MATEN PETROLEUM JSC

Consolidated financial statements

For the year ended December 31, 2017,
with independent auditor's report

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Independent auditor's report

Consolidated financial statements

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Independent auditor's report

To the Shareholder 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 2017, and 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 2017 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 the 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 this matter. 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 matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Key audit matter	How our audit addressed the key audit matter
Estimation of oil and gas reserves and resources	
We considered this matter to be of most significance in our audit due to the fact that the estimation of hydrocarbon reserves and resources has a significant impact on the impairment test, depreciation, depletion and amortization and decommission provisions. Information on the estimation of oil and gas reserves and resources is disclosed in Note 4 to the consolidated financial statements as part of significant accounting estimates.	We performed procedures to assess competence, capabilities and objectivity of the external expert engaged by the Group to estimate volumes of oil and gas reserves and resources. We assessed the assumptions used by the external expert and compared the assumptions to the macroeconomic indicators, hydrocarbon production, operating costs, capital expenditures forecasts and other performance indicators, approved by the Group's management. We compared the estimates of reserves and resources to the estimates included in the consideration of impairment, depreciation, depletion and amortization and decommission provisions.

Other information included in the Group's 2017 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.

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Auditor's responsibilities for the audit of the consolidated 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.

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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.

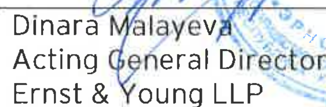
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law 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



Dinara Malayeva
Acting General Director
Ernst & Young LLP

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

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

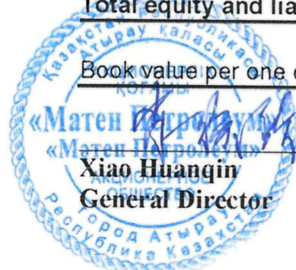
050060, Republic of Kazakhstan, Almaty
Al-Farabi ave., 77/7, Esentai Tower

25 June 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2017

In thousands of tenge	Notes	December 31, 2017	December 31, 2016
Assets			
Non-current assets			
Oil and gas assets and subsurface use rights	5	**130,889,640**	122,438,506
Property, plant and equipment	6	**1,922,714**	1,519,952
Construction-in-progress	7	**13,563,694**	12,782,920
Intangible assets		**49,558**	54,989
Exploration and evaluation assets	8	**2,668,783**	2,303,935
Other long-term assets		**32,859**	37,318
Loans receivable	9	**924,130**	–
Restricted cash	15	**1,174,947**	951,506
		151,226,325	140,089,126
Current assets			
Loans receivable	9	**3,129,591**	150,672
Inventories	10	**2,021,405**	2,275,320
Trade receivables	11	**9,681,045**	5,500,239
Taxes receivable	12	**2,819,757**	4,100,090
Advances paid	13	**2,378,293**	1,570,075
Corporate income tax prepaid		**144,374**	–
Other current assets	14	**247,465**	1,963,655
Cash and cash equivalents	15	**3,885,318**	559,317
		24,307,248	16,119,368
Total assets		**175,533,573**	156,208,494
Equity and liabilities			
Equity			
Share capital	16	**80,000**	80,000
Accumulated loss		**(24,260,656)**	(41,696,130)
		(24,180,656)	(41,616,130)
Non-current liabilities			
Borrowings	17	**18,671,392**	12,726,108
Site restoration and abandonment liability	18	**2,105,883**	1,855,105
Deferred tax liabilities	19	**21,618,899**	22,388,222
Other long-term liabilities	20	**1,954,199**	2,312,337
		44,350,373	39,281,772
Current liabilities			
Borrowings	17	**115,675,252**	134,500,707
Trade payables	21	**15,841,761**	18,909,450
Advances received	22	**16,770,229**	1,339,520
Income taxes payable	23	**1,307,674**	716,429
Other taxes payable	24	**4,841,645**	2,289,213
Other payables and accrued liabilities	25	**927,295**	787,533
		155,363,856	158,542,852
Total equity and liabilities		**175,533,573**	156,208,494
Book value per one common share (in tenge)	16	**(3,028,777)**	(5,208,890)



Xiao Huanqin
General Director

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

Kusnidenova E.S.
Chief Accountant

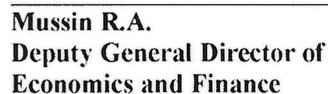
The accounting policies and explanatory notes on page 6 through 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

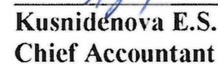
For the year ended December 31, 2017

In thousands of tenge	Notes	2017	2016
Revenue	26	**81,803,708**	51,925,227
Cost of sales	27	**(19,458,969)**	(14,952,250)
Gross profit		**62,344,739**	36,972,977
Selling expenses	28	**(27,712,290)**	(16,538,981)
General and administrative expenses	29	**(3,357,240)**	(2,788,663)
Finance income	30	**542,422**	1,142,527
Finance costs	31	**(8,519,208)**	(9,099,797)
Foreign exchange gain/(loss), net		**577,424**	2,645,811
Other income/(expenses), net	32	**208,244**	78,211
Profit before income tax		**24,084,091**	12,412,085
Income tax expense	19	**(6,648,617)**	(3,184,529)
Net profit for the year		**17,435,474**	9,227,556
Other comprehensive income		**–**	–
Total comprehensive profit for the year		**17,435,474**	9,227,556
Earnings per share			
Earnings per share	16	**2,179**	1,153

Xiao Huanqin
General Director



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



Kusnidenova E.S.
Chief Accountant

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2017

In thousands of tenge	Share capital	Retained Earnings	Total equity
At January 1, 2016	80,000	(50,923,686)	(50,843,686)
Net loss for the year	–	9,227,556	9,227,556
Total comprehensive loss for the year	–	9,227,556	9,227,556
At December 31, 2016	80,000	(41,696,130)	(41,616,130)
Net profit for the year	–	**17,435,474**	**17,435,474**
Total comprehensive income for the year	–	**17,435,474**	**17,435,474**
At December 31, 2017	**80,000**	**(24,260,656)**	**(24,180,656)**

Xiao Huanqin
General Director

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

Kusnidenova E.S.
Chief Accountant

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2017

In thousands of tenge	Notes	2017	2016
Cash flow from operating activities			
Profit before income tax		**24,084,091**	12,412,085
Adjustments for:			
Depreciation, depletion and amortization	26, 27, 28, 32	**6,491,667**	5,069,676
Loss on disposal of property plant and equipment, oil and gas assets and write off of dry well	32	**1,873**	1,406
Finance costs	31	**8,519,208**	9,099,797
Finance income	30	**(542,422)**	(1,142,527)
Foreign exchange loss		**(577,424)**	(2,568,234)
Change in estimates of site restoration and abandonment liabilitiesв	32	**(33,899)**	–
Provision for impairment of trade receivables, advances paid and loans given		**38,691**	5,898
Operating cash flows before changes in working capital		**37,981,785**	22,878,101
Changes in working capital			
Changes in trade receivables, advances given and other current assets		**(4,128,609)**	914,862
Change in taxes receivable		**1,367,710**	(1,444,009)
Change in inventories		**253,915**	(551,767)
Change in other long-term assets		**3,535**	(6,516)
Change in trade payables		**455,078**	2,031,461
Change in advances received		**15,430,709**	–
Change in other payables and accrued liabilities		**(594,160)**	(697,777)
Change in other taxes payable		**1,329,263**	(503,461)
Cash generated from operating activity		**52,099,226**	22,620,894
Corporate income tax paid		**(6,897,416)**	(3,349,618)
Interests received		**22,333**	–
Net cash generated from operating activities		**45,224,143**	19,271,276
Cash flow from investing activities			
Loans to employees, net of repayments		**924**	1,008
Purchase of oil and gas assets	5	**(15,201)**	(272,809)
Purchase of property, plant and equipment		**(120,048)**	(22,265)
Purchase of construction-in-progress assets		**(18,287,870)**	(4,868,711)
Purchase of intangible assets		**(10,776)**	(10,129)
Purchase of exploration and evaluation assets		**(527,611)**	(116,939)
Provision of loan receivable		**(3,797,060)**	(22,656,378)
Repayment of loan receivable		**227,520**	786,007
Deposits for site restoration and abandonment		**(184,348)**	(183,486)
Net cash used in investing activities		**(22,714,470)**	(27,343,702)

The accounting policies and explanatory notes on page 6 through 39 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of tenge	Notes	2017	2016
Cash flow from financing activities			
Advances received		–	1,339,520
Proceeds from bank loan	17	**5,833,930**	17,007,500
Interest paid	17	**(6,195,171)**	(5,970,048)
Repayment of bank loan	17	**(18,729,187)**	(9,683,431)
Net cash (used in) / from financing activities		**(19,090,428)**	2,693,541
Effects of exchange rate changes on cash and cash equivalents		**(93,244)**	(235,695)
Net (decrease)/increase in cash and cash equivalents		**3,326,001**	(5,614,580)
Cash and cash equivalents, at the beginning of the year	15	**559,317**	6,173,897
Cash and cash equivalents, at the end of the year	15	**3,885,318**	559,317

SIGNIFICANT NON-CASH TRANSACTIONS – ADDITIONAL DISCLOSURE

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

Construction in progress

In 2017 additions to construction in progress in the amount of 2,423,447 thousand tenge (2016: 14,929,661 thousand tenge) were financed by the decrease in accounts payable.

Oil and gas assets

Oil and gas assets were increased in 2017 by 296,308 thousand tenge (2016: 351,985 throusand tenge) by the increase of social obligations.

Exploration and evaluation assets

Exploration and evaluation assets were increased in 2017 by 427,080 thousand tenge (2016: 417,961 throusand tenge) by the increase in accounts payable.

Xiao Huanqin
General Director

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

Kusnidenova E.S.
Chief Accountant

The accounting policies and explanatory notes on page 6 through 39 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

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	105 Baktygerei Kulmanov., 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, 2017 and 2016 the shareholders of the Company were as follows:

	2017		2016	
	%	**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.

These consolidated financial statements were approved by the management of the Group and authorized for issue on June 25, 2018.

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, Baktygerei Kulmanov street 105.

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.

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.

Going concern

The financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activities and the realization of assets and the settlement of liabilities in the ordinary course of business.

As at 31 December 2017, the Group's current liabilities exceeded its current assets by 179,668,789 thousand tenge (as at 31 December 2016: by 174,662,220 thousand tenge). These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

The ability of the Group to settle its trade accounts payable, repay its borrowings and continue its normal business activities and maintain its going concern status is heavily dependent on the Group's ability to restructure the principal debt on the loan from DB "Bank of China in Kazakhstan" JSC, and the ability of the parent company to provide the necessary funds, to increase revenues by selling more oil, upon condition that its trade receivables will be repaid by counterparties.

Management believes that the Group will operate as going concern, and in forming this view, management has considered the current intention and financial position of the Group. In particular, the following factors were considered in assessing the Group's ability to continue activities as going concern:

On January 9, 2018, the Company signed an additional agreement with DB "Bank of China in Kazakhstan" JSC on restructuring the main debt and rescheduling repayment of the first tranche from July 30, 2018 to April 22, 2022.

In 2018, the Group received a letter from Geo-Jade Petroleum Corporation, the parent company of Sino-Science Netherlands Energy Group BV, according to which it intends and is able, if necessary, to provide the Group with the sufficient funds to enable the Group to continue its normal operations for at least the following 12 months from the reporting date.

Should the Company not be able to manage the inherent uncertainties referred to above and attract sufficient amount of funds, there would be material uncertainty as to whether it would be able to repay its debts when they fall due and therefore continue as a going concern.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)

Foreign currency translation (continued)

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, 2017 was 332.33 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, 2017 (2016: 333.29 tenge to 1 US dollar).

3. SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The Company applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after January 1, 2017. The Company has not early adopted any standards, interpretations or amendments that have been issued but are 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 2017, they did not have a material impact on the annual financial statements of the Company. The nature and the impact of each new standard or amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Company disclosed this information for the current and comparative periods in *Note 17*.

Amendments to IAS 12 Income taxes − recognition of deferred tax assets for unrealized losses

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 deductible temporary difference related to unrealized losses. 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.

The Company applied amendments retrospectively. However, their application has no effect on the Company’s financial position and results of operations as the Company historically takes into account this limitation.

Annual improvements to IFRS, period: 2014-2016 cycle

Amendments to IFRS 12 Disclosure of Interests in Other Entities − clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity’s interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

Standards issued but not yet effective

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

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 Company plans to adopt the new standard on the required effective date and will not restate comparative information. As at the reporting date the Company has not completed detailed impact assessment of all three aspects of IFRS 9. This assessment may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 when IFRS 9 is fully adopted.

(a) Classification and measurement

The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9.

Trade receivables and deposits are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Company analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

IFRS 9 requires the Company to record expected credit losses on all of its loans and trade receivables, either on a 12-month or lifetime basis. The Company will apply the simplified approach and record lifetime expected losses on all trade receivables.

(c) Hedge accounting

The Company has no hedge contracts.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The 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 1 January 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the modified retrospective method. In 2016 the Company performed preliminary impact assessment of IFRS 15 and continued with more detailed analysis in 2017, according to which no significant impact on the Group is expected.

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. Given that, the Company does not have any subsidiaries these amendments will have no impact on its financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

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. These amendments will have no impact on its financial statements.

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 recognize 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 recognize 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.

In 2018, the Company will continue to assess the potential effect of IFRS 16 on its financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach).
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 40 Transfers of investment property from category to category

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after January 1, 2018. Early application of the amendments is permitted and must be disclosed. The Company will apply amendments when they become effective. However, since Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its financial statements.

Annual improvements to IFRS, period: 2014-2016 cycle (issued in December 2016)

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards − deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from January 1, 2018. This amendment is not applicable to the Company.

IAS 28 Investments in Associates and Joint Ventures − clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

IAS 28 Investments in Associates and Joint Ventures − clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice (continued)

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. These amendments are not applicable to the Company.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts − Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. These amendments are not applicable to the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Annual improvements to IFRS, period: 2014-2016 cycle (issued in December 2016) (continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation; or

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after January 1, 2018. Early application of interpretation is permitted and must be disclosed. However, since the Company's current practice is in line with the Interpretation, the Company does not expect any effect on its financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after January 1, 2019, but certain transition reliefs are available. The Company will apply interpretation from its effective date.

Annual improvements 2015-2017 cycle

The IASB has issued the annual improvements to IFRS standards 2015-2017 cycle. The amendments affect four standards:

- IFRS 3 *Business Combinations*;
- IFRS 11 *Joint Arrangements*;
- IAS 12 *Income Taxes*; and
- IAS 23 *Borrowing Costs*.

The amendments are effective for annual periods beginning on or after 1 January 2019. Currently the Company is assessing the potential effect of these standards on its financial statements.

IAS 12 Income Taxes − Income Tax Consequences of Payments on Financial Instruments Classified as Equity

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Annual improvements 2015-2017 cycle (continued)

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Currently the Company is assessing the potential effect of these standards on its financial statements.

IAS 23 Borrowing Costs − Borrowing Costs Eligible for Capitalisation

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Currently the Company is assessing the potential effect of these standards on its financial statements.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts − amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January, 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. These amendments are not applicable to the Company.

Prepayment Features with Negative Compensation − amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification.

The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The basis for conclusions to the amendments clarified that the early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract.

Prepayment Features with Negative Compensation − amendments to IFRS 9 (continued)

The amendments are intended to apply where the prepayment amount approximates to unpaid amounts of principal and interest plus or minus an amount that reflects the change in a benchmark interest rate. This implies that prepayments at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instrument, will normally satisfy the SPPI criterion only if other elements of the change in fair value, such as the effects of credit risk or liquidity, are small. Most likely, the costs to terminate a ‘plain vanilla’ interest rate swap that is collateralised, so as to minimise the credit risks for the parties to the swap, will meet this requirement. The amendments to IFRS 9 are effective for annual periods beginning on or after 1 January 2019. Currently the Company is assessing the potential effect of these standards on its financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation; or

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Annual improvements 2015-2017 cycle (continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (continued)

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Company's current practice is in line with the Interpretation, the Company does not expect any effect on its financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company will apply interpretation from its effective date. In addition, the Company may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

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. SUMMARY OF 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

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

Effective interest method

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

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

Loans and trade receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less a provision for doubtful debts. A provision is established when there is objective evidence the 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.

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.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

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.

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.

Future cash flows are discounted to the present value at a discount rate that reflects the current market assessment of the time value of money and the risks inherent in the asset.

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, 2016	55,312,872	102,434,740	157,747,612
Additional provision to site restoration and abandonment liability *(Note 18)*	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
Additional provision to site restoration and abandonment liability *(Notes 18)*	**149,954**	**–**	**149,954**
Transfer from construction-in-progress *(Note 7)*	**14,264,743**	**–**	**14,264,743**
Additions	**311,509**	**–**	**311,509**
Disposals	**(124,608)**	**–**	**(124,608)**
At December 31, 2017	**79,457,209**	**102,434,740**	**181,891,949**
Accumulated depletion and depreciation			
At January 1, 2016	(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)
Charge for the year	**(4,246,354)**	**(2,014,976)**	**(6,261,330)**
Disposals	**110,866**	**–**	**110,866**
At December 31, 2017	**(26,750,598)**	**(24,251,711)**	**(51,002,309)**
Net book value			
At December 31, 2016	42,240,501	80,198,005	122,438,506
At December 31, 2017	**52,706,611**	**78,183,029**	**130,889,640**

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. The amount of 69,038,521 thousand tenge relates to Morskoye, Karatal and Dauletaly oil fields as a result of an acquisition of a subsidiary.

During 2017, oil and gas assets in the amount of 7,462,878 thousand tenge (2016: 7,019,306 thousand tenge) were amortized by a straight-line method, the total amount of accrual for the year was 878,457 thousand tenge (2016: 902,715 thousand tenge).

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, 2017 and 2016 is as follows:

In thousands of tenge	Land	Buildings and premises	Machinery and equipment	Vehicles	Other	Total
Cost						
At January 1, 2016	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
Additions	**–**	**8,615**	**31,760**	**–**	**41,971**	**82,346**
Transfer from construction-in-progress *(Note 7)*	**–**	**386,008**	**6,982**	**86,520**	**56,397**	**535,907**
Disposals	**–**	**(26,819)**	**(109,492)**	**–**	**(27,315)**	**(163,626)**
At December 31, 2017	**141,239**	**1,404,030**	**167,158**	**620,846**	**417,987**	**2,751,260**
Accumulated depreciation						
At January 1, 2016	–	(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)
Charge for the year	**–**	**(76,331)**	**(34,666)**	**(51,872)**	**(51,261)**	**(214,130)**
Disposal of depreciation	**–**	**26,819**	**109,441**	**–**	**26,005**	**162,265**
At December 31, 2017	**–**	**(248,216)**	**(52,461)**	**(302,800)**	**(225,069)**	**(828,546)**
Net book value						
At December 31, 2016	141,239	837,522	110,672	283,398	147,121	1,519,952
At December 31, 2017	**141,239**	**1,155,814**	**114,697**	**318,046**	**192,918**	**1,922,714**

7. CONSTRUCTION-IN-PROGRESS

In thousands of tenge	**2017**	2016
At January 1	**12,782,920**	2,443,698
Additions	**15,864,423**	19,798,372
Transfer to oil and gas assets and property, plant and equipment *(Notes 5, 6, 8)*	**(15,064,967)**	(9,459,150)
Disposal	**(18,682)**	–
At December 31	**13,563,694**	12,782,920

During 2017 the Group completed construction of 44 new wells and placed them into exploitation at Matin, East Kokarna, Kara Arna and Morskoe fields.

As at December 31, 2017 the construction in progress mainly represents 34 wells under construction and installation works, with corresponding pumps, electrical equipment, machinery, pipes, etc.

8. EXPLORATION AND EVALUATION ASSETS

In thousands of tenge	**December 31, 2017**	December 31, 2016
At January 1	**2,303,935**	1,708,210
Additions	**100,531**	537,474
Transfer from CIP (Note 7)	**264,317**	–
Accretion of site restoration and abandonment liability *(Note 18)*	**–**	11,976
Accretion of obligations for social infrastructure *(Note 20)*	**–**	46,275
At December 31	**2,668,783**	2,303,935

Additions to exploration and evaluation assets in 2017 mainly consists of exploration works performed at Dauletaly oil field.

9. LOANS RECEIVABLE

In thousands of tenge	Interest rate	Maturity	**December 31 2017**	December 31 2016
«Sozak Oil and Gas» LLP	18%	2018	**2,365,982**	–
North Caspian Petroleum JSC	18%	2019	**1,326,068**	150,672
Sino-Science Netherlands Energy Group B.V.	Libor 3M (0.23435%) +3.40%	2025	**354,809**	–
Union of Chinese Entrepreneurs in Kazakhstan	9%	2021	**6,862**	–
			4,053,721	150,672
Current portion of loans receivable			**3,129,591**	150,672
Non-current portion of loans receivable			**924,130**	–

As of December 31, 2017, loans receivable represent loans: North Caspian Petroleum JSC for the amount of 692,965 thousand tenge and 633,103 thousand tenge with a maturity date of December 31, 2018 and 2019 with interest rate of 18%, Sozak Oil LLP and Gas for the amount of 2,365,982 thousand tenge with maturity date of August 21, 2018 and interest rate of 18%, SINO-SCIENCE NETHERLANDS ENERGY GROUP BV for the amount of 354,809 thousand tenge and the Union of Chinese Entrepreneurs for the amount of 6,862 thousand tenge.

10. INVENTORIES

In thousands of tenge	**December 31, 2017**	December 31, 2016
Finished goods – crude oil	**1,064,457**	1,424,962
Raw and other materials	**956,948**	850,358
	2,021,405	2,275,320

11. TRADE RECEIVABLES

In thousands of tenge	**December 31, 2017**	December 31, 2016
Trade receivables from third parties	**9,608,230**	5,489,237
Trade receivables from related parties	**72,815**	11,002
	9,681,045	5,500,239

In thousands of tenge	**Total**	**Neither past due nor impaired**	**Past due but not impaired**			
			<30 days	**30-90 days**	**90-120 days**	**>120 days**
2017	**9,681,045**	**9,680,711**	**–**	**–**	**–**	**334**
2016	5,500,239	5,496,893	–	–	–	3,346

As of December 31 the trade receivables was presented in following currencies:

In thousands of tenge	**December 31, 2017**	December 31, 2016
In US dollars	**9,634,902**	5,484,014
In tenge	**46,143**	16,225
	9,681,045	5,500,239

12. TAXES RECEIVABLE

In thousands of tenge	**December 31, 2017**	December 31, 2016
VAT receivable	**2,761,978**	4,068,410
Other taxes	**57,779**	31,680
	2,819,757	4,100,090

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. ADVANCES PAID

In thousands of tenge	**December 31, 2017**	December 31, 2016
Prepayments for goods and services	**2,273,635**	1,492,152
Insurance	**104,658**	77,923
	2,378,293	1,570,075

14. OTHER CURRENT ASSETS

In thousands of tenge	**December 31, 2017**	December 31, 2016
Bank guarantee deposits	**117,555**	1,255,131
Bank deposits	**33,233**	33,329
Other	**96,677**	675,195
	247,465	1,963,655

15. CASH AND CASH EQUIVALENTS

In thousands of tenge	**December 31, 2017**	December 31, 2016
Cash in banks, in foreign currency	**3,024,017**	182,035
Cash in banks, in tenge	**2,034,666**	1,327,252
Petty cash	**1,582**	1,536
Less: cash and cash equivalents, restricted in use	**(1,174,947)**	(951,506)
	3,885,318	559,317

As at December 31, 2017, cash and cash equivalents in the amount of 1,174,947 thousand tenge (as at December 31, 2016: 951,506 thousand tenge) were restricted from use. These funds do not have a specific date of repayment and accrue interest income at the range of 4% to 10% per annum (2016: 4% to 9% per annum). In order to stay in compliance with the legislation, the Group accumulates cash and cash equivalents, for repayment of liabilities for decommissioning and site restoration *(Note 18)*.

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 list of shareholders of the Company is 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 2017 and 2016 the Group did not declare or pay any dividends.

For the years ended December 31, 2017 and 2016 earnings per share were as follows:

	2017	2016
Profit for the year	**17,435,474**	9,227,556
Earnings used in the calculation of earnings per share	**17,435,474**	9,227,556
Weighted average number of ordinary shares for the purposes of earnings per share	**8,000**	8,000
Earnings per share	**2,179**	1,153

16. SHARE CAPITAL (continued)

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

In thousands of tenge	**December 31, 2017**	December 31, 2016
Total assets	**175,533,573**	156,208,494
Intangible assets	**(49,558)**	(54,989)
Total liabilities	**(199,714,229)**	(197,824,624)
Net total assets	**(24,230,214)**	(41,671,119)
Number of ordinary shares	**8,000**	8,000
Book value per common share (in tenge per share)	**(3,028,777)**	(5,208,890)

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 thousand US dollars 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 a 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 is equal to 50,000 thousand US dollars with accrual of interest at LIBOR 3M + 2.75% and maturity date of July 23, 2018.

As at December 31, 2017 borrowings are disclosed at fair value without any unamortized discounts and are secured with assets of the Group in a form of rights to use subsoil of Maten, Eastern Karana, Kara Arna, Morskoye, Karatal, Dauletaly and other oil and gas assets.

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.

In January 2017, the Group received the second and third tranches in the amount of 2,500 and 8,500 thousand US dollars, in April 2017 – the fourth tranche in the amount of 7,000 thousand US dollars (equivalent to 826,375 thousand tenge, 2,820,895 thousand tenge and 2,186,660 thousand tenge, respectively with exchange rate on the date of receipt of funds).

17. BORROWINGS (continued)

Sino-Science Netherlands Energy Group B.V. (continued)

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

In thousands of tenge	**2017**	2016
At January 1	**147,226,815**	163,768,788
Additional financing	**5,833,930**	17,007,500
Interest accrued *(Note 31)*	**8,003,161**	8,686,611
Foreign exchange (gain)/loss	**(636,624)**	(3,206,119)
Repayment of principal	**(18,729,187)**	(9,683,431)
Payments of interest	**(6,195,171)**	(5,970,048)
Withholding tax	**(1,197,513)**	(1,234,016)
Value added tax	**41,233**	43,756
Offset	**–**	(22,186,226)
At December 31	**134,346,644**	147,226,815
Current portion	**115,675,252**	134,500,707
Non-current portion	**18,671,392**	12,726,108

18. SITE RESTORATION AND ABANDONMENT LIABILITY

In thousands of tenge	**2017**	2016
At January 1	**1,855,105**	1,577,275
Accretion expense *(Note 31)*	**134,723**	114,081
Additional provision for the year *(Note 5, 8)*	**149,954**	163,749
Change in estimate	**(33,899)**	–
At December 31	**2,105,883**	1,855,105

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 457 wells located at the Group's oil fields as at December 31, 2017 (as at December 31, 2016: 423 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, 2016: 5.5% and 7% respectively).

19. INCOME TAX EXPENSE

Income tax expense for the years ended December 31, 2017 and 2016 is as follows:

In thousands of tenge	**2017**	2016
Corporate income tax	**6,625,636**	3,544,849
Excess profit tax	**792,304**	185,610
Total current income tax expense	**7,417,940**	3,730,459
Deferred corporate income tax expense/(benefit)	**(349,197)**	(404,457)
Deferred excess profits tax expense/(benefit)	**(420,126)**	(141,473)
Total deferred income tax benefit	**(769,323)**	(545,930)
Total income tax expense	**6,648,617**	3,184,529

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.

19. INCOME TAX EXPENSE (continued)

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

	2017	**Origination and reversal of temporary differences through consolidated statement of comprehensive income**	2016	Origination and reversal of temporary differences through consolidated statement of comprehensive income	2015
Deferred tax assets					
Tax losses from non-contractual activities carried forward	**17,016,533**	**492,484**	16,524,049	1,031,493	15,492,556
Other accrued liabilities	**98,870**	**(503,728)**	602,598	(23,834)	626,432
Taxes payable	**1,113,271**	**629,932**	483,339	94,047	389,292
Exploration and evaluation assets	**138,910**	**(44,245)**	183,155	(53,038)	236,193
Site restoration and abandonment liability	**222,176**	**(4,831)**	227,007	17,097	209,910
Estimated liabilities	**411,509**	**411,509**	–	–	–
Inventory reserve	**7,326**	**7,326**	–	–	–
Forex on social and historical costs	**–**	**–**	–	(191,031)	191,031
	19,008,595	**988,447**	18,020,148	874,734	17,145,414
Less: allowance for non-recognized deferred tax asset	**(16,524,049)**	**(452,059)**	(16,071,990)	(415,102)	(15,656,888)
	2,484,546	**536,388**	1,948,158	459,632	1,488,526
Deferred tax liabilities					
Property, plant and equipment and oil and gas assets	**(24,103,445)**	**232,935**	(24,336,380)	86,298	(24,422,678)
	(24,103,445)	**232,935**	(24,336,380)	86,298	(24,422,678)
Net deferred tax liability, net	**(21,618,899)**	**769,323**	(22,388,222)	545,930	(22,934,152)

The Group is located in the Republic of Kazakhstan where the statutory tax rate for the years ended December 31, 2017 and 2016 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, 2017 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, 2076 expire for tax purposes in 2017-2027.

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	**2017**	2016
Profit before income tax	**24,084,091**	12,412,085
Corporate income tax at statutory rate of 20%	**4,816,818**	2,482,417
Adjustments due to:		
Excess profit tax	**401,839**	44,137
Change in unrecognized deferred tax asset	**452,059**	415,102
Other differences	**977,901**	242,873
Income tax expense	**6,648,617**	3,184,529

19. INCOME TAX EXPENSE (continued)

In thousands of tenge	**2017**	2016
Reconciliation of deferred tax liabilities, net		
Opening balance as of 1 January	**22,388,222**	22,934,152
Deferred tax liability recognized during the period	**(769,323)**	(545,930)
Closing balance as at 31 December	**21,618,899**	22,388,222

20. OTHER LONG-TERM LIABILITIES

As at December 31, 2017 other long-term liabilities comprises the following:

In thousands of tenge	**December 31, 2017**	December, 31 2016
Obligation for historical reimbursable costs	**1,090,166**	1,372,741
Obligation for social infrastructure	**864,033**	923,261
Long-term warranty payables	**–**	16,335
	1,954,199	2,312,337

The movement of the obligations for historical reimbursable costs and social infrastructure during 2017 and 2016 is as follows:

In thousands of tenge	**Obligations for social infrastructure**	**Obligations for historical reimbursable costs**	**Total**
At January 1, 2016	613,793	1,650,717	2,264,510
Charge for the period *(Note 5, 8)*	398,261	–	398,261
Accretion expense *(Note 31)*	81,725	147,880	229,605
Change in estimate	–	(39,623)	(39,623)
Reclass	–	58,925	58,925
Foreign exchange loss	(22,564)	(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
Accretion expense *(Note 31)*	**73,031**	**122,631**	**195,662**
Foreign exchange loss	**(1,296)**	**(1,219)**	**(2,515)**
	994,996	**1,494,153**	**2,489,149**
Reclassification to short-term	**(130,963)**	**(403,987)**	**(534,950)**
At December 31, 2017	**864,033**	**1,090,166**	**1,954,199**

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, 2017 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)*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. TRADE PAYABLES

In thousands of tenge	**December 31, 2017**	December, 31 2016
In tenge	**15,732,960**	18,462,178
In Russian rubles	**108,752**	98,033
In US dollars	**49**	349,239
	15,841,761	18,909,450

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

22. ADVANCES RECEIVED

In thousands of tenge	**December 31, 2017**	December, 31 2016
Advances received	**16,770,229**	1,339,520
	16,770,229	1,339,520

As of December 31, 2017 and 2016 advances received represented amounts received from customers for the supply of oil.

23. INCOME TAXES PAYABLE

Income taxes payable as at December 31 are as follows:

In thousands of tenge	**December 31, 2017**	December, 31 2016
Excess profits tax	**762,494**	164,219
Corporate income tax	**545,180**	552,210
	1,307,674	716,429

24. OTHER TAXES PAYABLE

Other taxes payable at December 31 as follows:

In thousands of tenge	**December 31, 2017**	December, 31 2016
Rental tax	**3,313,839**	1,060,090
Mineral extraction tax	**1,329,018**	821,706
Withholding income tax	**42,432**	272,182
Social tax	**25,645**	12,599
Other taxes	**130,711**	122,636
	4,841,645	2,289,213

25. OTHER PAYABLES AND ACCRUED LIABILITIES

In thousands of tenge	**December 31, 2017**	December, 31 2016
Obligation for historical reimbursable costs and social infrastructure	**526,599**	529,091
Salary and other related taxes payable	**269,052**	194,597
Other	**131,644**	63,845
	927,295	787,533

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. REVENUE

In thousands of tenge	**2017**	2016
Export sale of crude oil	**77,298,089**	51,264,512
Domestic sale of crude oil	**6,237,452**	3,495,714
Charges for quality of crude oil sold	**(1,731,833)**	(2,834,999)
	81,803,708	51,925,227

During 2017 the Group produced 710,104 tons and sold 774,343 tons (during 2016: 630,013 tons produced and sold 593.514) 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 2017 the Group exported 454,916 tons of crude oil in accordance with this contract (2016: 333,033 tons).

27. COST OF SALES

In thousands of tenge	**2017**	2016
Depreciation and depletion	**6,340,469**	4,905,324
Mineral extraction tax	**4,419,497**	2,665,698
Payroll expenses and related taxes	**2,506,991**	2,340,826
Inventories	**1,053,145**	859,211
Transportation expenses	**961,094**	990,802
Property tax	**601,723**	488,454
Rent	**572,794**	472,172
Repair and maintenance expenses	**546,065**	519,236
Electric power	**510,102**	500,395
Geological and geophysical works	**301,979**	295,278
Change in crude oil inventory	**278,275**	(796,152)
Catering services	**257,640**	238,425
Oil well service expenses	**173,665**	337,783
Security expenses	**160,940**	145,292
Insurance	**92,194**	147,499
Scientific research and experimental development	**–**	55,451
Other expenses	**682,396**	786,556
	19,458,969	14,952,250

28. SELLING EXPENSES

In thousands of tenge	**2017**	2016
Customs fees	**9,881,596**	6,179,154
Oil preparation and transportation	**8,676,244**	7,150,242
Rental tax	**8,531,765**	2,688,892
Demurrage	**118,328**	86,597
Depreciation and depletion	**68,338**	70,660
Technological shipment and pumping losses	**59,947**	40,707
Other	**376,072**	322,729
	27,712,290	16,538,981

29. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of tenge	**2017**	2016
Payroll expenses and related taxes	**2,338,949**	1,437,929
Professional trainings and education	**142,694**	172,001
Business trip and representative expenses	**116,519**	89,713
Taxes and other payments to the budget	**80,968**	388,516
Depreciation and amortization	**73,880**	78,175
Inventories	**67,549**	52,840
Rent	**66,169**	75,799
Consulting services	**59,228**	49,238
Social program	**40,238**	40,693
Communication services	**23,507**	21,050
Bank services	**22,521**	24,086
Security service	**11,974**	15,053
Utilities	**11,744**	6,554
Insurance	**5,446**	5,143
Fines and penalties	**1,566**	9,742
Other	**294,288**	322,131
	3,357,240	2,788,663

30. FINANCE INCOME

In thousands of tenge	**2017**	2016
Interest income from loan receivable	**404,709**	965,191
Interest income from bank deposits	**16,642**	95,762
Interest income on liquidation fund deposits	**121,071**	81,574
	542,422	1,142,527

31. FINANCE COSTS

In thousands of tenge	**2017**	2016
Interest expense *(Note 17)*	**8,003,161**	8,686,611
Accretion of site restoration and abandonment liability *(Note 18)*	**134,723**	114,081
Accretion of obligations for historical reimbursable costs *(Note 20)*	**122,631**	147,880
Accretion of obligations for social infrastructure *(Note 20)*	**73,031**	81,725
Other	**185,662**	69,500
	8,519,208	9,099,797

32. OTHER INCOME/(EXPENSES), NET

In thousands of tenge	**2017**	2016
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 18)*	**33,899**	–
Depreciation and amortization	**(8,978)**	(15,517)
Loss on disposal of oil and gas assets and property, plant and equipment, net	**(1,873)**	(1,406)
Other	**185,196**	95,134
	208,244	78,211

33. 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, 2017 and 2016, the Group entered into the flowing transactions with related parties:

In thousands of tenge	**2017**	2016
Finance income	**358,778**	965,191
Finance cost	**(694,808)**	(1,376,960)
Purchases of services	**(5,942)**	–
Other income	**54,304**	9,675

The following balances with related parties included in the consolidated statement of financial position as at December 31, 2017 and 2016:

In thousands of tenge	**2017**	2016
Borrowings	**19,380,990**	12,726,108
Loans receivable *(Note 9)*	**4,046,859**	150,672
Other receivables *(Note 11)*	**72,815**	11,002

As at December 31, 2017 and 2016, the key management personnel consist of 14 persons. For the years ended December 31, 2017 and 2016, the compensation to the Group's key management personnel mainly consisted of short-term employee benefits amounted to 793,691 thousand tenge and 415,785 thousand tenge, respectively.

34. 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, 2017 and 2016.

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, 2017 and 2016.

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, 2017 and 2016.

34. 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

Contractual commitments under subsoil use contract

The Company's commitments under its Exploration and Evaluation contract (the "Contract") include periodic reviews of its activities by governmental authorities with respect to the requirements of the Contracts. Failure to comply with the terms of the Contracts and licenses could result in fines, penalties, suspension or revocation.

The Company is obligated to invest 1% from investment of exploration expenses to professional trainings of Kazakhstani specialists.

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.

34. COMMITMENTS AND CONTINGENCIES (continued)

Other commitments and contingencies (continued)

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.

35. 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 2017 and 2016 the Group has received a significant share of income from one customer and resulted in a significant concentration of credit risk. In 2017, revenues from Vitol Central Asia SA amounted to 93% (in 2016, revenue from Vitol Central Asia SA amounted to 94%) 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:

			December 31			
In thousand of tenge	**Location**	**Agency**	**2017**	2016	**2017**	2016
Subsidiary of Bank of China Kazakhstan JSC	Kazakhstan	Standard & Poor's	**A/stable**	A/stable	**3,385,850**	71,637
Eurasian Bank JSC	Kazakhstan	Standard & Poor's	**B/stable**	B/stable	**960,692**	833,786
Qazaq Banki JSC	Kazakhstan	Standard & Poor's	**B-/negative**	B-/negative	**690,171**	572,647
Bank of America	USA	Standard & Poor's	**BBB+/stable**	BBB+/stable	**117,555**	1,255,131
ATF Bank JSC	Kazakhstan	Standard & Poor's	**B/negative**	B-/stable	**50,748**	58,554
Kazkommertzbank JSC	Kazakhstan	Standard & Poor's	**B-/negative**	B-/negative	**2,575**	4,105
Industrial and Commercial Bank of China JSC	Kazakhstan	Standard & Poor's	**A/stable**	A/stable	**1,880**	1,887

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. 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	**December, 31 2017**	December, 31 2016
Assets	**13,166,155**	7,092,926
Liabilities	**(136,674,168)**	(150,178,086)
Net position	**(123,508,013)**	(143,085,160)

Foreign currency sensitivity analysis

The Group is mainly exposed to exchange rate fluctuations of US dollar against tenge. 10%/(10)% 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 (2016: 13%/(13%)).

The sensitivity analysis includes only outstanding monetary assets and liabilities denominated in US dollar at the year end. At the year end a 10%/(10)% change in foreign currency rates is used for translation (2016: 13%/(13%)).

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 10% represents weakening of tenge against US dollar, while decrease by 10% is strengthening of tenge against US dollars (2016: increase by 13% / (decrease) for 13%).

	At December 31, 2017		At December 31, 2016	
	Tenge / US dollar +10%	**Tenge / US dollar -10%**	Tenge / US dollar +13%	Tenge / US dollar -13%
Net income/(loss)	**(12,350,801)**	**12,350,801**	(18,601,071)	18,601,071

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.

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, 2017 and 2016, 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, 2017 and 2016, the carrying value of financial assets and financial liabilities approximates their fair value.

36. EVENTS AFTER REPORTING DATE

On February 5, 2018 in accordance with the Listing Rules of Kazakhstan Stock Exchange JSC the Company increased the number of announced shares due to share split in the proportion of 1: 10,000, and thus increased the number of registered common shares of the Company from 15,000 to 150,000,000. As a result, the total number of registered common shares of the Company is 150,000,000, including 80,000,000 shares of issued common shares.

On January 9, 2018, the Company signed an additional agreement with DB “Bank of China in Kazakhstan” JSC on restructuring the main debt and rescheduling repayment of the first tranche from July 30, 2018 to April 22, 2022.