 2014

The table below sets forth the line items of the Group's interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2015 and 2014 in US Dollars and as a percentage of revenue.

	Six months ended 30 June			
In thousands of US Dollars	**2015 (unaudited)**	**% of revenue**	**2014 (unaudited)**	**% of revenue**
Revenue	**274,053**	**100.0%**	444,977	100.0%
Cost of sales	**(100,766)**	**36.8%**	(98,549)	22.1%
Gross profit	**173,287**	**63.2%**	346,428	77.9%
General and administrative expenses	**(24,952)**	**9.1%**	(27,506)	6.2%
Selling and transportation expenses	**(52,614)**	**19.2%**	(63,505)	14.3%
Finance costs	**(24,055)**	**8.8%**	(35,749)	8.0%
Finance costs - reorganisation	**(1,053)**	**0.4%**	(16,575)	3.7%
Employee share option plan fair value adjustment	**(2,730)**	**1.0%**	(4,585)	1.0%
Foreign exchange loss, net	**(1,244)**	**0.5%**	(2,203)	0.5%
Loss on derivative financial instruments	**(3,776)**	**1.4%**	(6,126)	1.4%
Interest income	**111**	**0.0%**	680	0.2%
Other income	**2,999**	**1.1%**	2,988	0.7%
Other expenses	**(14,131)**	**5.2%**	(14,064)	3.2%
Profit before income tax	**51,842**	**18.9%**	179,783	40.4%
Income tax expense	**(36,609)**	**13.4%**	(88,025)	19.8%
Profit for the period	**15,233**	**5.6%**	91,758	20.6%

General note

For the six months ended 30 June 2015 (the "reporting period") realised profit decreased by US$76.5 million to US$15.2 million (H1 2014: US$91.8 million), which was mainly driven by decrease in the Group's revenue.

Revenue

The Group's revenue decreased by 38.4% to US$274.1 million for the reporting period (H1 2014: US$445.0). This is mainly explained by the decrease in the average Brent crude oil price from 108.8 US$/bbl during the first half of 2014 to 59.4 US$/bbl during the reporting period. 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.

Revenues from sales to the Group's largest three customers amounted to US$99.6 million, US$61.3 million and US$51.6 million respectively (H1 2014: US$181.8 million, US$77.1 million and US$52.6 million).

The Group's revenue breakdown by products and sales volumes for the reporting period and H1 2014 is presented below:

	Six months ended 30 June			
In thousands of US Dollars	**2015 (unaudited)**	**2014 (unaudited)**	**Variance**	**Variance, %**
Oil and gas condensate	**183,952**	353,510	*(169,558)*	*(48.0)%*
Gas and LPG	**90,101**	91,467	*(1,366)*	*(1.5)%*
Total revenue	**274,053**	444,977	*(170,924)*	*(38.4)%*
Sales volumes (boe)	**7,832,609**	8,175,413	*(342,804)*	*(4.2)%*
Average Brent crude oil price (US$/bbl)	**59.4**	108.8		

The following table shows the Group's revenue breakdown by export/domestic sales for the reporting period and H1 2014:

In thousands of US Dollars	Six months ended 30 June 2015 (unaudited)	2014 (unaudited)	Variance	Variance, %
Revenue from export sales	**259,348**	389,919	*(130,571)*	*(33.5)%*
Revenue from domestic sales	**14,705**	55,058	*(40,353)*	*(73.3)%*
Total	**274,053**	444,977	*(170,924)*	*(38.4)%*

Cost of sales

In thousands of US Dollars	Six months ended 30 June 2015 (unaudited)	2014 (unaudited)	Variance	Variance, %
Depreciation, depletion and amortisation	**56,055**	56,679	*(624)*	*(1.1)%*
Repair, maintenance and other services	**14,050**	17,934	*(3,884)*	*(21.7)%*
Payroll and related taxes	**10,038**	9,814	*224*	*2.3%*
Royalties	**9,772**	10,381	*(609)*	*(5.9)%*
Materials and supplies	**3,668**	4,739	*(1,071)*	*(22.6)%*
Well workover costs	**1,874**	3,773	*(1,899)*	*(50.3)%*
Other transportation services	**1,258**	1,463	*(205)*	*(14.0)%*
Government profit share	**1,251**	(7,950)	*9,201*	*115.7%*
Environmental levies	**1,007**	626	*381*	*60.9%*
Stock value adjustment	**277**	(727)	*1,004*	*138.1%*
Other	**1,516**	1,817	*(301)*	*(16.6)%*
Total	**100,766**	98,549	*2,217*	*2.2%*

Cost of sales increased by 2.2% to US$100.8 million for the reporting period (H1 2014: US$98.5 million). The increase is primarily explained by the change in government profit share referred to below, partially offset by decreases in repair, maintenance and other services, materials and supplies and well workover costs. On a boe basis, cost of sales increased marginally by US$0.81 or 6.7% to US$12.86 for the reporting period (H1 2014: US$12.05) and cost of sales net of depreciation per boe increased by US$0.59, or 11.5%, to US$5.71 (H1 2014: US$5.12).

Depreciation, depletion and amortisation decreased marginally by 1.1% to US$56.1 million for the reporting period (H1 2014: US$56.7 million). Depreciation is calculated with units of production method. The fact that depreciation is almost the same for H1 2014 and the reporting period is a consequence of the ratio between the volume produced and the proven developed reserves for both years being almost equal.

Repair, maintenance and other services decreased by 21.7% to US$14.1 million for the reporting period (H1 2014: US$17.9 million). These expenses include maintenance expenses related to the gas treatment facility and other facilities of the Group, engineering and geophysical study expenses. These costs fluctuate depending on the planned works on certain objects.

Royalties, which are calculated on the basis of production and market prices for the different products, decreased by 5.9% to US$9.8 million for the reporting period (H1 2014: US$10.4 million). This decrease follows the decline of revenues for sold products.

Materials and supplies expenses decreased by 22.6% to US$3.7 million for the reporting period (H1 2014: US$4.7 million). This decrease resulted from less need for spare parts and other materials for repairs and maintenance of the facilities, specifically for the gas treatment facility and wells.

Well workover costs decreased by 50.3% to US$1.9 million for the reporting period (H1 2014: US$3.8 million). The decrease resulted from adjustments to the drilling and workover programme.

Costs for government profit share increased by US$9.2 million to US$1.3 million for the reporting period (H1 2014: credit of US$8.0 million). The increase resulted from the H1 2014 government profit share being affected by a US$ 22.2 million reversal.

General and administrative expenses

	Six months ended 30 June			
In thousands of US Dollars	**2015 (unaudited)**	**2014 (unaudited)**	**Variance**	**Variance, %**
Payroll and related taxes	**9,238**	6,632	*2,606*	*39.3%*
Professional services	**6,178**	10,869	*(4,691)*	*(43.2)%*
Business travel	**2,706**	2,854	*(148)*	*(5.2)%*
Training	**1,767**	1,389	*378*	*27.2%*
Sponsorship	**867**	1,032	*(165)*	*(16.0)%*
Depreciation and amortization	**832**	658	*174*	*26.4%*
Insurance fees	**818**	785	*33*	*4.2%*
Communication	**442**	654	*(212)*	*(32.4)%*
Lease payments	**404**	336	*68*	*20.2%*
Bank charges	**315**	367	*(52)*	*(14.2)%*
Materials and supplies	**303**	259	*44*	*17.0%*
Other taxes	**220**	73	*147*	*201.4%*
Social program	**150**	150	*–*	*0.0%*
Management fees	**–**	682	*(682)*	*(100.0)%*
Other	**712**	766	*(54)*	*(7.0)%*
Total	**24,952**	27,506	*(2,554)*	*(9.3)%*

General and administrative expenses decreased by 9.3% to US$25.0 million for the reporting period (H1 2014: US$27.5 million). This was primarily due to decrease in legal services and other consultancy fees, offset by an increase in payroll and related taxes driven partly by the agreement on 19 May 2014 to acquire Nostrum Services BVBA (formely Prolag BVBA) and Nostrum Services Central Asia LLP (formely Amersham Oil LLP), which led to the elimination of intercompany management fees, decrease in consultancy fees and recognition of those expenses as payroll and related taxes.

Selling and transportation expenses

	Six months ended 30 June			
In thousands of US Dollars	**2015 (unaudited)**	**2014 (unaudited)**	**Variance**	**Variance, %**
Transportation costs	**26,835**	29,198	*(2,363)*	*(8.1)%*
Loading and storage costs	**22,249**	24,137	*(1,888)*	*(7.8)%*
Payroll and related taxes	**1,036**	1,057	*(21)*	*(2.0)%*
Management fees	**69**	–	*69*	-
Other	**2,425**	9,113	*(6,688)*	*(73.4)%*
Total	**52,614**	63,505	*(10,891)*	*(17.2)%*

Selling and transportation expenses decreased by 17.2% to US$52.6 million for the reporting period (H1 2014: US$63.5 million), due primarily to decreases in rail tariffs and rail tank car (RTC) leasing costs.

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Finance costs

	Six months ended 30 June			
In thousands of US Dollars	**2015 (unaudited)**	**2014 (unaudited)**	**Variance**	**Variance, %**
Interest expense on borrowings	**23,558**	34,701	*(11,143)*	*(32.1)%*
Unwinding of discount on amounts Due to Government	**386**	401	*(15)*	*(3.7)%*
Unwinding of discount on Abandonment and site restoration provision	**111**	647	*(536)*	*(82.8)%*
Total	**24,055**	35,749	*(11,694)*	*(32.7)%*

Finance costs decreased by 32.7% to US$24.1 million for the reporting period (H1 2014: US$35.7 million). These costs were higher in H1 2014 due primarily to the expenses relating to the early redemption of the Notes issued in 2010 and the amortisation of the remainder of transaction cost, incurred for the issuance of these Notes.

Finance costs – reorganisation

The "finance costs – reorganisation" are represented by the costs associated with introduction of the Nostrum Oil & Gas PLC as the new holding company of the Group and respective reorganisation that took place in June 2014.

Other

Foreign exchange losses amounted to US$1.2 million for the reporting period (H1 2014: US$2.2 million). Higher losses in H1 2014 are explained by the fact that on 11 February 2014 the Tenge was devalued against the US Dollar and other major currencies. The exchange rates before and after devaluation were 155 Tenge/US Dollar and 185 Tenge/US Dollar respectively. Since the Group had a net asset position of Tenge denominated accounts around this date, the devaluation of the Tenge resulted in a significant foreign exchange loss recognised in the reporting period.

Other expenses increased marginally by 0.5% to US$14.1 million for the reporting period (H1 2014: US$14.1 million). Other expenses mainly represent export duties paid by the Group. The export duties represent custom duties for the export of crude oil and customs fees for services such as processing of declarations, temporary warehousing etc. The Kazakhstan customs authorities, based on their interpretation of CIS free-trade legislation, imposed custom duties on oil exports from Kazakhstan to Ukraine that began in December 2012.

Income tax expense decreased by 58.4% to US$36.6 million for the reporting period (H1 2014: US$88.0 million). The decrease in income tax expense was primarily driven by lower taxable profit.

Liquidity and Capital Resources

During the period under review, Nostrum's principal sources of funds were cash from operations and amounts raised under the 2012 Notes and the 2014 Notes. Its liquidity requirements primarily relate to meeting ongoing debt service obligations (under the 2012 Notes and the 2014 Notes) and to funding capital expenditures and working capital requirements.

Cash Flows

The following table sets forth the Group's consolidated cash flow statement data for the reporting period and H1 2014:

In thousands of US Dollars	Six months ended 30 June 2015	2014
Cash and equivalents at the beginning of the period	**375,443**	184,914
Net cash flows from operating activities	**55,615**	177,310
Net cash used in investing activities[1]	**(151,840)**	(123,301)
Net cash from / (used in) financing activities	**(83,120)**	194,815
Effects of exchange rate changes on cash and cash equivalents	**(38)**	(515)
Cash and equivalents at the end of the period	**196,060**	433,223

[1] Net cash used in investing activities during the six months ended 30 June 2015 and 2014 includes the redemption of bank deposit in the amount of US$25 million, and the placement of bank deposits in the amount of US$25 million and US$17 million. These deposits were not included in cash and cash equivalents since they were expected to mature in more than three months after the end of the respective reporting date.

Net cash flows from operating activities

Net cash flow from operating activities was US$55.6 million for the reporting period (H1 2014: US$177.3 million) and was primarily attributable to:

- profit before income tax for the reporting period of US$51.8 million (H1 2014: US$179.8 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US$56.9 million (H1 2014: US$57.3 million), and finance costs of US$24.1 million (H1 2014: US$35.7 million).
- a US$53.3 million change in working capital (H1 2014: US$54.7 million) primarily attributable to an increase in trade receivables of US$61.7 million (H1 2014: an increase of US$40.7 million), a decrease in prepayments and other current assets of US$4.6 million (H1 2014: an increase of US$13.3 million), an increase in trade payables of US$10.3 (H1 2014: an increase of US$18.6 million) and a decrease in other current liabilities of US$2.6 million (H1 2014: a decrease of US$23.0 million).
- income tax paid of US$31.9 million (H1 2014: US$58.8 million).

Net cash used in investing activities

The substantial portion of cash used in investing activities is related to the drilling programme and the construction of a third unit for the gas treatment facility.

Net cash used in investing activities for the reporting period was US$151.8 million (H1 2014: US$123.3 million) due primarily to costs associated with the drilling of new wells of US$42.3 million for the reporting period (H1 2014: US$84.4 million), costs associated with the third gas treatment unit of US$48.7 million (H1 2014: US$43.5 million), costs associated with Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields of US$3.5 million (H1 2014: US$6.4 million) and placement of US$42.0 million of bank deposits, partially offset by the redemption of US$25.0 million of cash deposits (H1 2014: redemption of US$30.0 million of bank deposits).

Net cash (used in)/provided by financing activities

Net cash used in financing activities during the reporting period was US$83.1 million, and was mainly represented by the payment of US$49.1 million in distributions and the finance costs paid on the Group’s 2012 Notes and 2014 Notes. Net cash provided by financing activities during H1 2014 was US$194.8 million, which was primarily attributable to the issue of the 2014 Notes amounting to US$400.0 million, offset by an early redemption of the 2010 Notes amounting to US$92.5 million, payment of US$60.0 million in distributions and the finance costs paid on the Group’s 2010 Notes, 2012 Notes and 2014 Notes.

Commitments

Liquidity risk is the risk that the Group will encounter difficulty raising funds to meet commitments associated with its financial liabilities. Liquidity requirements are monitored on a regular basis and management seeks to ensure that sufficient funds are available to meet any commitments as they arise. The table below summarises the maturity profile of the Group’s financial liabilities as at 30 June 2015 based on contractual undiscounted payments:

	Six months ended 30 June					
	On demand	**Less than 3 months**	**3-12 months**	**1-5 years**	**more than 5 years**	**Total**
Borrowings	–	12,750	52,650	1,188,789	–	**1,254,189**
Trade Payables	55,839	–	–	–	–	**55,839**
Other current financial liabilities	18,022	–	–	–	–	**18,022**
Due to the government of Kazakhstan	–	258	773	4,124	10,825	**15,980**
Total	**73,861**	**13,008**	**53,423**	**1,192,913**	**10,825**	**1,344,030**

Capital Commitments

During the reporting period, Nostrum's cash used in capital expenditures for purchase of property, plant and equipment (excluding VAT) was approximately US$131.3 million (H1 2014: US$147.6 million). This reflects drilling costs, field infrastructure development projects and development costs for the oil treatment unit and the gas treatment facility.

Drilling

Drilling expenditures amounted to US$40.5 million for the reporting period (H1 2014: US$84.4 million).

Gas Treatment Facility

Following the successful completion of the first phase of the gas treatment facility, consisting of two units, the Group is constructing a third unit for it. The construction of GTU3 is important for implementing the Group's strategy to increase operating capacity and production of liquid hydrocarbons. Management estimates, based on the production profile of both proved and probable reserves reported in the 2014 Ryder Scott Report and assuming the successful completion of the second phase of the gas treatment facility in 2016, that the Company's annual production will more than double from the 2014 annual production (with an average of 46,569 boepd in 2014) by the end of 2018.

Total costs for the completion of GTU3 are estimated to be not more than US$500 million (US$90.8 million of which had already been incurred as at 30 June 2015).

Primary Factors Affecting Results of Operations

The primary factors affecting the Group's results of operations during the reporting period are the following:

Pricing

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 pricing of the Group's dry gas is related to domestic Kazakh prices for gas. Since H1 2014, the price of Brent crude oil experienced significant fluctuations. According to Bloomberg, international Brent oil prices have varied between a low of approximately US$104.8 per barrel and a high of approximately US$115.1 per barrel in the first half of 2014, and between US$45.2 per barrel and US$69.6 per barrel during the reporting period.

	Six months ended 30 June	
	2015	**2014**
Average Brent crude oil price (US$/bbl)	**59.4**	108.8

The Group has a hedging policy whereby it hedges against adverse oil price movements during times of considerable non scalable capital expenditure. Based on the contracts Zhaikmunai LLP has entered into with various equipment suppliers for the third gas treatment unit and the fact that further contracts will be entered into in the next several months, Nostrum is closely monitoring the hedging market. On 3 March 2014, in accordance with its hedging policy, Zhaikmunai LLP entered, at nil upfront cost, into a hedging contract covering oil sales of 7,500 bbls/day, or a total of 5,482,500 bbls running through 29 February 2016. The counterparty to the hedging agreement was Citibank. Based on the hedging contract Zhaikmunai LLP bought a put at $85/bbl, which protected it against any fall in the price of oil below $85/bbl. As part of this contract Zhaikmunai LLP also sold a call at $111.5/bbl and bought a call at $117.5/bbl which further allowed Zhaikmunai LLP to benefit from oil prices up to $111.5/bbl and above $117.5/bbl.

Production

The Group's results from operations are directly affected by production because, except for a portion of the dry gas that is utilised in the operations of the gas treatment facility, all of Nostrum's production is sold. The table below sets forth Nostrum's production for the reporting period and H1 2014.

	Six months ended 30 June			
	2015	**2014**	**Variance (boepd)**	**Variance (%)**
Total average production (boepd)	**44,337**	**46,569**	(2,232)	(4.8)%
Total production (boe)	**8,025,041**	**8,428,745**	(403,704)	(4.8)%

Cost of sales

The Group's oil and gas prices are based on a mix of fixed and quotation pricing, and therefore Nostrum's ability to control costs is critical to its profitability. Nostrum's cost of sales comprise various costs including depreciation of oil and gas properties, repair, maintenance and other services, royalties, payroll and related taxes, materials and supplies, other transportation services, government profit share, environmental levies, and well workover costs.

Depreciation and amortisation costs represent 55.6% of total cost of sales for the reporting period (H1 2014: 57.5%). These costs fluctuate according to the level of Nostrum's proved developed reserves, the volume of oil and gas it produces and the net book value of its oil and gas properties.

Repair, maintenance and other services are related to the repair and maintenance of the Group's infrastructure, including the gas treatment facility but do not include ongoing repair and maintenance of production and exploration wells. These costs represent 13.9% of the total costs of sales (H1 2014: 18.2%) and fluctuate depending on the planned works on certain objects.

Well workover costs are related to ongoing repair and maintenance of production and exploration wells. These costs, during the periods under review, have represented as a percentage of total cost of sales 1.9% and 3.8% for the six months ended 30 June 2015 and 2014, respectively.

Finance costs

Finance costs in the reporting period consisted of interest expenses in relation to the 2012 Notes issued by Zhaikmunai International B.V. in November 2012 and the 2014 Notes issued by Nostrum Oil & Gas Finance B.V. in February 2014, unwinding of discount on amounts due to the Kazakh Government and unwinding of discount on abandonment and site restoration liability.

Interest expense in the H1 2014 consisted of interest on the 2010 Notes, 2012 Notes, the 2014 Notes and an early redemption premium related to the 2010 Notes repayment. Interest expense in the reporting period consisted solely of interest on the 2012 Notes and 2014 Notes. Capitalised borrowing costs (including a portion of the interest expense and amortisation of the arrangement fees) amounted to US$12.3 million in the reporting period (H1 2014: US$7.4 million). Non-capitalised interest amounted to US$23.6 million in the reporting period (six months ended 30 June 2014: US$34.7 million).

Royalties, Government Share and Taxes payable pursuant to the PSA

Nostrum operates and produces pursuant to the PSA. The PSA has, during the periods under review, and will continue to have both a positive and negative effect on Nostrum's results of operations as a result of (i) the tax regime applicable to Nostrum under the PSA (discussed below) (ii) increasing royalty expenses payable to the State, (iii) the share of profit oil and the share of gas that Nostrum pays to the State and (iv) recovery bonus payable to the State.

Under the PSA, the Kazakh tax regime that was in place in 1997 applies to the Group for the entire term of the PSA and the Licence (as to VAT and social tax, the regime that was in place as of 1 July 2001 applies). As of 1 January

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2009, the new Tax Code became effective and introduced a new tax regime and taxes applicable to subsoil users (including oil mineral extraction tax and historical cost). However, the Tax Code did not supersede the previous tax regime applicable to PSAs entered into before 1 January 2009, which continue to be effective under Articles 308 and 308-1 of the Tax Code. Despite the stabilisation clauses (providing for general and tax stability) provided for by the PSA, in 2008, in 2010 and again in 2013, Nostrum was required to pay new crude oil export duties introduced by the Kazakh Government. Despite Nostrum's efforts to show that the new export duties were not applicable to it, the State authorities did not accept this position and Nostrum was required to pay the export duties. During January 2009, the Kazakh Government revised and established the rate of the export duties at US$nil per tonne of crude oil, but reimposed a US$20 per tonne duty in August 2010, which was increased to US$40 per tonne in January 2011, to US$60 per tonne in April 2013 and to US$80 per tonne in March 2014 and was decreased to US$60 per tonne in March 2015.

For the purposes of corporate income tax from 1 January 2007, the Group considers its revenue from oil and gas sales related to the Tournaisian horizon as taxable revenue and its expenses related to the Tournaisian horizon as deductible expenses, except those expenses which are not deductible in accordance with the tax legislation of Kazakhstan. Assets related to the Tournaisian reservoir that were acquired during the exploration phase are then depreciated for tax purposes at a maximum rate of 25% per annum. Assets related to the Tournaisian reservoir that were acquired after the commencement of the production phase are subject to the depreciation rate in accordance with the 1997 Kazakh tax regime, which is between 5% and 25% depending on the nature of the asset. Under the PSA, the exploration phase for the remainder of the Chinarevskoye Field expired in May 2014 and a further extension has been applied for. Assets related to the other horizons will depreciate in the same manner as those described above for the Tournaisian reservoir.

Under the PSA, Nostrum is obliged to pay to the State royalties on the volumes of crude oil and gas produced, with the royalty rate increasing as the volume of hydrocarbons produced increases. In addition, Nostrum is required to deliver a share of its monthly production to the State (or make a payment in lieu of such delivery). The share to be delivered to the State also increases as annual production levels increase. Pursuant to the PSA, the Group is currently able to effectively deduct a significant proportion of production (known as Cost Oil) from the sharing arrangement. Cost Oil reflects the deductible capital and operating expenditures incurred by the Group in relation to its operations. Royalties represented 9.7% of total cost of sales for the reporting period (H1 2014: 10.5%). As for the government profit share, it represented 1.2% of total cost of sales for the reporting period, during the same period in 2014 it amounted to a credit of US$8.0 million mainly due to the fact that the Group adopted a new work program for oilfield operations and changed the coefficient of natural gas equivalent leading to a reversal of the expense in the amount of US$22.2 million related to prior periods.

RELATED PARTIES AND RELATED PARTY TRANSACTIONS

The following is a description of the material transactions with related parties to which the Company or its subsidiaries are a party. The Company believes that it has executed all of its transactions with related parties on terms no less favourable to the Group than those it could have obtained from unaffiliated third parties.

Save as disclosed below and in the Note 21 to the interim condensed consolidated financial statements, there were no related party transactions entered into during the reporting period.

On 20 February 2015 the acquisition of Nostrum Services Central Asia LLP (formerly Amersham Oil LLP) by Nostrum Oil Coöperatief U.A. ("Co-op") was completed. The amount of the price adjustment with respect to the acquisition was determined as US$387 thousand on 18 May 2015 and paid on 19 May 2015.

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PRINCIPAL RISKS AND UNCERTAINTIES

Key risks are reviewed by the executive committee and the Board of Nostrum Oil & Gas PLC on a regular basis and where appropriate, actions are taken to mitigate the key risks that are identified.

The key risks and uncertainties are unchanged from those disclosed in the Group's 2014 Annual Report. The Group believes that its principal risks and uncertainties for the remaining six months are:

Principal financial risks and uncertainties

Strategic risks	Description of risk	Risk management
Development projects	The Group's planned development projects, in particular GTU3 and well drilling, are subject to customary risks related to delay, non-completion and cost overruns, which could impact future production.	The Group has formed an experienced project management team and expects to benefit from the technical expertise and significant experience gained from the construction of GTU1 and GTU2 in the construction of GTU3. The project management team reports on a monthly basis to senior management and the Board on the progress of engineering, procurement and construction. The Group has concluded the majority of the procurement process in relation to GTU3 and monitors logistics, engineering, the expedition of materials and equipment on an on-going basis. JSC "OGCC KazStroyService" has been engaged to construct GTU-3, having gained experience on similar projects including GTU-1 and GTU-2 and other large projects in Kazakhstan. Senior management and the Board constantly monitor the timing, scope and performance of the drilling programme and tailor it taking into account the status of the GTU3 project and current oil prices. For each well a detailed drilling programme is approved by management, which is the basis against which the progress of works and costs are reported.
Commodity price risk	The Group is exposed to the risk that its future earnings will be adversely impacted by changes in the market price of crude oil, given that all sales prices of crude oil and condensate are based on market prices. Crude oil prices are influenced by factors such as OPEC actions, political events and supply and demand fundamentals. The Group could also be compelled by governmental authorities, purportedly acting based on Kazakh legislation, to sell its gas domestically at prices determined by the Kazakh government, which could be significantly lower than prices which the Group could otherwise achieve.	The Group's hedging policy is that, upon entering into longer term non-scalable capital expenditure commitments, it will hedge up to a maximum of 70% of its liquids production. On 14 February 2014, Nostrum entered into a hedging contract covering 7,500 boepd (total of 5,482,500 boe) running through 29 February 2016 at nil upfront cost. Under this contract, a put was bought at US$85/bbl which protects against any fall in the price of oil below US$85/bbl. Senior management and the Board constantly monitor the timing, scope and performance of the drilling programme taking into account the oil price development. In 2015 the Group started exporting the majority of its dry gas

		under a new contract. The export prices are usually substantially higher than domestic prices.
Operational risks	Description of risk	Risk management
Single revenue source and business interruption	The Group's activities in the Chinarevskoye oil and gas condensate field are currently the Group's sole source of revenue.	The Group has a team of dedicated specialists who assess possible acquisitions of oil and gas fields and assets. In 2013 the Group acquired subsoil use rights for three oil and gas fields near the Chinarevskoye field. In 2015, the Group plans to drill one appraisal well in the Rostoshinskoye field, while drilling of appraisal wells in the other two fields is scaled back due to the low oil price environment. The supplementary agreement for the Rostoshinskoye field has been signed extending the exploration period until February 2017. In addition during 2015 Nostrum made an approach to the board of Tethys Petroleum Limited regarding a possible offer to acquire the company.
Estimation of oil and gas reserves	The Group is subject to the risk that if there are inaccurate assessments and overstatement of the oil and gas reserves the Group's non-current assets and goodwill may be overstated or impaired. This may also be a consequence of unsuccessful exploration of the new fields and may also result in inappropriate decision-making.	The Group has a department of highly skilled geologists, who perform periodic assessments of the oil and gas reserves in accordance with international standards on reserve estimations. The results of the assessments are audited by the Group's independent reserve auditor, Ryder Scott.
Compliance risks	Description of risk	Risk management
Subsoil use agreements	The Group may have disagreements with the Kazakh government regarding its subsoil operations or compliance with the terms of its subsoil use agreements.	The Group believes that it is in full compliance with the terms of its PSA for the Chinarevskoye Field and maintains an open dialogue with Kazakh governmental authorities regarding all of its subsoil use agreements. In the event of non-compliance with a provision of any such agreement the Group endeavours to have such term modified and pays any penalties and fines that may apply.
Environmental compliance	The legal framework for environmental protection and operational safety is not yet fully developed in Kazakhstan and, given the changing nature of environmental regulations, there is a risk that the Group will not be in full compliance with all such regulations at all times.	The Group has further strengthened its QHSE department during 2015. The Group's QHSE policies are periodically revised to ensure compliance with changes and new requirements in this area. Key indicators such as GHG emissions, lost-time injuries, waste management, etc., as well as progress of work is reported to senior management on a monthly basis. Periodic training on the requirements of policies and regulations are held for employees. The Group is working towards obtaining ISO

		14001 Environmental Management Systems and ISO 50001 Energy Management Systems certification. The Group also regularly commissions independent environmental audits to monitor its compliance and best practice in this area.
Perceived risk of non-compliance with anti-bribery legislation	There is a risk that the Group's employees will unintentionally or deliberately take actions prohibited by anti-bribery legislation given the perceived heightened risk in the jurisdiction in which the Group operates.	The Group has adopted an anti-bribery and corruption policy, and has included a provision on this subject in the Group's Code of Conduct and conducted training for employees in relation to their obligations in this area.
Financial risks	Description of risk	Risk management
Tax law uncertainty	The uncertainty of application, including retroactive application, of tax laws and the evolution of tax laws in Kazakhstan create a risk of additional payments of tax from assessments which the Group believes are inapplicable to it.	The Group regularly challenges, either with the Kazakh tax authorities or through the Kazakh courts, tax assessments that it believes are inapplicable to it, either pursuant to the terms of its subsoil use agreements or applicable law.
Going concern and liquidity risk	The Group is subject to the risk of encountering difficulties in raising funds to meet commitments associated with its financial liabilities and respective inappropriateness of going concern assumptions.	Liquidity requirements are monitored on a monthly basis and management ensures that sufficient funds are available to meet any commitments as they arise. The treasury policy requires the Group to maintain a minimum level of cash of US$50 million.

The risks listed above do not comprise all those associated with the Group's business and are not set out in any order of priority. Additional risks and uncertainties not presently known to management, or currently deemed to be less material, may also have an adverse effect on the Group's business. The risks listed above are continuously monitored by the management team and assessed when making business decisions.

GOING CONCERN

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 statement.

Interim management report

RESPONSIBILITY STATEMENT

To the best of our knowledge

a) the interim condensed set of financial statements, which has been prepared in accordance with the International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4 R;

b) the interim management report includes a fair review of the information required by DTR 4.2.7 R; and

c) the interim management report includes a fair review of the information required by DTR 4.2.8 R.

Kai-Uwe Kessel

Chief Executive Officer

Jan-Ru Muller

Chief Financial Officer

Nostrum Oil & Gas PLC

Interim condensed consolidated financial statements (unaudited)

For the six months ended 30 June 2015

INDEPENDENT REVIEW REPORT TO NOSTRUM OIL & GAS PLC

Introduction

We have been engaged by Nostrum Oil & Gas plc to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015, which comprises the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of financial position, the interim condensed consolidated statement of cash flows, the interim condensed consolidated statement of changes in equity and the related explanatory notes 1 to 24. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements (ISRE) 2410 (UK and Ireland) 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board (ISRE 2410). To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Director' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

London

Date

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2015

In thousands of US Dollars	**Notes**	**30 June 2015 (unaudited)**	31 December 2014 (audited)
ASSETS			
Non-current assets			
Exploration and evaluation assets	**3**	**25,432**	24,380
Goodwill		**32,425**	32,425
Property, plant and equipment	**4**	**1,512,080**	1,442,157
Restricted cash	**8**	**5,287**	5,024
Advances for non-current assets	**5**	**147,416**	134,355
Derivative financial instruments		**–**	60,301
		1,722,640	1,698,642
Current assets			
Inventories		**26,413**	25,443
Trade receivables	**6**	**91,765**	30,110
Prepayments and other current assets		**35,049**	39,642
Derivative financial instruments		**56,525**	–
Income tax prepayment		**5,586**	13,925
Current investments	**7**	**42,000**	25,000
Cash and cash equivalents	**8**	**196,060**	375,443
		453,398	509,563
TOTAL ASSETS		**2,176,038**	2,208,205
EQUITY AND LIABILITIES			
Share capital and reserves	**9,10**		
Share capital		**3,203**	3,203
Treasury capital		**(1,888)**	(1,888)
Retained earnings and reserves		**882,524**	916,365
		883,839	917,680
Non-current liabilities			
Long-term borrowings	**11**	**933,280**	930,090
Abandonment and site restoration provision		**20,991**	20,877
Due to Government of Kazakhstan		**5,777**	5,906
Deferred tax liability		**203,184**	206,784
		1,163,232	1,163,657
Current liabilities			
Current portion of long-term borrowings	**11**	**14,913**	15,024
Employee share option plan liability		**9,179**	6,449
Trade payables		**55,839**	49,619
Advances received		**245**	2,670
Income tax payable		**1,412**	1,459
Current portion of Due to Government of Kazakhstan		**1,031**	1,031
Other current liabilities	**12**	**46,348**	50,616
		128,967	126,868
TOTAL EQUITY AND LIABILITIES		**2,176,038**	2,208,205

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

Jan-Ru Muller
Chief Financial Officer

Interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2015

		Six months ended 30 June	
In thousands of US Dollars	**Notes**	**2015 (unaudited)**	2014 (unaudited)
Revenue			
Revenue from export sales		**259,348**	389,919
Revenue from domestic sales		**14,705**	55,058
	13	**274,053**	444,977
Cost of sales	**14**	**(100,766)**	(98,549)
Gross profit		**173,287**	346,428
General and administrative expenses	**15**	**(24,952)**	(27,506)
Selling and transportation expenses	**16**	**(52,614)**	(63,505)
Finance costs	**17**	**(24,055)**	(35,749)
Finance costs - reorganisation		**(1,053)**	(16,575)
Employee share option plan fair value adjustment	**18**	**(2,730)**	(4,585)
Foreign exchange loss, net		**(1,244)**	(2,203)
Loss on derivative financial instruments	**19**	**(3,776)**	(6,126)
Interest income		**111**	680
Other income		**2,999**	2,988
Other expenses		**(14,131)**	(14,064)
Profit before income tax		**51,842**	179,783
Income tax expense	**20**	**(36,609)**	(88,025)
Profit for the period		**15,233**	91,758
Total comprehensive income for the period		**15,233**	91,758
Profit for the period attributable to the holders of Common Units/shares (in thousands of US Dollars)		**15,233**	91,758
Weighted average number of Common Units/shares		**184,828,819**	184,551,496
Basic and diluted earnings per Common Unit/share (in US Dollars)		**0.08**	0.50

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2015

		Six months ended 30 June	
In thousands of US Dollars	**Notes**	**2015 (unaudited)**	2014 (unaudited)
Cash flow from operating activities:			
Profit before income tax		**51,842**	179,783
Adjustments for:			
Depreciation, depletion and amortisation	**14,15**	**56,887**	57,337
Finance costs - reorganisation		**1,053**	16,575
Finance costs	**17**	**24,055**	35,749
Employee share option plan fair value adjustment		**2,730**	–
Interest income		**(111)**	(680)
Foreign exchange gain on investing and financing activities		**(93)**	(4,152)
Loss on disposal of property, plant and equipment		**7**	33
Loss on derivative financial instruments	**19**	**3,776**	6,126
Accrued expenses		**625**	–
Operating profit before working capital changes		**140,771**	290,771
Changes in working capital:			
Change in inventories		**(970)**	(1,404)
Change in trade receivables		**(61,655)**	(40,677)
Change in prepayments and other current assets		**4,593**	(13,348)
Change in trade payables		**10,300**	18,595
Change in advances received		**(2,425)**	1,182
Change in due to Government of Kazakhstan		**(515)**	(516)
Change in other current liabilities		**(2,612)**	(23,035)
Payments under Employee share option plan		**–**	4,506
Cash generated from operations		**87,487**	236,074
Income tax paid		**(31,872)**	(58,764)
Net cash flows from operating activities		**55,615**	177,310
Cash flow from investing activities:			
Interest received		**111**	680
Purchase of property, plant and equipment		**(131,337)**	(147,601)
Purchase of exploration and evaluation assets		**(1,318)**	(6,380)
Acquisition of subsidiaries		**(2,296)**	–
Placement of bank deposits		**(42,000)**	–
Redemption of bank deposits		**25,000**	30,000
Net cash used in investing activities		**(151,840)**	(123,301)
Cash flow from financing activities:			
Finance costs paid		**(32,809)**	(29,639)
Issue of notes	**11**	**–**	400,000
Expenses paid on arrangement of notes		**–**	(6,525)
Repayment of notes		**–**	(92,505)
Transfer to restricted cash		**(264)**	(402)
Treasury shares sold/(purchased)		**–**	440
Distributions paid	**9,10**	**(49,060)**	(59,979)
Funds borrowed - reorganisation		**–**	2,350,405
Funds repaid - reorganisation		**–**	(2,350,405)
Finance costs - reorganisation		**(987)**	(16,575)
Net cash from / (used in) financing activities		**(83,120)**	194,815
Effects of exchange rate changes on cash and cash equivalents		**(38)**	(515)
Net increase/(decrease) in cash and cash equivalents		**(179,383)**	248,309
Cash and cash equivalents at the beginning of the period	**8**	**375,443**	184,914
Cash and cash equivalents at the end of the period	**8**	**196,060**	433,223

Interim condensed consolidated financial statements

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2015

In thousands of US Dollars	Notes	Share capital	Share premium	Partnership capital	Treasury capital	Additional paid-in capital	Other reserves	Retained earnings	Total
As at 1 January 2014 (audited)		**–**	**–**	**380,874**	**(30,751)**	**8,126**	**3,437**	**470,765**	**832,451**
Profit for the period		–	–	–	–	–	–	91,758	91,758
Total comprehensive income for the period		**–**	**–**	**–**	**–**	**–**	**–**	**91,758**	**91,758**
Sale of treasury capital (GDRs)		–	–	–	440	769	–	–	1,209
Profit distribution		–	–	–	–	–	–	(64,615)	(64,615)
Group reorganisation:									
Replacement of GDRs		–	–	(380,874)	30,311	(8,895)	255,459	–	(103,999)
Issue of share capital		3,203	102,797	–	(2,001)	–	–	–	103,999
Effect of the Group reorganisation		**3,203**	**102,797**	**(380,874)**	**28,310**	**(8,895)**	**255,459**	**–**	**–**
As at 30 June 2014 (unaudited)		**3,203**	**102,797**	**–**	**(2,001)**	**–**	**258,896**	**497,908**	**860,803**
Profit for the period		–	–	–	–	–	–	54,667	54,667
Total comprehensive income for the period		**–**	**–**	**–**	**–**	**–**	**–**	**54,667**	**54,667**
Transfer to distributable reserves		–	(102,797)	–	–	–	–	102,797	–
Sale of treasury capital*		–	–	–	113	–	2,393	–	2,506
Transaction costs		–	–	–	–	–	–	(296)	(296)
As at 31 December 2014 (audited)		**3,203**	**–**	**–**	**(1,888)**	**–**	**261,289**	**655,076**	**917,680**
Profit for the period		–	–	–	–	–	–	15,233	15,233
Total comprehensive income for the period		**–**	**–**	**–**	**–**	**–**	**–**	**15,233**	**15,233**
Profit distribution		–	–	–	–	–	–	(49,060)	(49,060)
Transaction costs		–	–	–	–	–	–	(14)	(14)
As at 30 June 2015 (unaudited)		**3,203**	**–**	**–**	**(1,888)**	**–**	**261,289**	**621,235**	**883,839**

* Comparative figures differ from H1 2014 due to change in the valuation approach. This was accounted for in the 2014 annual 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: 4th Floor, 53-54 Grosvenor Street, London, UK, W1K 3HU.

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 (Note 15). 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	**Country of registration or incorporation**	**Form of capital**	**Ownership, %**
Claydon Industrial Limited	British Virgin Islands	Ordinary shares	100
Condensate Holding LLP	Republic of Kazakhstan	Participatory interests	100
Grandstil LLC	Russian Federation	Participatory interests	100
Jubilata Investments Limited	British Virgin Islands	Ordinary shares	100
Nostrum E&P Services LLC[1]	Russian Federation	Participatory interests	100
Nostrum Oil & Gas UK Ltd.	England and Wales	Ordinary shares	100
Nostrum Oil BV	Netherlands	Ordinary shares	100
Nostrum Oil Coöperatief U.A.	Netherlands	Members' interests	100
Nostrum Services Central Asia LLP[2]	Republic of Kazakhstan	Participatory interests	100
Nostrum Services CIS BVBA[3]	Belgium	Ordinary shares	100
Nostrum Services N.V.[4]	Belgium	Ordinary shares	100
Zhaikmunai LLP	Republic of Kazakhstan	Participatory interests	100
Zhaikmunai Netherlands B.V.	Netherlands	Ordinary shares	100

[1] *Formerly Investprofi LLC*
[2] *Formerly Amersham Oil LLP*
[3] *Formerly Prolag BVBA*
[4] *Formerly Probel Capital Management N.V.*

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 30 June 2015, the Group employed 1103 employees.

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 Ministry of Oil and Gas (the "MOG") 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. The exploration period was initially extended for additional 4 years and then for further 2 years according to the supplements to the Contract dated 12 January 2004 and 23 June 2005, respectively. In accordance with the supplement dated 5 June 2008, Tournaisian North reservoir entered into production period as at 1 January 2007. Following additional commercial discoveries during 2008, the exploration period under the Chinarevskoye subsoil use rights, other than for the Tournaisian horizons, was extended for an additional 3-year period, which expired on 26 May 2011. A further extension to 26 May 2014 was made under the supplement dated 28 October 2013. The extensions to the exploration periods have not changed the Chinarevskoye subsoil use rights term, which expires in 2031. Zhaikmunai LLP applied to the MOG for another extension of the exploration period.

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 27 April 2009 the exploration period was extended so as to have a total duration of 6 years. In January 2012 the MOG made the decision to extend the exploration period until 8 February 2015 and the corresponding supplementary agreement between MOG and Zhaikmunai LLP was signed on 9 August 2013. On 11 March 2015 the Group received the written permission on extension of the exploration period to 8 February 2017.

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. On 21 October 2008 the exploration period was extended for 6 months so as to expire on 28 January 2013. On 27 April 2009 the exploration period was extended until 28 January 2015. On 23 January 2014 the exploration period was further extended until 31 December 2015.

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. On 27 April 2009 the exploration period was extended until 28 July 2012. On 8 July 2011 the exploration period was further extended until 28 July 2014. On 23 January 2014 the exploration period was further extended until 31 December 2015.

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 six months ended 30 June 2015 have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting as adopted by the European Union and the requirements of the Disclosure and Transparency Rules ("DTR") of the Financial Conduct Authority ("FCA") in the United Kingdom as applicable to interim financial reporting. These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2014 prepared in accordance with IFRS as adopted by the European Union.

Group reorganisation

The Group has been formed through a reorganisation in which Nostrum Oil & Gas PLC became a new parent entity of the Group (Note 9). 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.

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 2014, except for the following new standards and interpretations effective as of 1 January 2015, and which did not have an impact on the Group:

- Defined Benefit Plans: Employee Contributions – Amendments to IAS 19
- Annual Improvements to IFRSs 2010-2012 Cycle
- Annual Improvements to IFRSs 2011-2013 Cycle

The standards and interpretations that are issued, but not yet applied, up to the date of issuance of the Group's interim condensed financial statements are disclosed below. The Group intends to adopt these standards, if applicable, from the effective dates adopted by EU.

- IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning 1 January 2016)
- Amendments to IAS 16 and IAS 38 – Clarification of Accountable Methods of Depreciation and Amortisation (effective for annual periods beginning 1 January 2016)
- Amendments to IFRS 11- Accounting for Acquisition of Interests in Joint Operations (effective for annual periods beginning 1 January 2016)
- Amendments to IAS 16 and IAS 41- Agriculture: Bearer Plants (effective for annual periods beginning 1 January 2016)
- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning 1 January 2017)
- IFRS 9 Financial Instruments (issued in 2014) (effective for annual periods beginning 1 January 2018)
- Amendments to IAS 27- Equity Method in Separate Financial Statements (effective for annual periods beginning 1 January 2016).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. EXPLORATION AND EVALUATION ASSETS

In thousands of US Dollars	**30 June 2015 (unaudited)**	31 December 2014 (audited)
Subsoil use rights	**15,835**	15,835
Expenditures on geological and geophysical studies	**9,597**	8,545
	25,432	24,380

During the six months ended 30 June 2015 the Group had additions to exploration and evaluation assets of US$1,052 thousand which includes capitalised expenditures on geological and geophysical studies (H1 2014: US$1,080 thousand). Interest was not capitalised on exploration and evaluation assets. During the six months ended 30 June 2014 the Group repaid capitalised contingent consideration under the acquisition agreements for the Darjinskoye and Yuzhno-Gremyachinskoye oil and gas fields in the amount of US$ 5,300 thousand.

4. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2015 the Group had additions of property, plant and equipment of US$126,804 thousand (H1 2014: US$105,560 thousand). These additions are mostly associated with drilling costs, construction of a third unit for the gas treatment facility and capitalised interest of US$12,334 thousand (H1 2014: US$7,361 thousand).

See Note 22 for capital commitments.

5. ADVANCES FOR NON-CURRENT ASSETS

Increase in the advances for non-current assets is mainly driven by an increase in advances to suppliers of services and equipment for construction of a third unit for the gas treatment facility.

6. TRADE RECEIVABLES

As at 30 June 2015 and 31 December 2014 trade receivables were not interest-bearing and were mainly denominated in US dollars, their average collection period is 30 days.

As at 30 June 2015 there were past due but not impaired trade receivables (31 December 2014: there were neither past due nor impaired trade receivables).

7. CURRENT INVESTMENTS

Current investments as at 30 June 2015 were represented by an interest-bearing deposit placed on 30 June 2015 for a three-month period with an interest rate of 0.23% per annum and an interest-bearing deposit placed on 23 June 2015 for a six-month period with an interest rate of 0.45% per annum.

Current investments as at 31 December 2014 were represented by an interest-bearing short-term deposit placed on 30 September 2014 for a six-month period with an interest rate of 0.24% per annum.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. CASH AND CASH EQUIVALENTS

In thousands of US Dollars	**30 June 2015 (unaudited)**	31 December 2014 (audited)
Current accounts in US Dollars	**174,216**	356,316
Current accounts in tenge	**2,321**	8,709
Current accounts in other currencies	**10,514**	10,413
Petty cash	**9**	5
Bank deposits with maturity less than three months	**9,000**	–
	196,060	375,443

The Group has restricted cash accounts as liquidation fund deposit in the amount of US$5,287 thousand with Sberbank in Kazakhstan (31 December 2014: US$5,024 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

9. SHARE CAPITAL AND RESERVES

Share capital of Nostrum Oil & Gas PLC

As at 30 June 2015 the ownership interests in the Parent consist of issued and fully paid ordinary shares, which are listed on the London Stock Exchange.

	30 June 2015 (unaudited)
Number of shares	**Ordinary shares**
Balance at the beginning of the period	188,182,958
Issued during the period	–
Cancellation of shares	–
Balance at the end of the period	**188,182,958**

The ordinary shares have a nominal value of GB£ 0.01.

Distributions

During the six months ended 30 June 2015 Nostrum Oil & Gas PLC made a distribution of US$ 0.27 per share to the shareholders which amounted to a total of US$ 49,060 thousand and was paid in full on 26 June 2015.

During the six months ended 30 June 2014 Nostrum Oil & Gas LP made a distribution of US$ 0.35 per common unit to the holders of common units representing limited partnership interests which amounted to a total of US$ 64,615 thousand and was paid in full on 6 June 2014.

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 30 June 2015 the book value per share amounted to US$4.52 (31 December 2014: US$4.70).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. EARNINGS PER SHARE

Basic EPS amounts are calculated by dividing the profit for the period by the weighted average number of Common Units/ 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 authorization of these financial statements.

	Six months ended 30 June	
	2015(unaudited)	2014(unaudited)
Profit for the period attributable to the holders of Common Units/shares (in thousands of US Dollars)	**15,233**	91,758
Weighted average number of Common Units/shares	**184,828,819**	184,551,496
Basic and diluted earnings per Common Unit/share (in US Dollars)	**0.08**	0.50

11. BORROWINGS

Borrowings comprise the following as at 30 June 2015 and 31 December 2014:

In thousands of US Dollars	**30 June 2015 (unaudited)**	31 December 2014 (audited)
Notes issued in 2012 and maturing in 2019	**543,220**	540,793
Notes issued in 2014 and maturing in 2019	**404,973**	404,321
	948,193	945,114
Less amounts due within 12 months	**(14,913)**	(15,024)
Amounts due after 12 months	**933,280**	930,090

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 the 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. Prior to 13 November 2016, the 2012 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2012 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 107.125% of the principal amount thereof, plus accrued and unpaid interest, if any, to the 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); provided that (1) at least 65% of the original principal amount of the 2012 Notes (including Additional Notes as defined in the indenture relating to the 2012 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

In addition, the 2012 Notes may be redeemed, in whole or in part, at any time prior to 13 November 2016 at the option of the 2012 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2012 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2012 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest 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). Applicable Premium means, with respect to any 2012 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2012 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2012 Note at 13 November 2016 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2012 Note through 13 November 2016 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2012 Note.

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 do not have the benefit of first priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

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 the 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. Prior to 14 February 2017, the 2014 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2014 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 106.375% of the principal amount thereof, plus accrued and unpaid interest, if any, to the 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); provided that (1) at least 65% of the original principal amount of the 2014 Notes (including Additional Notes as defined in the indenture relating to the 2014 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

In addition, the 2014 Notes may be redeemed, in whole or in part, at any time prior to 14 February 2017 at the option of the 2014 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2014 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2014 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest 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). Applicable Premium means, with respect to any 2014 Notes on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2014 Notes; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2014 Notes at 14 February 2017 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2014 Notes through 14 February 2017 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2014 Notes.

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. 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.

Costs directly attributable to the 2014 Notes arrangement amounted to US$6,525 thousand.

Covenants contained in the 2012 Notes and the 2014 Notes

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The indentures governing the 2012 Notes and the 2014 Notes contain a number of covenants that, among other things, restrict, subject to certain exceptions, the ability of the 2012 Guarantors and the 2014 Guarantors 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.

In addition, the indentures impose certain requirements as to future subsidiary guarantors, and certain customary information covenants and events of default.

12. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following as at 30 June 2015 and 31 December 2014:

In thousands of US Dollars	**30 June 2015 (unaudited)**	31 December 2014 (audited)
Taxes payable, other than corporate income tax	**17,133**	17,191
Accruals under the subsoil use agreements	**11,073**	14,435
Training obligations accrual	**10,852**	9,686
Due to employees	**6,247**	4,605
Liability accrued with respect to acquisitions	**–**	2,402
Other current liabilities	**1,043**	2,297
	46,348	50,616

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.

13. 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 six months ended 30 June 2015 was US$59.4 (H1 2014: US$108.8)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Six months ended 30 June	
In thousands of US Dollars	**2015 (unaudited)**	**2014 (unaudited)**
Oil and gas condensate	**183,952**	353,510
Gas and LPG	**90,101**	91,467
	274,053	444,977

During the six months ended 30 June 2015 the revenue from sales to three major customers amounted to US$99,618 thousand, US$61,312 thousand and US$51,593 thousand respectively (H1 2014: US$181,808 thousand, US$77,113 thousand and US$52,595 thousand respectively). The Group's exports are mainly represented by deliveries to Finland, the Black Sea ports of Russia and the United Arab Emirates.

14. COST OF SALES

	Six months ended 30 June	
In thousands of US Dollars	**2015 (unaudited)**	**2014 (unaudited)**
Depreciation, depletion and amortisation	**56,055**	56,679
Repair, maintenance and other services	**14,050**	17,934
Payroll and related taxes	**10,038**	9,814
Royalties	**9,772**	10,381
Materials and supplies	**3,668**	4,739
Well workover costs	**1,874**	3,773
Other transportation services	**1,258**	1,463
Government profit share	**1,251**	(7,950)
Environmental levies	**1,007**	626
Stock value adjustment	**277**	(727)
Other	**1,516**	1,817
	100,766	98,549

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June	
In thousands of US Dollars	**2015 (unaudited)**	**2014 (unaudited)**
Payroll and related taxes	**9,238**	6,632
Professional services	**6,178**	10,869
Business travel	**2,706**	2,854
Training	**1,767**	1,389
Sponsorship	**867**	1,032
Depreciation and amortization	**832**	658
Insurance fees	**818**	785
Communication	**442**	654
Lease payments	**404**	336
Bank charges	**315**	367
Materials and supplies	**303**	259
Other taxes	**220**	73
Social program	**150**	150
Management fees	**–**	682
Other	**712**	766
	24,952	27,506

16. SELLING AND TRANSPORTATION EXPENSES

	Six months ended 30 June	
In thousands of US Dollars	**2015 (unaudited)**	**2014 (unaudited)**
Transportation costs	**26,835**	29,198
Loading and storage costs	**22,249**	24,137
Payroll and related taxes	**1,036**	1,057
Management fees	**69**	–
Other	**2,425**	9,113
	52,614	63,505

17. FINANCE COSTS

	Six months ended 30 June	
In thousands of US Dollars	**2015 (unaudited)**	**2014 (unaudited)**
Interest expense on borrowings	**23,558**	34,701
Unwinding of discount on amounts Due to Government of Kazakhstan	**386**	401
Unwinding of discount on Abandonment and site restoration provision	**111**	647
	24,055	35,749

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. 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 2,611,413 shares remain outstanding (the "Subsisting Options"), 1,351,413 options with a Base Value of US$4.00 and 1,260,000 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 (i) the aggregate Base Value of the shares to which the Subsisting Option relates; and (ii) their aggregate market value on exercise.

19. DERIVATIVE FINANCIAL INSTRUMENTS

On 3 March 2014, in accordance with its hedging policy, the Zhaikmunai LLP entered, at nil upfront cost, into a long-term hedging contract covering oil sales of 7,500 bbls/day, or a total of 5,482,500 bbls running through to 29 February 2016. The counterparty to the hedging agreement is Citibank. Based on the hedging contract the Zhaikmunai LLP bought a put at US$85/bbl, which protects it against any fall in the price of oil below US$85/bbl, i.e. Citibank will compensate the difference in price below US$85/bbl. As part of this contract the Zhaikmunai LLP also sold a call at US$111.5/bbl and bought a call at US$117.5/bbl, under which Zhaikmunai LLP is obliged to compensate the difference in price above US$111.5/bbl with an upper limit of US$117.5/bbl, i.e. up to US$6/bbl. If the spot price goes above US$117.5/bbl, then Zhaikmunai LLP will be obliged to pay US$6/bbl to Citibank.

During the six months ended 30 June 2015 and 2014 the movement in the fair value of derivative financial instruments was presented as follows:

	Six months ended 30 June	
In thousands of US Dollars	**2015 (unaudited)**	2014 (unaudited)
Derivative financial instruments at fair value at 1 January	**60,301**	–
Loss on derivative financial instruments	**(3,776)**	(6,126)
Derivative financial instruments at fair value at 30 June	**56,525**	(6,126)

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

20. INCOME TAX

The income tax expense consisted of the following:

	Six months ended 30 June	
In thousands of US Dollars	**2015 (unaudited)**	**2014 (unaudited)**
Corporate income tax	**37,395**	73,581
Withholding tax	**2,597**	684
Adjustment in respect of the current income tax for the prior periods	**220**	881
Deferred income tax expense	**(3,603)**	12,879
Total income tax expense	**36,609**	88,025

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Group applies the liability method to recognise deferred income tax expense on temporary differences between the tax bases of assets and their carrying amounts in the financial statements. The temporary differences mainly originate from alternative depreciation methods applied.

21. RELATED PARTY TRANSACTIONS

For the purpose of these interim condensed consolidated financial statements transactions with related parties mainly comprise transactions between the subsidiaries of the Company and the participants 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 30 June 2015 and 31 December 2014 consisted of the following:

In thousands of US Dollars	**30 June 2015 (unaudited)**	31 December 2014 (audited)
Trade receivables and advances paid		
KazStroyService JSC	**23,832**	36,915

Accounts payable to related parties represented by entities controlled by shareholders with significant influence over the Group as at 30 June 2015 and 31 December 2014 consisted of the following:

In thousands of US Dollars	**30 June 2015 (unaudited)**	31 December 2014 (audited)
Trade payables		
KazStroyService JSC	**777**	2,753
Telco B.V.	**66**	29

During the six months ended 30 June 2015 and 2014 the Group had the following transactions with related parties represented by entities controlled by shareholders with significant influence over the Group:

	Six months ended 30 June	
In thousands of US Dollars	**2015 (unaudited)**	**2014 (unaudited)**
Purchases		
KazStroyService JSC	**1,377**	–
Management fees and consulting services		
Cervus Business Services	**702**	1,207
Crest Capital Management N.V.	**381**	
Telco B.V.	**195**	
Nostrum Services Central Asia LLP	**–**	455
Nostrum Services CIS BVBA	**–**	130

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 for a consideration of US$150 million.

The Contractor is an affiliate of Mayfair Investments B.V., which as at 30 June 2015 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Management fees are payable in accordance with the Technical Assistance Agreements signed between Zhaikmunai LLP and Nostrum Services Central Asia LLP (formerly Amersham Oil LLP) and Nostrum Services CIS BVBA related to the rendering of geological, geophysical, drilling, technical and other consultancy services. Following the agreement on 19 May 2014 to acquire Nostrum Services Central Asia LLP and Nostrum Services CIS BVBA, these management fees were eliminated as intercompany transactions.

During the six months ended 30 June 2015 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, Crest Capital Management N.V. and Telco B.V.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$1,508 thousand for the six months ended 30 June 2015 (H1 2014: US$1,628 thousand).

There were no payments made under the ESOP during the six months ended 30 June 2015 (H1 2014: US$769).

22. 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 30 June 2015. As at 30 June 2015 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 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 30 June 2015 the Group had contractual capital commitments in the amount of US$233,376 thousand (31 December 2014: US$248,644 thousand) mainly in respect to the Group's oil field exploration and development activities.

Operating lease

The Group entered into a cancellable lease agreement for the main administrative office in Uralsk in October 2007 for a period of 20 years for US$ 15 thousand per month.

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 early terminated 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.

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

In thousands of US Dollars	**30 June 2015 (unaudited)**	31 December 2014 (audited)
No later than one year	**12,660**	14,788
Later than one year and no later than five years	**10,467**	17,671

Lease expenses of railway tank wagons for the six months ended 30 June 2015 amounted to US$7,845 thousand (H1 2014: US$9,927 thousand).

Social and education commitments

As required by the Contract (as amended by, inter alia, Supplement #9), 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.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on 9 August 2013) require the subsurface user to:

(i) spend US$ 1,000 thousand for funding of development of Astana city in case of commercial discovery;

(ii) invest at least US$ 16,782 thousand for exploration of the field during the exploration period;

(iii) reimburse historical costs of US$ 383 thousand to the Government upon commencement of production stage;

(iv) fund liquidation expenses equal to US$ 206 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Darjinskoye field (after its amendment on 24 February 2015) require the subsurface user to:

(i) spend at least US$ 16 thousand for education of personnel engaged to work under the contract during the exploration stage;

(ii) invest at least US$ 18,625 thousand for exploration of the field during the exploration period;

(iii) fund liquidation expenses equal to US$ 64 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on 24 February 2015) require the subsurface user to:

(i) invest at least US$ 30,226 thousand for exploration of the field during the exploration period;

(ii) fund liquidation expenses equal to US$ 177 thousand.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

23. 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	**30 June 2015 (unaudited)**	**31 December 2014 (audited)**	**30 June 2015 (unaudited)**	**31 December 2014 (audited)**
Financial instruments measured at fair value				
Derivative financial instruments	**56,525**	60,301	**56,525**	60,301
Financial liabilities measured at amortised cost				
Interest bearing borrowings	**948,193**	945,114	**923,480**	1,037,320
Total	**1,004,718**	1,005,415	**980,005**	1,097,621

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.

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 March 2016.

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 30 June 2015 and 31 December 2014:

	30 June 2015 (unaudited)	31 December 2014 (audited)
Future price at the reporting date (US$)	**57.08-62.58**	59.2-67.9
Historical volatility (%)	**16**	16.02-17.73
Risk-free interest rate (%)	**0.28**	0.25-0.67
Maturity (months)	**1-7**	3-15

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:

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

In thousands of US Dollars	**Increase in the assumption**	**Decrease in the assumption**
Increase/(decrease) in gain on derivative financial instruments due to change in oil price assumption (+/-US$2/bbl)	(4,914)	5,598
Increase/(decrease) in gain on derivative financial instruments due to change in volatility rate assumption (+/-2%)	32	(7)

24. EVENTS AFTER THE REPORTING PERIOD

On 3 July 2015 the sixth supplementary agreement to the Rostoshinskoye subsoil use contract was signed extending the exploration period to 8 February 2017.

On 28 July 2015, the eleventh supplementary agreement to the Contract was signed extending the exploration period to 26 May 2016.

On 10 August 2015 Nostrum announced that it had made a further approach to the board of Tethys Petroleum Limited (“Tethys”) about a possible offer for the entire issued share capital of Tethys at C$0.2185 per Tethys share. Following this approach, Nostrum and Tethys have negotiated a US$5 million loan financing in order to support short-term liquidity of Tethys during the period in which any formal offer may be implemented. As at the date hereof, there can be no certainty that any firm offer will be made, nor the terms on which any firm offer will be made.