

**Zhaikmunai LLP**

Interim condensed financial statements (unaudited)

*For the six months ended 30 June 2015*

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Report on review of interim condensed financial statements

**Interim condensed financial statements**

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## Report on review of interim condensed financial statements to the participants and management of Zhaikmunai LLP

### Introduction

We have reviewed the accompanying interim condensed financial statements of Zhaikmunai LLP, comprising the interim statement of financial position as at 30 June 2015 and the related interim statements of comprehensive income for the three and six months then ended, statements of changes in equity and cash flows for the six months then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

### Scope of review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.

*Ernst & Young LLP*



Alexandr Nazarkulov  
Auditor

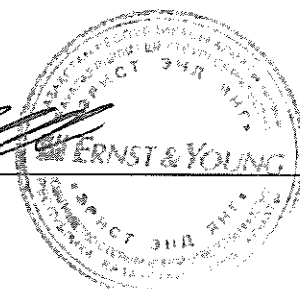
Auditor qualification certificate  
No. МФ-0000059 dated 6 January 2012

24 August 2015



Evgeny Zhemaletdinov  
General Director  
Ernst and Young LLP

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



## INTERIM STATEMENT OF FINANCIAL POSITION

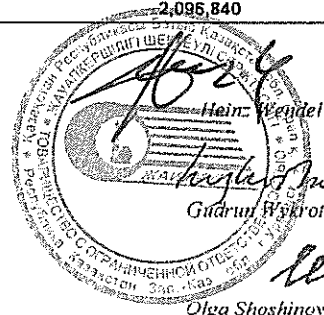
As at 30 June 2015

<i>In thousands of US dollars</i>	Notes	30 June 2015 (unaudited)	31 December 2014 (audited)
<b>Assets</b>			
<b>Non-current assets</b>			
Exploration and evaluation assets	3	25,432	24,380
Property, plant and equipment	4	1,512,054	1,442,192
Restricted cash		5,287	5,023
Advances for non-current assets	5	147,416	134,355
Derivative financial instruments	18	—	60,301
		1,690,189	1,666,251
<b>Current assets</b>			
Inventories		26,412	25,443
Trade receivables	7	91,765	30,110
Prepayments and other current assets		33,548	38,570
Derivative financial instruments	18	56,525	—
Income tax prepayment		5,586	13,925
Current investments	6	25,000	25,000
Cash and cash equivalents	8	167,815	361,350
		406,651	494,398
<b>Total assets</b>		<b>2,096,840</b>	<b>2,160,649</b>
<b>Equity and liabilities</b>			
<b>Partnership capital and reserves</b>			
Partnership capital	9	4,112	4,112
Other reserves	9	32,440	32,440
Retained earnings		726,760	745,185
		763,312	781,737
<b>Non-current liabilities</b>			
Long-term borrowings	10	993,376	1,035,141
Abandonment and site restoration provision		20,991	20,877
Due to Government of Kazakhstan		5,777	5,906
Deferred tax liability		203,038	205,298
		1,223,182	1,267,222
<b>Current liabilities</b>			
Current portion of long-term borrowings	10	14,914	15,024
Trade payables		54,541	48,634
Advances received		245	2,670
Current portion of Due to Government of Kazakhstan		1,031	1,031
Other current liabilities	11	39,615	44,331
		110,346	111,690
<b>Total equity and liabilities</b>		<b>2,096,840</b>	<b>2,160,649</b>

General Director of Zhaikmunai LLP

Chief Financial Officer of Zhaikmunai LLP

Chief Accountant of Zhaikmunai LLP



The accounting policies and explanatory notes on pages 5 through 16 are an integral part of these interim condensed financial statements

## INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2015

<i>In thousands of US dollars</i>	Notes	Three months ended 30 June		Six months ended 30 June	
		2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
<b>Revenue</b>					
Revenue from export sales		173,714	192,075	259,348	389,919
Revenue from domestic sales		-	25,950	14,705	55,058
	12	173,714	218,025	274,053	444,977
<b>Cost of sales</b>	13	(55,267)	(47,632)	(101,691)	(98,853)
<b>Gross profit</b>		118,447	170,393	172,362	346,124
General and administrative expenses	14	(7,432)	(9,850)	(15,081)	(17,233)
Selling and transportation expenses	15	(31,200)	(33,114)	(52,614)	(63,573)
Finance costs	16	(13,144)	(18,228)	(27,475)	(41,914)
Loss on derivative financial instruments	18	(13,781)	(5,478)	(3,776)	(6,126)
Foreign exchange loss, net		(350)	(570)	(665)	(2,066)
Interest income		75	130	174	634
Other income		1,767	839	2,880	1,713
Other expenses		(6,984)	(7,573)	(14,107)	(14,106)
<b>Profit before income tax</b>		47,398	96,549	61,698	203,453
Income tax expense	17	(25,325)	(36,229)	(35,123)	(86,060)
<b>Profit for the period</b>		22,073	60,320	26,575	117,393
Other comprehensive income for the period		-	-	-	-
<b>Total comprehensive income for the period</b>		22,073	60,320	26,575	117,393

General Director of Zhaikmunai LLP

Chief Financial Officer of Zhaikmunai LLP

Chief Accountant of Zhaikmunai LLP

Heinz Wendel  
Gudrun Wykrota  
Olga Shashinova

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## INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

<i>In thousands of US dollars</i>	Notes	Six months ended 30 June	
		2015 (unaudited)	2014 (unaudited)
<b>Cash flow from operating activities</b>			
Profit before income tax		61,898	203,453
<i>Adjustments for:</i>			
Depreciation, depletion and amortisation	13, 14	56,788	57,320
Finance costs	16	27,475	41,914
Interest income		(174)	(634)
Foreign exchange loss/(gain) on investing and financing activities		157	(4,153)
Loss on disposal of property, plant and equipment		7	33
Loss on derivative financial instruments	18	3,776	6,126
<b>Operating profit before working capital changes</b>		<b>149,727</b>	<b>304,059</b>
<i>Changes in working capital:</i>			
Change in inventories		(969)	(1,404)
Change in trade receivables		(61,655)	(40,677)
Change in prepayments and other current assets		5,022	(13,014)
Change in trade payables		10,054	20,074
Change in advances received		(2,425)	1,181
Change in Due to Government of Kazakhstan		(515)	(516)
Change in other current liabilities		(4,716)	(23,729)
<b>Cash generated from operations</b>		<b>94,523</b>	<b>245,974</b>
Income tax paid		(29,249)	(57,906)
<b>Net cash flows from operating activities</b>		<b>65,274</b>	<b>188,068</b>
<b>Cash flow from investing activities</b>			
Interest received		174	634
Purchase of property, plant and equipment		(131,093)	(147,803)
Purchase of exploration and evaluation assets		(1,318)	(6,380)
Redemption of current bank deposits		-	25,000
<b>Net cash used in investing activities</b>		<b>(132,237)</b>	<b>(128,549)</b>
<b>Cash flow from financing activities</b>			
Finance costs paid		(36,270)	(36,662)
Issue of notes	10	-	400,000
Fees paid on arrangement of notes		-	(6,525)
Transfer to restricted cash		(264)	(401)
Contributions to the partnership capital		-	4,108
Profit distributions paid	9	(45,000)	-
Repayment of borrowings	10	(45,000)	(196,505)
<b>Net cash (used in)/from financing activities</b>		<b>(126,534)</b>	<b>164,015</b>
Effects of exchange rate changes on cash and cash equivalents		(38)	(515)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(193,535)</b>	<b>223,019</b>
Cash and cash equivalents at the beginning of the period		361,350	170,447
<b>Cash and cash equivalents at the end of the period</b>		<b>167,815</b>	<b>393,466</b>

General Director of Zhaikmunai LLP

Chief Financial Officer of Zhaikmunai LLP

Chief Accountant of Zhaikmunai LLP

Heinz Wendel  
Gudrun Wojkrota  
Olga Shoshinova

The accounting policies and explanatory notes on pages 5 through 16 are an integral part of these interim condensed financial statements

## INTERIM STATEMENT OF CHANGES IN EQUITY

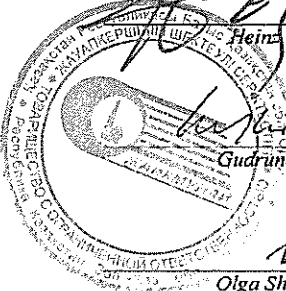
For the six months ended 30 June 2015

<i>In thousands of US dollars</i>	Partnership capital	Other reserves	Retained earnings	Total
<b>As at 1 January 2014 (audited)</b>	4	32,440	558,877	591,321
Profit for the period	-	-	117,393	117,393
<b>Total comprehensive income for the period</b>	-	-	117,393	117,393
Increase of the partnership capital	4,108	14	-	4,122
<b>As at 30 June 2014 (unaudited)</b>	4,112	32,454	676,270	712,836
<b>As at 31 December 2014 (audited)</b>	4,112	32,440	745,165	781,737
Profit for the period	-	-	26,575	26,575
<b>Total comprehensive income for the period</b>	-	-	26,575	26,575
Profit distribution	-	-	(45,000)	(45,000)
<b>As at 30 June 2015 (unaudited)</b>	4,112	32,440	726,760	763,312

General Director of Zhaikmunai LLP

Chief Financial Officer of Zhaikmunai LLP

Chief Accountant of Zhaikmunai LLP



Heinz Wendel  
Gudrun Wykrota  
Olga Shashinova

The accounting policies and explanatory notes on pages 5 through 16 are an integral part of these interim condensed financial statements

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS****For the six months ended 30 June 2015**

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**1. GENERAL****Overview**

Zhaikmunai, a Limited Liability Partnership (the "Partnership" or "Zhaikmunai LLP") was established under the laws of the Republic of Kazakhstan in 1997.

On 28 February 2014 the Partnership acquired in a transaction under common control 1,000 ordinary shares of Nostrum Oil & Gas Finance B.V., representing 100% of its charter capital, from Zhaikmunai Netherlands B.V. (formerly known as Frans van der Schoot B.V.), an entity under control of a common parent. In 2014 the Partnership sold 100% interest in its dormant subsidiaries Zhaikmunai Finance B.V., Zhaikmunai International B.V. and Nostrum Oil & Gas Finance B.V. to Zhaikmunai Netherlands B.V. The Partnership prepared consolidated financial statements for the year ended 31 December 2014 that included the financial statements of the Partnership and its subsidiaries up to the date of derecognition.

The Partnership's operations comprise of a single operating segment and 3 (three) additional exploration concessions located in Kazakhstan.

The participants of the Partnership, their shares and changes in the participants' structure are disclosed in *Note 9*. The Partnership does not have an ultimate controlling party.

The registered legal address of the Partnership is: 59/2, Prospect Eurasia, Uralsk, the Republic of Kazakhstan.

These interim condensed financial statements were authorised for issue by the Partnership's General Director, Chief Financial Officer and Chief Accountant on 24 August 2015.

**Subsoil use rights terms**

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

On 17 August 2012 the Partnership signed Asset Purchase Agreements to acquire 100% of the subsoil use rights related to three oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye – all located in the Western Kazakhstan region. On 1 March 2013 the Partnership acquired the subsoil use rights related to these three oil and gas fields in Kazakhstan following the signing of the respective supplementary agreements related thereto by the Ministry of Oil and Gas (the "MOG") of the Republic of Kazakhstan.

The term of the Chinarevskoye subsoil use rights originally included a 5-year exploration period and a 25-year production period. The exploration period was initially extended for additional 4 years and then for further 2 years according to the supplements to the Contract dated 12 January 2004 and 23 June 2005, respectively. In accordance with the supplement dated 5 June 2008, Tournaisian North reservoir entered into production period as at 1 January 2007. Following additional commercial discoveries during 2008, the exploration period under the Chinarevskoye subsoil use rights, other than for the Tournaisian horizons, was extended for an additional 3-year period, which expired on 26 May 2011. A further extension to 26 May 2014 was made under the supplement dated 28 October 2013. The extensions to the exploration periods have not changed the Chinarevskoye subsoil use rights term, which expires in 2031. The Partnership applied to the MOG for another extension of the exploration period.

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. On 27 April 2009 the exploration period was extended so as to have a total duration of 6 years. In January 2012 the MOG made the decision to extend the exploration period until 8 February 2015 and the corresponding supplementary agreement between MOG and the Partnership was signed on 9 August 2013. On 11 March 2015 the Partnership received the written permission on extension of the exploration period to 8 February 2017.

The contract for exploration and production of hydrocarbons from Darjinskoye field dated 28 July 2006 originally included a 6-year exploration period and a 19-year production period. On 21 October 2008 the exploration period was extended for 6 months so as to expire on 28 January 2013. On 27 April 2009 the exploration period was extended until 28 January 2015. On 23 January 2014 the exploration period was further extended until 31 December 2015.



**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)**

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The contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field dated 28 July 2006 originally included a 5-year exploration period and a 20-year production period. On 27 April 2009 the exploration period was extended until 28 July 2012. On 8 July 2011 the exploration period was further extended until 28 July 2014. On 23 January 2014 the exploration period was further extended until 31 December 2015.

**Royalty payments**

The Partnership is required to make monthly royalty payments throughout the entire production period, at the rates specified in the Contract.

Royalty rates depend on hydrocarbons recovery levels and the phase of production and can vary from 3% to 7% of produced crude oil and from 4% to 9% of produced natural gas. Royalty is accounted on a gross basis.

**Government "profit share"**

The Partnership makes payments to the Government of its "profit share" as determined in the Contract. The "profit share" depends on hydrocarbon production levels and varies from 10% to 40% of production after deducting royalties and reimbursable expenditures. Reimbursable expenditures include operating expenses, costs of additional exploration and development costs. Government "profit share" is expensed as incurred and paid in cash. Government profit share is accounted on a gross basis.

**Seasonality of operations**

The Partnership's operating expenses are subject to seasonal fluctuations, with higher expenses for various maintenance and other oil field services usually performed in the warmer months.

**2. BASIS OF PREPARATION****Basis of preparation**

These interim condensed financial statements for the six months ended 30 June 2015 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Partnership's annual consolidated financial statements for the year ended 31 December 2014.

**New standards, interpretations and amendments adopted by the Partnership**

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Partnership's annual consolidated financial statements for the year ended 31 December 2014.

Standards issued, but not yet effective, as at 1 January 2015, have not been early adopted by the Partnership.

**3. EXPLORATION AND EVALUATION ASSETS**

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

**4. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2015, the Partnership had additions of property, plant and equipment of US\$ 126,657 thousand (six months ended 30 June 2014: US\$ 105,911 thousand). These additions are mostly associated with drilling costs, construction of a third unit for the gas treatment facility and capitalised interest of US\$ 12,417 thousand (six months ended 30 June 2014: US\$ 7,287 thousand).

As at 30 June 2015 the Partnership's property, plant and equipment of US\$ 294,182 thousand are pledged as security for the loans due to Zhaikmunai Netherlands B.V. (31 December 2014: US\$ 309,133 thousand) (*Note 10*).

See *Note 20* for capital commitments.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)****5. ADVANCES FOR NON-CURRENT ASSETS**

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

**6. CURRENT INVESTMENTS**

Current investments as at 30 June 2015 were represented by an interest bearing deposit placed on 30 June 2015 for a three-month period with an interest rate of 0.23% per annum. Current investments as at 31 December 2014 were represented by an interest bearing short-term deposit placed on 30 September 2014 for a six-month period with interest rate of 0.24% per annum.

**7. TRADE RECEIVABLES**

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

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

**8. CASH AND CASH EQUIVALENTS**

<i>In thousands of US dollars</i>	<b>30 June 2015 (unaudited)</b>	31 December 2014 (audited)
Current accounts in US dollars	<b>166,011</b>	353,159
Current accounts in tenge	<b>1,796</b>	8,054
Petty cash	<b>8</b>	5
Current accounts in other currencies	<b>–</b>	132
	<b>167,815</b>	361,350

The Partnership has restricted cash accounts as liquidation fund deposit in the amount of US\$ 5,287 thousand with Sberbank in Kazakhstan (31 December 2014: US\$ 5,023 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Partnership.

**9. PARTNERSHIP CAPITAL**

The charter capital of the Partnership was formed in Tenge and amounted to Tenge 600 thousand, equivalent to US\$ 4 thousand as at 31 December 2013. As at 31 December 2013, the shares of Condensate Holding LLP and Claydon Industrial Ltd in the charter capital of the Partnership constituted 55% and 45%, respectively, equivalent to US\$ 2.2 thousand and US\$ 1.8 thousand, respectively.

On 23 May 2014, Nostrum Oil Coöperatief U.A. made a contribution to the charter capital of the Partnership in the amount of 749,400 thousand Tenge, equivalent to US\$ 4,108 thousand so that the interests of the partners were changed to the following:

	<b>In thousands of Tenge</b>	<b>%</b>
Nostrum Oil Coöperatief U.A.	749,400	99.920
Condensate Holding LLP	330	0.044
Claydon Industrial Ltd	270	0.036

Gain on initial recognition of loans received from Zhaikmunai Netherlands B.V. in 2008 at the below market interest rates as well as loss on its subsequent substantial modification were recorded in other reserves.

Partners in the Partnership are allowed to vote based on their participation percentage and are also entitled to participate in any distributions on the same basis.

On 26 May 2015 the Partnership made payments of profit distribution in the amount of US\$ 45,000 thousand according to the decision made at the Annual General Meeting of Participants of the Partnership on 24 April 2015.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)****10. BORROWINGS**

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

<i>In thousands of US dollars</i>	<b>30 June 2015 (unaudited)</b>	<b>31 December 2014 (audited)</b>
Notes issued in 2012 and maturing in 2019	<b>542,580</b>	540,115
Notes issued in 2014 and maturing in 2019	<b>404,710</b>	404,050
Zhaikmunai Netherlands B.V.	<b>61,000</b>	106,000
	<b>1,008,290</b>	1,050,165
Less amounts due within 12 months	<b>(14,914)</b>	(15,024)
<b>Amounts due after 12 months</b>	<b>993,376</b>	1,035,141

**2012 Notes**

On 13 November 2012, Zhaikmunai International B.V. (the "2012 Initial Issuer") issued US\$ 560,000 thousand notes (the "2012 Notes").

On 24 April 2013 Zhaikmunai LLP (the "2012 Issuer") replaced the 2012 Initial Issuer of the 2012 Notes, whereupon it assumed all of the obligations of the 2012 Initial Issuer under the 2012 Notes.

The 2012 Notes bear interest at the rate of 7.125% per year. Interest on the 2012 Notes is payable on 14 May and 13 November of each year, beginning on 14 May 2013. Prior to 13 November 2016, the 2012 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2012 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 107.125% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2012 Notes (including Additional Notes as defined in the indenture relating to the 2012 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering. In addition, the 2012 Notes may be redeemed, in whole or in part, at any time prior to 13 November 2016 at the option of the 2012 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2012 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2012 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Applicable Premium means, with respect to any 2012 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2012 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2012 Note at 13 November 2016 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2012 Note through 13 November 2016 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2012 Note.

The 2012 Notes are jointly and severally guaranteed (the "2012 Guarantees") on a senior basis by Nostrum Oil & Gas plc and all of its subsidiaries other than the 2012 Issuer (the "2012 Guarantors"). The 2012 Notes are the 2012 Issuer's and the 2012 Guarantors' senior obligations and rank equally with all of the 2012 Issuer's and the 2012 Guarantors' other senior indebtedness. The 2012 Notes and the 2012 Guarantees do not have the benefit of first priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

**2014 Notes**

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

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

The 2014 Notes bear interest at the rate of 6.375% per annum. Interest on the 2014 Notes is payable on 14 February and August of each year, beginning on 14 August 2014. Prior to 14 February 2017, the 2014 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2014 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 106.375% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2014 Notes (including Additional Notes as defined in the indenture relating to the 2014 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)**

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

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

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

**Covenants contained in the 2012 Notes and the 2014 Notes**

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

- (i) incur or guarantee additional indebtedness and issue certain preferred stock;
- (ii) create or incur certain liens;
- (iii) make certain payments, including dividends or other distributions;
- (iv) prepay or redeem subordinated debt or equity;
- (v) make certain investments;
- (vi) create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to Nostrum Oil & Gas PLC or any of its restricted subsidiaries;
- (vii) sell, lease or transfer certain assets including shares of restricted subsidiaries;
- (viii) engage in certain transactions with affiliates;
- (ix) enter into unrelated businesses; and
- (x) consolidate or merge with other entities.

Each of these covenants is subject to certain exceptions and qualifications.

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

**Loans due to Zhaikmunai Netherlands B.V.**

On 1 July 2008 the Partnership signed a loan agreement with Frans van der Schoot B.V. under which the latter provided the Partnership with a US\$ 90,276 thousand loan at an annual interest rate of two times LIBOR.

On 15 September 2009 Frans van der Schoot B.V. provided an additional loan of US\$ 261,650 thousand at then prevailing interest rate of 2.6% per year. On 22 December 2010, a portion of this loan amounting to US\$ 51,926 thousand was repaid.

On 19 October 2010, amendments to the loan agreement were made according to which the interest rate was increased from 2.6% to 10% and the maturity date was moved to 31 December 2015.

On 1 January 2013, amendments to the loan agreement were made according to which the interest rate was decreased from 10% to 6.625%.

On 13 May 2015 amendments to the loan agreement were made according to which the maturity date was moved to 31 December 2019.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)**

The outstanding balance of the loan as at 30 June 2015 has an interest rate of 6.625% (31 December 2014: 6.625%).

In accordance with the decisions of the Annual General Meeting of the Partnership on 28 June 2013 the Partnership on 3 July 2013 made an early repayment of the part of the loan in the amount of US\$ 60,000 thousand to Zhaikmunai Netherlands B.V. On 23 December 2013 the Partnership made another early repayment of US\$ 30,000 thousand to Zhaikmunai Netherlands B.V. On 19 May 2014 the Partnership made an early repayment of US\$ 104,000 thousand. On 26 May 2015 the Partnership made an early repayment of US\$ 45,000 thousand.

**11. OTHER CURRENT LIABILITIES**

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

<i>In thousands of US dollars</i>	30 June 2015 (unaudited)	31 December 2014 (audited)
Taxes payable, other than corporate income tax	13,430	17,223
Accruals under subsoil use agreements	11,073	14,435
Training obligations accrual	10,852	9,686
Due to employees	3,233	2,157
Other current liabilities	1,027	830
	<b>39,615</b>	<b>44,331</b>

Accruals under subsoil use agreements mainly include amounts estimated in respect of the contractual obligations for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields.

**12. REVENUE**

<i>In thousands of US dollars</i>	Three months ended 30 June		Six months ended 30 June	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Oil and gas condensate	116,901	176,286	183,952	353,510
Gas and LPG	56,813	41,739	90,101	91,467
	<b>173,714</b>	<b>218,025</b>	<b>274,053</b>	<b>444,977</b>

During the six months ended 30 June 2015 the revenue from sales to three major customers amounted to US\$ 99,618 thousand, US\$ 61,312 thousand and US\$ 51,593 thousand respectively (six months ended 30 June 2014: three major customers: US\$ 181,808 thousand, US\$ 77,113 thousand and US\$ 52,595 thousand, respectively).

The Partnership's exports are mainly represented by deliveries to Finland, the Black Sea ports of Russia and the United Arab Emirates.

**13. COST OF SALES**

<i>In thousands of US dollars</i>	Three months ended 30 June		Six months ended 30 June	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Depreciation and amortisation	27,888	27,631	56,055	56,679
Repair, maintenance and other services	6,894	8,721	14,196	17,934
Royalties	5,999	1,239	9,772	10,381
Payroll and related taxes	4,662	4,249	9,326	8,257
Materials and supplies	1,913	2,541	3,668	4,739
Well workover costs	584	3,429	1,874	3,773
Management fees	866	1,071	1,795	2,299
Other transportation services	661	737	1,258	1,463
Government profit share	480	(2,776)	1,251	(7,950)
Environmental levies	515	404	1,007	626
Change in stock	4,396	(169)	278	(727)
Other	409	555	1,211	1,379
	<b>55,267</b>	<b>47,632</b>	<b>101,691</b>	<b>98,853</b>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)****14. GENERAL AND ADMINISTRATIVE EXPENSES**

<i>In thousands of US dollars</i>	Three months ended 30 June		Six months ended 30 June	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Payroll and related taxes	2,585	2,283	4,953	4,461
Management fees	1,097	910	2,017	1,585
Professional services	813	4,179	1,980	5,466
Training	936	610	1,701	1,389
Sponsorship	294	301	867	1,031
Depreciation and amortisation	365	321	733	641
Insurance fees	259	304	665	659
Communication	237	202	442	399
Materials and supplies	141	124	303	259
Bank charges	164	192	295	353
Lease payments	124	120	249	258
Business travel	122	127	220	272
Other taxes	16	(29)	187	71
Social program	75	75	150	150
Other	204	131	319	239
	<b>7,432</b>	<b>9,850</b>	<b>15,081</b>	<b>17,233</b>

**15. SELLING AND TRANSPORTATION EXPENSES**

<i>In thousands of US dollars</i>	Three months ended 30 June		Six months ended 30 June	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Transportation costs	17,668	16,227	26,835	29,198
Loading and storage costs	11,719	14,342	22,249	29,339
Payroll and related taxes	526	532	1,036	1,057
Management fees	33	41	69	68
Other	1,254	1,972	2,425	3,911
	<b>31,200</b>	<b>33,114</b>	<b>52,614</b>	<b>63,573</b>

**16. FINANCE COSTS**

<i>In thousands of US dollars</i>	Three months ended 30 June		Six months ended 30 June	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Interest expense on borrowings	12,832	17,647	26,978	40,866
Unwinding of discount on amounts Due to Government of Kazakhstan	257	257	386	401
Unwinding of discount on abandonment and site restoration liability	55	324	111	647
	<b>13,144</b>	<b>18,228</b>	<b>27,475</b>	<b>41,914</b>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)****17. INCOME TAX EXPENSE**

The income tax expense consisted of the following:

<i>In thousands of US dollars</i>	Three months ended 30 June		Six months ended 30 June	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Current income tax expense	30,306	30,345	37,164	73,228
Deferred income tax (benefit)/expense	(5,200)	2,434	(2,260)	11,951
Adjustment in respect of the current income tax for the prior periods	219	3,450	219	881
<b>Total income tax expense</b>	<b>25,325</b>	<b>36,229</b>	<b>35,123</b>	<b>86,060</b>

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

**18. DERIVATIVE FINANCIAL INSTRUMENTS**

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

<i>In thousands of US dollars</i>	Six months ended 30 June	
	2015	2014
<b>Derivative financial instruments at fair value at 1 January (audited)</b>	<b>60,301</b>	<b>-</b>
Loss on derivative financial instruments (unaudited)	(3,776)	(6,126)
<b>Derivative financial instruments at fair value at 30 June (unaudited)</b>	<b>56,525</b>	<b>(6,126)</b>

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

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

**19. RELATED PARTY TRANSACTIONS**

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

Accounts receivable from and advances paid to related parties as at 30 June 2015 and 31 December 2014 consisted of the following:

<i>In thousands of US dollars</i>	30 June 2015 (unaudited)	31 December 2014 (audited)
<b>Trade receivables and advances paid</b>		
<b>With significant influence over Partnership:</b>		
KazStroyService JSC	23,832	36,915

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)**

Accounts payable to related parties as at 30 June 2015 and 31 December 2014 consisted of the following:

<i>In thousands of US dollars</i>	30 June 2015 (unaudited)	31 December 2014 (audited)
<b>Borrowings</b>		
<b>Entity under common control:</b>		
Zhaikmunai Netherlands B.V.	61,000	106,000
<b>Trade payables</b>		
<b>With significant influence over Partnership:</b>		
KazStroyService JSC	777	2,753
<b>Entity under common control:</b>		
Nostrum Services N.V. (formerly known as Probel Capital Management N.V.)	412	46
Nostrum Services Central Asia LLP (formerly known as Amersham Oil LLP)	534	76

During the six months ended 30 June 2015 and 2014 the Partnership had the following transactions with related parties:

<i>In thousands of US dollars</i>	Three months ended 30 June		Six months ended 30 June	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
<b>Repayment of borrowings</b>				
<b>Entity under common control:</b>				
Zhaikmunai Netherlands B.V.	45,000	104,000	45,000	104,000
<b>Interest paid</b>				
<b>Entity under common control:</b>				
Zhaikmunai Netherlands B.V.	1,509	2,674	3,460	6,338
<b>Purchases</b>				
<b>With significant influence over Partnership:</b>				
KazStroyService JSC	216	–	1,377	–
<b>Management fees and consulting services</b>				
<b>Entity under common control:</b>				
Nostrum Services N.V. (formerly known as Probel Capital Management N.V.)	1,909	2,046	3,708	3,976
Nostrum Services Central Asia LLP (formerly known as Amersham Oil LLP)	673	329	1,062	614

On 28 July 2014 the Partnership entered into a contract with JSC “OGCC KazStroyService” (the “Contractor”) for the construction of the third unit of the Partnership’s gas treatment facility for a consideration of US\$ 150 million.

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

Management fees are payable in accordance with the Technical Assistance Agreements signed between the Partnership and Nostrum Services Central Asia LLP and Nostrum Services N.V. related to the rendering of geological, geophysical, drilling, technical and other consultancy services. Remuneration (represented by short-term employee benefits) of key management personnel amounted to US\$ 271 thousand for the six months ended 30 June 2015 (six months ended 30 June 2014: US\$ 274 thousand). Other key management personnel were employed and paid by Nostrum Services Central Asia LLP and Nostrum Services N.V. and their remuneration forms part of management fees and consulting services above.



## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)

### 20. CONTINGENT LIABILITIES AND COMMITMENTS

#### Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 30 June 2015. As at 30 June 2015 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Partnership's tax position will be sustained.

#### Abandonment and site restoration (decommissioning)

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

#### Environmental obligations

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

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

#### Capital commitments

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

#### Operating lease

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

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

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

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

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

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)****Social and education commitments**

As required by the Contract (as amended by, inter alia, Supplement #9), the Partnership is obliged to:

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

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

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

- (i) spend US\$ 1,000 thousand for funding of development of Astana city in case of commercial discovery;
- (ii) invest at least US\$ 16,782 thousand for exploration of the field during the exploration period;
- (iii) reimburse historical costs of US\$ 383 thousand to the Government upon commencement of production stage;
- (iv) fund liquidation expenses equal to US\$ 206 thousand.

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

- (i) spend at least US\$ 16 thousand for education of personnel engaged to work under the contract during the exploration stage;
- (ii) invest at least US\$ 18,625 thousand for exploration of the field during the exploration period;
- (iii) fund liquidation expenses equal to US\$ 64 thousand.

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

- (i) invest at least US\$ 30,226 thousand for exploration of the field during the exploration period;
- (ii) fund liquidation expenses equal to US\$ 177 thousand.

**Domestic oil sales**

In accordance with Supplement № 7 to the Contract, the Partnership is required to deliver at least 15% of produced oil to the domestic market on a monthly basis for which prices are materially lower than export prices.

**21. FAIR VALUES OF FINANCIAL INSTRUMENTS**

Set out below, is a comparison by class of the carrying amounts and fair value of the Partnership's financial instruments, other than those with carrying amounts reasonably approximating their fair values:

	Carrying amount		Fair value	
	30 June 2015 (unaudited)	31 December 2014 (audited)	30 June 2015 (unaudited)	31 December 2014 (audited)
<i>In thousands of US dollars</i>				
<b>Financial instruments measured at fair value</b>				
Derivative financial instruments	56,525	60,301	56,525	60,301
<b>Financial liabilities measured at amortised cost</b>				
Interest bearing borrowings	(1,008,290)	(1,050,165)	(986,000)	(1,050,165)
<b>Total</b>	<b>(951,765)</b>	<b>(989,864)</b>	<b>(929,475)</b>	<b>(989,864)</b>

The management assessed that cash and cash equivalents, short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (continued)**

The fair value of the financial assets and liabilities represents the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value of the quoted notes is based on price quotations at the reporting date and respectively categorised as Level 1 within the fair value hierarchy. The fair value of derivative financial instruments is categorised as Level 3 within the fair value hierarchy and is calculated using Black-Scholes valuation model based on Brent Crude Futures traded on the Intercontinental Exchange, with the relative expiration dates ranging from the current reporting date until March 2016.

The following table shows ranges of the inputs depending on maturity, which are used in the model for calculation of the fair value of the derivative financial instruments as at 30 June 2015 and 31 December 2014:

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

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The following table reflects the results of the changes in volatilities and oil price assumptions on the fair value of the derivative financial instruments:

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

**22. EVENTS AFTER THE REPORTING DATE**

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

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