

**Nostrum Oil & Gas PLC**

Interim condensed consolidated financial statements (unaudited)

*For the nine months ended 30 September 2017*

# Interim condensed consolidated financial statements

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# Interim condensed consolidated financial statements

## Interim condensed consolidated statement of financial position

As at 30 September 2017

<i>In thousands of US dollars</i>	Notes	30 September 2017 (unaudited)	31 December 2016 (audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Exploration and evaluation assets	3	45,821	44,271
Goodwill		32,425	32,425
Property, plant and equipment	4	1,899,518	1,807,768
Restricted cash	8	6,360	5,981
Advances for non-current assets	5	15,138	28,676
		<b>1,999,262</b>	<b>1,919,121</b>
<b>Current assets</b>			
Inventories		29,150	28,326
Trade receivables	6	34,210	29,052
Prepayments and other current assets	7	23,239	21,171
Derivative financial instruments	21	31	6,658
Income tax prepayment		13	1,062
Cash and cash equivalents	8	144,390	101,134
		<b>231,033</b>	<b>187,403</b>
<b>TOTAL ASSETS</b>		<b>2,230,295</b>	<b>2,106,524</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Share capital and reserves</b>			
	9		
Share capital		3,203	3,203
Treasury capital		(1,660)	(1,846)
Retained earnings and reserves		683,348	690,617
		<b>684,891</b>	<b>691,974</b>
<b>Non-current liabilities</b>			
Long-term borrowings	11	1,040,059	943,534
Abandonment and site restoration provision		20,909	19,635
Due to Government of Kazakhstan		5,466	5,631
Deferred tax liability		344,648	344,689
		<b>1,411,082</b>	<b>1,313,489</b>
<b>Current liabilities</b>			
Current portion of long-term borrowings	11	16,883	15,518
Employee share option plan liability		3,553	4,339
Trade payables	12	59,180	43,320
Advances received		893	1,810
Income tax payable		17,064	1,124
Current portion of due to Government of Kazakhstan		1,031	1,289
Other current liabilities	13	35,718	33,661
		<b>134,322</b>	<b>101,061</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,230,295</b>	<b>2,106,524</b>

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

Tom Richardson

Chief Executive Officer

Chief Financial Officer

*The accounting policies and explanatory notes on pages 6 through 21 are an integral part of these interim condensed consolidated financial statements*

# Interim condensed consolidated financial statements

## Interim condensed consolidated statement of comprehensive income

For the nine months ended 30 September 2017

<i>In thousands of US dollars</i>	Notes	Three months ended 30 September		Nine months ended 30 September	
		2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
<b>Revenue</b>					
Revenue from export sales		50,009	36,853	192,414	173,722
Revenue from domestic sales		43,684	44,752	111,300	71,342
	14	93,693	81,605	303,714	245,064
Cost of sales	15	(47,785)	(51,333)	(146,259)	(145,827)
<b>Gross profit</b>		45,908	30,272	157,455	99,237
General and administrative expenses	16	(9,451)	(8,471)	(27,869)	(27,933)
Selling and transportation expenses	17	(14,934)	(18,240)	(52,016)	(55,504)
Finance costs	18	(13,006)	(11,125)	(34,479)	(32,315)
Employee share option plan fair value adjustment		1,305	340	632	2,323
Foreign exchange (loss)/gain, net		(3,384)	6,091	(435)	(695)
Loss on derivative financial instruments	21	(6,935)	(6,021)	(6,627)	(46,750)
Interest income		138	112	305	353
Other income		3,897	3,223	9,373	7,225
Other expenses	19	(13,333)	(93)	(21,690)	(6,416)
<b>(Loss)/profit before income tax</b>		(9,795)	(3,912)	24,649	(60,475)
Current income tax expense		(6,233)	3,127	(33,418)	(12,408)
Deferred income tax benefit / (expense)		(6,165)	(7,659)	47	8,622
<b>Income tax expense</b>	20	(12,398)	(4,532)	(33,371)	(3,786)
<b>Loss for the period</b>		(22,193)	(8,444)	(8,722)	(64,261)
<b>Other comprehensive income that could be reclassified to the income statement in subsequent periods</b>					
Currency translation difference		260	51	804	144
<b>Other comprehensive income</b>		260	51	804	144
<b>Total comprehensive loss for the period</b>		(21,933)	(8,393)	(7,918)	(64,117)
Loss for the period attributable to the shareholders (in thousands of US dollars)				(7,918)	(64,117)
Weighted average number of shares				185,068,917	184,828,819
Basic and diluted earnings per share (in US dollars)				(0.04)	(0.35)

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

*The accounting policies and explanatory notes on pages 6 through 21 are an integral part of these interim condensed consolidated financial statements*

# Interim condensed consolidated financial statements

## Interim condensed consolidated statement of cash flows

For the nine months ended 30 September 2017

<i>In thousands of US dollars</i>	Notes	Nine months ended 30 September	
		2017 (unaudited)	2016 (unaudited)
<b>Cash flow from operating activities:</b>			
Profit/(loss) before income tax		24,649	(60,475)
<i>Adjustments for:</i>			
Depreciation, depletion and amortisation	15,16	93,967	99,619
Finance costs	18	34,479	32,315
Employee share option plan fair value adjustment		(632)	(2,323)
Interest income		(305)	(353)
Foreign exchange gain on investing and financing activities		(1,766)	(1,205)
Loss on disposal of property, plant and equipment		650	65
Proceeds from derivative financial instruments	21	–	27,198
Loss on derivative financial instruments	21	6,627	46,750
Provision for doubtful debts		1,751	–
Business development		9,295	–
Accrued expenses		2,633	(846)
<b>Operating profit before working capital changes</b>		<b>171,348</b>	<b>140,745</b>
<i>Changes in working capital:</i>			
Change in inventories		(601)	206
Change in trade receivables		(5,159)	(2,749)
Change in prepayments and other current assets		(11,180)	4,746
Change in trade payables		629	5,434
Change in advances received		(917)	414
Change in due to Government of Kazakhstan		(1,031)	(773)
Change in other current liabilities		(1,509)	(6,879)
Payments under Employee share option plan		(1,162)	–
<b>Cash generated from operations</b>		<b>150,418</b>	<b>141,144</b>
Income tax paid		(15,187)	(8,664)
<b>Net cash flows from operating activities</b>		<b>135,231</b>	<b>132,480</b>
<b>Cash flow from investing activities:</b>			
Interest received		305	353
Purchase of property, plant and equipment		(132,074)	(154,111)
Exploration and evaluation works	3	(1,576)	(3,610)
Loans granted		(1,223)	–
<b>Net cash used in investing activities</b>		<b>(134,568)</b>	<b>(157,368)</b>
<b>Cash flow from financing activities:</b>			
Finance costs paid		(51,018)	(45,561)
Issue of notes		725,000	–
Repayment of notes		(606,808)	–
Fees and premium paid for early repayment and on arrangement of notes		(26,116)	–
Treasury shares sold/(purchased)		1,853	–
Payment of finance lease liabilities		(616)	(444)
Transfer to restricted cash		(379)	(382)
<b>Net cash from/(used in) financing activities</b>		<b>41,916</b>	<b>(46,387)</b>
Effects of exchange rate changes on cash and cash equivalents		677	25
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>43,256</b>	<b>(71,250)</b>
Cash and cash equivalents at the beginning of the period	8	101,134	165,560
<b>Cash and cash equivalents at the end of the period</b>	<b>8</b>	<b>144,390</b>	<b>94,310</b>

The accounting policies and explanatory notes on pages 6 through 21 are an integral part of these interim condensed consolidated financial statements

# Interim condensed consolidated financial statements

## Interim condensed consolidated statement of changes in equity

For the nine months ended 30 September 2017

<i>In thousands of US dollars</i>	Notes	Share capital	Treasury capital	Other reserves	Retained earnings	Total
<b>As at 1 January 2016 (audited)</b>		<b>3,203</b>	<b>(1,888)</b>	<b>260,833</b>	<b>511,608</b>	<b>773,756</b>
Loss for the period		–	–	–	(64,261)	(64,261)
Other comprehensive income		–	–	144	–	144
<b>Total comprehensive loss for the period</b>		<b>–</b>	<b>–</b>	<b>144</b>	<b>(64,261)</b>	<b>(64,117)</b>
Transaction costs		–	–	–	(19)	(19)
<b>As at 30 September 2016 (unaudited)</b>		<b>3,203</b>	<b>(1,888)</b>	<b>260,977</b>	<b>447,328</b>	<b>709,620</b>
Loss for the period		–	–	–	(17,643)	(17,643)
Other comprehensive loss		–	–	(214)	–	(214)
<b>Total comprehensive loss for the period</b>		<b>–</b>	<b>–</b>	<b>(214)</b>	<b>(17,643)</b>	<b>(17,857)</b>
Sale of treasury capital		–	42	155	–	197
Transaction costs		–	–	–	15	15
<b>As at 31 December 2016 (audited)</b>		<b>3,203</b>	<b>(1,846)</b>	<b>260,918</b>	<b>429,700</b>	<b>691,975</b>
Loss for the period		–	–	–	(8,722)	(8,722)
Other comprehensive income		–	–	804	–	804
<b>Total comprehensive loss for the period</b>		<b>–</b>	<b>–</b>	<b>804</b>	<b>(8,722)</b>	<b>(7,918)</b>
Sale of treasury capital		–	186	674	–	860
Transaction costs		–	–	–	(26)	(26)
<b>As at 30 September 2017 (unaudited)</b>		<b>3,203</b>	<b>(1,660)</b>	<b>262,396</b>	<b>420,952</b>	<b>684,891</b>

The accounting policies and explanatory notes on pages 6 through 21 are an integral part of these interim condensed consolidated financial statements

# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements

### 1. GENERAL

#### Overview

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

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

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

Company	Registered office	Form of capital	Ownership, %
Grandstil LLC	Tamozhenny lane 6/3 111033 Moscow Russian Federation	Participatory interests	100
Nostrum Associated Investments LLP <sup>1</sup>	43/1 Karev street 090000 Uralsk Republic of Kazakhstan	Participatory interests	100
Nostrum E&P Services LLC <sup>2</sup>	Liteyniy Prospekt 26 A 191028 St. Petersburg Russian Federation	Participatory interests	100
Nostrum Oil & Gas Coöperatief U.A. <sup>3</sup>	Gustav Mahlerplein 23B 1082MS Amsterdam The Netherlands	Members' interests	100
Nostrum Oil & Gas BV <sup>4</sup>	Gustav Mahlerplein 23B 1082MS Amsterdam The Netherlands	Ordinary shares	100
Nostrum Oil & Gas Finance B.V.	Gustav Mahlerplein 23B 1082MS Amsterdam The Netherlands	Ordinary shares	100
Nostrum Oil & Gas UK Ltd.	20 Eastbourne Terrace London W2 6LA United Kingdom	Ordinary shares	100
Nostrum Services Central Asia LLP <sup>5</sup>	Aksai 3a, 75/38 050031 Almaty Republic of Kazakhstan	Participatory interests	100
Nostrum Services N.V. <sup>6</sup>	Brand Whitlocklaan 42 1200 Brussel Belgium	Ordinary shares	100
Zhaikmunai LLP	43/1 Karev street 090000 Uralsk Republic of Kazakhstan	Participatory interests	100

<sup>1</sup> Formerly Condensate Holding LLP

<sup>2</sup> Formerly Investprofi LLC

<sup>3</sup> Formerly Nostrum Oil Coöperatief U.A.

<sup>4</sup> Formerly Zhaikmunai Netherlands B.V., which was also merged with Nostrum Oil & Gas Finance BV and Nostrum Oil BV during 2015

<sup>5</sup> Formerly Amersham Oil LLP

<sup>6</sup> Formerly Probel Capital Management N.V., which was also merged with Nostrum Services CIS BVBA during 2016

# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

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 September 2017, the Group employed 985 employees (9M 2016: 984).

### Subsoil use rights terms

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

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

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

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. Subsequently, the exploration period was extended until 8 February 2017. Zhaikmunai LLP’s application for further extension of the exploration period is under approval by the MOE.

The contract for exploration and production of hydrocarbons from Darjinskoye field dated 28 July 2006 originally included a 6-year exploration period and a 19-year production period. Subsequently, the exploration period was extended until 31 December 2017.

The contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field dated 28 July 2006 originally included a 5-year exploration period and a 20-year production period. Subsequently, the exploration period was extended until 31 December 2017.

### 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 nine months ended 30 September 2017 have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting as adopted by the European Union. These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2016 prepared in accordance with IFRS as adopted by the European Union.

The interim financial information for the three and nine months ended 30 September 2017 and 2016 was neither audited nor reviewed by the auditors and does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. The comparative financial information for the year ended 31 December 2016 has been derived from the statutory



# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

financial statements for that year. Statutory accounts for the year ended 31 December 2016 were approved by the Board of directors on 23 March 2017 and filed with the Registrar of Companies. The Independent Auditors' Report on those accounts was unqualified.

### Group reorganisation

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

### Going concern

These interim condensed consolidated financial statements have been prepared on a going concern basis. The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the interim condensed consolidated financial statements.

### 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 2016, except for the following new standards and interpretations effective as of 1 January 2017, and which did not have an impact on the Group:

- Amendments to IAS 7 *Statement of Cash Flows*: Disclosure Initiative
- Amendments to IAS 12 *Income Taxes*: Recognition of Deferred Tax Assets for Unrecognised Losses
- Amendments to IFRS 12 *Disclosure of Interests in Other Entities*: Clarification of the scope of disclosure requirements in IFRS 12

## 3. EXPLORATION AND EVALUATION ASSETS

<i>In thousands of US dollars</i>	30 September 2017 (unaudited)	31 December 2016 (audited)
Subsoil use rights	15,835	15,835
Expenditures on geological and geophysical studies	29,986	28,436
	45,821	44,271

During the nine months ended 30 September 2017 the Group had additions to exploration and evaluation assets of US\$1,550 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (9M 2016: US\$3,435 thousand). Interest was not capitalised on exploration and evaluation assets.

## 4. PROPERTY, PLANT AND EQUIPMENT

During the nine months ended 30 September 2017 the Group had additions of property, plant and equipment of US\$186,017 thousand (9M 2016: US\$275,071 thousand). These additions are mostly associated with drilling costs, construction of a third unit for the gas treatment facility and capitalised interest of US\$23,979 thousand (9M 2016: US\$21,986 thousand).

As at 30 September 2017 the net carrying amount of property, plant and equipment held under finance lease was US\$12,806 thousand (31 December 2016: 13,327).

See Note 23 for capital commitments.

# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

### 5. ADVANCES FOR NON-CURRENT ASSETS

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

<i>In thousands of US dollars</i>	<b>30 September 2017 (unaudited)</b>	31 December 2016 (audited)
Advances for construction services	<b>7,494</b>	20,801
Advances for pipes and construction materials	<b>7,644</b>	7,875
	<b>15,138</b>	28,676

### 6. TRADE RECEIVABLES

As at 30 September 2017 and 31 December 2016 trade receivables were not interest-bearing and were mainly denominated in US dollars. Their average collection period is 30 days.

As at 30 September 2017 and 31 December 2016 there were neither past due nor impaired trade receivables.

### 7. PREPAYMENTS AND OTHER CURRENT ASSETS

As at 30 September 2017 and 31 December 2016 prepayments and other current assets comprised the following:

<i>In thousands of US dollars</i>	<b>30 September 2017 (unaudited)</b>	31 December 2016 (audited)
VAT receivable	<b>12,473</b>	10,564
Advances paid	<b>6,896</b>	6,487
Other taxes receivable	<b>2,547</b>	2,322
Other	<b>1,323</b>	1,798
	<b>23,239</b>	21,171

Advances paid consist primarily of prepayments made to service providers.

### 8. CASH AND CASH EQUIVALENTS

<i>In thousands of US dollars</i>	<b>30 September 2017 (unaudited)</b>	31 December 2016 (audited)
Current accounts in US dollars	<b>137,423</b>	72,537
Current accounts in tenge	<b>2,084</b>	17,206
Current accounts in other currencies	<b>4,878</b>	6,375
Petty cash	<b>5</b>	16
Bank deposits with maturity less than three months	<b>–</b>	5,000
	<b>144,390</b>	101,134

Bank deposits as at 31 December 2016 were represented by an interest-bearing deposit placed on 19 October 2016 for a three-month period with an interest rate of 0.68% per annum.

In addition to the cash and cash equivalents in the table above, the Group has restricted cash accounts as liquidation fund deposit in the amount of US\$ 562 thousand with Sberbank in Kazakhstan and US\$ 5,798 thousand with Halyk bank (31 December 2016: a total of US\$5,981 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

### 9. SHARE CAPITAL AND RESERVES

As at 30 September 2017 the ownership interests in the Parent consist of 188,182,958 issued and fully paid ordinary shares, which are listed on the London Stock Exchange. The ordinary shares have a nominal value of GB£ 0.01.

<i>Number of GDRs/shares</i>	<b>In circulation</b>	<b>Treasury capital</b>	<b>Total</b>
<b>As at 1 January 2016 (audited)</b>	<b>184,828,819</b>	<b>3,354,139</b>	<b>188,182,958</b>
Share options exercised	74,935	(74,935)	–
<b>As at 31 December 2016 (audited)</b>	<b>184,903,754</b>	<b>3,279,204</b>	<b>188,182,958</b>
Share options exercised	330,325	(330,325)	–
<b>As at 30 September 2017 (unaudited)</b>	<b>185,234,079</b>	<b>2,948,879</b>	<b>188,182,958</b>

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

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

#### Distributions

During the periods ended 30 June 2017 and 2016 there were no distributions made.

#### Kazakhstan stock exchange disclosure requirement

The Kazakhstan Stock Exchange has enacted on 11 October 2010 (as amended on 18 April 2014) a requirement for disclosure of "the book value per share" (total assets less intangible assets, total liabilities and preferred stock divided by the number of outstanding shares as at the reporting date). As at 30 September 2017 the book value per share amounted to US\$3.47 (31 December 2016: US\$3.50).

### 10. EARNINGS PER SHARE

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

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

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

<i>In thousands of US dollars</i>	<b>Nine months ended 30 September</b>	
	<b>2017 (unaudited)</b>	<b>2016 (unaudited)</b>
Loss for the period attributable to the shareholders (in thousands of US dollars)	<b>(7,918)</b>	(64,117)
Weighted average number of shares	<b>185,068,917</b>	184,828,819
<b>Basic and diluted earnings per share (in US dollars)</b>	<b>(0.04)</b>	(0.35)

# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

### 11. BORROWINGS

Borrowings comprise the following as at 30 September 2017 and 31 December 2016:

<i>In thousands of US dollars</i>	<b>30 September 2017 (unaudited)</b>	31 December 2016 (audited)
Notes issued in 2012 and maturing in 2019	<b>170,436</b>	550,943
Notes issued in 2014 and maturing in 2019	<b>184,781</b>	406,931
Notes issued in 2017 and maturing in 2022	<b>700,912</b>	–
Finance lease liability	<b>813</b>	1,178
	<b>1,056,942</b>	959,052
Less amounts due within 12 months	<b>(16,883)</b>	(15,518)
<b>Amounts due after 12 months</b>	<b>1,040,059</b>	943,534

#### 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.

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

<b>Period</b>	<b>Redemption Price</b>
2016	103.56250%
2017	101.78125%
2018 and thereafter	100.00%

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

#### 2014 Notes

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

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

The 2014 Notes bear interest at 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.

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

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## Notes to the interim condensed consolidated financial statements CONTINUED

Period	Redemption Price
2017	103.1875%
2018 and thereafter	100.00%

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

### 2017 Notes

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

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

The 2017 Notes may be redeemed, in whole or part, by the 2017 Issuer upon not less than 30 nor more than 60 days' notice, at 106.000% of the principal amount plus accrued interest in the 12 month period beginning on 25 July 2019, at 104.000% of the principal amount plus accrued interest in the 12 month period beginning on 25 July 2020, or at 100.000% of the principal plus accrued interest after 25 July 2021. The 2017 Issuer may also redeem the 2017 Notes in other circumstances as set out in the relevant indenture relating to the 2017 Notes.

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

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

Fees and expenses directly attributable to the 2017 Notes and the Tender and Consent Solicitation amounted to US\$ 12,160 thousand.

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

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

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

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

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

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to the Parent or any of its restricted subsidiaries;
- sell, lease or transfer certain assets including shares of restricted subsidiaries;

# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

- 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.

### Finance lease

On 12 April 2016 Zhaikmunai LLP entered into a finance lease agreement for the main administrative office in Uralsk for a period of 20 years for a fee of US\$ 66 thousand per month. As at 30 September 2017 the finance lease prepayment amounted to US\$ 12,042 thousand. Future minimum lease payments under finance leases, together with the present value of the net minimum lease payments are as follows:

<i>In thousands of US dollars</i>	30 September 2017 (unaudited)		31 December 2016 (audited)	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
No later than one year	143	133	525	496
Later than one year and no later than five years	572	357	561	349
Later than five years	1,921	323	2,039	333
<b>Total minimum lease payments</b>	<b>2,636</b>	<b>813</b>	<b>3,125</b>	<b>1,178</b>
Less amounts representing finance charges	(1,823)		(1,947)	
<b>Present value of minimum lease payments</b>	<b>813</b>	<b>813</b>	<b>1,178</b>	<b>1,178</b>

## 12. TRADE PAYABLES

Trade payables comprise the following as at 30 September 2017 and 31 December 2016:

<i>In thousands of US dollars</i>	30 September 2017 (unaudited)	31 December 2016 (audited)
Tenge denominated trade payables	28,899	22,315
US dollar denominated trade payables	24,827	11,846
Euro denominated trade payables	3,372	7,470
Russian rouble denominated trade payables	1,850	1,347
Trade payables denominated in other currencies	232	342
	<b>59,180</b>	<b>43,320</b>

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## Notes to the interim condensed consolidated financial statements CONTINUED

### 13. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following as at 30 September 2017 and 31 December 2016:

<i>In thousands of US dollars</i>	<b>30 September 2017 (unaudited)</b>	31 December 2016 (audited)
Training obligations accrual	<b>11,833</b>	12,018
Taxes payable, other than corporate income tax	<b>6,019</b>	7,041
Accruals under the subsoil use agreements	<b>8,273</b>	6,462
Due to employees	<b>6,034</b>	5,495
Other current liabilities	<b>3,559</b>	2,645
	<b>35,718</b>	33,661

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.

### 14. 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 nine months ended 30 September 2017 was US\$52.5 (9M 2016: US\$43.1)

<i>In thousands of US dollars</i>	<b>Three months ended 30 September</b>		<b>Nine months ended 30 September</b>	
	<b>2017 (unaudited)</b>	<b>2016 (unaudited)</b>	<b>2017 (unaudited)</b>	<b>2016 (unaudited)</b>
Oil and gas condensate	<b>57,601</b>	52,231	<b>193,720</b>	158,557
Gas and LPG	<b>36,092</b>	29,374	<b>109,994</b>	86,507
	<b>93,693</b>	81,605	<b>303,714</b>	245,064

During the nine months ended 30 September 2017 the revenue from sales to three major customers amounted to US\$139,761 thousand, US\$79,280 thousand and US\$20,996 thousand respectively (9M 2016: US\$74,114 thousand, US\$67,657 thousand and US\$33,816 thousand respectively). The Group's exports are mainly represented by deliveries to Belarus and the Black Sea ports of Russia.



# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

### 15. COST OF SALES

<i>In thousands of US dollars</i>	Three months ended 30 September		Nine months ended 30 September	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Depreciation, depletion and amortisation	29,653	35,135	92,196	98,052
Repair, maintenance and other services	5,172	4,774	15,095	15,285
Payroll and related taxes	4,523	3,515	13,235	9,114
Royalties	3,452	3,773	11,275	7,942
Materials and supplies	3,270	924	6,169	2,866
Other transportation services	1,878	1,735	5,657	5,091
Government profit share	742	825	2,632	1,724
Well workover costs	182	1,349	1,094	2,692
Change in stock	697	(2,182)	495	977
Environmental levies	99	755	277	970
Other	(1,883)	730	(1,866)	1,114
	<b>47,785</b>	<b>51,333</b>	<b>146,259</b>	<b>145,827</b>

### 16. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of US dollars</i>	Three months ended 30 September		Nine months ended 30 September	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Payroll and related taxes	3,914	3,135	11,169	10,373
Professional services	2,834	2,664	7,833	6,716
Depreciation and amortisation	556	582	1,771	1,567
Training	97	647	1,459	2,565
Insurance fees	448	227	1,192	848
Business travel	323	551	1,132	2,901
Lease payments	200	186	616	552
Sponsorship	197	43	519	495
Communication	107	101	306	386
Materials and supplies	93	78	286	244
Social program	79	79	237	236
Bank charges	75	71	192	277
Other taxes	24	(48)	55	112
Other	504	155	1,102	661
	<b>9,451</b>	<b>8,471</b>	<b>27,869</b>	<b>27,933</b>



# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

### 17. SELLING AND TRANSPORTATION EXPENSES

<i>In thousands of US dollars</i>	Three months ended 30 September		Nine months ended 30 September	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Loading and storage costs	5,811	7,400	21,447	25,159
Transportation costs	4,533	4,796	15,956	19,129
Marketing services	3,478	5,144	11,257	8,575
Payroll and related taxes	528	358	1,474	970
Other	584	542	1,882	1,671
	<b>14,934</b>	<b>18,240</b>	<b>52,016</b>	<b>55,504</b>

### 18. FINANCE COSTS

<i>In thousands of US dollars</i>	Three months ended 30 September		Nine months ended 30 September	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Interest expense on borrowings	12,632	10,664	33,463	31,218
Unwinding of discount on amounts due to Government of Kazakhstan	257	257	608	627
Unwinding of discount on abandonment and site restoration provision	82	107	245	322
Unwinding of discount on social obligations liability	–	–	40	–
Finance charges under finance leases	35	97	123	148
	<b>13,006</b>	<b>11,125</b>	<b>34,479</b>	<b>32,315</b>

### 19. OTHER EXPENSES

<i>In thousands of US dollars</i>	Three months ended 30 September		Nine months ended 30 September	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Business development	9,295	–	9,295	–
Export customs duty	320	1,197	1,344	4,314
Compensation	–	–	–	571
Other expense	3,717	(1,104)	11,051	1,531
	<b>13,332</b>	<b>93</b>	<b>21,690</b>	<b>6,416</b>

Business Development expenses incurred in relation to potential acquisitions of oil and gas exploration and appraisal assets in Kazakhstan.

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

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## Notes to the interim condensed consolidated financial statements CONTINUED

### 20. INCOME TAX EXPENSE

<i>In thousands of US dollars</i>	Three months ended 30 September		Nine months ended 30 September	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Corporate income tax	6,134	(3,240)	33,227	13,365
Withholding tax	99	113	324	370
Deferred income tax (benefit) / expense	6,165	7,659	(47)	(8,622)
Adjustment in respect of the current income tax for the prior periods	–	–	(133)	(1,327)
<b>Total income tax expense</b>	<b>12,398</b>	<b>4,532</b>	<b>33,371</b>	<b>3,786</b>

Corporate income tax is recognised based on the estimated annual effective income tax rate applied to the income before tax for the nine months ended 30 September 2017. Differences between the recognition criteria in IFRS and under the statutory taxation regulations give rise to a temporary difference between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the change in temporary differences is recorded at the applicable statutory rates, including the prevailing Kazakhstani tax rate of 30% applicable to income derived from the Chinarevskoye subsoil use license.

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

### 21. DERIVATIVE FINANCIAL INSTRUMENTS

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

<i>In thousands of US dollars</i>	Derivative financial instruments	
<b>As at 1 January 2016 (audited)</b>	<b>current</b>	<b>54,095</b>
	<b>non-current</b>	<b>43,005</b>
Proceeds from sale of hedging contract		(27,198)
Loss on derivative financial instruments		(46,750)
<b>As at 30 September 2016 (unaudited)</b>	<b>current</b>	<b>16,962</b>
	<b>non-current</b>	<b>6,190</b>
Proceeds from sale of hedging contract		–
Loss on derivative financial instruments		(16,494)
<b>As at 31 December 2016 (audited)</b>	<b>current</b>	<b>6,658</b>
	<b>non-current</b>	<b>–</b>
Loss on derivative financial instruments		(6,627)
<b>As at 30 September 2017 (unaudited)</b>	<b>current</b>	<b>31</b>
	<b>non-current</b>	<b>–</b>

On 3 March 2014, in accordance with its hedging policy, 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, which was sold before expiration for US\$ 92,256 thousand on 14 December 2015.

On 14 December 2015, Zhaikmunai LLP entered, at cost of US\$ 92,000 thousand, into a long-term hedging contract covering oil sales of 14,674 bbls/day for the first calculation period and 15,000 bbls/day for the subsequent calculation periods or a total of 10,950,000 bbls running through to 14 December 2017. The counterparty to the hedging agreement is

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## Notes to the interim condensed consolidated financial statements CONTINUED

VTB Capital Plc. Based on the hedging contract Zhaikmunai LLP bought a put, which protects it against any fall in the price of oil below US\$ 49,16/bbl.

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 24.

### 22. RELATED PARTY TRANSACTIONS

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

Accounts receivable from and advances paid to related parties represented by entities controlled by shareholders with significant influence over the Group as at 30 September 2017 and 31 December 2016 consisted of the following:

<i>In thousands of US dollars</i>	<b>30 September 2017 (unaudited)</b>	31 December 2016 (audited)
<b>Trade receivables and advances paid</b>		
JSC OGCC KazStroyService	<b>5,611</b>	18,063

Accounts payable to related parties represented by entities controlled by shareholders with significant influence over the Group as at 30 September 2017 and 31 December 2016 consisted of the following:

<i>In thousands of US dollars</i>	<b>30 September 2017 (unaudited)</b>	31 December 2016 (audited)
<b>Trade payables</b>		
JSC OGCC KazStroyService	<b>9,428</b>	6,291

During the nine months ended 30 September 2017 and 2016 the Group had the following transactions with related parties represented by entities controlled by shareholders with significant influence over the Group:

<i>In thousands of US dollars</i>	<b>Three months ended 30 September</b>		<b>Nine months ended 30 September</b>	
	<b>2017 (unaudited)</b>	<b>2016 (unaudited)</b>	<b>2017 (unaudited)</b>	<b>2016 (unaudited)</b>
<b>Purchases</b>				
JSC OGCC KazStroyService	<b>13,633</b>	16,540	<b>43,088</b>	35,863
<b>Management fees and consulting services</b>				
Cervus Business Services	<b>315</b>	342	<b>793</b>	1,012
VWEW Advocaten VOF	<b>3</b>	–	<b>5</b>	–

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

The Contractor is an affiliate of Mayfair Investments B.V., which as at 30 September 2017 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

During the nine months ended 30 September 2017 management and consulting services were provided in accordance with business centre and consultancy agreements signed between members of the Group and Cervus Business Services BVBA and VWEW Advocaten VOF.

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## Notes to the interim condensed consolidated financial statements CONTINUED

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US\$3,956 thousand for the nine months ended 30 September 2017 (9M 2016: US\$2,399 thousand). Payments to key management personnel under ESOP for the nine months ended 30 September 2017 amounted to US\$531 thousand (9M 2016: no payments under ESOP were made)

### 23. 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 September 2017. As at 30 September 2017 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

#### Abandonment and site restoration (decommissioning)

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

#### Environmental obligations

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

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

#### Capital commitments

As at 30 September 2017 the Group had contractual capital commitments in the amount of US\$132,501 thousand (31 December 2016: US\$96,990 thousand) mainly in respect to the Group's oil field exploration and development activities.

#### Operating lease

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

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

<i>In thousands of US dollars</i>	<b>30 September 2017 (unaudited)</b>	31 December 2016 (audited)
No later than one year	<b>7,283</b>	9,589
Later than one year and no later than five years	<b>16,421</b>	28,795

Lease expenses of railway tank wagons for the nine months ended 30 September 2017 amounted to US\$5,883 thousand (9M 2016: US\$9,632 thousand).

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## Notes to the interim condensed consolidated financial statements CONTINUED

### Social and education commitments

As required by the Contract (as amended by, inter alia, Supplement No. 9), the Group is obliged to:

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

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

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

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

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

- invest at least US\$ 19,643 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US\$ 191 thousand;

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

- invest at least US\$ 26,427 thousand for exploration of the field during the exploration period;
- fund liquidation expenses equal to US\$ 259 thousand;

### Domestic oil sales

In accordance with Supplement # 7 to the Contract, Zhaikmunai LLP is required to deliver at least 15% of produced oil to the domestic market on a monthly basis for which prices are materially lower than export prices.

## 24. 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	
<i>In thousands of US dollars</i>	30 September 2017 (unaudited)	31 December 2016 (audited)	30 September 2017 (unaudited)	31 December 2016 (audited)
<b>Financial assets measured at fair value</b>				
Derivative financial instruments	31	6,658	31	6,658
<b>Financial liabilities measured at amortised cost</b>				
Interest bearing borrowings	(1,056,129)	(957,874)	(1,133,035)	(955,924)
Finance lease liabilities	(813)	(1,178)	(1,538)	(1,799)
<b>Total</b>	<b>(1,056,911)</b>	<b>(952,394)</b>	<b>(1,134,542)</b>	<b>(951,065)</b>

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 December 2017.

# Interim condensed consolidated financial statements

## Notes to the interim condensed consolidated financial statements CONTINUED

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 September 2017 and 31 December 2016:

	<b>30 September 2017 (unaudited)</b>	31 December 2016 (audited)
Future price at the reporting date (US\$)	<b>56.43–56.79</b>	56.82–58.84
Expected volatility (%)	<b>24.47</b>	27.33
Risk-free interest rate (%)	<b>0.84</b>	0.84
Maturity (months)	<b>1–2</b>	1–11

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:

	<b>Increase in the assumption</b>	<b>Decrease in the assumption</b>
Increase/(decrease) in gain on derivative financial instruments due to change in oil price assumption (+/-US\$2/bbl)	(103)	333
Increase/(decrease) in gain on derivative financial instruments due to change in volatility rate assumption (+/-2%)	<b>154</b>	(45)

There were no movements between levels of fair value of derivative instrument during nine months ended 30 September 2017.

### 25. EVENTS AFTER THE REPORTING PERIOD

No significant events have occurred after the reporting period.