MATEN PETROLEUM JSC

Financial statements

For the year ended December 31, 2014,
with independent auditor's report

CONTENTS

EY
Building a better working world

«Эрнст энд Янг» ЖШС
Әл-Фараби д-лы, 77/7
«Есентай Тауэр» ғимараты
Алматы қ., 050060
Қазақстан Республикасы
Тел.: +7 727 258 5960
Факс: +7 727 258 5961
www.ey.com

ТОО «Эрнст энд Янг»
пр. Аль-Фараби, 77/7
здание «Есентай Тауэр»
г. Алматы, 050060
Республика Казахстан
Тел.: +7 727 258 5960
Факс: +7 727 258 5961

Ernst & Young LLP
Al-Farabi ave., 77/7
Esentai Tower
Almaty, 050060
Republic of Kazakhstan
Tel.: +7 727 258 5960
Fax: +7 727 258 5961

Independent auditors' report

To the Shareholder and Management of Maten Petroleum JSC.

We have audited the accompanying financial statements of Maten Petroleum JSC (the "Company"), which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Building a better
working world

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Maten Petroleum JSC as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Paul Cohn
Audit Partner

Kairat Medetbayev
Auditor
Ernst & Young LLP

Auditor Qualification Certificate No. MF-0000137 dated 8 February 2013

Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

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

March 20, 2015

STATEMENT OF FINANCIAL POSITION

As at December 31, 2014

In thousands of tenge	Notes	2014	2013 (restated)*	2012 (restated)*
Assets				
Non-current assets				
Oil and gas assets and subsurface use rights	6	**38,792,315**	34,369,267	32,910,694
Property, plant and equipment	7	**939,764**	965,334	881,442
Construction-in-progress	8	**2,213,786**	864,409	1,181,564
Intangible assets		**30,542**	10,779	9,658
Other long-term assets	9	**33,981**	37,036	36,778
Restricted cash in use	16	**413,136**	400,746	341,802
		42,423,524	36,647,571	35,361,938
Current assets				
Inventories	11	**1,393,753**	1,335,314	1,244,201
Trade receivables	12	**2,315,235**	5,305,443	5,267,171
Loan receivable	10	**12,070,910**	–	–
Taxes receivable	13	**1,056,125**	1,098,234	2,512,552
Advances given	14	**2,071,357**	1,505,535	1,175,695
Other current assets	15	**1,466,410**	1,881,331	6,156,055
Cash and cash equivalents	16	**487,576**	285,873	1,383,766
		20,861,366	11,411,730	17,739,440
Total assets		**63,284,890**	48,059,301	53,101,378
Equity and liabilities				
Equity				
Share capital	17	**80,000**	80,000	80,000
Retained earnings		**15,755,349**	16,940,966	29,285,001
		15,835,349	17,020,966	29,365,001
Non-current liabilities				
Bank loan	19	**25,301,063**	–	3,824,406
Site restoration and abandonment provision	20	**1,105,641**	915,965	875,680
Deferred tax liabilities	18	**5,525,302**	4,993,623	5,071,547
Other long-term liabilities	21	**543,495**	609,060	690,629
		32,475,501	6,518,648	10,462,262
Current liabilities				
Bank loan	19	**8,944,721**	3,936,655	5,189,085
Trade payables	22	**3,186,644**	1,550,057	1,283,194
Advances received	24	**–**	10,895,688	–
Corporate income tax payable	25	**396,412**	6,442,138	6,209,063
Other taxes payable	26	**2,119,913**	1,362,658	401,063
Other payables and accrued liabilities	23	**326,350**	332,491	191,710
		14,974,040	24,519,687	13,274,115
Total equity and liabilities		**63,284,890**	48,059,301	53,101,378
Book value per common share	17	**1,976**	2,126	3,669

* *Certain amounts of accounts listed above are not consistent with the balances in the financial statements for the year ended December 31, 2013 and represents recorded adjustments, details of which are disclosed in Note 5.*

Hu Huiping
General Director

Mussin R.A.
Deputy General Director of Economics and Finance

Kusnidenova E.S.
Chief Accountant

АКЦИОНЕРЛІК ҚОҒАМЫ «Матен Петролеум» «Матен Петролеум» АКЦИОНЕРНОЕ ОБЩЕСТВО город Атырау Республика Казахстан

The accounting policies and explanatory notes on pages 6 through 34 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2014

In thousands of tenge	Notes	2014	2013 (restated)*
Revenue	27	**60,906,196**	62,730,178
Cost of sales	28	**(12,237,126)**	(12,527,472)
Gross profit		**48,669,070**	50,202,706
Selling expenses	29	**(21,450,330)**	(21,304,383)
General and administrative expenses	30	**(4,454,236)**	(4,871,350)
Finance income	32	**1,780,371**	225,874
Finance costs	31	**(1,695,055)**	(515,679)
Foreign exchange (loss) / gain, net	34	**(1,119,305)**	5,819
Other expenses	33	**(49,579)**	(56,777)
Profit before income tax		**21,680,936**	23,686,210
Income tax expense	18	**(5,186,553)**	(6,401,850)
Profit for the year		**16,494,383**	17,284,360
Total comprehensive income for the year		**16,494,383**	17,284,360
Earnings per share			
Basic earnings per share	17	**2,062**	2,161

* *Certain amounts of accounts listed above are not consistent with the balances in the financial statements for the year ended December 31, 2013 and represents recorded adjustments, details of which are disclosed in Note 5.*

Hu Huiping
General Director

Mussin R.A.
Deputy General Director of Economics and Finance

Kusnidenova E.S.
Chief Accountant

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2014

In thousands of tenge	Notes	Share capital	Retained earnings	Total equity
At January 1, 2013 (restated)*		80,000	29,285,001	29,365,001
Net income for the year		–	17,284,360	17,284,360
Total comprehensive income for the year		–	17,284,360	17,284,360
Dividends declared	17	–	(29,628,395)	(29,628,395)
At December 31, 2013 (restated)*		80,000	16,940,966	17,020,966
Net income for the year		–	**16,494,383**	**16,494,383**
Total comprehensive income for the year		–	**16,494,383**	**16,494,383**
Dividends declared and paid	17	–	**(17,680,000)**	**(17,680,000)**
At December 31, 2014		**80,000**	**15,755,349**	**15,835,349**

* *Certain amounts of accounts listed above are not consistent with the balances in the financial statements for the year ended December 31, 2013 and represents recorded adjustments, details of which are disclosed in Note 5.*

Hu Huiping
General Director

Mussin R.A.
Deputy General Director of Economics and Finance

Kusnidenova E.S.
Chief Accountant

STATEMENT OF CASH FLOWS

For the year ended December 31, 2014

In thousands of tenge	Notes	2014	2013 (restated)*
Cash flow from operating activities			
Profit before income tax		**21,680,936**	23,686,210
Adjustments for:			
Depreciation, depletion and amortization	28, 29, 30, 33	**2,848,304**	3,685,515
Loss on disposal of property plant and equipment, oil and gas assets and write off of dry well	33	**57,573**	140,108
Finance costs	31	**1,695,055**	515,679
Finance income	32	**(1,780,371)**	(225,874)
Foreign exchange loss		**1,281,348**	(5,819)
Loss / (Gain) on change in estimates of site restoration and abandonment liabilities	33	**44,974**	(21,012)
Operating cash flows before changes in working capital		**25,827,819**	27,774,807
Changes in working capital:			
Changes in trade receivables, advances given and other current assets		**3,099,987**	4,271,413
Change in taxes receivable		**42,109**	(803,588)
Change in inventories		**(58,439)**	(91,113)
Change in other long-term assets		**1,975**	(46,605)
Change in trade payables		**208,365**	208,053
Change in other payables and accrued liabilities		**(417,906)**	(128,027)
Change in other taxes payable		**535,469**	961,595
Cash generated from operating activity		**29,239,379**	32,146,535
Income tax paid		**(9,534,848)**	(3,594,159)
Excess profits tax paid		**(1,165,752)**	(434,634)
Net cash generated from operating activities		**18,538,779**	28,117,742
Cash flow from investing activities			
Loans to employees, net of repayments		**1,080**	(7,643)
Purchase of oil and gas assets	6	**(54,948)**	(13,353)
Purchase of property, plant and equipment	7	**(118,740)**	(305,723)
Purchase of construction-in-progress assets		**(7,000,076)**	(4,673,476)
Purchase of intangible assets		**(23,159)**	(3,922)
Proceeds from disposal of property, plant and equipment and oil and gas assets		**55,659**	-
Provision of loan receivable		**(51,736,150)**	-
Repayment of loan receivable		**41,286,937**	-
Deposits for bank guarantees		**-**	(5,199)
Deposits for future site restoration and abandonment		**(12,390)**	(4,954)
Net cash used in investing activities		**(17,601,787)**	(5,014,270)

The accounting policies and explanatory notes on pages 6 through 34 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS (continued)

In thousands of tenge	Notes	2014	2013 (restated)*
Cash flow from financing activities			
Dividends paid	17	**(17,680,000)**	(29,628,395)
Advances received		**(10,895,688)**	10,895,688
Proceeds from bank loan	19	**35,466,500**	–
Interest paid	19	**(1,343,011)**	(253,022)
Repayment of bank loan	19	**(6,595,432)**	(5,205,114)
Net cash from / (used) financing activities		**(1,047,631)**	(24,190,843)
Effects of exchange rate changes on cash and cash equivalents		**312,342**	(10,522)
Net increase / (decrease) in cash and cash equivalents		**201,703**	(1,097,893)
Cash and cash equivalents, beginning of the year	16	**285,873**	1,383,766
Cash and cash equivalents, end of the year	16	**487,576**	285,873

* *Certain amounts of accounts listed above are not consistent with the balances in the financial statements for the year ended December 31, 2013 and represents recorded adjustments, details of which are disclosed in Note 5.*

SIGNIFICANT NON-CASH TRANSACTIONS – ADDITIONAL DISCLOSURE

The following non-cash transactions have been excluded from the statement of cash flows:

Construction in progress

In 2014 the Company purchased the long-term assets in the form of construction in progress by increasing payables in the amount of 1,428,222 thousand tenge (2013: 55,580 thousand tenge).

Hu Huiping
General Director

Mussin R.A.
Deputy General Director of Economics and Finance

Kusnidenova E.S.
Chief Accountant

The accounting policies and explanatory notes on pages 6 through 34 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Maten Petroleum JSC (hereinafter – the Company) was incorporated under the legislation of the Republic of Kazakhstan as a joint stock company and registered with the Ministry of Justice of the Republic of Kazakhstan on September 3, 2010:

Legal name of the Company	Maten Petroleum JSC
Legal address	1/1 Isatai Sqr., Atyrau
Legal registration number	The Company registered with the Ministry of Justice of the Republic of Kazakhstan on September 3, 2010 under certificate №1142-1915-01-AO
Legal status	Private

In June 2014, there was a change of shareholders; resulting from June 25, 2014 shareholders of the Company are as follows:

- Sino-Science Netherlands Energy Group BV – 7,600 ordinary shares (95% of the total placed shares);
- Ablazimov Baharadin Nugmanovich – 400 ordinary shares (5% of the total placed shares);

As at December 31, 2014 and 2013 the shareholders of the Company were as follows:

	2014		2013	
	%	**In thousands of tenge**	%	In thousands of tenge
Sino-Science Netherland Energy Group B.V.	**95**	**76,000**	–	–
Ablazimov Baharidin Nugmanovich	**5**	**4,000**	30	24,000
Idrissov Dinmuhamet Appazovich (the ultimate shareholder)	**–**	**–**	52	41,600
Dostybayev Yerzhan Nurbekovich	**–**	**–**	18	14,400
	100	**80,000**	100	80,000

The Company is engaged in ownership and management of the following oil and gas assets:

- production license series GKI №92-D-1 (crude oil) for the Kara-Arna oil field with expiry date of February 19, 2023;
- exploration and production license series GKI №1015 (crude oil) for the East Kokarna oil field with expiry date of January 1, 2028; and
- production license series №MG290-D (crude oil) for the Matin oil field with expiry date of October 13, 2020.

All oil fields are located in Atyrau oblast, in the Republic of Kazakhstan.

These financial statements were approved by the management of the Company and authorized for issue on March 20, 2015.

2. BASIS FOR PREPARATION AND CHANGES IN ACCOUNTING POLICIES

The accompanying financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by International Accounting Standard Board (IASB).

The financial statements are prepared under the historical cost basis, except as described in the accounting policies and the notes to the financial statements. All values in these financial statements are rounded to the nearest thousands, except when otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in *Note 4*. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates.

New standards, amendments and clarifications to existing Standards and Interpretations of IFRS (IAS)

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2014.

The nature and the impact of each new standard/amendment is described below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements* and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Company.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of currently has a legally enforceable right to set-off and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Company.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Company as the Company has not novated its derivatives during the current or prior periods.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Company as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 *Fair Value Measurement*. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at January 1, 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Company.

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at January 1, 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Company, since the Company is an existing IFRS preparer.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015.

The adoption of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after July 1, 2014. It is not expected that this amendment would be relevant to the Company, since none of the entities within the Company has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from July 1, 2014 and are not expected to have a material impact on the Company. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Annual improvements 2010-2012 Cycle (continued)

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from July 1, 2014 and are not expected to have a material impact on the Company. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Annual improvements 2011-2013 Cycle (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Company’s financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

Transactions in currencies other than the functional currency of the Company are recorded at the exchange rate at the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in such currencies are translated at the exchange rate at the date of the statement of financial position of the Company. Non-monetary assets and liabilities, recorded at historical cost are translated using the exchange rates prevailing at the date of the transaction. Exchange differences arising from changes in exchange rates are recognized in the statement of income and expenses and other comprehensive income.

The following foreign exchange rates to Tenge established at Kazakhstan Stock Exchange ("KASE") have been used in preparation of these financial statements as official exchange rates in the Republic of Kazakhstan:

	December 31, 2014	December 31, 2013
Exchange rate at the end of the year (to KZT)		
1 US dollar	**182,35**	153,61

Average exchange rates of foreign currencies in which the Company conducts significant transactions are as follows:

	2014	2013
The average exchange rate for the year (to KZT)		
1 US dollar	**179,12**	152,14

Basis of presentation

The Company maintains its accounting records in Kazakhstani tenge (tenge) and prepares financial statements in accordance with accounting rules and regulations accepted in the Republic of Kazakhstan. In accordance with these rules and regulations, joint stock companies are obliged to maintain accounting records and prepare financial statements in accordance with IFRS.

Functional and presentation currency

The functional and presentation currency of the financial statements is the tenge. The figures have been rounded to the nearest thousands of tenge unless otherwise stated.

Use of estimates and assumptions

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Due to the inherent uncertainty in making those estimates, actual results reported in future periods could differ from such estimates.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss’ (FVTPL), ‘held-to-maturity’ investments, ‘available-for-sale’ (AFS) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Loans and trade receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less a provision for doubtful debts. A provision is established when there is objective evidence the Company does not believe it will be able to collect all amounts due according to the original terms of the receivables. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Cash and cash equivalents

Cash includes petty cash and cash held on current bank accounts. Cash equivalents comprise short-term investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents comprise short-term bank deposits with an original maturity of three months or less. The carrying value of these assets is a reasonable estimate of their fair value.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

Bank loans and other non-bank borrowings

All loans and borrowings are initially recorded at the fair value of the proceeds received, net of direct issue costs. Subsequent to initial recognition, all loans and borrowings are measured at amortized cost using the effective interest method.

Trade and other payables

The trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Oil and gas assets

At the initial recognition at the acquisition date, Company's oil and gas assets, which can be reasonably estimated, are recognized at fair value less accumulated depreciation and accumulated impairment loss.

Oil and gas assets are carried at cost less accumulated depreciation and depletion. The Company follows the successful efforts method of accounting for its oil and gas assets, whereby property acquisitions, successful exploratory wells, all development costs (including development dry wells), support equipment and facilities and licenses to explore when acquired are capitalized. Unsuccessful exploratory wells are charged to expense at the time the wells or other exploration activities are determined to be non-productive. Production costs, overheads, geological and geophysical costs and all exploration costs other than exploratory drilling are charged to expense as incurred.

The depreciation and depletion of costs related to oil and gas assets is calculated using the units-of-production method based on proved developed reserves for assets with useful lives that are the same as the life of the oil field and straight-line method for assets with useful lives that are shorter than the life of the oil field.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Oil and gas assets (continued)

After the acquisition date the Company reflects (in the statement of profit or loss and other comprehensive income) depreciation and depletion expenses related to depreciable assets of the companies acquired, based on fair values of these assets at the acquisition date.

The subsurface use rights are recognized by the Company during business combinations as they comply with the definition of an intangible asset, and their fair value can be reasonably estimated. As the subsurface use rights have been recognized by the Company at the date of acquisition of subsidiaries, the cost of these rights is equal to their fair value at the acquisition date. Amortization of these intangible assets is calculated using the units-of-production method based on proved reserves.

Property, plant and equipment

Property, plant and equipment unassociated with oil and gas exploration and production activities are carried at historical cost less accumulated depreciation and accumulated impairment loss. Deprecation of these assets is computed on the straight-line basis as follows:

Buildings and premises	10-50 years
Machinery and equipment	3-30 years
Vehicles	5-10 years
Other assets	4-23 years

Expenditures incurred to replace a component of an item of property; plant and equipment accounted for separately are capitalized while the carrying value of the component being replaced is written off to expense, net of sales proceeds. Other subsequent expenditures are capitalized only when they increase the future economic benefits embedded in the item of property, plant or equipment. All other expenditures are recognized in the statement of profit or loss and other comprehensive income as an expense when incurred.

The gain or loss arising from the disposal or retirement of fixed assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of profit or loss and other comprehensive income.

Construction-in-progress

Construction-in-progress comprises costs directly related to the construction of oil and gas assets and other property, plant and equipment, including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets commences when the assets are put into operation. Construction-in-progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment is made.

Impairment of long-lived assets (oil and gas assets, property, plant and equipment and construction-in-progress)

On each reporting date, the Company reviews the carrying value of its long-lived assets to determine whether there is any indication that those assets have suffered an impairment or loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. In cases when it is impossible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying value, the carrying value of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognized immediately as an expense, except for cases where corresponding asset (land, buildings, other than investment property, or equipment) was accounted at revalued amount. In this case, an impairment loss is reflected as decrease of corresponding revaluation fund. Where an impairment loss subsequently reverses, the carrying value of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying value does not exceed the carrying value that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately as income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Crude oil and inventories used in production of crude oil are stated at lower of the cost, determined based on the weighted-average method, or net realizable value. The cost comprises direct materials, customs duties, and transportation and handling costs. Net realizable value represents the estimated selling price less all estimated costs to complete and costs to be incurred in marketing, selling and distribution.

Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of reporting period.

Deferred tax

Deferred tax is recognized on differences between the carrying value of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognized in profit or loss, except when they relate to items credited or debited directly to equity or other comprehensive income, in which case the tax is also recognized directly in equity or other comprehensive income, or where they arise from the initial accounting for a business combination.

Excess profits tax

Under the Subsurface Use Contract, the Company is subject to excess profit tax. In accordance with the Tax Code of the Republic of Kazakhstan the object of taxation for excess profit tax shall be the part of net income calculated for each subsurface use contract in a tax period that exceeds 25% of the subsoil user's deductions for excess profit tax purpose. Net income for excess profit tax calculating purposes is determined as a difference between net income for subsoil use contract computed for excess profit tax calculation purposes and corporate income tax for subsurface use contract.

Retirement benefit costs

In accordance with the legislative requirements of the Republic of Kazakhstan the Partnership pays into accumulate pension fund obligatory pension contributions of 10% of the employee income with a cap on contributions, which amounted to 149,745 tenge per month in the year 2014 (2013: 139,950 tenge per month). These amounts are expensed when they are incurred. Pension fund payments are withheld from employees' salaries and included with other salary costs in the statement of profit or loss and other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Social obligations

The Company concluded the collective agreement with the employees. According to conditions of the collective agreement the Company is obliged to make the certain social payments to employees, and the sum can vary from year to year. The reserve for these obligations was not created in the financial statements as the management of the Company cannot reasonably estimate the amount of expenses on future social payments. Such expenses, if any, will be reflected at the moment of payment.

Site restoration and abandonment liabilities

Site restoration and abandonment liabilities related primarily to the conservation and liquidation of the Company's wells and similar activities related to its oil and gas assets, including site restoration. The management assessed an obligation related to these costs with sufficient certainty based on internally generated engineering estimates, current regulations requirements and industry practices. The Company recognized the estimated fair value of these liabilities. These estimated costs were recorded as an increase in the cost of oil and gas assets with a corresponding increase in the site restoration and abandonment liabilities. The oil and gas assets related to site restoration and abandonment liability are depreciated on unit-of-production basis. An accretion expense, resulting from the changes in the liability due to passage of time by applying an interest method of allocation to the amount of the liability, is recorded as part of other expenses.

The adequacies of the site restoration and abandonment liability amount are periodically reviewed in light of current laws and regulations, with adjustments recorded as necessary.

Obligations on social infrastructure

The Company has recognized obligations to contribute to social infrastructure of the Atyrau city, Republic of Kazakhstan pursuant to the terms of the Subsurface Use Contracts. The current portion of these obligations is recorded at the value specified in the Subsurface Use Contracts, which management believes approximates their fair value. The non-current portion is recorded at the net present value. The obligations are charged to expense at their recognition.

Obligations for historical costs reimbursement

The Company is obliged to reimburse certain historical costs incurred by the Government for the East Kokarna oilfield pursuant to the terms of the East Kokarna Subsurface Use Contract, the Agreement on acquisition of the geological information #910 dated January 30, 2003, the Addendum to this Agreement dated December 9, 2004 and for the Matin oilfield pursuant to the terms of the East Kokarna Subsurface Use Contract and the Agreement on confidentiality #2092 dated May 4, 2012. The obligations are capitalized as part of the oil and gas assets being effectively cost to acquire rights to the East Kokarna and Matin oil fields. An accretion expense, resulting from the changes in the liability due to passage of time by applying an interest method of allocation to the amount of the liability, is recorded as part of finance costs. Payments on reimbursement of historical costs are paid by the Company to the budget in accordance with Tax code of Republic of Kazhakstan.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the obligation can be estimated reliably.

Trade and other payables

Liabilities for trade and other amounts payable are stated at their nominal value.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of reporting period. Borrowing costs are recognized as an expense when incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

The Company sells crude oil under short-term agreements priced by reference to Platt’s index quotations and adjusted for freight, insurance and quality differentials. Title typically passes and revenues are recognized when crude oil is physically placed onboard a vessel or offloaded from the vessel, transferred into pipe or other delivery mechanism depending on the contractually agreed terms.

The Company’s crude oil sale contracts generally specify maximum quantities of crude oil to be delivered over a certain period. Revenues on sales of oil products are recognized when transfer of ownership occurs and title is passed, either at the point of delivery or the point of receipt, depending on contractual conditions.

Transactions with shareholders

Gains or losses from transactions with shareholders or a party who is related to the shareholders and acts on behalf of the shareholders are recognized directly in equity.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities during the reporting period. The most significant estimates are discussed below.

In the process of applying the Company’s accounting policies, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements.

Useful economic lives of property, plant and equipment

The Company assesses the remaining useful lives of items of property, plant and equipment at each end of reporting period and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Impairment of assets

The Company assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. This requires an estimation of the value-in-use of the asset. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from the asset and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Site restoration and abandonment liabilities

The Company’s activities are subject to various laws and regulations governing the protection of the environment. The Company estimates the provision for site restoration and abandonment liabilities based on management's understanding of the current legal requirements in the various jurisdictions, terms of the license agreements and internally generated engineering estimates. The Company reviews site restoration provisions at the end of each reporting period and adjusts them to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. Estimating the future closure costs involves significant estimates and judgments by management.

Most of these obligations are spread over the useful lives of the oil and gas wells/fields. In addition to ambiguities in the legal requirements, the Company’s estimate can be affected by changes in asset removal technologies, costs and industry practice.

Provision is made, based on net present values, for site restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, estimates of useful lives of wells and discount rates could affect the carrying amount of this provision.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Taxation

The Company is subject to taxation in the Republic of Kazakhstan, in particular to Transfer Pricing law. Significant judgment is required in determining taxes due to inconsistent application, interpretation and enforcement of tax legislation. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences may impact income tax, taxes other than income tax and deferred tax provisions in the period in which such determination is made.

The Company exercises significant judgement when classifying differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes as temporary or permanent.

Oil and gas reserves

The Company uses estimation of proved developed oil reserves in the calculation of depreciation and depletion of costs related to oil and gas assets. Valuation of oil reserves implies some degree of uncertainty. Uncertainty mainly depends on the volume of reliable geological and engineering information, available at the time of valuation and interpretation of this data. Estimations are analyzed and corrected on the annual basis. Estimations can be reviewed in consequence of projects implementation for output improvements, changes in producing capacity or changes in development strategy. The most recent valuation of oil reserves was carried out at January 2015 by Gaffney, Cline & Associates Ltd.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

5. RESTATEMENT OF COMPARATIVE INFORMATION

In preparing the financial statements for the year ended December 31, 2014 a significant adjustment to the comparative data of previous periods were identified, especially on deferred tax liability for the 2013 and 2012. The company recalculated comparative figures in the statement of financial position as at January 1, 2013 and on December 31, 2013.

Below is the effect of the restatement on the statement of financial position as at January 1, 2013 and on December 31, 2013.

In thousands of tenge	As previously reported	Correction of errors	Restated
Statement of financial position at December 31, 2012			
Long term liabilities			
Deferred tax liability	4,728,153	343,394	5,071,547
Equity			
Retained earning	29,628,395	(343,394)	29,285,001

In thousands of tenge	As previously reported	Correction of errors	Restated
Statement of financial position at December 31, 2013			
Long term liabilities			
Deferred tax liability	4,254,256	739,367	4,993,623
Equity			
Retained earning	17,680,333	(739,367)	16,940,966

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. OIL AND GAS ASSETS AND SUBSURFACE USE RIGHTS

In thousands of tenge	**Oil and gas assets**	**Subsurface use rights**	**Total**
Cost:			
At January 1, 2013(restated)	29,859,921	33,396,219	63,256,140
Transfer from construction-in-progress *(Note 8)*	4,982,048	–	4,982,048
Additions	13,353	–	13,353
Transfer from property, plant and equipment *(Note 7)*	131,614	–	131,614
Disposals	(196,225)	–	(196,225)
At December 31, 2013 (restated)	34,790,711	33,396,219	68,186,930
Additional provision and changes in estimates of site restoration and abandonment liability *(Note 20)*	**80,584**		**80,584**
Transfer from construction-in-progress *(Note 8)*	**7,085,745**	**–**	**7,085,745**
Additions	**54,948**	**–**	**54,948**
Transfer from property, plant and equipment *(Note 7)*	**(22,747)**	**–**	**(22,747)**
Disposals	**(153,417)**	**–**	**(153,417)**
At December 31, 2014	**41,835,824**	**33,396,219**	**75,232,043**
Accumulated depletion and depreciation:			
At January 1, 2013 (restated)	(12,337,830)	(18,007,616)	(30,345,446)
Charge for the year	(2,291,910)	(1,300,742)	(3,592,652)
Transfer from property, plant and equipment *(Note 7)*	1,507	–	1,507
Disposal of depreciation	118,928	–	118,928
At December 31, 2013 (restated)	(14,509,305)	(19,308,358)	(33,817,663)
Charge for the year	**(2,004,771)**	**(724,079)**	**(2,728,850)**
Transfer from property, plant and equipment *(Note 7)*	**4,853**	**–**	**4,853**
Disposal of depreciation	**101,932**	**–**	**101,932**
At December 31, 2014	**(16,407,291)**	**(20,032,437)**	**(36,439,728)**
Net book value:			
At January 1, 2013 (restated)	17,522,091	15,388,603	32,910,694
At December 31, 2013 (restated)	20,281,406	14,087,861	34,369,267
At December 31, 2014	**25,428,533**	**13,363,782**	**38,792,315**

Oil and gas assets consist mainly of machinery and equipment, transmission devices, structures, buildings, vehicles and other types of oil and gas assets for operating activities.

Subsoil use rights for Kara Arna, East Kok-Arna and Matin oil fields, represent an initial payment to the Government in the amount of 33,396,219 thousand tenge *(Note 1)*. The Company uses the accrual basis in proportion to production on the basis of proved reserves.

7. PROPERTY, PLANT AND EQUIPMENT

The movement on property, plant and equipment for the years ended December 31, 2014 and 2013 was as follows:

In thousands of tenge	Land	Buildings and premises	Machinery and equipment	Vehicles	Other	Total
Cost:						
At January 1, 2013 (restated)	67,299	623,796	53,882	238,228	211,453	1,194,658
Additions	–	–	4,912	285,661	15,150	305,723
Transfer from construction-in-progress *(Note 8)*	–	–	45,047	–	1,284	46,331
Transfer from oil and gas assets *(Note 6)*	–	(137,647)	(454)	6,487	–	(131,614)
Disposals	–	–	(56)	(44,679)	(3,363)	(48,098)
At December 31, 2013 (restated)	67,299	486,149	103,331	485,697	224,524	1,367,000
Additions	**–**	**–**		**82,236**	**36,504**	**118,740**
Transfer to oil and gas assets *(Note 6)*	**–**	**–**	**–**	**22,747**	**–**	**22,747**
Transfer from construction-in-progress *(Note 8)*	**–**	**–**	**4,142**	**–**	**13,344**	**17,486**
Disposals	**–**	**–**	**–**	**(81,280)**	**(8,848)**	**(90,128)**
At December 31, 2014	**67,299**	**486,149**	**107,473**	**509,400**	**265,524**	**1,435,845**
Accumulated depreciation:						
At January 1, 2013 (restated)	–	(126,964)	(17,279)	(75,888)	(93,085)	(313,216)
Charge for the year	–	(11,326)	(13,561)	(34,371)	(30,804)	(90,062)
Transfer from oil and gas assets *(Note 6)*	–	953	27	(2,487)	–	(1,507)
Disposal of depreciation	–	–	16	709	2,394	3,119
At December 31, 2013 (restated)	–	(137,337)	(30,797)	(112,037)	(121,495)	(401,666)
Charge for the year	**–**	**(11,326)**	**(22,729)**	**(50,482)**	**(31,521)**	**(116,058)**
Transfer to oil and gas assets *(Note 6)*	**–**	**–**	**–**	**(4,853)**	**–**	**(4,853)**
Disposal of depreciation	**–**	**–**	**–**	**19,691**	**6,805**	**26,496**
At December 31, 2014	**–**	**(148,663)**	**(53,526)**	**(147,681)**	**(146,211)**	**(496,081)**
Net book value:						
At January 1, 2013 (restated)	67,299	496,832	36,603	162,340	118,368	881,442
At December 31, 2013 (restated)	67,299	348,812	72,534	373,660	103,029	965,334
At December 31, 2014	**67,299**	**337,486**	**53,947**	**361,719**	**119,313**	**939,764**

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. CONSTRUCTION-IN-PROGRESS

In thousands of tenge	**2014**	2013 (restated)	2012 (restated)
At January 1	**864,409**	1,181,564	2,270,837
Additions	**8,452,608**	4,729,056	4,548,871
Transfer to oil and gas assets and property, plant and equipment *(Notes 6 and 7)*	**(7,103,231)**	(5,028,379)	(5,609,214)
Disposals *(Note 33)*	**–**	(17,832)	(28,930)
At December 31	**2,213,786**	864,409	1,181,564

During 2014 the construction in progress represents 28 production wells (out of which was put into operation 21 wells), construction and installation works, equipment and materials, such as: pumps, container, installations, electrical equipment, machinery, pipes, and pipelines in the total amount of 8,452,608 thousand tenge.

9. OTHER LONG-TERM ASSETS

In thousands of tenge	**2014**	2013 (restated)	2012 (restated)
Long-term portion of loans to employees	**28,056**	29,136	36,778
Long-term prepaid expenses	**5,925**	7,900	–
	33,981	37,036	36,778

10. LOAN RECEIVABLE

As at December 31, 2014 the loan receivable represent loan to parent company Sino-Science Netherlands Energy Group B.V in the amount of 12,070,910 thousand tenge *(Note 35)*. The interest rate constitutes LIBOR 3M + 6%.

The Company signed an additional agreement with Sino-Science Netherlands Energy Group BV to prolong the loan under the Loan Agreement dated June 30, 2014 (100 million US dollars) until December 25, 2016.

11. INVENTORIES

In thousands of tenge	**2014**	2013 (restated)	2012 (restated)
Raw and other materials	**710,439**	578,465	537,985
Finished goods – crude oil	**683,314**	756,849	706,216
	1,393,753	1,335,314	1,244,201

12. TRADE RECEIVABLES

In thousands of tenge	**2014**	2013 (restated)	2012 (restated)
Trade receivables	**2,315,235**	5,305,443	5,267,171
	2,315,235	5,305,443	5,267,171

The aging analysis of trade receivables is presented as follows:

In thousands of tenge	**Total**	**Neither past due nor impaired**	**<30 days**	**30-90 days**	**90-120 days**	**>120 days**
2012	5,267,171	5,267,171	5,213,581	390	17,651	35,549
2013	5,305,443	5,305,443	5,155,980	20,287	–	129,176
2014	**2,315,235**	**2,315,235**	**648**	**2,312,223**	**1,977**	387

NOTES TO THE FINANCIAL STATEMENTS (continued)

13. TAXES RECEIVABLE

In thousands of tenge	**2014**	2013 (restated)	2012 (restated)
Value added tax	**1,012,313**	1,046,121	2,481,667
Other taxes	**43,812**	52,113	30,885
	1,056,125	1,098,234	2,512,552

14. ADVANCES PAID

In thousands of tenge	**2014**	2013 (restated)	2012 (restated)
Prepayments for goods and services	**1,246,631**	893,867	869,813
Insurance prepaid	**824,726**	611,668	305,882
	2,071,357	1,505,535	1,175,695

15. OTHER CURRENT ASSETS

In thousands of tenge	**2014**	2013 (restated)	2012 (restated)
Insurance	**743,928**	–	–
Bank guarantee deposits	**686,709**	578,477	562,556
Bank deposits	**7,382**	921,660	5,268,500
Other	**28,391**	381,194	324,999
	1,466,410	1,881,331	6,156,055

16. CASH AND CASH EQUIVALENTS

In thousands of tenge	**2014**	2013 (restated)	2012 (restated)
Cash in banks, in foreign currency	**337,476**	36,218	1,157,713
Cash in banks, in tenge	**562,561**	649,811	567,832
Petty cash	**675**	590	23
Less: cash and cash equivalents, restricted in use	**(413,136)**	(400,746)	(341,802)
	487,576	285,873	1,383,766

As at December 31, 2014, the Company had cash and cash equivalents, restricted to use in the amount of 413,136 thousand tenge (as at December 31, 2013: 400,746 thousand tenge). These funds do not have a specific date of repayment and the interest rate is 9% per annum (2013: 9% per annum). In compliance with the legislation of Kazakhstan the Company accumulates cash and cash equivalents, restricted to use for repayment of liabilities for decommissioning and site restoration *(Note 36).*

17. SHARE CAPITAL

The Company has 15,000 registered common shares and issued 8,000 common shares for 80,000 thousand tenge (the certificate of state registration of securities issue dated October 28, 2010 №A5829). On June 25, 2014, there was a change of shareholders. As a result the lists of shareholders of the Company are as follows:

- Sino-Science Netherlands Energy Group BV – 7,600 ordinary shares (95% of the total placed shares);
- Ablazimov Baharadin Nugmanovich – 400 ordinary shares (5% of the total placed shares).

In accordance with a shareholders' decision dated on March 11, 2013 and on April 27, 2013 the Company declared and paid dividends in the amount of 8,507,598 thousand tenge based on the results for 2011.

In accordance with a shareholders' decision dated on May 16, 2013, September 9, 2013 and November 5, 2013 the Company declared and paid dividends in the amount of 21,120,797 thousand tenge based on the results for 2012.

In accordance with a shareholders' decision dated on May 27, 2014 the Company declared and paid dividends in the amount of 17,680,000 thousand tenge based on the results for 2013.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. SHARE CAPITAL (continued)

For the years ended December 31, 2014, 2013 and 2012 basic earnings per share were, as follows:

	2014	2013 (restated)	2012 (restated)
Profit for the year	**16,494,383**	17,284,360	24,195,698
Earnings used in the calculation of basic earnings per share	**16,494,383**	17,284,360	24,195,698
Weighted average number of ordinary shares for the purposes of basic earnings per share	**8,000**	8,000	8,000
Basic earnings per share	**2,062**	2,161	3,024

On October 4, 2010 the Kazakhstan Stock Exchange introduced a new requirement for disclosure of the book value of shares at reporting date.

	2014	2013 (restated)	2012 (restated)
Total assets	**63,284,890**	48,059,301	53,101,378
Intangible assets	**(30,542)**	(10,779)	(9,658)
Total liabilities	**(47,449,541)**	(31,038,335)	(23,736,377)
Net total assets	**15,804,807**	17,010,187	29,355,343
Weighted average number of ordinary shares for basic earnings per share	**8,000**	8,000	8,000
Book value per common share (in thousand tenge per share)	**1,976**	2,126	3,669

As at December 31, 2013, 90% of the Company's shares were pledged as collateral for a bank loan.

On May 5, 2014, 4,800 common shares of the Company were withdrawn from collateral for bank loan agreement from ATF Bank JSC.

18. INCOME TAX EXPENSE

Income tax expense for the years ended December 31, 2014 and 2013 is as follows:

In thousands of tenge	**For the year ended December 31, 2014**	For the year ended December 31, 2013 (restated)
Corporate income tax	**4,506,660**	5,333,755
Excess profits tax	**148,214**	1,146,019
Total current income tax expense	**4,654,874**	6,479,774
Deferred corporate income tax benefit	**(65,824)**	(298,068)
Deferred excess profits tax expense	**597,503**	220,144
Total deferred income tax expense / (benefit)	**531,679**	(77,924)
Total income tax expense	**5,186,553**	6,401,850

Deferred taxes reflect net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

18. INCOME TAX EXPENSE (continued)

The tax effect of the major temporary differences that give rise to the deferred tax assets and liabilities at December 31 is presented below:

	2014	2013 (restated)	2012 (restated)
Deferred tax assets			
Other accrued liabilities	**148,526**	161,520	178,823
Site restoration and abandonment liability	**180,465**	129,616	134,496
Taxes payable	**553,327**	296,263	75,398
Other payables and accrued liabilities	**39,776**	34,309	35,201
	922,094	621,708	423,918
Deferred tax liabilities			
Property, plant and equipment and oil and gas assets	**(6,447,396)**	(5,615,331)	(5,495,465)
	(6,447,396)	(5,615,331)	(5,495,465)
Net deferred tax liability	**(5,525,302)**	(4,993,623)	(5,071,547)

The Company is located in the Republic of Kazakhstan where the statutory tax rate for the years ended December 31, 2013 and 2012 was 20%. In accordance with the terms of the Subsurface use rights, the Company is liable for excess profits tax.

Deferred taxes are measured at the rates expected to apply to the period when the asset is realized or liability is settled.

Below is a reconciliation of theoretical income tax at 20% to the actual expense recorded in the Company's statement of profit or loss and other comprehensive income:

In thousands of tenge	**For the year ended December 31, 2014**	For the year ended December 31, 2013 (restated)
Profit before income tax	**21,680,936**	23,686,210
Corporate income tax at statutory rate of 20%	**4,336,188**	4,737,242
Adjustments due to:		
Excess profit tax	**745,717**	1,366,163
Non-deductible expenses	**104,648**	298,445
Income tax expense	**5,186,553**	6,401,850
Effective tax rate	**24%**	27%

19. BANK LOAN

In September 2011 the Company received a loan in the amount of 100 million US dollars in accordance with a loan agreement concluded with ATF Bank JSC. Upon receipt of the loan, the Company paid a commission in the amount of 88,740 thousand tenge. This loan was provided in two tranches in the amount of 47.5 million US dollars in the amount of 52.5 million US dollars and with maturity date on September 29, 2014. The interest rate is LIBOR + 4% and LIBOR + 3%, respectively. In June 2014 the Company repaid all its obligations in front ATF Bank JSC.

On January 23, 2014 Subsidiary of Sberbank of Russia JSC signed an agreement on the opening of non-renewable credit line in the amount of 20 million US dollars with repayment date until January 23, 2017. The interest rate is LIBOR + 3.25% 3M. Within January, 2014 this amount was completely credited into the account of the Company.

Based on the contract dated on December 31, 2013 with Sberbank of Russia JSC in February 2014 the Company received 180 million US dollars with repayment date till December 30, 2016. The interest rate is LIBOR 3.25% + 3M.

According to the conditions specified in contracts with Sberbank JSC, the Company undertook to provide as a pledge:

1. shares of Maten Petroleum JSC in the amount of 70% of total quantity of the placed common shares;
2. 100% export revenues of the Company, incoming under a contract between Maten Petroleum JSC and Vitol Central Asia SA Switzerland.

19. BANK LOAN (continued)

The main part of the loan received from Sberbank of Russia JSC and Subsidiary of Sberbank of Russia JSC was provided to Dragon Fortune PTE LTD, according to the agreement on provision of a loan signed between the Company and Dragon Fortune PTE. LTD on January 13, 2014 (the loan was repaid in advance) and Sino-Science Netherlands Energy Group B.V *(Note 10)*.

Movement of the long-term bank loan for the years ended December 31 was as follows:

In thousands of tenge	**2014**	2013 (restated)	2012 (restated)
At January 1	**3,936,655**	9,013,491	13,940,456
Additional financing	**35,466,500**	–	–
Interest accrued (*Note 31*)	**1,315,397**	270,769	481,418
Foreign exchange loss	**1,593,550**	110,531	165,724
Repayment of principal	**(6,595,432)**	(5,205,114)	(5,113,058)
Payments of interest	**(1,343,011)**	(253,022)	(461,049)
Withholding tax	**(127,875)**	–	–
At December 31	**34,245,784**	3,936,655	9,013,491
Current portion	**(8,944,721)**	(3,936,655)	(5,189,085)
Non-current portion	**25,301,063**	–	3,824,406

20. SITE RESTORATION AND ABANDONMENT LIABILITY

In thousands of tenge	**2014**	2013 (restated)	2012 (restated)
At January 1	**915,965**	875,680	2,498,191
Accretion expense (*Note 31*)	**64,118**	61,297	224,838
Additional provision for the year	**80,584**	–	–
Change in estimate	**44,974**	(21,012)	(1,847,349)
At December 31	**1,105,641**	915,965	875,680

In 2014, Company recognized increase in liabilities on liquidation and site restoration in the amount of 44,974 thousand tenge (in 2013: reduction of liabilities on liquidation and site restoration in the amount of 21,012 thousand tenge) in the income statement (*Note 33*) since this increase has reduced carrying value of assets on liquidation and site restoration, which is equal to zero.

Management considers that a site restoration and abandonment liability should be recognized for future abandonment costs of the 319 wells located at the Kara-Arna, East Kokarna and Matin oil fields as at December 31, 2014 (as at December 31, 2013: 298 wells). Management anticipates that these obligations are likely to be settled at the end of the production phase at these oil fields which is expected to be in 2027 for Kara-Arna; 2032 for East Kokarna; and 2024 for Matin.

As at December 31, 2014, the undiscounted expected future cash flows that will be required to satisfy the Company's obligation is 1,252,978 thousand tenge. In 2014, after application of an inflation rate of 5% and discount rate of 7%, the present value of the Company's liability at December 31, 2014 and 2013 is 1,105,641 thousand tenge and 915,965 thousand tenge, respectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. OTHER LONG-TERM LIABILITIES

In thousands of tenge	Obligations for social infrastructure	Obligations for historical reimbursable costs	Total
At January 1, 2013 (restated)	57,986	632,643	690,629
Accretion expense *(Note 31)*	4,667	52,617	57,284
Reclassification to short-term	(8,624)	(133,746)	(142,370)
Foreign exchange loss	911	2,606	3,517
At December 31, 2013 (restated)	54,940	554,120	609,060
Accretion expense *(Note 31)*	**5,131**	**48,294**	**53,425**
Reclassification to short-term	**(10,102)**	**(139,548)**	**(149,650)**
Foreign exchange loss	**8,723**	**21,937**	**30,660**
At December 31, 2014	**58,692**	**484,803**	**543,495**

The Company is obliged to reimburse certain historical costs incurred by the Government of Republic of Kazakhstan (Government) for the East Kokarna oilfield pursuant to the terms of the East Kokarna Subsurface Use Contract, the Agreement on acquisition of the geological information #910 dated January 30, 2003 and the Addendum to this Agreement dated December 9, 2004.

In May 2012 the Company signed Agreement on confidentiality #2092 with the Government to reimburse certain historical costs incurred by the Government on the Matin oilfield.

In accordance with the Subsurface Use Contracts, the Company is obliged to contribute funds to the social programs and programs on infrastructure development in the Atyrau region as well as to reimburse to the Government expenses incurred to explore Kara-Arna and Matin oilfields. As at December 31, 2014 these obligations are denominated in US dollars and discounted at 7% (as at December 31, 2013: 7%).

22. TRADE PAYABLES

In thousands of tenge	**2014**	2013 (restated)	2012 (restated)
In tenge	**2,855,366**	1,228,465	912,546
In US dollars	**305,357**	321,592	351,701
In Russian rubles	**25,921**	–	18,947
	3,186,644	1,550,057	1,283,194

23. OTHER PAYABLES AND ACCRUED LIABILITIES

In thousands of tenge	**2014**	2013 (restated)	2012 (restated)
Salary and other related taxes payable	**161,015**	139,155	50,606
Obligations for historical costs (short-term portion)	**135,143**	128,231	127,541
Obligations for social infrastructure (short-term portion)	**10,118**	8,681	8,537
Other	**20,074**	56,424	5,026
	326,350	332,491	191,710

24. ADVANCES RECEIVED

As at December 31, 2013, advances received consist of prepayments in the amount of 10,698,760 thousand tenge and in the amount of 195,891 thousand tenge received from Oil Trading Solutions BV and Premium Holding LLP for the future shipment of crude oil, respectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. CORPORTE INCOME TAX PAYABLE

Corporate income tax payable as at December 31 are as follows:

In thousands of tenge	**2014**	2013 (restated)	2012 (restated)
Corporate income tax	**267,931**	5,296,119	5,774,429
Excess profits tax	**128,481**	1,146,019	434,634
	396,412	6,442,138	6,209,063

26. OTHER TAXES PAYABLE

Other taxes payable at December 31, as follows:

In thousands of tenge	**2014**	2013 (restated)	2012 (restated)
Rental tax	**1,562,392**	1,008,274	249,232
Mineral extraction tax	**472,433**	164,220	16,119
Withholding income tax	**26,101**	132,359	85,549
Social tax	**25,356**	44,889	19,412
Other taxes	**33,631**	12,916	30,751
	2,119,913	1,362,658	401,063

27. REVENUE

In thousands of tenge	**For the year ended December 31, 2014**	For the year ended December 31, 2013 (restated)
Export sale of crude oil	**58,405,456**	62,608,034
Domestic sale of crude oil	**5,014,059**	2,475,347
Charges for quality of crude oil sold	**(2,513,319)**	(2,353,203)
	60,906,196	62,730,178

During 2014 the Company produced 532,002 tons (during 2013: 547,032 tons) and sold 530,504 tons (during 2013: 544,504 tons) of crude oil.

On December 18, 2013 the Company signed a long term contract for five (5) years with the Vitol Central Asia SA approximate amount of contract is 1,872,000 million US dollars. During 2014 the Company exported 429,004 tons of oil in accordance with this contract (during 2013: nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. COST OF SALES

In thousands of tenge	**For the year ended December 31, 2014**	For the year ended December 31, 2013 (restated)
Mineral extraction tax	**2,808,788**	2,930,233
Depreciation and depletion	**2,764,058**	3,626,259
Insurance	**1,741,583**	1,346,375
Payroll expenses and related taxes	**1,477,720**	1,173,295
Inventories	**790,959**	1,019,212
Electric power	**562,868**	523,947
Rent	**407,923**	341,435
Geological and geophysical works	**257,801**	187,833
Repair and maintenance expenses	**225,448**	377,904
Scientific research and experimental development	**176,000**	157,000
Catering services	**169,519**	143,051
Security expenses	**79,668**	77,038
Oil well service expenses	**70,000**	110,684
Change in crude oil inventory	**(10,779)**	(167,783)
Other expenses	**715,570**	680,989
	12,237,126	12,527,472

29. SELLING EXPENSES

In thousands of tenge	**For the year ended December 31, 2014**	For the year ended December 31, 2013 (restated)
Rental tax	**11,420,749**	13,065,323
Customs fees	**5,582,504**	3,915,410
Oil preparation and transportation	**4,357,993**	4,202,670
Demurrage	**22,859**	58,989
Technological shipment and pumping losses	**16,633**	16,791
Depreciation and depletion	**7,789**	7,732
Other	**41,803**	37,468
	21,450,330	21,304,383

NOTES TO THE FINANCIAL STATEMENTS (continued)

30. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of tenge	**For the year ended December 31, 2014**	For the year ended December 31, 2013 (restated)
Payroll expenses and related taxes	**3,520,197**	3,954,527
Business trip and representative expenses	**192,563**	217,604
Professional trainings and education	**115,638**	99,335
Taxes and other payment to the budget	**112,652**	8,870
Consulting services	**111,912**	65,604
Rent	**73,788**	93,846
Depreciation and amortization	**48,238**	44,423
Inventories	**35,504**	38,759
Communication services	**22,628**	22,286
Utilities	**19,681**	32,727
Bank services	**18,492**	24,078
Sponsorship	**15,657**	59,477
Security services	**6,994**	6,917
Insurance	**910**	1,178
Fines and penalties	**364**	17,293
Other	**159,018**	184,426
	4,454,236	4,871,350

31. FINANCE COSTS

In thousands of tenge	**For the year ended December 31, 2014**	For the year ended December 31, 2013 (restated)
Interest expense (*Note 19*)	**1,315,397**	270,769
Accretion of site restoration and abandonment liability *(Note 20)*	**64,118**	61,297
Accretion of obligations for historical reimbursable costs *(Note 21)*	**48,294**	52,617
Accretion of obligations for social infrastructure *(Note 21)*	**5,131**	4,667
Other	**262,115**	126,329
	1,695,055	515,679

32. FINANCE INCOME

In thousands of tenge	**For the year ended December 31, 2014**	For the year ended December 31, 2013 (restated)
Interest income from granted loan	**1,605,497**	–
Interest income from bank deposits	**138,284**	206,279
Interest income on deposits to fund liquidation	**36,590**	19,595
	1,780,371	225,874

NOTES TO THE FINANCIAL STATEMENTS (continued)

33. OTHER EXPENSES

In thousands of tenge	**For the year ended December 31, 2014**	For the year ended December 31, 2013 (restated)
Reversal of provision due to change in estimate of site restoration and abandonment liability *(Note 20)*	**(44,974)**	21,012
Loss on disposal of oil and gas assets and property, plant and equipment	**(57,573)**	(122,276)
Write-off of dry well *(Note 8)*	**–**	(17,832)
Depreciation and amortization	**(28,219)**	7,101
Other	**81,187**	55,218
	(49,579)	(56,777)

34. FOREIGN EXCHANGE (LOSS)/GAIN, NET

In thousands of tenge	**For the year ended December 31, 2014**	For the year ended December 31, 2013 (restated)
Foreign exchange gain	**3,993,683**	386,781
Foreign exchange loss	**(5,112,988)**	(380,962)
	(1,119,305)	5,819

February 11, 2014, the National Bank of the Republic of Kazakhstan held a correction of tenge to the US dollar and other foreign currencies. After correction, exchange rate rose from 156.56 tenge to 1 US dollar to 184.50 tenge to 1 US dollar. Correction of tenge resulted in foreign exchange losses in the amount of 1,119,305 thousand tenge, due to the fact that the Company has a significant bank loan denominated in US dollars.

35. RELATED PARTY TRANSACTIONS

Related parties include shareholders, affiliates, entities under common ownership, entities over which the Company has the ability to exercise significant influence, and key management of the Company.

During the years ended December 31, 2014 and 2013, the Company entered into transactions with related parties.

In thousands of tenge	**For the year ended December 31, 2014**	For the year ended December 31, 2013 (restated)
Purchases of services	**–**	1,654,513
Other income	**1,763**	165,111

NOTES TO THE FINANCIAL STATEMENTS (continued)

35. RELATED PARTY TRANSACTIONS (continued)

The following balances with related parties included in the statement of financial position as at December 31, 2014 and 2013:

	For the year ended December 31, 2014	For the year ended December 31, 2013 (restated)
Loans given	**12,070,910**	–
Trade receivables	**49,003**	149,087
Other receivables	**–**	121,106

For the years ended December 31, 2014 and 2013, the compensation to the Company's key management personnel consisted mainly of short-term employee benefits amounted to 1,272,589 thousand tenge and 3,038,925 thousand tenge, respectively.

36. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies under the Subsurface Use Contracts

Non-compliance with the Subsurface Use Contracts

The Government has the right to suspend or cancel the Subsurface Use Contracts if the Company is in material breach of its obligations and commitments under the Subsurface Use Contracts. Management believes the Company is in compliance with the commitments set forth in the Subsurface Use Contracts. However, such compliance may be questioned by the relevant authorities whose interpretations may differ significantly from those of the Shareholders.

Commitment for social infrastructure development

In accordance with the Subsurface Use Contracts, the Company shall be directly involved in the social infrastructure development in the Subsurface Use Contracts' area of operations as required by the applicable legislation. As the amount of social commitments is not specified by the Subsurface Use Contracts, it may vary from year to year by consent of the local authorities. No liability for such commitments is recorded in the financial statements as the Company's management is unable to reasonably estimate the amount of future social expense.

Commitment for professional training

In accordance with the Subsurface Use Contracts, the Company is obliged to provide Kazakhstani specialists with professional training allocating for these purposes not less than 1% of the total annual capital expenditures for Kara-Arna, East Kokarna and Matin oil fields. At least 50% of these expenditures should be allocated through educational institutions of the Republic of Kazakhstan. Management believes that the Company has met these requirements at December 31, 2014.

Commitment to sell produced oil in the Republic of Kazakhstan

In accordance with the Subsurface Use Contracts, the Company is obliged to sell 15% of its oil production from Kokarna and Kara-arna oil fields to domestic market. Management believes that the Company has met these requirements at December 31, 2014.

NOTES TO THE FINANCIAL STATEMENTS (continued)

36. COMMITMENTS AND CONTINGENCIES (continued)

Commitments and contingencies under the Subsurface Use Contracts (continued)

Site restoration and abandonment commitments

In accordance with the Subsurface Use Contracts, upon completion of the oil field exploitation the Company is liable to make abandonment and site restoration of the oil field as stipulated by the Law on Subsurface Use. The Company recorded site restoration and abandonment liabilities in these financial statements *(Note 20)*. Management believes estimate of future commitments corresponds to the amount of liability incurred to restore the site in accordance with the current environmental laws and regulations. In accordance with the Subsurface Use Contracts, the Company is obliged to establish a liquidation fund to finance the liquidation of the consequences of its oil and gas operations in the amount of 1% of total amount of investments during the period covered by the Subsurface Use Contracts. Contributions to the liquidation fund shall be made to the special deposit account in any commercial bank in the Republic of Kazakhstan *(Note 9)*. The Company is also obliged to obtain the Government approval of the program on liquidation of consequences of its operations under the Subsurface Use Contracts, including a budget of liquidation costs, not later than 360 days before the expiration of the Subsurface Use Contracts. The Company has recorded a site restoration and abandonment liability for certain wells in these financial statements.

Upon achieving an agreement with the Government, the liquidation fund will be used to finance the site restoration commitments.

Insurance commitments

In accordance with the Subsurface Use Contracts, the Company is obliged to develop the business, property and liability risk insurance program and submit it for approval to the Competent Body.

In May 2011 the Competent Body of Ministry of Energy and Mineral Resources of the Republic of Kazakhstan approved the business, property and liability risk insurance program submitted by the Company for Subsurface Use Contracts.

Other commitments and contingencies

Operating and regulatory environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly; tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Taxation

The Government of the Republic of Kazakhstan continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, laws and regulations affecting businesses, particularly Transfer Pricing law continues to change rapidly. These changes are characterized by poor drafting, different interpretations and arbitrary application by the authorities.

In particular, taxes are subject to review and investigation by a number of authorities enabled by law to impose fines and penalties. Whilst the Company believes, it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Company and such risks can have material effect on these financial statements.

Environment

The Company believes that it is currently in compliance with all existing Kazakhstani laws and regulations concerning environmental, health and safety issues. However, these environmental laws and regulatory acts may change in future. The Company is unable to predict the timing or extent to which the environmental laws and regulatory acts on environmental, health and safety may change. Such changes, if they occur, may require the Company to upgrade processes to meet more stringent requirements.

36. COMMITMENTS AND CONTINGENCIES (continued)

Other commitments and contingencies (continued)

Legal issues

The Company has not been the subject of legal proceedings and adjudications which have not had individually or in the aggregate, a material adverse impact on the Company.

37. RISK MANAGEMENT POLICIES

Exposure to concentration of commodity price risk as well as to the credit, interest rate, currency, liquidity and operation risk arises in the normal course of the Company's business.

Commodity price risk

Commodity price risk is the risk that changes in market prices for commodities (crude oil) will negatively affect current or future revenues of the Company.

Credit risk

The Company is exposed to credit risk, which is the risk that one party will fail to meet its obligations to a financial instrument and cause the other party to incur a financial loss. The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of provision for uncollectible amounts.

During 2014 and 2013 the company has received a significant share of income from one customer and resulted in a significant concentration of credit risk. In 2014, revenues from Vitol Central Asia SA amounted to 91% (in 2013, revenue from Oil Trading Solutions BV amounted to 96%) of total Company's revenues.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will adversely affect the value of the financial instruments.

Currently, the Company's approach for financing is borrowing at floating interest rates – Libor plus margin. Management of the Company did not reduce the interest rate risk by using derivative instruments.

Foreign currency risks

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company's currency risk is primarily attributable to its loans from banks, trade receivables, and cash.

Operational foreign currency risk of Company is connected to the sales of crude oil in currency other than functional currency of the Company. Most of Company's sales are expressed in US dollars, while most of expenses are expressed in tenge. Most of proceeds from revenue are realised within 30 days from the moment of sales. Thus, the exposure to exchange rate risk from trade receivables at any point in time is limited to one month. The Company does not use hedging instruments to eliminate exposure to exchange rate risk from loans from banks.

The carrying amounts of the Company's monetary assets and liabilities by currency are as follows:

Denominated in US dollars	**2014**	2013 (restated)
Assets	**15,073,266**	6,784,932
Liabilities	**(34,769,251)**	(4,529,121)
Net position	**(19,695,985)**	2,255,811

37. RISK MANAGEMENT POLICIES (continued)

Foreign currency sensitivity analysis

The Company is mainly exposed to exchange rate fluctuations of US dollar against tenge. 17,37% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates (2013: 10%).

The sensitivity analysis includes only outstanding monetary assets and liabilities denominated in US dollar at the year end. At the year end a 17,37% change in foreign currency rates is used for translation (2013: 10%).

The following table presents the sensitivity analysis of profit before taxation (as a consequence of possible changes in the fair value of monetary assets and liability) to possible changes in exchange rate of US dollar, on the condition of other parameters status quo. The increase by 17,37% represents weakening of tenge against US dollar, while decrease by 17,37% is strengthening of tenge against US dollars (2013:increase /(decrease) for 10%).

	At December 31, 2014		At December 31, 2013	
	Tenge/ US dollar +17,37%	**Tenge/ US dollar -17,37%**	Tenge/ US dollar +10%	Tenge/ US dollar -10%
Net income/(loss)	**3,421,193**	**(3,421,193)**	225,581	(225,581)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to settle all liabilities when they fall due. The Company's liquidity position is carefully monitored and managed. The Company makes use of a detailed budgeting and cash forecasting process to ensure that it has adequate cash available to meet its payment obligations.

Operational risk

Operational risk is the risk of the Company incurring financial loss as a result of business interruption and possible damage to the Company's property through natural disasters and technological accidents.

At December 31, 2014, the Company believes it has sufficient insurance policies in force in respect of public liability.

Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for the majority of the Company's financial instruments, the Company uses assumptions in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument.

At December 31, 2014 and 2013, the carrying value of financial assets and financial liabilities approximates their fair value.