# MATEN PETROLEUM JSC

Consolidated financial statements

*For the year ended 31 December 2016,*
*with independent auditor's report*

# CONTENTS

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# Independent auditor's report

To the Shareholder and Board of directors of Maten Petroleum JSC

### *Opinion*

We have audited the consolidated financial statements of "Maten Petroleum" JSC and its subsidiary (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as at 31 December 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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***Estimation of oil and gas reserves***

We considered estimation of oil and gas reserves a key audit matter due to the fact that oil and gas reserves estimate has significant impact on the depletion, depreciation and amortization and site restoration and abandonment provision.

The estimation process involves significant judgement and technical uncertainty.

The Group engaged reserve engineers to estimate the quantities of its oil and gas reserves.

We assessed the competence and objectivity of reserve engineers involved in the estimation process. We evaluated data used by the reserve engineers by comparing it with the budget approved by the management. We compared reserves estimates used by the Group in the calculation of depletion, depreciation and amortization and site restoration and abandonment provision with the reserve quantities reported by the reserve engineers.

Description of the methodology used for the estimation of oil and gas reserves is included in Note 4 to the consolidated financial statements.

***Other information included in the Group's 2016 Annual report***

Other information consists of the information included in the Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

***Responsibilities of Management for the Consolidated Financial Statements***

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Ernst & Young LLP

Paul Cohn
Audit Partner

Kairat Medetbayev
Auditor

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

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

26 May 2017

Gulmira Turmagambetova
General Director
Ernst & Young LLP

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**As at December 31, 2016**

| *In thousands of tenge* | Notes | 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Oil and gas assets and subsurface use rights | 5 | **122,438,506** | 117,753,995 |
| Property, plant and equipment | 6 | **1,519,952** | 1,065,898 |
| Construction-in-progress | 7 | **12,782,920** | 2,443,698 |
| Intangible assets | | **54,989** | 64,753 |
| Exploration and evaluation assets | 8 | **2,303,935** | 1,708,210 |
| Other long-term assets | | **37,318** | 31,810 |
| Restricted cash | 15 | **951,506** | 755,602 |
| | | **140,089,126** | 123,823,966 |
| **Current assets** | | | |
| Loan receivable | 9 | **150,672** | – |
| Inventories | 10 | **2,275,320** | 1,723,553 |
| Trade receivables | 11 | **5,500,239** | 4,134,029 |
| Taxes receivable | 12 | **4,100,090** | 2,733,410 |
| Advances paid | 13 | **1,570,075** | 3,934,280 |
| Other current assets | 14 | **1,963,655** | 1,428,080 |
| Cash and cash equivalents | 15 | **559,317** | 6,173,897 |
| | | **16,119,368** | 20,127,249 |
| **Total assets** | | **156,208,494** | 143,951,215 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 16 | **80,000** | 80,000 |
| Accumulated loss | | **(41,696,130)** | (50,923,686) |
| | | **(41,616,130)** | (50,843,686) |
| **Non-current liabilities** | | | |
| Borrowings | 17 | **12,726,108** | 33,947,000 |
| Site restoration and abandonment liability | 18 | **1,855,105** | 1,577,275 |
| Deferred tax liabilities | 19 | **22,388,222** | 22,934,152 |
| Other long-term liabilities | 20 | **2,312,337** | 2,280,845 |
| | | **39,281,772** | 60,739,272 |
| **Current liabilities** | | | |
| Borrowings | 17 | **134,500,707** | 129,821,788 |
| Trade payables | 21 | **18,909,450** | 1,320,629 |
| Advances received | | **1,339,520** | |
| Income taxes payable | 22 | **716,429** | 458,246 |
| Other taxes payable | 23 | **2,289,213** | 1,558,284 |
| Other payables and accrued liabilities | 24 | **787,533** | 896,682 |
| | | **158,542,852** | 134,055,629 |
| **Total equity and liabilities** | | **156,208,494** | 143,951,215 |
| Book value per one common share (in tenge) | 16 | **(5,208,890)** | (6,363,555) |

**Xiao Huanqin**
**General Director**

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

**Temirbulatova A.M.**
**Chief Accountant**

*The accounting policies and explanatory notes on page 6 through 36 form an integral part of these consolidated financial statements*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**For the year ended December 31, 2016**

| *In thousands of tenge* | Notes | 2016 | 2015 |
|---|---|---|---|
| Revenue | 25 | **51,925,227** | 37,684,022 |
| Cost of sales | 26 | **(14,952,250)** | (11,900,364) |
| **Gross profit** | | **36,972,977** | 25,783,658 |
| Selling expenses | 27 | **(16,538,981)** | (15,238,383) |
| General and administrative expenses | 28 | **(2,788,663)** | (2,033,977) |
| Finance income | 29 | **1,142,527** | 524,462 |
| Finance costs | 30 | **(9,099,797)** | (3,611,555) |
| Foreign exchange gain/(loss), net | | **2,645,811** | (69,182,311) |
| Other income/(expenses), net | 31 | **78,211** | (23,612) |
| **Profit/(loss) before income tax** | | **12,412,085** | (63,781,718) |
| Income tax expense | 19 | **(3,184,529)** | (2,897,317) |
| **Net profit/(loss) for the year** | | **9,227,556** | (66,679,035) |
| Other comprehensive income | | **–** | – |
| **Total comprehensive profit/(loss) for the year** | | **9,227,556** | (66,679,035) |
| **Earnings/(loss) per share** | | | |
| Earnings/(loss) per share | 16 | **1,153** | (8,335) |

**Xiao Huanqin**
**General Director**

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

**Temirbulatova A.M.**
**Chief Accountant**

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# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the year ended December 31, 2016**

| *In thousands of tenge* | Share capital | Retained Earnings | Total equity |
|---|---|---|---|
| **At January 1, 2015** | 80,000 | 15,755,349 | 15,835,349 |
| Net loss for the year | – | (66,679,035) | (66,679,035) |
| **Total comprehensive loss for the year** | – | (66,679,035) | (66,679,035) |
| **At December 31, 2015** | 80,000 | (50,923,686) | (50,843,686) |
| Net profit for the year | – | **9,227,556** | **9,227,556** |
| **Total comprehensive income for the year** | – | **9,227,556** | **9,227,556** |
| **At December 31, 2016** | **80,000** | **(41,696,130)** | **(41,616,130)** |

Xiao Huanqin
General Director

«Матен Петролеум»
АКЦИОНЕРНОЕ ОБЩЕСТВО
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Mussin R.A.
Deputy General Director of Economics and Finance

Temirbulatova A.M.
Chief Accountant

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# CONSOLIDATED STATEMENT OF CASH FLOWS

**For the year ended December 31, 2016**

| *In thousands of tenge* | Notes | 2016 | 2015 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit/(loss) before income tax | | **12,412,085** | (63,781,718) |
| **Adjustments for:** | | | |
| Depreciation, depletion and amortization | 26, 27, 28, 31 | **5,069,676** | 3,796,422 |
| Loss on disposal of property plant and equipment, oil and gas assets and write off of dry well | 31 | **1,406** | 4,240 |
| Finance costs | 30 | **9,099,797** | 3,611,555 |
| Finance income | 29 | **(1,142,527)** | (524,462) |
| Foreign exchange loss | | **(2,568,234** | 69,799,191 |
| Change in estimates of site restoration and abandonment liabilities | 31 | – | 41,325 |
| Provision for impairment of trade receivables, advances paid and loans given | | **5,898** | – |
| **Operating cash flows before changes in working capital** | | **22,878,101** | 12,946,553 |
| **Changes in working capital** | | | |
| Changes in trade receivables, advances given and other current assets | | **914,862** | (113,888) |
| Change in taxes receivable | | **(1,444,009)** | (638,576) |
| Change in inventories | | **(551,767)** | 95,675 |
| Change in other long-term assets | | **(6,516)** | (41) |
| Change in trade payables | | **2,031,461** | (705,824) |
| Change in other payables and accrued liabilities | | **(697,777)** | (62,778) |
| Change in other taxes payable | | **(503,461)** | (1,590,458) |
| **Cash generated from operating activity** | | **22,620,894** | 9,930,663 |
| Corporate income tax paid | | **(3,349,618)** | (2,185,873) |
| Excess profits tax paid | | – | (154,869) |
| **Net cash generated from operating activities** | | **19,271,276** | 7,589,921 |
| **Cash flow from investing activities** | | | |
| Loans to employees, net of repayments | | **1,008** | 2,212 |
| Purchase of oil and gas assets | 5 | **(272,809)** | (38,606) |
| Purchase of property, plant and equipment | | **(22,265)** | (23,227) |
| Purchase of construction-in-progress assets | | **(4,868,711)** | (5,138,972) |
| Purchase of intangible assets | | **(10,129)** | (16,247) |
| Purchase of exploration and evaluation assets | | **(116,939)** | (72,452) |
| Proceeds from business combination | | – | 332,038 |
| Acquisition of a subsidiary | | – | (63,962,052) |
| Tender warranty paid for acquisition of a subsidiary | | – | (2,236,147) |
| Provision of loan receivable | | **(22,656,378)** | (752,200) |
| Repayment of loan receivable | | **786,007** | 15,160,517 |
| Deposits for site restoration and abandonment | | **(183,486)** | (187,329) |
| **Net cash used in investing activities** | | **(27,343,702)** | (56,932,465) |

*The accounting policies and explanatory notes on page 6 through 36 form an integral part of these consolidated financial statements*

## CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

| *In thousands of tenge* | Notes | 2016 | 2015 |
|---|---|---|---|
| **Cash flow from financing activities** | | | |
| Advances received | | **1,339,520** | – |
| Proceeds from bank loan | 17 | **17,007,500** | 89,996,000 |
| Interest paid | 17 | **(5,970,048)** | (2,239,702) |
| Repayment of bank loan | 17 | **(9,683,431)** | (35,338,438) |
| **Net cash from financing activities** | | **2,693,541** | 52,417,860 |
| Effects of exchange rate changes on cash and cash equivalents | | **(235,695)** | 2,611,005 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(5,614,580)** | 5,686,321 |
| Cash and cash equivalents, at the beginning of the year | 15 | **6,173,897** | 487,576 |
| **Cash and cash equivalents, at the end of the year** | 15 | **559,317** | 6,173,897 |

### SIGNIFICANT NON-CASH TRANSACTIONS – ADDITIONAL DISCLOSURE

The following non-cash transactions have been included into the statement of cash flows:

**Construction in progress**

In 2016 additions to construction in progress in the amount of 14,929,661 thousand tenge were financed by the increase in accounts payable.

**Oil and gas assets**

Oil and gas assets were increased in 2016 by 594,649 thousand tenge by the increase of social obligations and accrual of site restoration and abandonment provision in the amounts 351,985 thousand tenge and 168,828 thousand tenge, respectively.

**Exploration and evaluation assets**

Exploration and evaluation assets were increased in 2016 by 471,961 thousand tenge by the increase of social obligations, accrual of site restoration and abandonment provision and increase in accounts payable in the amounts 46,275 thousand tenge, 11,976 thousand tenge and 413,710 thousand tenge, respectively.

**Offset of loans receivable**

During 2016 the Group performed an offset of borrowings from SINO-SCIENCE NETHERLANDS ENERGY GROUP B.V. with loans given in the amount of 22,186,226 thousands of tenge.

**Xiao Huanqin**
**General Director**

«Матен Петролеум»
АКЦИОНЕРНОЕ ОБЩЕСТВО

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

**Temirbulatova A.M.**
**Chief Accountant**

*The accounting policies and explanatory notes on page 6 through 36 form an integral part of these consolidated financial statements*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**For the year ended December 31, 2016**

## 1. GENERAL INFORMATION

The accompanying consolidated financial statements include the financial statements of Maten Petroleum JSC (the "Company") and its subsidiary KoZhan JSC (collectively the "Group").

Maten Petroleum JSC 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 |

On June 25, 2014, shareholders of the Company changed and as at December 31, 2016 and 2015 the shareholders of the Company were as follows:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **%** | **In thousands of tenge** | % | In thousands of tenge |
| Sino-Science Netherland Energy Group B.V. | **95** | **76,000** | 95 | 76,000 |
| Ablazimov Baharidin Nugmanovich | **5** | **4,000** | 5 | 4,000 |
| | **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 expiration date on February 19, 2023;
- Exploration and production license series GKI № 1015 (crude oil) for the East Kokarna oil field with expiration date on 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 Region, in the Republic of Kazakhstan.

### Subsidiary

On August 12, 2015 the Company acquired 100% shares (10,748,046 common shares) of KoZhan JSC (the "Subsidiary") for cash consideration of 340,495,300 US dollars (equivalent to 63,962,052 thousand tenge at the exchange rate as at transaction date)..

The Subsidiary was established on April 28, 2001 in the Republic of Kazakhstan as a Limited Liability Partnership KoZhan. On October 16, 2014, the Subsidiary was reorganized into a joint stock company.

Legal address of the Subsidiary: 060005, Republic of Kazakhstan, Atyrau, Sevastopol street 1B.

The Subsidiary has a branch in Atyrau.

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

- Combined contract for exploration and production of hydrocarbons No. 1103 for the Morskoye oil field with expiration date on February 17, 2034;
- Combined contract for exploration and production of hydrocarbons No. 1102 for the Dauletaly oil field with expiration date on February 17, 2034.
- Combined contract for exploration and production of hydrocarbons No. 1104 for the Karatal oil field with expiration date of February 17, 2034.

These consolidated financial statements were approved by the management of the Group and authorized for issue on May 26, 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 2. BASIS OF PREPARATION

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements. All values in these consolidated financial statements are rounded to the nearest thousands, except when otherwise indicated.

**Statement of compliance**

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB").

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

**Foreign currency translation**

*Functional and presentation currency*

Items included in the financial statements of each of the Group's entities included in these consolidated financial statements are measured using the currency of the primary economic environment in which the entities operate ("the functional currency"). The consolidated financial statements are presented in Kazakhstan tenge ("tenge" or "KZT"), which is the Group's functional currency.

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Differences arising on settlement or translation of monetary items are recognised in profit or loss.

*Exchange rates*

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as official currency exchange rates in the Republic of Kazakhstan.

The currency exchange rate of KASE as at December 31, 2016 was 333.29 tenge to 1 US dollar. This rate was used to translate monetary assets and liabilities denominated in United States dollars ("US dollar") as at December 31, 2016 (2015: 339.47 tenge to 1 US dollar).

### 3. SIGNIFICANT ACCOUNTING POLICIES

**New standards, amendments and clarifications to existing IFRS standards and interpretations**

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

*IFRS 14 Regulatory Deferral Accounts*

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as line items on the consolidated statement of financial position and present movements in these account balances as separate line items in the statement of profit. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**New standards, amendments and clarifications to existing IFRS standards and interpretations (continued)**

*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 *Business Combinations* principles for business combination 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 if 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 applied prospectively. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

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

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a 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 applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

*Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 *Agriculture*. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are applied retrospectively and do not have any impact on the Group as it does not have any bearer plants.

*Amendments to IAS 27: Equity Method in Financial Statements*

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their consolidated financial statements. Entities already applying IFRS and electing to change to the equity method in their consolidated financial statements have to apply that change retrospectively. These amendments do not have any impact on the Group's consolidated financial statements.

***Annual improvements 2012-2014 cycle***

These improvements include:

*IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**New standards, amendments and clarifications to existing IFRS standards and interpretations (continued)**

***Annual improvements 2012-2014 cycle (continued)***

*IFRS 7 Financial Instruments: Disclosures*

*(i) Servicing contracts*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

*(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements*

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim consolidated financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

*IAS 19 Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

*IAS 34 Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must either be in the interim consolidated financial statements or incorporated by cross-reference between the interim consolidated financial statements and wherever they are included within the interim consolidated financial report (e.g., in the management commentary or risk report). The other information within the interim consolidated financial report must be available to users on the same terms as the interim consolidated financial statements and at the same time. This amendment is applied retrospectively.

These amendments do not have any impact on the Group.

*Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the consolidated statement of comprehensive income and the consolidated statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to consolidated financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statement of financial position and the consolidated statement of comprehensive income. These amendments do not have any impact on the Group.

*Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception*

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**New standards, amendments and clarifications to existing IFRS standards and interpretations (continued)**

***Annual improvements 2012-2014 cycle (continued)***

*Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (continued)*

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

**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 Group's consolidated financial statements are disclosed below. The Group 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* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: 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. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. Overall, the Group expects no significant impact on its balance sheet and equity.

*(a) Classification and measurement*

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

*(b) Impairment*

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group does not expect a significant impact on its equity due to secured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. The Group is considering the clarifications issued by the IASB in July 2016 and will monitor any further developments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Standards issued but not yet effective (continued)**

*IFRS 15 Revenue from Contracts with Customers (continued)*

*(i) Applicability of the amendments to IFRS 7 to condensed interim financial statements*

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim consolidated financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

*Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments are not expected to have any impact on consolidated financial statements of the Group.

*IAS 7 Disclosure Initiative – Amendments to IAS 7*

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's *Disclosure Initiative* and require an entity to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

*IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

*IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2*

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Standards issued but not yet effective (continued)

*IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. These amendments are not expected to have any impact on the Group.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiary as at December 31, 2016. Control is achieved when the Group is exposed, or has the right, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee only if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company's reporting based on the consistent application of accounting policies for all companies of the Group.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Basis of consolidation (continued)**

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the Company and its subsidiary are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

**Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is premeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognized either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

**Financial instruments**

Financial assets and financial liabilities are recognized when the Group 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. 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 Group 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Derecognition of financial assets**

The Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group 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 Group derecognises financial liabilities when, and only when, the Group'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, Group'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 Group 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.

After the acquisition date the Group reflects (in the statement of 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 Group 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 Group 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Oil and gas assets (continued)**

*Exploration and evaluation costs*

Once the legal right to explore has been acquired, geological and geophysical exploration costs and costs directly associated with exploration and appraisal wells are capitalized as exploration and evaluation intangible or tangible assets, according to the nature of the costs, until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If no reserves are found, the exploration and evaluation asset is tested for impairment, if extractable hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells, are likely to be developed commercially; the costs continue to be carried as an asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbon reserves. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the assets are written off. When proved reserves of hydrocarbons are determined and development is sanctioned, the relevant expenditure is transferred to oil and gas development assets after impairment is assessed and any resulting impairment loss is recognized.

**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 Group 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 Group 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

**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 Group’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 consolidated 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 the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group 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 Group 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 Group 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Pension obligations

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 171,442 tenge per month in the year 2016 (2015: 160,230 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.

#### Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is either:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within 12 (twelve) months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current.

A liability is current when either:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 (twelve) months after the reporting period;
- There is no unconditional right to defer the settlement of the liability for at least 12 (twelve) months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

#### Site restoration and abandonment liabilities

Site restoration and abandonment liabilities related primarily to the conservation and liquidation of the Group'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 Group 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 Group 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Obligations for historical costs reimbursement**

The Group is obliged to reimburse certain historical costs incurred by the Government in relation to the Group's subsurface use contracts. As at financial statement date, the obligation is presented at its fair value, calculated by discounting future cash outflows at effective interest rate. 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 Group to the budget in accordance with Tax code of Republic of Kazhakstan.

**Provisions**

Provisions are recognized when the Group 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 Group 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.

**Revenue recognition**

The Group 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 Group'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.

**Recognition of expenses**

Expenses are accounted for at the time the actual flow of the related goods or services occur, regardless of when cash or its equivalent is paid, and are reported in the financial statements in the period to which they relate.

**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 the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In particular, the Group has identified the following areas where significant judgments, estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the consolidated financial statements.

Changes in estimates are accounted for prospectively.

### 4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

**Useful economic lives of property, plant and equipment**

The Group 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*.

**Recoverability of oil and gas assets**

The Group assesses assets or CGU for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices, discount rates, future capital requirements, operating performance (including production and sales volumes) that are subject to risk and uncertainty. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered to be impaired and is written down to its recoverable amount. In assessing recoverable amount the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

The key assumptions required for the recoverable amount estimation are the oil prices and WACC. The sensitivity of the headroom to changes in the key assumptions was estimated.

Cash flows have been discounted using pre-tax WACC, which is equal to 11.7%. As at December 31, 2016 recoverable amount of oil and gas assets exceed their carrying amount.

**Site restoration and abandonment liabilities**

The Group's activities are subject to various laws and regulations governing the protection of the environment. The Group 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 Group 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 Group'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.

**Taxation**

The Group 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 Group 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 Group 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

**Oil and gas reserves**

Oil and gas reserves are a material factor in the Group's computation of depreciation, depletion and amortization expenses. The Group estimates its oil and gas reserves in accordance with the methodology of the Society of Petroleum Engineers ("SPE"). In estimating its reserves under SPE methodology, the Group uses long-term planning prices. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices. Management believes that long-term planning price assumptions, which are also used by management for their business planning and investment decisions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves.

All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

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

Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data, availability of new data, or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for Depreciation Depletion & Amortization (DD&A) in relation to oil and gas production assets. The Group has included in proved reserves only those quantities that are expected to be produced during the initial subsoil use contract period. This is due to the uncertainties surrounding the outcome of such renewal procedures, since the renewal is ultimately at the discretion of the Government. An increase in the Group's subsoil use contract periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings. A reduction in proved developed reserves will increase DD&A expense (assuming constant production), reduce income and could also result in an immediate write-down of the property's book value. Given the relatively small number of producing fields, it is possible that any changes in reserve estimates year on year could significantly affect prospective charges for DD&A.

The Group uses estimation of total proved oil reserves in the calculation of amortization of subsoil use rights, while estimation of proved developed oil reserves is used in the calculation of depreciation of the rest of oil and gas asset

The most recent valuation of oil reserves was carried out as at December 31, 2016 by Geo Jade Petroleum Research Institute.

**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.

**Exploration and evaluation costs**

Once the legal right to explore has been acquired, geological and geophysical exploration costs and costs directly associated with exploration and appraisal wells are capitalized as exploration and evaluation intangible or tangible assets, according to the nature of the costs, until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If no reserves are found, the exploration and evaluation asset is tested for impairment, if extractable hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells, are likely to be developed commercially; the costs continue to be carried as an asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbon reserves. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the assets are written off. When proved reserves of hydrocarbons are determined and development is sanctioned, the relevant expenditure is transferred to oil and gas development assets after impairment is assessed and any resulting impairment loss is recognized.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 5. OIL AND GAS ASSETS AND SUBSURFACE USE RIGHTS

| *In thousands of tenge* | **Oil and gas assets** | **Subsurface use rights** | **Total** |
|---|---|---|---|
| **Cost** | | | |
| **At January 1, 2015** | 41,835,824 | 33,396,219 | 75,232,043 |
| Additional provision to site restoration and abandonment liability *(Note 18)* | 35,733 | – | 35,733 |
| Transfer from construction-in-progress *(Note 7)* | 6,442,774 | – | 6,442,774 |
| Acquisition of a subsidiary | 7,048,365 | 69,038,521 | 76,086,886 |
| Additions | 38,606 | – | 38,606 |
| Disposals | (88,430) | – | (88,430) |
| **At December 31, 2015** | 55,312,872 | 102,434,740 | 157,747,612 |
| Additional provision to site restoration and abandonment liability *(Notes 18, 20)* | **503,759** | **–** | **503,759** |
| Transfer from construction-in-progress *(Note 7)* | **8,845,221** | **–** | **8,845,221** |
| Additions | **193,759** | **–** | **193,759** |
| **At December 31, 2016** | **64,855,611** | **102,434,740** | **167,290,351** |
| **Accumulated depletion and depreciation** | | | |
| **At January 1, 2015** | (16,407,291) | (20,032,437) | (36,439,728) |
| Charge for the year | (2,766,372) | (872,416) | (3,638,788) |
| Disposal of depreciation | 84,899 | – | 84,899 |
| **At December 31, 2015** | (19,088,764) | (20,904,853) | (39,993,617) |
| Charge for the year | **(3,526,346)** | **(1,331,882)** | **(4,858,228)** |
| **At December 31, 2016** | **(22,615,110)** | **(22,236,735)** | **(44,851,845)** |
| **Net book value** | | | |
| **At December 31, 2015** | 36,224,108 | 81,529,887 | 117,753,995 |
| **At December 31, 2016** | **42,240,501** | **80,198,005** | **122,438,506** |

Oil and gas assets consist mainly of machinery and equipment, transmission devices, structures, buildings, vehicles and other types of oil and gas assets used in production of crude oil.

Subsoil use rights consists of initial payments to the Government in the amount of 33,396,219 thousand tenge for Kara Arna, East Kokarna, Maten oil fields. Addition in the amount of 69,038,521 relates to Morskoye, Karatal and Dauletaly oil fields as a result of an acquisition of a subsidiary.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 6. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the years ended December 31, 2016 and 2015 is as follows:

| *In thousands of tenge* | Land | Buildings and premises | Machinery and equipment | Vehicles | Other | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At January 1, 2015** | 67,299 | 486,149 | 107,473 | 509,400 | 265,524 | 1,435,845 |
| Acquisition of a subsidiary | – | 107,119 | 81,511 | 8,360 | 17,525 | 214,515 |
| Additions | – | – | – | – | 17,324 | 17,324 |
| Transfer from construction-in-progress *(Note 7)* | – | 28 | 22,506 | 4,484 | 16,658 | 43,676 |
| Disposals | – | (12,527) | (22,704) | – | (18,535) | (53,766) |
| **At December 31, 2015** | 67,299 | 580,769 | 188,786 | 522,244 | 298,496 | 1,657,594 |
| Additions | **–** | **–** | **33,374** | **–** | **6,536** | **39,910** |
| Transfer from construction-in-progress *(Note 7)* | **73,940** | **455,506** | **19,542** | **12,082** | **52,859** | **613,929** |
| Disposals | **–** | **(49)** | **(3,794)** | **–** | **(10,957)** | **(14,800)** |
| **At December 31, 2016** | **141,239** | **1,036,226** | **237,908** | **534,326** | **346,934** | **2,296,633** |
| **Accumulated depreciation** | | | | | | |
| **At January 1, 2015** | – | (148,663) | (53,526) | (147,681) | (146,211) | (496,081) |
| Charge for the year | – | (21,596) | (40,457) | (49,785) | (36,599) | (148,437) |
| Disposal of depreciation | – | 12,527 | 22,043 | – | 18,252 | 52,822 |
| **At December 31, 2015** | – | (157,732) | (71,940) | (197,466) | (164,558) | (591,696) |
| Charge for the year | **–** | **(41,016)** | **(58,123)** | **(53,462)** | **(45,778)** | **(198,379)** |
| Disposal of depreciation | **–** | **44** | **2,827** | **–** | **10,523** | **13,394** |
| **At December 31, 2016** | **–** | **(198,704)** | **(127,236)** | **(250,928)** | **(199,813)** | **(776,681)** |
| **Net book value** | | | | | | |
| **At December 31, 2015** | 67,299 | 423,037 | 116,846 | 324,778 | 133,938 | 1,065,898 |
| **At December 31, 2016** | **141,239** | **837,522** | **110,672** | **283,398** | **147,271** | **1,519,952** |

### 7. CONSTRUCTION-IN-PROGRESS

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| **At January 1** | **2,443,698** | 2,213,786 |
| Additions | **19,797,372** | 2,721,945 |
| Acquisition of a subsidiary | **–** | 3,996,430 |
| Transfer to oil and gas assets and property, plant and equipment *(Notes 5, 6)* | **(9,459,150)** | (6,486,450) |
| Disposal | **–** | (2,013) |
| **At December 31** | **12,782,920** | 2,443,698 |

During 2016 the Group completed construction of 24 new wells and placed them into exploitation at Matin, East Kokarna, Kara Arna and Morskoe fields.

As at December 31, 2016 the construction in progress mainly represents 40 wells under construction and installation works, with corresponding pumps, electrical equipment, machinery, pipes, etc.

### 8. EXPLORATION AND EVALUATION ASSETS

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| **At January 1** | **1,708,210** | – |
| Additions | **537,474** | 291,835 |
| Accretion of site restoration and abandonment liability *(Note 18)* | **11,976** | – |
| Accretion of obligations for social infrastructure *(Note 20)* | **46,275** | – |
| Acquisition of a subsidiary | **–** | 1,416,375 |
| **At December 31** | **2,303,935** | 1,708,210 |

Additions to exploration and evaluation assets in 2016 mainly consists of exploration works performed at Dauletaly oil field.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 9. LOAN RECEIVABLE

As at December 31, 2016 the loan receivable represented loan provided to North Caspian Petroleum JSC (related party) in the amount of 150,672 thousand tenge. Maturity date is 23 December 2017 with interest rate 18% per annum.

### 10. INVENTORIES

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| Finished goods – crude oil | **1,424,962** | 790,334 |
| Raw and other materials | **850,358** | 933,219 |
| | **2,275,320** | 1,723,553 |

### 11. TRADE RECEIVABLES

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| Trade receivables | **5,500,239** | 4,134,029 |
| | **5,500,239** | 4,134,029 |

The aging analysis of trade receivables is presented as follows:

| | | | **Past due but not impaired** | | | |
|---|---|---|---|---|---|---|
| *In thousands of tenge* | **Total** | **Neither past due nor impaired** | **<30 days** | **30-90 days** | **90-120 days** | **>120 days** |
| **2016** | **5,500,239** | **5,500,239** | **5,496,893** | **–** | **–** | **3,346** |
| 2015 | 4,134,029 | 4,134,029 | 992,810 | 3,140,845 | – | 374 |

### 12. TAXES RECEIVABLE

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| VAT receivable | **4,068,410** | 2,676,168 |
| Other taxes | **31,680** | 57,242 |
| | **4,100,090** | 2,733,410 |

### 13. ADVANCES PAID

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| Prepayments for goods and services | **1,492,152** | 1,567,691 |
| Insurance | **77,923** | 130,442 |
| Tender guarantee | **–** | 2,236,147 |
| | **1,570,075** | 3,934,280 |

### 14. OTHER CURRENT ASSETS

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| Bank guarantee deposits | **1,255,131** | 1,278,404 |
| Bank deposits | **33,329** | 46,828 |
| Other | **675,195** | 102,848 |
| | **1,963,655** | 1,428,080 |

### 15. CASH AND CASH EQUIVALENTS

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| Cash in banks, in tenge | **1,327,252** | 843,567 |
| Cash in banks, in foreign currency | **182,035** | 6,085,117 |
| Petty cash | **1,536** | 815 |
| Less: cash and cash equivalents, restricted in use | **(951,506)** | (755,602) |
| | **559,317** | 6,173,897 |

As at December 31, 2016, cash and cash equivalents in the amount of 951,506 thousand tenge (as at December 31, 2015: 755,602 thousand tenge) are restricted in use. These funds do not have a specific date of repayment and accrues interest income at the range of 4% to 10% per annum (2015: 4% to 9% per annum). In compliance with the legislation, the Group accumulates cash and cash equivalents, restricted in use, for repayment of liabilities for decommissioning and site restoration *(Note 19)*.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 16. 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). In June 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).

During 2016 and 2015 the Group did not declare and pay any dividends.

For the years ended December 31, 2016 and 2015 earnings/(loss) per share were as follows:

| | **2016** | 2015 |
|---|---|---|
| Profit/(loss) for the year | **9,227,556** | **(66,679,035)** |
| **Earnings/(loss) used in the calculation of (loss)/earnings per share** | **9,227,556** | **(66,679,035)** |
| Weighted average number of ordinary shares for the purposes of earnings per share | **8,000** | **8,000** |
| (Loss)/earnings per share | **1,153** | **(8,335)** |

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

| | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Total assets | **156,208,494** | 143,951,215 |
| Intangible assets | **(54,989)** | (64,753) |
| Total liabilities | **(198,824,624)** | (194,794,901) |
| **Net total assets** | **(41,671,19)** | (50,908,439) |
| Number of ordinary shares | **8,000** | 8,000 |
| Book value per common share (in tenge per share) | **(5,208,890)** | (6,363,555) |

### 17. BORROWINGS

**Bank of China branch in Kazakhstan JSC**

On July 22, 2015 the Group entered into two non-revolving credit line agreements with the Bank of China branch in Kazakhstan JSC (the “Bank”) to obtain borrowings in the amount of 380,000 and 50,000 thousand US dollars. In July and August 2015 the Group received two tranches in the amounts of 180,000 thousand US dollars (the “First tranche”) (equivalent to 33,741,000 thousand tenge at exchange rate as at transaction date) and 200,000 thousand US dollars (the “Second tranche”) (equivalent to 37,530,000 thousand tenge at exchange rate as at transaction date). The borrowings were mainly used to acquire the shares of KoZhan JSC and to repay the loans provided by Subsidiary of Sberbank of Russia JSC and Sberbank of Russia JSC.

On March 29, 2016 the Group received tranche according to the second agreement in the amount of 50,000 thousand US dollars (equivalent to 17,007,500 thousand of tenge at exchange rate as at transaction date).

According to the conditions specified in contracts with the Bank of China, the Group provided as a pledge:

1. Outstanding shares of the Company;
2. Subsoil use contracts for Maten, East Kok-Arna, Kara-Arna, Morskoe, Karatal and Dauletaly oilfields.

The maturity dates of the First and Second tranches are July 30, 2018 and August 10, 2022, respectively, and accrue interest at LIBOR 3M + 2.75% and LIBOR 3M + 3.60%, respectively. The tranche under the second agreement in the amount of 50,000 thousand US dollars with accrual of interest at LIBOR 3M + 2.75% with maturity date of July 23, 2018.

*Covenants*

As at December 31, 2016 the Group breached financial covenant imposed by Bank of China Branch in Kazakhstan JSC, as a result of which entire amount of the loan provided by the Bank in the amount of 114,568,438 thousand tenge was classified as on demand.

## 17. BORROWINGS (continued)

**Sino-Science Netherlands Energy Group B.V.**

In July 2015 the Group obtained interest bearing loan in the amount of 100,000 thousand US dollars (equivalent to 18,725,000 thousand tenge at the date of transaction) from Sino-Science Netherlands Energy Group B.V (the "Parent") at fixed interest rate of 4% per annum.

During 2016 the Group performed an offset of borrowings from SINO-SCIENCE NETHERLANDS ENERGY GROUP B.V. with loans given in the amount of 21,186,226 thousands of tenge.

Movement of the borrowings for the years ended December 31 was as follows:

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| **At January 1** | **163,768,788** | 34,245,784 |
| Additional financing | **17,007,500** | 89,996,000 |
| Interest accrued *(Note 30)* | **8,686,611** | 3,350,920 |
| Foreign exchange (gain)/loss | **(3,206,119)** | 74,088,807 |
| Repayment of principal | **(9,683,431)** | (35,338,438) |
| Payments of interest | **(5,970,048)** | (2,239,702) |
| Withholding tax | **(1,234,016)** | (334,583) |
| Value added tax | **43,756** | – |
| Offset | **(22,186,226)** | – |
| **At December 31** | **147,226,815** | 163,768,788 |
| | | |
| Current portion | **(134,500,707)** | (129,821,788) |
| Non-current portion | **12,726,108** | 33,947,000 |

## 18. SITE RESTORATION AND ABANDONMENT LIABILITY

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| **At January 1** | **1,577,275** | 1,105,641 |
| Acquisition of a subsidiary | **–** | 359,494 |
| Accretion expense *(Note 30)* | **114,081** | 85,064 |
| Additional provision for the year *(Note 5, 9)* | **163,749** | 35,733 |
| Change in estimate | **–** | (8,657) |
| **At December 31** | **1,855,105** | 1,577,275 |

Estimated future site restoration costs related to petroleum operations are based on engineering estimates of the anticipated method and extent of site restoration, in accordance with current legislation, industry practices and costs. Management of the Group estimates that major part of the assets will be abandoned at the expiration date of the hydrocarbon production contracts disclosed in *Note 1*. Accretion expenses related to future site restoration and abandonment liability are included within finance costs.

Management considers that a site restoration and abandonment liability should be recognized for future abandonment costs of the 442 wells located at the Group's oil fields as at December 31, 2016 (as at December 31, 2015: 396 wells). Management anticipates that these obligations are likely to be settled at the end of the production phase at these oil fields.

An inflation rate of 5.5% and discount rate of 7% were used in the calculation of site restoration and abandonment liability (as at December 31, 2015: 5.5% and 7% respectively).

### 19. INCOME TAX EXPENSE

Income tax expense for the years ended December 31, 2016 and 2015 is as follows:

| *In thousands of tenge* | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Corporate income tax | **3,544,849** | 2,377,722 |
| Excess profit tax | **185,610** | 168,991 |
| **Total current income tax expense** | **3,730,459** | 2,546,713 |
| Deferred corporate income tax expense/(benefit) | **(404,457)** | 167,610 |
| Deferred excess profits tax expense | **141,473** | 182,994 |
| **Total deferred income tax expense** | **545,930** | 350,604 |
| **Total income tax expense** | **3,184,529** | 2,897,317 |

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.

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

| | **2016** | **Origination and reversal of temporary differences through consolidated statement of comprehensive income** | 2015 | Origination and reversal of temporary differences through consolidated statement of comprehensive income | 2014 |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| Tax losses from non-contractual activities carried forward | **16,524,049** | **1,031,493** | 15,492,556 | 15,464,032 | – |
| Other accrued liabilities | **602,598** | **(23,834)** | 626,432 | 86,863 | 188,302 |
| Taxes payable | **483,339** | **94,047** | 389,292 | (260,992) | 553,327 |
| Exploration and evaluation assets | **183,155** | **(53,038)** | 236,193 | 9,816 | – |
| Site restoration and abandonment liability | **227,007** | **17,097** | 209,910 | 8,663 | 180,465 |
| Forex on social and historical costs | **–** | **(191,031)** | 191,031 | 71,613 | – |
| | **18,020,148** | **874,734** | 17,145,414 | 15,379,995 | 922,094 |
| Less: allowance for non-recognized deferred tax asset | **(16,071,990)** | **(415,102)** | (15,656,888) | (15,537,396) | – |
| | **1,948,158** | **459,632** | 1,488,526 | (157,401) | 922,094 |
| **Deferred tax liabilities** | | | | | |
| Property, plant and equipment and oil and gas assets | **(24,336,380)** | **(86,298)** | (24,422,678) | (193,203) | (6,447,396) |
| | **(24,336,380)** | **(86,298)** | (24,422,678) | (193,203) | (6,447,396) |
| **Net deferred tax liability, net** | **(22,388,222)** | **(545,930)** | (22,934,152) | (350,604) | (5,525,302) |

The Group is located in the Republic of Kazakhstan where the statutory tax rate for the years ended December 31, 2016 and 2015 was 20%. In accordance with the terms of the subsurface use contracts, the Group is liable for excess profits tax.

Deferred tax balances are calculated by applying the income tax rates in effect at the respective consolidated statement of financial position dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the consolidated financial statements. Tax losses carried forward as at December 31, 2016 per tax legislation applied by the Group, which was effect in the Republic of Kazakhstan, expires for tax purposes 10 (ten) years from the date they are incurred. Consequently, the majority of the tax losses carried forward by the Group at December 31, 2016 expire for tax purposes in 2016-2026.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 19. INCOME TAX EXPENSE (continued)

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 Group's consolidated statement of comprehensive income:

| *In thousands of tenge* | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| **(Loss)/profit before income tax** | **12,412,085** | (63,781,718) |
| **Corporate income tax at statutory rate of 20%** | **2,482,417** | (12,756,344) |
| **Adjustments due to:** | | |
| Excess profit tax | **44,137** | 351,985 |
| Change in unrecognized deferred tax asset | **415,102** | 15,537,396 |
| Other differences | **242,873** | (235,720) |
| **Income tax expense** | **3,184,529** | 2,897,317 |

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| **Reconciliation of deferred tax liabilities, net** | | |
| **Opening balance as of 1 January** | **22,934,152** | 5,525,302 |
| Deferred tax liability recognized during the period | **(545,930)** | 350,604 |
| Deferred taxes acquired in business combination | **–** | 17,058,246 |
| **Closing balance as at 31 December** | **22,388,222** | 22,934,152 |

### 20. OTHER LONG-TERM LIABILITIES

As at December 31, 2016 other long-term liabilities comprises the following:

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| Obligation for historical reimbursable costs | **1,372,741** | 1,650,717 |
| Obligation for social infrastructure | **923,261** | 613,793 |
| Long-term warranty payables | **16,335** | 16,335 |
| | **2,312,337** | 2,280,845 |

The movement of the obligations for historical reimbursable costs and social infrastructure during 2016 and 2015 is as follows:

| *In thousands of tenge* | **Obligations for social infrastructure** | **Obligations for historical reimbursable costs** | **Total** |
|---|---|---|---|
| **At January 1, 2015** | 58,692 | 484,803 | 543,495 |
| Acquisition of a subsidiary | 269,866 | 721,536 | 991,402 |
| Accretion expense *(Note 30)* | 34,902 | 82,950 | 117,852 |
| Change in estimate | 33,281 | 16,701 | 49,982 |
| Foreign exchange loss | 261,284 | 677,603 | 938,887 |
| | 658,025 | 1,983,593 | 2,641,618 |
| Reclassification to short-term | (44,232) | (332,876) | (377,108) |
| **At December 31, 2015** | 613,793 | 1,650,717 | 2,264,510 |
| Charge for the period *(Note 5, 8)* | **398,261** | **–** | **398,261** |
| Accretion expense *(Note 30)* | **81,725** | **147,880** | **229,605** |
| Change in estimate | **–** | **(39,623)** | **(39,623)** |
| Reclassification | **–** | **58,925** | **58,925** |
| Foreign exchange loss | **(22,565)** | **(25,198)** | **(47,762)** |
| | **1,071,215** | **1,792,701** | **2,863,916** |
| Reclassification to short-term | **(147,954)** | **(419,960)** | **(567,914)** |
| **At December 31, 2016** | **923,261** | **1,372,741** | **2,296,002** |

### 20. OTHER LONG-TERM LIABILITIES (continued)

The Group is obliged to reimburse certain historical costs incurred by the Government of Republic of Kazakhstan in respect of East Kokarna, Matin, Morskoye, Karatal and Dauletaly oilfields pursuant to the terms of the corresponding subsurface use contracts.

In accordance with the subsurface use contracts, the Group is subject to contribution of funds to the social programs and programs on infrastructure development in the Atyrau region. In 2016 Kozhan JSC concluded a supplement agreement, according to which social obligations payments increased from 120 to 220 thousand US dollars.

As at December 31, 2016 significant portion of these obligations are denominated in US dollars based on the same assumptions used for estimation of site restoration and abandonment liability *(Note 18)*.

### 21. TRADE PAYABLES

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| In tenge | **18,462,178** | 747,739 |
| In US dollars | **349,239** | 505,952 |
| In Russian rubles | **98,033** | 66,938 |
| | **18,909,450** | 1,320,629 |

Trade accounts payable are non-interest bearing and settlements thereon are usually made within 30 (thirty) days.

### 22. INCOME TAXES PAYABLE

Income taxes payable as at December 31 are as follows:

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| Corporate income tax | **552,210** | 315,643 |
| Excess profits tax | **164,219** | 142,603 |
| | **716,429** | 458,246 |

### 23. OTHER TAXES PAYABLE

Other taxes payable at December 31 as follows:

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| Rental tax | **1,060,090** | 834,948 |
| Mineral extraction tax | **821,706** | 590,379 |
| Withholding income tax | **272,182** | 24,762 |
| Social tax | **12,599** | 27,819 |
| Other taxes | **122,636** | 80,376 |
| | **2,289,213** | 1,558,284 |

### 24. OTHER PAYABLES AND ACCRUED LIABILITIES

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| Obligation for historical reimbursable costs and social infrastructure | **529,091** | 584,214 |
| Salary and other related taxes payable | **194,597** | 202,082 |
| Short-term warranty payables | **–** | 46,811 |
| Other | **63,845** | 63,575 |
| | **787,533** | 896,682 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 25. REVENUE

| *In thousands of tenge* | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Export sale of crude oil | **51,264,512** | 37,572,577 |
| Domestic sale of crude oil | **3,495,714** | 2,027,642 |
| Charges for quality of crude oil sold | **(2,834,999)** | (1,916,197) |
| | **51,925,227** | 37,684,022 |

During 2016 the Group produced 630,013 tons and sold 593,514 tons (during 2015: 557,254 tons produced and sold 550,248) of crude oil.

On December 18, 2013 the Group signed long-term contract for 5 (five) years with Vitol Central Asia SA, entity registered in Switzerland. The approximate amount of the contract is 1,872,000 thousand US dollars. During 2016 the Group exported 333,033 tons of crude oil in accordance with this contract (2015: 378,002 tons).

### 26. COST OF SALES

| *In thousands of tenge* | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Depreciation and depletion | **4,905,324** | 3,678,783 |
| Mineral extraction tax | **2,665,698** | 1,826,314 |
| Payroll expenses and related taxes | **2,340,826** | 1,892,742 |
| Transportation expenses | **990,802** | 207,434 |
| Inventories | **859,211** | 648,454 |
| Repair and maintenance expenses | **519,236** | 315,749 |
| Electric power | **500,395** | 609,090 |
| Property tax | **488,454** | 429,701 |
| Rent | **472,172** | 354,194 |
| Oil well service expenses | **337,783** | 77,872 |
| Geological and geophysical works | **295,278** | 152,046 |
| Catering services | **238,425** | 212,564 |
| Insurance | **147,499** | 842,177 |
| Security expenses | **145,292** | 117,246 |
| Scientific research and experimental development | **55,451** | 221,880 |
| Change in crude oil inventory | **(796,152)** | 426 |
| Other expenses | **786,556** | 313,692 |
| | **14,952,250** | 11,900,364 |

### 27. SELLING EXPENSES

| *In thousands of tenge* | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Oil preparation and transportation | **7,150,242** | 5,038,949 |
| Customs fees | **6,179,154** | 6,047,157 |
| Rental tax | **2,688,892** | 3,781,437 |
| Demurrage | **86,597** | 190,396 |
| Depreciation and depletion | **70,660** | 36,478 |
| Technological shipment and pumping losses | **40,707** | 17,165 |
| Other | **322,729** | 126,801 |
| | **16,538,981** | 15,238,383 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 28. GENERAL AND ADMINISTRATIVE EXPENSES

| *In thousands of tenge* | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Payroll expenses and related taxes | **1,437,929** | 1,223,686 |
| Taxes and other payments to the budget | **388,516** | 85,530 |
| Professional trainings and education | **172,001** | 148,164 |
| Business trip and representative expenses | **89,713** | 73,848 |
| Depreciation and amortization | **78,175** | 58,218 |
| Rent | **75,799** | 41,755 |
| Inventories | **52,840** | 35,029 |
| Consulting services | **49,238** | 70,628 |
| Sponsorship | **40,693** | 28,615 |
| Bank services | **24,086** | 54,609 |
| Communication services | **21,050** | 21,599 |
| Security service | **15,053** | 15,862 |
| Fines and penalties | **9,742** | 5,707 |
| Utilities | **6,554** | 5,754 |
| Insurance | **5,143** | 3,534 |
| Other | **322,131** | 161,439 |
| | **2,788,663** | 2,033,977 |

### 29. FINANCE INCOME

| *In thousands of tenge* | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Interest income from loan receivable | **965,191** | 432,319 |
| Interest income from bank deposits | **95,762** | 45,032 |
| Interest income on liquidation fund deposits | **81,574** | 47,111 |
| | **1,142,527** | 524,462 |

### 30. FINANCE COSTS

| *In thousands of tenge* | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Interest expense *(Note 17)* | **8,686,611** | 3,350,920 |
| Accretion of obligations for historical reimbursable costs *(Note 20)* | **147,880** | 82,950 |
| Accretion of site restoration and abandonment liability *(Note 18)* | **114,081** | 85,064 |
| Accretion of obligations for social infrastructure *(Note 20)* | **81,725** | 34,902 |
| Other | **69,500** | 57,719 |
| | **9,099,797** | 3,611,555 |

### 31. OTHER EXPENSES, NET

| *In thousands of tenge* | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Reversal of provision due to change in estimate of site restoration and abandonment liability, historical reimbursable costs and obligation to invest into social infrastructure *(Note 19, 20)* | – | (41,325) |
| Depreciation and amortization | **(15,517)** | (22,943) |
| Loss on disposal of oil and gas assets and property, plant and equipment, net | **(1,406)** | (4,240) |
| Other | **95,134** | 44,896 |
| | **78,211** | (23,612) |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 32. RELATED PARTY TRANSACTIONS

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

During the years ended December 31, 2016 and 2015, the Group entered into the flowing transactions with related parties:

| *In thousands of tenge* | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Finance income | **–** | – |
| Finance cost | **–** | – |
| Purchases of services | **–** | 1,185 |
| Other income | **9,675** | 978 |

The following balances with related parties included in the consolidated statement of financial position as at December 31, 2016 and 2015:

| | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Borrowings | **12,726,108** | 34,201,812 |
| Loans given *(Note 9)* | **–** | – |
| Other receivables | **11,002** | 235 |

As at December 31, 2016, the key management personnel consist of 14 persons. For the years ended December 31, 2016 and 2015, the compensation to the Group's key management personnel mainly consisted of short-term employee benefits amounted to 415,785 thousand tenge and 1,272,589 thousand tenge, respectively.

### 33. 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 Group is in material breach of its obligations and commitments under the Subsurface Use Contracts. Management believes the Group 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 Group 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. Liability for such commitments is recorded in the consolidated financial statements of the Group *(Note 20)*. Management believes that the Group has met these requirements at December 31, 2016 and 2015.

*Commitment for professional training*

In accordance with the Subsurface Use Contracts, the Group 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, Matin, Morskoye, Karatal and Dauletaly oil fields. At least 50% of these expenditures should be allocated through educational institutions of the Republic of Kazakhstan. Management believes that the Group has met these requirements at December 31, 2016 and 2015.

*Commitment to sell produced oil in the Republic of Kazakhstan*

In accordance with the Subsurface Use Contracts, the Group is obliged to sell 15% of its oil production from Ease Kokarna, Kara Arna and Morskoye oil fields and 20% of its oil production from Morskoye, Karatal and Dauletaly to domestic market. Management believes that the Group has met these requirements at December 31, 2016 and 2015.

### 33. 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 Group is liable to make abandonment and site restoration of the oil field as stipulated by the Law on Subsurface Use. The Group recorded site restoration and abandonment liabilities in these consolidated financial statements *(Note 18)*. 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 Group 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 15)*. The Group 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 Group has recorded a site restoration and abandonment liability for certain wells in these consolidated 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 Group is obliged to develop the business, property and liability risk insurance program and submit it for approval to the Competent Body.

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 Group 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 Group 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 Group and such risks can have material effect on these consolidated financial statements.

*Environment*

The Group 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 Group 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 Group to upgrade processes to meet more stringent requirements.

*Legal issues*

The Group 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 Group.

## 34. 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 Group'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 Group.

### Credit risk

The Group 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 Group'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 2016 and 2015 the Group has received a significant share of income from one customer and resulted in a significant concentration of credit risk. In 2016, revenues from Vitol Central Asia SA amounted to 73% (in 2015, revenue from Vitol Central Asia SA amounted to 83%) of total Group's revenues.

The Group's management reviews credit ratings of these banks periodically and transacts with the resident and non-resident banks that have at least a credit rating of BB- on long-term US dollar deposits from Standard and Poor's rating agency.

The table below shows cash held in banks at the consolidated statement of financial position date and credit rating symbols for Kazakhstan banks:

| *In thousand of tenge* | **Location** | **Agency** | **2016** | 2015 | **2016** | 2015 |
|---|---|---|---|---|---|---|
| Bank of America | USA | Standard & Poor's | **BBB+/stable** | BBB+/stable | **1,255,131** | 1,278,404 |
| Eurasian Bank JSC | Kazakhstan | Standard & Poor's | **B/stable** | B/stable | **833,786** | 6,304,249 |
| Qazaq Banki JSC | Kazakhstan | Standard & Poor's | **B-/negative** | B-/negative | **572,647** | 99,061 |
| Subsidiary of Bank of China Kazakhstan JSC | Kazakhstan | Standard & Poor's | **A/stable** | A/stable | **71,637** | 22,191 |
| ATF Bank JSC | Kazakhstan | Standard & Poor's | **B/negative** | B-/stable | **58,554** | 35,780 |
| Kazkommertzbank JSC | Kazakhstan | Standard & Poor's | **B-/negative** | B-/negative | **4,105** | 1,519 |
| Industrial and Commercial Bank of China JSC | Kazakhstan | Standard & Poor's | **A/stable** | A/stable | **1,887** | 1,926 |

### Interest rate risk

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

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

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's profit before income tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

| *В тысячах тенге* | **Increase/ (decrease) in basis points** | **Effect on profit before tax** |
|---|---|---|
| **2016** | | |
| US dollar | **+60** | **(802,396)** |
| | **-8** | **106,986** |
| **2015** | | |
| US dollar | +50 | (644,993) |
| | -12 | 154,798 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 34. RISK MANAGEMENT POLICIES (continued)

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

Operational foreign currency risk of Group is connected to the sales of crude oil in currency other than functional currency of the Group. Most of Group'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 Group does not use hedging instruments to eliminate exposure to exchange rate risk from loans from banks.

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

| **Denominated in US dollars** | **2016** | 2015 |
|---|---|---|
| Assets | **7,092,926** | 11,589,799 |
| Liabilities | **(150,178,086)** | (164,537,125) |
| **Net position** | **(143,085,160)** | (152,947,326) |

**Foreign currency sensitivity analysis**

The Group is mainly exposed to exchange rate fluctuations of US dollar against tenge. 13%/(13)% 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 (2015: 60%/(20%)).

The sensitivity analysis includes only outstanding monetary assets and liabilities denominated in US dollar at the year end. At the year end a 13%/(13)% change in foreign currency rates is used for translation (2015: 60%/(20%)).

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 13% represents weakening of tenge against US dollar, while decrease by 13% is strengthening of tenge against US dollars (2015: increase by 60% / (decrease) for 20%).

| | **At December 31, 2016** | | At December 31, 2015 | |
|---|---|---|---|---|
| | **Tenge / US dollar +13%** | **Tenge / US dollar -13%** | Tenge / US dollar +60% | Tenge / US dollar -20% |
| Net income/(loss) | **(18,601,071)** | **18,601,071** | (91,768,396) | 30,589,465 |

**Liquidity risk**

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

| *In thousand of tenge* | **On demand** | **Less than 3 months** | **3-12 months** | **1-5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **As at 31 December, 2016** | | | | | | |
| Loans and borrowings | **134,551,822** | **–** | **–** | **–** | **–** | **134,551,822** |
| Trade payables | **–** | **18,914,975** | **–** | **–** | **–** | **18,914,975** |
| Loans from related parties | **–** | **–** | **–** | **–** | **12,726,108** | **12,726,108** |
| | **134,551,822** | **18,914,975** | **–** | **–** | **12,726,108** | **166,192,905** |

| *In thousand of tenge* | On demand | Less than 3 months | 3-12 months | 1-5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| **As at 31 December, 2015** | | | | | | |
| Loans and borrowings | 129,858,444 | – | – | – | – | 129,858,444 |
| Trade payables | – | 1,320,629 | – | – | – | 1,320,629 |
| Loans from related parties | – | 1,376,960 | – | – | 33,947,000 | 35,323,960 |
| | 129,858,444 | 2,697,589 | – | – | 33,947,000 | 166,503,033 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 34. RISK MANAGEMENT POLICIES (continued)

**Operational risk**

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

At December 31, 2016 and 2015, the Group 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 Group's financial instruments, the Group uses assumptions in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument.

At December 31, 2016 and 2015, the carrying value of financial assets and financial liabilities approximates their fair value.

### 35. EVENTS AFTER REPORTING DATE

In 2017, the Group received a letter from Geo-Jade Petroleum Corporation, according to which it intends and is able, if necessary, to provide the Group with the necessary funds to enable the Group to continue its normal operations for at least the next 12 months from the balance sheet date.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**For the year ended December 31, 2016**

| *In thousands of tenge* | Notes | 2016 | 2015 |
|---|---|---|---|
| Revenue | 25 | **51,925,227** | 37,684,022 |
| Cost of sales | 26 | **(14,952,250)** | (11,900,364) |
| **Gross profit** | | **36,972,977** | 25,783,658 |
| Selling expenses | 27 | **(16,538,981)** | (15,238,383) |
| General and administrative expenses | 28 | **(2,788,663)** | (2,033,977) |
| Finance income | 29 | **1,142,527** | 524,462 |
| Finance costs | 30 | **(9,099,797)** | (3,611,555) |
| Foreign exchange gain/(loss), net | | **2,645,811** | (69,182,311) |
| Other income/(expenses), net | 31 | **78,211** | (23,612) |
| **Profit/(loss) before income tax** | | **12,412,085** | (63,781,718) |
| Income tax expense | 19 | **(3,184,529)** | (2,897,317) |
| **Net profit/(loss) for the year** | | **9,227,556** | (66,679,035) |
| Other comprehensive income | | **–** | – |
| **Total comprehensive profit/(loss) for the year** | | **9,227,556** | (66,679,035) |
| **Earnings/(loss) per share** | | | |
| Earnings/(loss) per share | 16 | **1,153** | (8,335) |

**Xiao Huanqin**
**General Director**

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

**Temirbulatova A.M.**
**Chief Accountant**

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the year ended December 31, 2016**

| *In thousands of tenge* | Share capital | Retained Earnings | Total equity |
|---|---|---|---|
| **At January 1, 2015** | 80,000 | 15,755,349 | 15,835,349 |
| Net loss for the year | – | (66,679,035) | (66,679,035) |
| **Total comprehensive loss for the year** | – | (66,679,035) | (66,679,035) |
| **At December 31, 2015** | 80,000 | (50,923,686) | (50,843,686) |
| Net profit for the year | **–** | **9,227,556** | **9,227,556** |
| **Total comprehensive income for the year** | **–** | **9,227,556** | **9,227,556** |
| **At December 31, 2016** | **80,000** | **(41,696,130)** | **(41,616,130)** |

**Xiao Huanqin**
**General Director**

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

**Temirbulatova A.M.**
**Chief Accountant**

*The accounting policies and explanatory notes on page 6 through 36 form an integral part of these consolidated financial statements*

## CONSOLIDATED STATEMENT OF CASH FLOWS

**For the year ended December 31, 2016**

| *In thousands of tenge* | Notes | 2016 | 2015 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit/(loss) before income tax | | **12,412,085** | (63,781,718) |
| | | | |
| **Adjustments for:** | | | |
| Depreciation, depletion and amortization | 26, 27, 28, 31 | **5,069,676** | 3,796,422 |
| Loss on disposal of property plant and equipment, oil and gas assets and write off of dry well | 31 | **1,406** | 4,240 |
| Finance costs | 30 | **9,099,797** | 3,611,555 |
| Finance income | 29 | **(1,142,527)** | (524,462) |
| Foreign exchange loss | | **(2,568,234** | 69,799,191 |
| Change in estimates of site restoration and abandonment liabilities | 31 | **–** | 41,325 |
| Provision for impairment of trade receivables, advances paid and loans given | | **5,898** | – |
| **Operating cash flows before changes in working capital** | | **22,878,101** | 12,946,553 |
| | | | |
| **Changes in working capital** | | | |
| Changes in trade receivables, advances given and other current assets | | **914,862** | (113,888) |
| Change in taxes receivable | | **(1,444,009)** | (638,576) |
| Change in inventories | | **(551,767)** | 95,675 |
| Change in other long-term assets | | **(6,516)** | (41) |
| Change in trade payables | | **2,031,461** | (705,824) |
| Change in other payables and accrued liabilities | | **(697,777)** | (62,778) |
| Change in other taxes payable | | **(503,461)** | (1,590,458) |
| **Cash generated from operating activity** | | **22,620,894** | 9,930,663 |
| | | | |
| Corporate income tax paid | | **(3,349,618)** | (2,185,873) |
| Excess profits tax paid | | **–** | (154,869) |
| **Net cash generated from operating activities** | | **19,271,276** | 7,589,921 |
| | | | |
| **Cash flow from investing activities** | | | |
| Loans to employees, net of repayments | | **1,008** | 2,212 |
| Purchase of oil and gas assets | 5 | **(272,809)** | (38,606) |
| Purchase of property, plant and equipment | | **(22,265)** | (23,227) |
| Purchase of construction-in-progress assets | | **(4,868,711)** | (5,138,972) |
| Purchase of intangible assets | | **(10,129)** | (16,247) |
| Purchase of exploration and evaluation assets | | **(116,939)** | (72,452) |
| Proceeds from business combination | | **–** | 332,038 |
| Acquisition of a subsidiary | | **–** | (63,962,052) |
| Tender warranty paid for acquisition of a subsidiary | | **–** | (2,236,147) |
| Provision of loan receivable | | **(22,656,378)** | (752,200) |
| Repayment of loan receivable | | **786,007** | 15,160,517 |
| Deposits for site restoration and abandonment | | **(183,486)** | (187,329) |
| **Net cash used in investing activities** | | **(27,343,702)** | (56,932,465) |

*The accounting policies and explanatory notes on page 6 through 36 form an integral part of these consolidated financial statements*

## CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

| *In thousands of tenge* | Notes | 2016 | 2015 |
|---|---|---|---|
| **Cash flow from financing activities** | | | |
| Advances received | | **1,339,520** | – |
| Proceeds from bank loan | 17 | **17,007,500** | 89,996,000 |
| Interest paid | 17 | **(5,970,048)** | (2,239,702) |
| Repayment of bank loan | 17 | **(9,683,431)** | (35,338,438) |
| **Net cash from financing activities** | | **2,693,541** | 52,417,860 |
| | | | |
| Effects of exchange rate changes on cash and cash equivalents | | **(235,695)** | 2,611,005 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(5,614,580)** | 5,686,321 |
| | | | |
| Cash and cash equivalents, at the beginning of the year | 15 | **6,173,897** | 487,576 |
| **Cash and cash equivalents, at the end of the year** | 15 | **559,317** | 6,173,897 |

### SIGNIFICANT NON-CASH TRANSACTIONS – ADDITIONAL DISCLOSURE

The following non-cash transactions have been included into the statement of cash flows:

**Construction in progress**

In 2016 additions to construction in progress in the amount of 14,929,661 thousand tenge were financed by the increase in accounts payable.

**Oil and gas assets**

Oil and gas assets were increased in 2016 by 594,649 thousand tenge by the increase of social obligations and accrual of site restoration and abandonment provision in the amounts 351,985 thousand tenge and 168,828 thousand tenge, respectively.

**Exploration and evaluation assets**

Exploration and evaluation assets were increased in 2016 by 471,961 thousand tenge by the increase of social obligations, accrual of site restoration and abandonment provision and increase in accounts payable in the amounts 46,275 thousand tenge, 11,976 thousand tenge and 413,710 thousand tenge, respectively.

**Offset of loans receivable**

During 2016 the Group performed an offset of borrowings from SINO-SCIENCE NETHERLANDS ENERGY GROUP B.V. with loans given in the amount of 22,186,226 thousands of tenge.

| | | |
|---|---|---|
| **Xiao Huanqin**<br>**General Director** | **Mussin R.A.**<br>**Deputy General Director of Economics and Finance** | **Temirbulatova A.M.**<br>**Chief Accountant** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**For the year ended December 31, 2016**

## 1. GENERAL INFORMATION

The accompanying consolidated financial statements include the financial statements of Maten Petroleum JSC (the "Company") and its subsidiary KoZhan JSC (collectively the "Group").

Maten Petroleum JSC 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 |

On June 25, 2014, shareholders of the Company changed and as at December 31, 2016 and 2015 the shareholders of the Company were as follows:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **%** | **In thousands of tenge** | % | In thousands of tenge |
| Sino-Science Netherland Energy Group B.V. | **95** | **76,000** | 95 | 76,000 |
| Ablazimov Baharidin Nugmanovich | **5** | **4,000** | 5 | 4,000 |
| | **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 expiration date on February 19, 2023;
- Exploration and production license series GKI № 1015 (crude oil) for the East Kokarna oil field with expiration date on 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 Region, in the Republic of Kazakhstan.

### Subsidiary

On August 12, 2015 the Company acquired 100% shares (10,748,046 common shares) of KoZhan JSC (the "Subsidiary") for cash consideration of 340,495,300 US dollars (equivalent to 63,962,052 thousand tenge at the exchange rate as at transaction date)..

The Subsidiary was established on April 28, 2001 in the Republic of Kazakhstan as a Limited Liability Partnership KoZhan. On October 16, 2014, the Subsidiary was reorganized into a joint stock company.

Legal address of the Subsidiary: 060005, Republic of Kazakhstan, Atyrau, Sevastopol street 1B.

The Subsidiary has a branch in Atyrau.

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

- Combined contract for exploration and production of hydrocarbons No. 1103 for the Morskoye oil field with expiration date on February 17, 2034;
- Combined contract for exploration and production of hydrocarbons No. 1102 for the Dauletaly oil field with expiration date on February 17, 2034.
- Combined contract for exploration and production of hydrocarbons No. 1104 for the Karatal oil field with expiration date of February 17, 2034.

These consolidated financial statements were approved by the management of the Group and authorized for issue on May 26, 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 2. BASIS OF PREPARATION

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements. All values in these consolidated financial statements are rounded to the nearest thousands, except when otherwise indicated.

**Statement of compliance**

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB").

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

**Foreign currency translation**

*Functional and presentation currency*

Items included in the financial statements of each of the Group's entities included in these consolidated financial statements are measured using the currency of the primary economic environment in which the entities operate ("the functional currency"). The consolidated financial statements are presented in Kazakhstan tenge ("tenge" or "KZT"), which is the Group's functional currency.

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Differences arising on settlement or translation of monetary items are recognised in profit or loss.

*Exchange rates*

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as official currency exchange rates in the Republic of Kazakhstan.

The currency exchange rate of KASE as at December 31, 2016 was 333.29 tenge to 1 US dollar. This rate was used to translate monetary assets and liabilities denominated in United States dollars ("US dollar") as at December 31, 2016 (2015: 339.47 tenge to 1 US dollar).

### 3. SIGNIFICANT ACCOUNTING POLICIES

**New standards, amendments and clarifications to existing IFRS standards and interpretations**

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

*IFRS 14 Regulatory Deferral Accounts*

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as line items on the consolidated statement of financial position and present movements in these account balances as separate line items in the statement of profit. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its consolidated financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**New standards, amendments and clarifications to existing IFRS standards and interpretations (continued)**

*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 *Business Combinations* principles for business combination 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 if 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 applied prospectively. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

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

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a 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 applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

*Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 *Agriculture*. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are applied retrospectively and do not have any impact on the Group as it does not have any bearer plants.

*Amendments to IAS 27: Equity Method in Financial Statements*

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their consolidated financial statements. Entities already applying IFRS and electing to change to the equity method in their consolidated financial statements have to apply that change retrospectively. These amendments do not have any impact on the Group’s consolidated financial statements.

***Annual improvements 2012-2014 cycle***

These improvements include:

*IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**New standards, amendments and clarifications to existing IFRS standards and interpretations (continued)**

***Annual improvements 2012-2014 cycle (continued)***

*IFRS 7 Financial Instruments: Disclosures*

*(i) Servicing contracts*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

*(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements*

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim consolidated financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

*IAS 19 Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

*IAS 34 Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must either be in the interim consolidated financial statements or incorporated by cross-reference between the interim consolidated financial statements and wherever they are included within the interim consolidated financial report (e.g., in the management commentary or risk report). The other information within the interim consolidated financial report must be available to users on the same terms as the interim consolidated financial statements and at the same time. This amendment is applied retrospectively.

These amendments do not have any impact on the Group.

*Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the consolidated statement of comprehensive income and the consolidated statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to consolidated financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statement of financial position and the consolidated statement of comprehensive income. These amendments do not have any impact on the Group.

*Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception*

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**New standards, amendments and clarifications to existing IFRS standards and interpretations (continued)**

***Annual improvements 2012-2014 cycle (continued)***

*Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (continued)*

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments are applied retrospectively and do not have any impact on the Group as the Group does not apply the consolidation exception.

**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 Group's consolidated financial statements are disclosed below. The Group 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* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: 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. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. Overall, the Group expects no significant impact on its balance sheet and equity.

*(a) Classification and measurement*

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

*(b) Impairment*

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group does not expect a significant impact on its equity due to secured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. The Group is considering the clarifications issued by the IASB in July 2016 and will monitor any further developments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Standards issued but not yet effective (continued)**

*IFRS 15 Revenue from Contracts with Customers (continued)*

*(i) Applicability of the amendments to IFRS 7 to condensed interim financial statements*

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim consolidated financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

*Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments are not expected to have any impact on consolidated financial statements of the Group.

*IAS 7 Disclosure Initiative – Amendments to IAS 7*

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's *Disclosure Initiative* and require an entity to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after January 1, 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

*IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

*IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2*

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Standards issued but not yet effective (continued)**

*IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. These amendments are not expected to have any impact on the Group.

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group and its subsidiary as at December 31, 2016. Control is achieved when the Group is exposed, or has the right, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee only if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company's reporting based on the consistent application of accounting policies for all companies of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the Company and its subsidiary are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is premeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognized either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

### Financial instruments

Financial assets and financial liabilities are recognized when the Group 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. 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 Group 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. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Derecognition of financial assets**

The Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group 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 Group derecognises financial liabilities when, and only when, the Group'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, Group'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 Group 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.

After the acquisition date the Group reflects (in the statement of 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 Group 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 Group 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Oil and gas assets (continued)**

*Exploration and evaluation costs*

Once the legal right to explore has been acquired, geological and geophysical exploration costs and costs directly associated with exploration and appraisal wells are capitalized as exploration and evaluation intangible or tangible assets, according to the nature of the costs, until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If no reserves are found, the exploration and evaluation asset is tested for impairment, if extractable hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells, are likely to be developed commercially; the costs continue to be carried as an asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbon reserves. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the assets are written off. When proved reserves of hydrocarbons are determined and development is sanctioned, the relevant expenditure is transferred to oil and gas development assets after impairment is assessed and any resulting impairment loss is recognized.

**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 Group 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 Group 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

**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 Group'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 consolidated 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 the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group 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 Group 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 Group 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

**Pension obligations**

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 171,442 tenge per month in the year 2016 (2015: 160,230 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.

**Current versus non-current classification**

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is either:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within 12 (twelve) months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current.

A liability is current when either:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 (twelve) months after the reporting period;
- There is no unconditional right to defer the settlement of the liability for at least 12 (twelve) months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

**Site restoration and abandonment liabilities**

Site restoration and abandonment liabilities related primarily to the conservation and liquidation of the Group'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 Group 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 Group 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Obligations for historical costs reimbursement

The Group is obliged to reimburse certain historical costs incurred by the Government in relation to the Group's subsurface use contracts. As at financial statement date, the obligation is presented at its fair value, calculated by discounting future cash outflows at effective interest rate. 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 Group to the budget in accordance with Tax code of Republic of Kazhakstan.

#### Provisions

Provisions are recognized when the Group 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 Group 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.

#### Revenue recognition

The Group 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 Group'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.

#### Recognition of expenses

Expenses are accounted for at the time the actual flow of the related goods or services occur, regardless of when cash or its equivalent is paid, and are reported in the financial statements in the period to which they relate.

#### 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 the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In particular, the Group has identified the following areas where significant judgments, estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the consolidated financial statements.

Changes in estimates are accounted for prospectively.

## 4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

### Useful economic lives of property, plant and equipment

The Group 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*.

### Recoverability of oil and gas assets

The Group assesses assets or CGU for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices, discount rates, future capital requirements, operating performance (including production and sales volumes) that are subject to risk and uncertainty. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered to be impaired and is written down to its recoverable amount. In assessing recoverable amount the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

The key assumptions required for the recoverable amount estimation are the oil prices and WACC. The sensitivity of the headroom to changes in the key assumptions was estimated.

Cash flows have been discounted using pre-tax WACC, which is equal to 11.7%. As at December 31, 2016 recoverable amount of oil and gas assets exceed their carrying amount.

### Site restoration and abandonment liabilities

The Group's activities are subject to various laws and regulations governing the protection of the environment. The Group 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 Group 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 Group'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.

### Taxation

The Group 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 Group 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 Group 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.

### 4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

**Oil and gas reserves**

Oil and gas reserves are a material factor in the Group's computation of depreciation, depletion and amortization expenses. The Group estimates its oil and gas reserves in accordance with the methodology of the Society of Petroleum Engineers ("SPE"). In estimating its reserves under SPE methodology, the Group uses long-term planning prices. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices. Management believes that long-term planning price assumptions, which are also used by management for their business planning and investment decisions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves.

All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

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

Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data, availability of new data, or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for Depreciation Depletion & Amortization (DD&A) in relation to oil and gas production assets. The Group has included in proved reserves only those quantities that are expected to be produced during the initial subsoil use contract period. This is due to the uncertainties surrounding the outcome of such renewal procedures, since the renewal is ultimately at the discretion of the Government. An increase in the Group's subsoil use contract periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings. A reduction in proved developed reserves will increase DD&A expense (assuming constant production), reduce income and could also result in an immediate write-down of the property's book value. Given the relatively small number of producing fields, it is possible that any changes in reserve estimates year on year could significantly affect prospective charges for DD&A.

The Group uses estimation of total proved oil reserves in the calculation of amortization of subsoil use rights, while estimation of proved developed oil reserves is used in the calculation of depreciation of the rest of oil and gas asset

The most recent valuation of oil reserves was carried out as at December 31, 2016 by Geo Jade Petroleum Research Institute.

**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.

**Exploration and evaluation costs**

Once the legal right to explore has been acquired, geological and geophysical exploration costs and costs directly associated with exploration and appraisal wells are capitalized as exploration and evaluation intangible or tangible assets, according to the nature of the costs, until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If no reserves are found, the exploration and evaluation asset is tested for impairment, if extractable hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells, are likely to be developed commercially; the costs continue to be carried as an asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbon reserves. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the assets are written off. When proved reserves of hydrocarbons are determined and development is sanctioned, the relevant expenditure is transferred to oil and gas development assets after impairment is assessed and any resulting impairment loss is recognized.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 5. OIL AND GAS ASSETS AND SUBSURFACE USE RIGHTS

| *In thousands of tenge* | **Oil and gas assets** | **Subsurface use rights** | **Total** |
|---|---|---|---|
| **Cost** | | | |
| **At January 1, 2015** | 41,835,824 | 33,396,219 | 75,232,043 |
| Additional provision to site restoration and abandonment liability *(Note 18)* | 35,733 | – | 35,733 |
| Transfer from construction-in-progress *(Note 7)* | 6,442,774 | – | 6,442,774 |
| Acquisition of a subsidiary | 7,048,365 | 69,038,521 | 76,086,886 |
| Additions | 38,606 | – | 38,606 |
| Disposals | (88,430) | – | (88,430) |
| **At December 31, 2015** | 55,312,872 | 102,434,740 | 157,747,612 |
| Additional provision to site restoration and abandonment liability *(Notes 18, 20)* | **503,759** | **–** | **503,759** |
| Transfer from construction-in-progress *(Note 7)* | **8,845,221** | **–** | **8,845,221** |
| Additions | **193,759** | **–** | **193,759** |
| **At December 31, 2016** | **64,855,611** | **102,434,740** | **167,290,351** |
| **Accumulated depletion and depreciation** | | | |
| **At January 1, 2015** | (16,407,291) | (20,032,437) | (36,439,728) |
| Charge for the year | (2,766,372) | (872,416) | (3,638,788) |
| Disposal of depreciation | 84,899 | – | 84,899 |
| **At December 31, 2015** | (19,088,764) | (20,904,853) | (39,993,617) |
| Charge for the year | **(3,526,346)** | **(1,331,882)** | **(4,858,228)** |
| **At December 31, 2016** | **(22,615,110)** | **(22,236,735)** | **(44,851,845)** |
| **Net book value** | | | |
| **At December 31, 2015** | 36,224,108 | 81,529,887 | 117,753,995 |
| **At December 31, 2016** | **42,240,501** | **80,198,005** | **122,438,506** |

Oil and gas assets consist mainly of machinery and equipment, transmission devices, structures, buildings, vehicles and other types of oil and gas assets used in production of crude oil.

Subsoil use rights consists of initial payments to the Government in the amount of 33,396,219 thousand tenge for Kara Arna, East Kokarna, Maten oil fields. Addition in the amount of 69,038,521 relates to Morskoye, Karatal and Dauletaly oil fields as a result of an acquisition of a subsidiary.

### 6. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the years ended December 31, 2016 and 2015 is as follows:

| *In thousands of tenge* | Land | Buildings and premises | Machinery and equipment | Vehicles | Other | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At January 1, 2015** | 67,299 | 486,149 | 107,473 | 509,400 | 265,524 | 1,435,845 |
| Acquisition of a subsidiary | – | 107,119 | 81,511 | 8,360 | 17,525 | 214,515 |
| Additions | – | – | – | – | 17,324 | 17,324 |
| Transfer from construction-in-progress *(Note 7)* | – | 28 | 22,506 | 4,484 | 16,658 | 43,676 |
| Disposals | – | (12,527) | (22,704) | – | (18,535) | (53,766) |
| **At December 31, 2015** | 67,299 | 580,769 | 188,786 | 522,244 | 298,496 | 1,657,594 |
| Additions | **–** | **–** | **33,374** | **–** | **6,536** | **39,910** |
| Transfer from construction-in-progress *(Note 7)* | **73,940** | **455,506** | **19,542** | **12,082** | **52,859** | **613,929** |
| Disposals | **–** | **(49)** | **(3,794)** | **–** | **(10,957)** | **(14,800)** |
| **At December 31, 2016** | **141,239** | **1,036,226** | **237,908** | **534,326** | **346,934** | **2,296,633** |
| **Accumulated depreciation** | | | | | | |
| **At January 1, 2015** | – | (148,663) | (53,526) | (147,681) | (146,211) | (496,081) |
| Charge for the year | – | (21,596) | (40,457) | (49,785) | (36,599) | (148,437) |
| Disposal of depreciation | – | 12,527 | 22,043 | – | 18,252 | 52,822 |
| **At December 31, 2015** | – | (157,732) | (71,940) | (197,466) | (164,558) | (591,696) |
| Charge for the year | **–** | **(41,016)** | **(58,123)** | **(53,462)** | **(45,778)** | **(198,379)** |
| Disposal of depreciation | **–** | **44** | **2,827** | **–** | **10,523** | **13,394** |
| **At December 31, 2016** | **–** | **(198,704)** | **(127,236)** | **(250,928)** | **(199,813)** | **(776,681)** |
| **Net book value** | | | | | | |
| **At December 31, 2015** | 67,299 | 423,037 | 116,846 | 324,778 | 133,938 | 1,065,898 |
| **At December 31, 2016** | **141,239** | **837,522** | **110,672** | **283,398** | **147,271** | **1,519,952** |

### 7. CONSTRUCTION-IN-PROGRESS

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| **At January 1** | **2,443,698** | 2,213,786 |
| Additions | **19,797,372** | 2,721,945 |
| Acquisition of a subsidiary | **–** | 3,996,430 |
| Transfer to oil and gas assets and property, plant and equipment *(Notes 5, 6)* | **(9,459,150)** | (6,486,450) |
| Disposal | **–** | (2,013) |
| **At December 31** | **12,782,920** | 2,443,698 |

During 2016 the Group completed construction of 24 new wells and placed them into exploitation at Matin, East Kokarna, Kara Arna and Morskoe fields.

As at December 31, 2016 the construction in progress mainly represents 40 wells under construction and installation works, with corresponding pumps, electrical equipment, machinery, pipes, etc.

### 8. EXPLORATION AND EVALUATION ASSETS

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| **At January 1** | **1,708,210** | – |
| Additions | **537,474** | 291,835 |
| Accretion of site restoration and abandonment liability *(Note 18)* | **11,976** | – |
| Accretion of obligations for social infrastructure *(Note 20)* | **46,275** | – |
| Acquisition of a subsidiary | **–** | 1,416,375 |
| **At December 31** | **2,303,935** | 1,708,210 |

Additions to exploration and evaluation assets in 2016 mainly consists of exploration works performed at Dauletaly oil field.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 9. LOAN RECEIVABLE

As at December 31, 2016 the loan receivable represented loan provided to North Caspian Petroleum JSC (related party) in the amount of 150,672 thousand tenge. Maturity date is 23 December 2017 with interest rate 18% per annum.

### 10. INVENTORIES

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| Finished goods – crude oil | **1,424,962** | 790,334 |
| Raw and other materials | **850,358** | 933,219 |
| | **2,275,320** | 1,723,553 |

### 11. TRADE RECEIVABLES

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| Trade receivables | **5,500,239** | 4,134,029 |
| | **5,500,239** | 4,134,029 |

The aging analysis of trade receivables is presented as follows:

| | | | **Past due but not impaired** | | | |
|---|---|---|---|---|---|---|
| *In thousands of tenge* | **Total** | **Neither past due nor impaired** | **<30 days** | **30-90 days** | **90-120 days** | **>120 days** |
| **2016** | **5,500,239** | **5,500,239** | **5,496,893** | **–** | **–** | **3,346** |
| 2015 | 4,134,029 | 4,134,029 | 992,810 | 3,140,845 | – | 374 |

### 12. TAXES RECEIVABLE

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| VAT receivable | **4,068,410** | 2,676,168 |
| Other taxes | **31,680** | 57,242 |
| | **4,100,090** | 2,733,410 |

### 13. ADVANCES PAID

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| Prepayments for goods and services | **1,492,152** | 1,567,691 |
| Insurance | **77,923** | 130,442 |
| Tender guarantee | **–** | 2,236,147 |
| | **1,570,075** | 3,934,280 |

### 14. OTHER CURRENT ASSETS

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| Bank guarantee deposits | **1,255,131** | 1,278,404 |
| Bank deposits | **33,329** | 46,828 |
| Other | **675,195** | 102,848 |
| | **1,963,655** | 1,428,080 |

### 15. CASH AND CASH EQUIVALENTS

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| Cash in banks, in tenge | **1,327,252** | 843,567 |
| Cash in banks, in foreign currency | **182,035** | 6,085,117 |
| Petty cash | **1,536** | 815 |
| Less: cash and cash equivalents, restricted in use | **(951,506)** | (755,602) |
| | **559,317** | 6,173,897 |

As at December 31, 2016, cash and cash equivalents in the amount of 951,506 thousand tenge (as at December 31, 2015: 755,602 thousand tenge) are restricted in use. These funds do not have a specific date of repayment and accrues interest income at the range of 4% to 10% per annum (2015: 4% to 9% per annum). In compliance with the legislation, the Group accumulates cash and cash equivalents, restricted in use, for repayment of liabilities for decommissioning and site restoration *(Note 19)*.

## 16. 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). In June 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).

During 2016 and 2015 the Group did not declare and pay any dividends.

For the years ended December 31, 2016 and 2015 earnings/(loss) per share were as follows:

| | **2016** | 2015 |
|---|---|---|
| Profit/(loss) for the year | **9,227,556** | **(66,679,035)** |
| **Earnings/(loss) used in the calculation of (loss)/earnings per share** | **9,227,556** | **(66,679,035)** |
| Weighted average number of ordinary shares for the purposes of earnings per share | **8,000** | **8,000** |
| (Loss)/earnings per share | **1,153** | **(8,335)** |

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

| | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Total assets | **156,208,494** | 143,951,215 |
| Intangible assets | **(54,989)** | (64,753) |
| Total liabilities | **(198,824,624)** | (194,794,901) |
| **Net total assets** | **(41,671,19)** | (50,908,439) |
| Number of ordinary shares | **8,000** | 8,000 |
| Book value per common share (in tenge per share) | **(5,208,890)** | (6,363,555) |

## 17. BORROWINGS

### Bank of China branch in Kazakhstan JSC

On July 22, 2015 the Group entered into two non-revolving credit line agreements with the Bank of China branch in Kazakhstan JSC (the "Bank") to obtain borrowings in the amount of 380,000 and 50,000 thousand US dollars. In July and August 2015 the Group received two tranches in the amounts of 180,000 thousand US dollars (the "First tranche") (equivalent to 33,741,000 thousand tenge at exchange rate as at transaction date) and 200,000 thousand US dollars (the "Second tranche") (equivalent to 37,530,000 thousand tenge at exchange rate as at transaction date). The borrowings were mainly used to acquire the shares of KoZhan JSC and to repay the loans provided by Subsidiary of Sberbank of Russia JSC and Sberbank of Russia JSC.

On March 29, 2016 the Group received tranche according to the second agreement in the amount of 50,000 thousand US dollars (equivalent to 17,007,500 thousand of tenge at exchange rate as at transaction date).

According to the conditions specified in contracts with the Bank of China, the Group provided as a pledge:

1. Outstanding shares of the Company;
2. Subsoil use contracts for Maten, East Kok-Arna, Kara-Arna, Morskoe, Karatal and Dauletaly oilfields.

The maturity dates of the First and Second tranches are July 30, 2018 and August 10, 2022, respectively, and accrue interest at LIBOR 3M + 2.75% and LIBOR 3M + 3.60%, respectively. The tranche under the second agreement in the amount of 50,000 thousand US dollars with accrual of interest at LIBOR 3M + 2.75% with maturity date of July 23, 2018.

*Covenants*

As at December 31, 2016 the Group breached financial covenant imposed by Bank of China Branch in Kazakhstan JSC, as a result of which entire amount of the loan provided by the Bank in the amount of 114,568,438 thousand tenge was classified as on demand.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 17. BORROWINGS (continued)

**Sino-Science Netherlands Energy Group B.V.**

In July 2015 the Group obtained interest bearing loan in the amount of 100,000 thousand US dollars (equivalent to 18,725,000 thousand tenge at the date of transaction) from Sino-Science Netherlands Energy Group B.V (the "Parent") at fixed interest rate of 4% per annum.

During 2016 the Group performed an offset of borrowings from SINO-SCIENCE NETHERLANDS ENERGY GROUP B.V. with loans given in the amount of 21,186,226 thousands of tenge.

Movement of the borrowings for the years ended December 31 was as follows:

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| **At January 1** | **163,768,788** | 34,245,784 |
| Additional financing | **17,007,500** | 89,996,000 |
| Interest accrued *(Note 30)* | **8,686,611** | 3,350,920 |
| Foreign exchange (gain)/loss | **(3,206,119)** | 74,088,807 |
| Repayment of principal | **(9,683,431)** | (35,338,438) |
| Payments of interest | **(5,970,048)** | (2,239,702) |
| Withholding tax | **(1,234,016)** | (334,583) |
| Value added tax | **43,756** | – |
| Offset | **(22,186,226)** | – |
| **At December 31** | **147,226,815** | 163,768,788 |
| | | |
| Current portion | **(134,500,707)** | (129,821,788) |
| Non-current portion | **12,726,108** | 33,947,000 |

### 18. SITE RESTORATION AND ABANDONMENT LIABILITY

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| **At January 1** | **1,577,275** | 1,105,641 |
| Acquisition of a subsidiary | **–** | 359,494 |
| Accretion expense *(Note 30)* | **114,081** | 85,064 |
| Additional provision for the year *(Note 5, 9)* | **163,749** | 35,733 |
| Change in estimate | **–** | (8,657) |
| **At December 31** | **1,855,105** | 1,577,275 |

Estimated future site restoration costs related to petroleum operations are based on engineering estimates of the anticipated method and extent of site restoration, in accordance with current legislation, industry practices and costs. Management of the Group estimates that major part of the assets will be abandoned at the expiration date of the hydrocarbon production contracts disclosed in *Note 1*. Accretion expenses related to future site restoration and abandonment liability are included within finance costs.

Management considers that a site restoration and abandonment liability should be recognized for future abandonment costs of the 442 wells located at the Group's oil fields as at December 31, 2016 (as at December 31, 2015: 396 wells). Management anticipates that these obligations are likely to be settled at the end of the production phase at these oil fields.

An inflation rate of 5.5% and discount rate of 7% were used in the calculation of site restoration and abandonment liability (as at December 31, 2015: 5.5% and 7% respectively).

## 19. INCOME TAX EXPENSE

Income tax expense for the years ended December 31, 2016 and 2015 is as follows:

| *In thousands of tenge* | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Corporate income tax | **3,544,849** | 2,377,722 |
| Excess profit tax | **185,610** | 168,991 |
| **Total current income tax expense** | **3,730,459** | 2,546,713 |
| Deferred corporate income tax expense/(benefit) | **(404,457)** | 167,610 |
| Deferred excess profits tax expense | **141,473** | 182,994 |
| **Total deferred income tax expense** | **545,930** | 350,604 |
| **Total income tax expense** | **3,184,529** | 2,897,317 |

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.

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

| | **2016** | **Origination and reversal of temporary differences through consolidated statement of comprehensive income** | 2015 | Origination and reversal of temporary differences through consolidated statement of comprehensive income | 2014 |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| Tax losses from non-contractual activities carried forward | **16,524,049** | **1,031,493** | 15,492,556 | 15,464,032 | – |
| Other accrued liabilities | **602,598** | **(23,834)** | 626,432 | 86,863 | 188,302 |
| Taxes payable | **483,339** | **94,047** | 389,292 | (260,992) | 553,327 |
| Exploration and evaluation assets | **183,155** | **(53,038)** | 236,193 | 9,816 | – |
| Site restoration and abandonment liability | **227,007** | **17,097** | 209,910 | 8,663 | 180,465 |
| Forex on social and historical costs | **–** | **(191,031)** | 191,031 | 71,613 | – |
| | **18,020,148** | **874,734** | 17,145,414 | 15,379,995 | 922,094 |
| Less: allowance for non-recognized deferred tax asset | **(16,071,990)** | **(415,102)** | (15,656,888) | (15,537,396) | – |
| | **1,948,158** | **459,632** | 1,488,526 | (157,401) | 922,094 |
| **Deferred tax liabilities** | | | | | |
| Property, plant and equipment and oil and gas assets | **(24,336,380)** | **(86,298)** | (24,422,678) | (193,203) | (6,447,396) |
| | **(24,336,380)** | **(86,298)** | (24,422,678) | (193,203) | (6,447,396) |
| **Net deferred tax liability, net** | **(22,388,222)** | **(545,930)** | (22,934,152) | (350,604) | (5,525,302) |

The Group is located in the Republic of Kazakhstan where the statutory tax rate for the years ended December 31, 2016 and 2015 was 20%. In accordance with the terms of the subsurface use contracts, the Group is liable for excess profits tax.

Deferred tax balances are calculated by applying the income tax rates in effect at the respective consolidated statement of financial position dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the consolidated financial statements. Tax losses carried forward as at December 31, 2016 per tax legislation applied by the Group, which was effect in the Republic of Kazakhstan, expires for tax purposes 10 (ten) years from the date they are incurred. Consequently, the majority of the tax losses carried forward by the Group at December 31, 2016 expire for tax purposes in 2016-2026.

## 19. INCOME TAX EXPENSE (continued)

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 Group's consolidated statement of comprehensive income:

| *In thousands of tenge* | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| **(Loss)/profit before income tax** | **12,412,085** | (63,781,718) |
| **Corporate income tax at statutory rate of 20%** | **2,482,417** | (12,756,344) |
| **Adjustments due to:** | | |
| Excess profit tax | **44,137** | 351,985 |
| Change in unrecognized deferred tax asset | **415,102** | 15,537,396 |
| Other differences | **242,873** | (235,720) |
| **Income tax expense** | **3,184,529** | 2,897,317 |

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| **Reconciliation of deferred tax liabilities, net** | | |
| **Opening balance as of 1 January** | **22,934,152** | 5,525,302 |
| Deferred tax liability recognized during the period | **(545,930)** | 350,604 |
| Deferred taxes acquired in business combination | **–** | 17,058,246 |
| **Closing balance as at 31 December** | **22,388,222** | 22,934,152 |

## 20. OTHER LONG-TERM LIABILITIES

As at December 31, 2016 other long-term liabilities comprises the following:

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| Obligation for historical reimbursable costs | **1,372,741** | 1,650,717 |
| Obligation for social infrastructure | **923,261** | 613,793 |
| Long-term warranty payables | **16,335** | 16,335 |
| | **2,312,337** | 2,280,845 |

The movement of the obligations for historical reimbursable costs and social infrastructure during 2016 and 2015 is as follows:

| *In thousands of tenge* | **Obligations for social infrastructure** | **Obligations for historical reimbursable costs** | **Total** |
|---|---|---|---|
| **At January 1, 2015** | 58,692 | 484,803 | 543,495 |
| Acquisition of a subsidiary | 269,866 | 721,536 | 991,402 |
| Accretion expense *(Note 30)* | 34,902 | 82,950 | 117,852 |
| Change in estimate | 33,281 | 16,701 | 49,982 |
| Foreign exchange loss | 261,284 | 677,603 | 938,887 |
| | 658,025 | 1,983,593 | 2,641,618 |
| Reclassification to short-term | (44,232) | (332,876) | (377,108) |
| **At December 31, 2015** | 613,793 | 1,650,717 | 2,264,510 |
| Charge for the period *(Note 5, 8)* | **398,261** | **–** | **398,261** |
| Accretion expense *(Note 30)* | **81,725** | **147,880** | **229,605** |
| Change in estimate | **–** | **(39,623)** | **(39,623)** |
| Reclassification | **–** | **58,925** | **58,925** |
| Foreign exchange loss | **(22,565)** | **(25,198)** | **(47,762)** |
| | **1,071,215** | **1,792,701** | **2,863,916** |
| Reclassification to short-term | **(147,954)** | **(419,960)** | **(567,914)** |
| **At December 31, 2016** | **923,261** | **1,372,741** | **2,296,002** |

### 20. OTHER LONG-TERM LIABILITIES (continued)

The Group is obliged to reimburse certain historical costs incurred by the Government of Republic of Kazakhstan in respect of East Kokarna, Matin, Morskoye, Karatal and Dauletaly oilfields pursuant to the terms of the corresponding subsurface use contracts.

In accordance with the subsurface use contracts, the Group is subject to contribution of funds to the social programs and programs on infrastructure development in the Atyrau region. In 2016 Kozhan JSC concluded a supplement agreement, according to which social obligations payments increased from 120 to 220 thousand US dollars.

As at December 31, 2016 significant portion of these obligations are denominated in US dollars based on the same assumptions used for estimation of site restoration and abandonment liability *(Note 18).*

### 21. TRADE PAYABLES

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| In tenge | **18,462,178** | 747,739 |
| In US dollars | **349,239** | 505,952 |
| In Russian rubles | **98,033** | 66,938 |
| | **18,909,450** | 1,320,629 |

Trade accounts payable are non-interest bearing and settlements thereon are usually made within 30 (thirty) days.

### 22. INCOME TAXES PAYABLE

Income taxes payable as at December 31 are as follows:

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| Corporate income tax | **552,210** | 315,643 |
| Excess profits tax | **164,219** | 142,603 |
| | **716,429** | 458,246 |

### 23. OTHER TAXES PAYABLE

Other taxes payable at December 31 as follows:

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| Rental tax | **1,060,090** | 834,948 |
| Mineral extraction tax | **821,706** | 590,379 |
| Withholding income tax | **272,182** | 24,762 |
| Social tax | **12,599** | 27,819 |
| Other taxes | **122,636** | 80,376 |
| | **2,289,213** | 1,558,284 |

### 24. OTHER PAYABLES AND ACCRUED LIABILITIES

| *In thousands of tenge* | **2016** | 2015 |
|---|---|---|
| Obligation for historical reimbursable costs and social infrastructure | **529,091** | 584,214 |
| Salary and other related taxes payable | **194,597** | 202,082 |
| Short-term warranty payables | **–** | 46,811 |
| Other | **63,845** | 63,575 |
| | **787,533** | 896,682 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 25. REVENUE

| *In thousands of tenge* | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Export sale of crude oil | **51,264,512** | 37,572,577 |
| Domestic sale of crude oil | **3,495,714** | 2,027,642 |
| Charges for quality of crude oil sold | **(2,834,999)** | (1,916,197) |
| | **51,925,227** | 37,684,022 |

During 2016 the Group produced 630,013 tons and sold 593,514 tons (during 2015: 557,254 tons produced and sold 550,248) of crude oil.

On December 18, 2013 the Group signed long-term contract for 5 (five) years with Vitol Central Asia SA, entity registered in Switzerland. The approximate amount of the contract is 1,872,000 thousand US dollars. During 2016 the Group exported 333,033 tons of crude oil in accordance with this contract (2015: 378,002 tons).

### 26. COST OF SALES

| *In thousands of tenge* | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Depreciation and depletion | **4,905,324** | 3,678,783 |
| Mineral extraction tax | **2,665,698** | 1,826,314 |
| Payroll expenses and related taxes | **2,340,826** | 1,892,742 |
| Transportation expenses | **990,802** | 207,434 |
| Inventories | **859,211** | 648,454 |
| Repair and maintenance expenses | **519,236** | 315,749 |
| Electric power | **500,395** | 609,090 |
| Property tax | **488,454** | 429,701 |
| Rent | **472,172** | 354,194 |
| Oil well service expenses | **337,783** | 77,872 |
| Geological and geophysical works | **295,278** | 152,046 |
| Catering services | **238,425** | 212,564 |
| Insurance | **147,499** | 842,177 |
| Security expenses | **145,292** | 117,246 |
| Scientific research and experimental development | **55,451** | 221,880 |
| Change in crude oil inventory | **(796,152)** | 426 |
| Other expenses | **786,556** | 313,692 |
| | **14,952,250** | 11,900,364 |

### 27. SELLING EXPENSES

| *In thousands of tenge* | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Oil preparation and transportation | **7,150,242** | 5,038,949 |
| Customs fees | **6,179,154** | 6,047,157 |
| Rental tax | **2,688,892** | 3,781,437 |
| Demurrage | **86,597** | 190,396 |
| Depreciation and depletion | **70,660** | 36,478 |
| Technological shipment and pumping losses | **40,707** | 17,165 |
| Other | **322,729** | 126,801 |
| | **16,538,981** | 15,238,383 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 28. GENERAL AND ADMINISTRATIVE EXPENSES

| *In thousands of tenge* | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Payroll expenses and related taxes | **1,437,929** | 1,223,686 |
| Taxes and other payments to the budget | **388,516** | 85,530 |
| Professional trainings and education | **172,001** | 148,164 |
| Business trip and representative expenses | **89,713** | 73,848 |
| Depreciation and amortization | **78,175** | 58,218 |
| Rent | **75,799** | 41,755 |
| Inventories | **52,840** | 35,029 |
| Consulting services | **49,238** | 70,628 |
| Sponsorship | **40,693** | 28,615 |
| Bank services | **24,086** | 54,609 |
| Communication services | **21,050** | 21,599 |
| Security service | **15,053** | 15,862 |
| Fines and penalties | **9,742** | 5,707 |
| Utilities | **6,554** | 5,754 |
| Insurance | **5,143** | 3,534 |
| Other | **322,131** | 161,439 |
| | **2,788,663** | 2,033,977 |

### 29. FINANCE INCOME

| *In thousands of tenge* | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Interest income from loan receivable | **965,191** | 432,319 |
| Interest income from bank deposits | **95,762** | 45,032 |
| Interest income on liquidation fund deposits | **81,574** | 47,111 |
| | **1,142,527** | 524,462 |

### 30. FINANCE COSTS

| *In thousands of tenge* | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Interest expense *(Note 17)* | **8,686,611** | 3,350,920 |
| Accretion of obligations for historical reimbursable costs *(Note 20)* | **147,880** | 82,950 |
| Accretion of site restoration and abandonment liability *(Note 18)* | **114,081** | 85,064 |
| Accretion of obligations for social infrastructure *(Note 20)* | **81,725** | 34,902 |
| Other | **69,500** | 57,719 |
| | **9,099,797** | 3,611,555 |

### 31. OTHER EXPENSES, NET

| *In thousands of tenge* | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Reversal of provision due to change in estimate of site restoration and abandonment liability, historical reimbursable costs and obligation to invest into social infrastructure *(Note 19, 20)* | – | (41,325) |
| Depreciation and amortization | **(15,517)** | (22,943) |
| Loss on disposal of oil and gas assets and property, plant and equipment, net | **(1,406)** | (4,240) |
| Other | **95,134** | 44,896 |
| | **78,211** | (23,612) |

## 32. RELATED PARTY TRANSACTIONS

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

During the years ended December 31, 2016 and 2015, the Group entered into the flowing transactions with related parties:

| *In thousands of tenge* | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Finance income | **–** | – |
| Finance cost | **–** | – |
| Purchases of services | **–** | 1,185 |
| Other income | **9,675** | 978 |

The following balances with related parties included in the consolidated statement of financial position as at December 31, 2016 and 2015:

| | **For the year ended December 31, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Borrowings | **12,726,108** | 34,201,812 |
| Loans given *(Note 9)* | **–** | – |
| Other receivables | **11,002** | 235 |

As at December 31, 2016, the key management personnel consist of 14 persons. For the years ended December 31, 2016 and 2015, the compensation to the Group's key management personnel mainly consisted of short-term employee benefits amounted to 415,785 thousand tenge and 1,272,589 thousand tenge, respectively.

## 33. 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 Group is in material breach of its obligations and commitments under the Subsurface Use Contracts. Management believes the Group 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 Group 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. Liability for such commitments is recorded in the consolidated financial statements of the Group *(Note 20)*. Management believes that the Group has met these requirements at December 31, 2016 and 2015.

*Commitment for professional training*

In accordance with the Subsurface Use Contracts, the Group 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, Matin, Morskoye, Karatal and Dauletaly oil fields. At least 50% of these expenditures should be allocated through educational institutions of the Republic of Kazakhstan. Management believes that the Group has met these requirements at December 31, 2016 and 2015.

*Commitment to sell produced oil in the Republic of Kazakhstan*

In accordance with the Subsurface Use Contracts, the Group is obliged to sell 15% of its oil production from Ease Kokarna, Kara Arna and Morskoye oil fields and 20% of its oil production from Morskoye, Karatal and Dauletaly to domestic market. Management believes that the Group has met these requirements at December 31, 2016 and 2015.

### 33. 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 Group is liable to make abandonment and site restoration of the oil field as stipulated by the Law on Subsurface Use. The Group recorded site restoration and abandonment liabilities in these consolidated financial statements *(Note 18)*. 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 Group 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 15)*. The Group 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 Group has recorded a site restoration and abandonment liability for certain wells in these consolidated 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 Group is obliged to develop the business, property and liability risk insurance program and submit it for approval to the Competent Body.

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 Group 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 Group 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 Group and such risks can have material effect on these consolidated financial statements.

*Environment*

The Group 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 Group 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 Group to upgrade processes to meet more stringent requirements.

*Legal issues*

The Group 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 Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 34. 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 Group'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 Group.

**Credit risk**

The Group 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 Group'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 2016 and 2015 the Group has received a significant share of income from one customer and resulted in a significant concentration of credit risk. In 2016, revenues from Vitol Central Asia SA amounted to 73% (in 2015, revenue from Vitol Central Asia SA amounted to 83%) of total Group's revenues.

The Group's management reviews credit ratings of these banks periodically and transacts with the resident and non-resident banks that have at least a credit rating of BB- on long-term US dollar deposits from Standard and Poor's rating agency.

The table below shows cash held in banks at the consolidated statement of financial position date and credit rating symbols for Kazakhstan banks:

| *In thousand of tenge* | **Location** | **Agency** | **2016** | 2015 | **2016** | 2015 |
|---|---|---|---|---|---|---|
| Bank of America | USA | Standard & Poor's | **BBB+/stable** | BBB+/stable | **1,255,131** | 1,278,404 |
| Eurasian Bank JSC | Kazakhstan | Standard & Poor's | **B/stable** | B/stable | **833,786** | 6,304,249 |
| Qazaq Banki JSC | Kazakhstan | Standard & Poor's | **B-/negative** | B-/negative | **572,647** | 99,061 |
| Subsidiary of Bank of China Kazakhstan JSC | Kazakhstan | Standard & Poor's | **A/stable** | A/stable | **71,637** | 22,191 |
| ATF Bank JSC | Kazakhstan | Standard & Poor's | **B/negative** | B-/stable | **58,554** | 35,780 |
| Kazkommertzbank JSC | Kazakhstan | Standard & Poor's | **B-/negative** | B-/negative | **4,105** | 1,519 |
| Industrial and Commercial Bank of China JSC | Kazakhstan | Standard & Poor's | **A/stable** | A/stable | **1,887** | 1,926 |

**Interest rate risk**

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

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

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's profit before income tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

| *В тысячах тенге* | **Increase/ (decrease) in basis points** | **Effect on profit before tax** |
|---|---|---|
| **2016** | | |
| US dollar | **+60** | **(802,396)** |
| | **-8** | **106,986** |
| **2015** | | |
| US dollar | +50 | (644,993) |
| | -12 | 154,798 |

### 34. RISK MANAGEMENT POLICIES (continued)

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

Operational foreign currency risk of Group is connected to the sales of crude oil in currency other than functional currency of the Group. Most of Group'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 Group does not use hedging instruments to eliminate exposure to exchange rate risk from loans from banks.

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

| **Denominated in US dollars** | **2016** | 2015 |
|---|---|---|
| Assets | **7,092,926** | 11,589,799 |
| Liabilities | **(150,178,086)** | (164,537,125) |
| **Net position** | **(143,085,160)** | (152,947,326) |

**Foreign currency sensitivity analysis**

The Group is mainly exposed to exchange rate fluctuations of US dollar against tenge. 13%/(13)% 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 (2015: 60%/(20%)).

The sensitivity analysis includes only outstanding monetary assets and liabilities denominated in US dollar at the year end. At the year end a 13%/(13)% change in foreign currency rates is used for translation (2015: 60%/(20%)).

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 13% represents weakening of tenge against US dollar, while decrease by 13% is strengthening of tenge against US dollars (2015: increase by 60% / (decrease) for 20%).

| | **At December 31, 2016** | | At December 31, 2015 | |
|---|---|---|---|---|
| | **Tenge / US dollar +13%** | **Tenge / US dollar -13%** | Tenge / US dollar +60% | Tenge / US dollar -20% |
| Net income/(loss) | **(18,601,071)** | **18,601,071** | (91,768,396) | 30,589,465 |

**Liquidity risk**

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

| *In thousand of tenge* | **On demand** | **Less than 3 months** | **3-12 months** | **1-5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **As at 31 December, 2016** | | | | | | |
| Loans and borrowings | **134,551,822** | **–** | **–** | **–** | **–** | **134,551,822** |
| Trade payables | **–** | **18,914,975** | **–** | **–** | **–** | **18,914,975** |
| Loans from related parties | **–** | **–** | **–** | **–** | **12,726,108** | **12,726,108** |
| | **134,551,822** | **18,914,975** | **–** | **–** | **12,726,108** | **166,192,905** |

| *In thousand of tenge* | On demand | Less than 3 months | 3-12 months | 1-5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| **As at 31 December, 2015** | | | | | | |
| Loans and borrowings | 129,858,444 | – | – | – | – | 129,858,444 |
| Trade payables | – | 1,320,629 | – | – | – | 1,320,629 |
| Loans from related parties | – | 1,376,960 | – | – | 33,947,000 | 35,323,960 |
| | 129,858,444 | 2,697,589 | – | – | 33,947,000 | 166,503,033 |

### 34. RISK MANAGEMENT POLICIES (continued)

**Operational risk**

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

At December 31, 2016 and 2015, the Group 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 Group's financial instruments, the Group uses assumptions in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument.

At December 31, 2016 and 2015, the carrying value of financial assets and financial liabilities approximates their fair value.

### 35. EVENTS AFTER REPORTING DATE

In 2017, the Group received a letter from Geo-Jade Petroleum Corporation, according to which it intends and is able, if necessary, to provide the Group with the necessary funds to enable the Group to continue its normal operations for at least the next 12 months from the balance sheet date.