Zhaikmunai LLP

Interim condensed consolidated financial statements (unaudited)

For the nine months ended 30 September 2014

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Report on review of interim condensed consolidated financial statements

To the participants and management of Zhaikmunai LLP

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Zhaikmunai LLP and its subsidiary, comprising the interim consolidated statement of financial position as at 30 September 2014 and the related interim consolidated statements of comprehensive income for the three and nine months then ended, statements of changes in equity and cash flows for the nine months then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated 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 consolidated 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 consolidated financial statements of Zhaikmunai LLP and its subsidiary are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLP

Alexandr Nazarkulov
Auditor

Auditor Qualification Certificate
No. 0000059 dated 6 January 2012

Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

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

22 November 2014

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2014

In thousands of US Dollars	Notes	30 September 2014 (unaudited)	31 December 2013 (audited)
Assets			
Non-current assets			
Exploration and evaluation assets	3	**22,598**	20,434
Property, plant and equipment	4	**1,393,618**	1,331,386
Restricted cash	8	**4,823**	4,217
Advances for non-current assets	5	**54,297**	10,037
Derivative financial instruments	18	**2,894**	–
Non-current investments	6	**–**	25,000
		1,478,230	1,391,074
Current assets			
Inventories		**28,195**	22,085
Trade receivables	7	**54,836**	66,564
Prepayments and other current assets		**33,647**	29,168
Income tax prepayment		**–**	5,042
Current investments	6	**25,000**	25,000
Cash and cash equivalents	8	**467,334**	170,447
		609,012	318,306
Total assets		**2,087,242**	1,709,380
Equity and liabilities			
Partnership capital and reserves			
Partnership capital	9	**4,112**	4
Other reserves		**32,454**	32,440
Retained earnings		**709,106**	558,877
		745,672	591,321
Non-current liabilities			
Long-term borrowings	10	**1,033,496**	830,854
Abandonment and site restoration provision		**15,588**	13,874
Due to Government of Kazakhstan		**5,906**	6,021
Deferred tax liability		**167,120**	152,545
		1,222,110	1,003,294
Current liabilities			
Current portion of long-term borrowings	10	**18,513**	7,449
Trade payables		**49,936**	56,676
Advances received		**6,287**	37
Income tax payable		**12,465**	–
Current portion of Due to Government of Kazakhstan		**1,031**	1,031
Other current liabilities	11	**31,228**	49,572
		119,460	114,765
Total equity and liabilities		**2,087,242**	1,709,380

General Director of Zhaikmunai LLP — *Heinz Wendel*

Chief Financial Officer of Zhaikmunai LLP — *Gudrun Wykrota*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

The accounting policies and explanatory notes on pages 5 through 17 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2014

		Three months ended 30 September		Nine months ended 30 September	
In thousands of US Dollars	**Notes**	**2014 (unaudited)**	2013 (unaudited)	**2014 (unaudited)**	2013 (unaudited)
Revenue					
Revenue from export sales		**148,862**	187,318	**538,781**	565,408
Revenue from domestic sales		**26,426**	27,373	**81,484**	91,782
	12	**175,288**	214,691	**620,265**	657,190
Cost of sales	13	**(59,485)**	(71,213)	**(158,338)**	(206,544)
Gross profit		**115,803**	143,478	**461,927**	450,646
General and administrative expenses	14	**(7,146)**	(9,313)	**(24,379)**	(24,190)
Selling and transportation expenses	15	**(28,523)**	(26,836)	**(92,096)**	(87,650)
Finance costs	16	**(16,034)**	(15,030)	**(57,948)**	(49,450)
Foreign exchange loss		**(607)**	(29)	**(2,673)**	(255)
Gain on derivative financial instruments	18	**9,020**	–	**2,894**	–
Interest income		**212**	149	**846**	640
Other expenses		**(12,963)**	(7,019)	**(27,069)**	(17,665)
Other income		**1,650**	855	**3,363**	2,955
Profit before income tax		**61,412**	86,255	**264,865**	275,031
Income tax expense	17	**(28,576)**	(32,173)	**(114,636)**	(105,270)
Profit for the period		**32,836**	54,082	**150,229**	169,761
Total comprehensive income for the period		**32,836**	54,082	**150,229**	169,761

General Director of Zhaikmunai LLP — *Heinz Wendel*

Chief Financial Officer of Zhaikmunai LLP — *Gudrun Wykrota*

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INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended 30 September 2014

In thousands of US Dollars	Notes	Nine months ended 30 September 2014 (unaudited)	2013 (unaudited)
Cash flow from operating activities			
Profit before income tax		**264,865**	275,031
Adjustments for:			
Depreciation, depletion and amortisation	13, 14	**86,033**	92,091
Finance costs	16	**57,948**	49,450
Interest income		**(846)**	(640)
Foreign exchange gain on investing and financing activities		**(2,673)**	(32)
Loss on disposal of property, plant and equipment		**440**	–
Gain on derivative financial instruments	18	**(2,894)**	–
Operating profit before working capital changes		**401,873**	415,900
Changes in working capital:			
Change in inventories		**(6,110)**	3,110
Change in trade receivables		**11,728**	(69,854)
Change in prepayments and other current assets		**(4,479)**	(5,172)
Change in trade payables		**9,256**	(2,818)
Change in advances received		**6,250**	1,559
Change in due to Government of Kazakhstan		**(774)**	(773)
Change in other current liabilities		**(13,069)**	(2,075)
Cash generated from operations		**404,675**	339,877
Income tax paid		**(81,378)**	(95,713)
Net cash flows from operating activities		**323,297**	244,164
Cash flow from investing activities			
Interest received		**846**	640
Purchase of property, plant and equipment		**(192,949)**	(154,308)
Purchase of exploration and evaluation assets	3	**(7,464)**	(2,470)
Redemption of bank deposits		**25,000**	–
Net cash used in investing activities		**(174,567)**	(156,138)
Cash flow from financing activities			
Finance costs paid		**(51,363)**	(40,414)
Issue of notes	10	**400,000**	–
Fees paid on arrangement of notes	10	**(6,525)**	–
Repayment of notes		**(92,505)**	–
Disposal of subsidiaries, net of cash disposed		**39**	–
Transfer to restricted cash		**(606)**	(529)
Contributions to the partnership capital	9	**4,108**	–
Dividends paid		**–**	(10,000)
Repayment of borrowings		**(104,000)**	(60,000)
Net cash from / (used in) financing activities		**149,148**	(110,943)
Effects of exchange rate changes on cash and cash equivalents		**(991)**	–
Net increase/(decrease) in cash and cash equivalents		**296,887**	(22,917)
Cash and cash equivalents at the beginning of the period	8	**170,447**	164,979
Cash and cash equivalents at the end of the period	8	**467,334**	142,062

General Director of Zhaikmunai LLP — *Heinz Wendel*

Chief Financial Officer of Zhaikmunai LLP — *Gudrun Wykrota*

Chief Accountant of Zhaikmunai LLP — *Olga Shdshinova*

ЖАИКМУНАЙ

The accounting policies and explanatory notes on pages 5 through 17 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2014

In thousands of US Dollars	Partnership capital	Other reserves	Retained earnings	Total
As at 1 January 2013 (audited)	4	32,637	340,857	373,498
Profit for the period	–	–	169,761	169,761
Total comprehensive income for the period	–	–	169,761	169,761
Profit distribution	–	–	(10,000)	(10,000)
Effect of other transactions with the Participant	–	(197)	–	(197)
As at 30 September 2013 (unaudited)	4	32,440	500,618	533,062
As at 31 December 2013 (audited)	4	32,440	558,877	591,321
Profit for the period	–	–	**150,229**	**150,229**
Total comprehensive income for the period	–	–	**150,229**	**150,229**
Increase of the partnership capital (Note 9)	**4,108**	**14**	–	**4,122**
As at 30 September 2014 (unaudited)	**4,112**	**32,454**	**709,106**	**745,672**

General Director of Zhaikmunai LLP — *Heinz Wendel*

Chief Financial Officer of Zhaikmunai LLP — *Gudrun Wykrota*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2014

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. On 29 August 2014 the Partnership sold 100% interest in its dormant subsidiaries Zhaikmunai Finance B.V. and Zhaikmunai International B.V. to Zhaikmunai Netherlands B.V.

The interim condensed consolidated financial statements include the financial statements of the Partnership and its subsidiary Nostrum Oil and Gas Finance B.V. (jointly the "Group").

The Group's operations comprise of a single operating segment and 3 (three) exploration concessions and are primarily conducted through its oil and gas producing entity Zhaikmunai LLP 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 consolidated financial statements were authorised for issue by the Partnership's General Director, Chief Financial Officer and Chief Accountant on 21 November 2014.

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 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 has acquired the subsoil use rights related to these three oil and gas fields in Kazakhstan following the signing of the respective supplementary agreements related thereto by the 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.

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.

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

During the nine months ended 30 September 2014 the Partnership changed the calculation of the coefficient of natural gas equivalent from density ratio used in the prior periods to compression ratio. The coefficient of natural gas equivalent is used in determining of the natural gas cost which is the basis for the government profit share calculation.

Also, during the nine months ended 30 September 2014 the Partnership reassessed the government profit share for 2013 following the revision of the work program for the Chinarevskoye oil and gas condensate field operations.

Seasonality of operations

The Group'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 consolidated financial statements for the nine months ended 30 September 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2013.

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013, except for the following new standards and interpretations effective as of 1 January 2014, and which did not have an impact on the Group:

- *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27);
- *Offsetting Financial Assets and Financial Liabilities* – Amendments to IAS 32;
- *Novation of Derivatives and Continuation of Hedge Accounting* – Amendments to IAS 39;
- *Recoverable Amount Disclosures for Non-financial Assets* – Amendments to IAS 36; and
- IFRIC 21 *Levies*.

Standards issued, but not yet effective, as at 1 January 2014, have not been early adopted by the Group.

3. EXPLORATION AND EVALUATION ASSETS

During the nine months ended 30 September 2014 the Group had additions to exploration and evaluation assets of US$ 2,164 thousand which includes capitalised expenditures on geological and geophysical studies (nine months ended 30 September 2013: US$ 17,859 thousand, mainly represented by capitalised consideration under the acquisition agreements for the Darjinskoye, Rostoshinskoye and Yuzhno-Gremyachinskoye oilfields). Interest was not capitalised in exploration and evaluation assets. During the nine months ended 30 September 2014 the Group 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. PROPERTY, PLANT AND EQUIPMENT

During the nine months ended 30 September 2014, the Group had additions of property, plant and equipment of US$ 147,705 thousand (nine months ended 30 September 2013: US$ 170,335 thousand). These additions are mostly associated with drilling costs, capitalised interest of US$ 11,780 thousand (nine months ended 30 September 2013: US$ 10,727 thousand). There was also an increase in oil and gas assets due to the changes in abandonment and site restoration assets of US$ 476 thousand (nine months ended 30 September 2013: US$ 847 thousand).

As at 30 September 2014 the Partnership's property, plant and equipment of US$ 1,086,250 thousand are pledged as security for the loans due to Zhaikmunai Netherlands B.V. *(Note 10)*.

See *Note 20* for capital commitments.

5. ADVANCES FOR NON-CURRENT ASSETS

Increase in the advances for non-current assets is mainly driven by an increase in advances to suppliers of services and equipment for construction of a third unit for the gas treatment facility (GTU3).

6. CURRENT AND NON-CURRENT INVESTMENTS

Current investments as at 30 September 2014 were represented by an interest bearing deposit placed on 30 September 2014 for a six-month period with interest rate of 0.24% per annum. The interest bearing deposit placed on 4 March 2013 for a two-year period was terminated on 23 April 2014. As at 30 September 2014 no non-current investments were placed by the Group.

Current investments as at 31 December 2013 were represented by an interest bearing short-term deposit placed on 30 September 2013 for a six-month period with interest rate of 0.31% per annum. Non-current investments as at 31 December 2013 were represented by an interest bearing deposit placed on 30 September 2013 for a period more than one year and an interest bearing deposit placed on 4 March 2013 for a two-year period.

7. TRADE RECEIVABLES

As at 30 September 2014 and 31 December 2013 trade receivables were not interest bearing and were mainly denominated in US dollars, their average collection period is 30 days.

As at 30 September 2014 and 31 December 2013 the ageing analysis of trade receivables is as follows:

			Past due but not impaired				
In thousands of US Dollars	**Total**	**Neither past due nor impaired**	**<30 days**	**30-60 days**	**60-90 days**	**90-120 days**	**>120 days**
2014	**54,836**	**40,808**	**14,025**	**–**	**–**	**–**	**3**
2013	66,564	66,560	–	–	–	–	4

8. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

In thousands of US Dollars	**30 September 2014 (unaudited)**	31 December 2013 (audited)
Current accounts in US Dollars	**460,725**	140,012
Current accounts in tenge	**5,370**	5,429
Current accounts in other currencies	**1,226**	–
Petty cash	**13**	6
Bank deposits with maturity less than three months	**–**	25,000
	467,334	170,447

The Group has restricted cash accounts as liquidation fund deposit in the amount of US$ 4,823 thousand with Kazkommertsbank JSC in Kazakhstan (31 December 2013: US$ 4,217 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. PARTNERSHIP CAPITAL AND RESERVES

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:

	In thousands of Tenge	%
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. at the below market interest rates as well as loss on its subsequent substantial modification have been 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 5 July 2013 the Partnership made payments of profit distribution in the amount of US$ 10,000 thousand according to the decision made at the Annual General Meeting of Participants of the Partnership on 28 June 2013.

10. BORROWINGS

Borrowings comprise the following as at 30 September 2014 and 31 December 2013:

In thousands of US Dollars	**30 September 2014 (unaudited)**	31 December 2013 (audited)
Notes issued in 2012 and maturing in 2019	**548,669**	534,920
Notes issued in 2014 and maturing in 2019	**397,340**	–
Zhaikmunai Netherlands B.V.	**106,000**	210,186
Notes issued in 2010 and maturing in 2015	–	93,197
	1,052,009	838,303
Less amounts due within 12 months	**(18,513)**	(7,449)
Amounts due after 12 months	**1,033,496**	830,854

2010 Notes

On 19 October 2010 Zhaikmunai Finance B.V. (the "2010 Initial Issuer") issued US$ 450,000 thousand notes (the "2010 Notes").

On 28 February 2011 Zhaikmunai LLP (the "2010 Issuer") replaced the 2010 Initial Issuer of the 2010 Notes, whereupon it assumed all of the obligations of the 2010 Initial Issuer under the 2010 Notes.

The 2010 Notes bore interest at the rate of 10.50% per year. Interest on the 2010 Notes was payable on 19 April and 19 October of each year, beginning on 19 April 2011. Prior to 19 October 2013, the 2010 Issuer could, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2010 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 110.50% 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 2010 Notes (including Additional Notes as defined in the indenture relating to the 2010 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 CONSOLIDATED FINANCIAL STATEMENTS (continued)

In addition, the 2010 Notes could have been redeemed, in whole or in part, at any time prior to 19 October 2013 at the option of the 2010 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2010 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2010 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 2010 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2010 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2010 Note at 19 October 2013 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2010 Note through 19 October 2013 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 2010 Note.

The 2010 Notes were jointly and severally guaranteed (the "2010 Guarantees") on a senior basis by Nostrum Oil & Gas plc and all of its subsidiaries other than the 2010 Issuer (the "2010 Guarantors"). The 2010 Notes were the 2010 Issuer's and the 2010 Guarantors' senior obligations and rank equally with all of the 2010 Issuer's and the 2010 Guarantors' other senior indebtedness. The 2010 Notes and the 2010 Guarantees had the benefit of first-priority pledges over the shares of Zhaikmunai Finance B.V. and Zhaikmunai Netherlands B.V.

On 19 October 2012, Zhaikmunai International B.V. commenced a cash tender offer (the "Tender Offer") to purchase any and all of the 2010 Notes. US$ 347,604 thousand aggregate principal amount of the 2010 Notes had been tendered into the Tender Offer, representing approximately 77% of the outstanding 2010 Notes, by the time the Tender Offer for 2010 Notes expired on 19 November 2012. The holders of US$ 200,732 thousand 2010 Notes that accepted the Tender Offer have subscribed to the 2012 Notes of the same amount.

On 14 March 2014 the Group submitted a notice of early redemption on 14 April 2014 of the principal amount of the 2010 Notes plus accrued interest and premium. As at that date the outstanding principal amount of US$ 92,505 thousand was reclassified to the current portion of long-term borrowings and the related unamortised transaction costs were expensed to profit and loss. The Group has also accrued related early redemption premium in the amount of US$ 4,857 thousand. On 14 April 2014 the Partnership repaid the outstanding 2010 Notes including interest and premium.

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 14 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.

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.

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%.

The outstanding balance of the loan as at 30 September 2014 has an interest rate of 6.625% (31 December 2013: 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. OTHER CURRENT LIABILITIES

Other current liabilities comprise the following as at 30 September 2014 and 31 December 2013:

In thousands of US Dollars	**30 September 2014 (unaudited)**	31 December 2013 (audited)
Taxes payable, other than corporate income tax	**16,810**	32,101
Training obligations accrual	**9,815**	8,986
Due to employees	**2,681**	1,448
Other current liabilities	**1,922**	7,037
	31,228	49,572

12. REVENUE

In thousands of US Dollars	**Three months ended 30 September**		**Nine months ended 30 September**	
	2014 (unaudited)	2013 (unaudited)	**2014 (unaudited)**	2013 (unaudited)
Oil and gas condensate	**136,806**	171,771	**490,316**	525,157
Gas and LPG	**38,482**	42,920	**129,949**	132,033
	175,288	214,691	**620,265**	657,190

During the nine months ended 30 September 2014 the revenue from sales to three major customers amounted to US$ 264,835 thousand, US$ 102,122 thousand and US$ 77,113 thousand respectively (nine months ended 30 September 2013 five major customers: US$ 142,257 thousand, US$ 140,218 thousand, US$ 77,522 thousand, US$ 77,508 thousand and US$ 51,832 thousand respectively).

13. COST OF SALES

In thousands of US Dollars	**Three months ended 30 September**		**Nine months ended 30 September**	
	2014 (unaudited)	2013 (unaudited)	**2014 (unaudited)**	2013 (unaudited)
Depreciation, depletion and amortisation	**27,379**	27,883	**84,058**	91,096
Repair, maintenance and other services	**8,619**	15,296	**26,553**	40,066
Royalties	**7,509**	9,140	**17,890**	27,168
Payroll and related taxes	**5,328**	5,104	**13,585**	12,908
Materials and supplies	**3,634**	3,987	**8,373**	10,266
Well workover costs	**2,048**	589	**5,821**	2,334
Management fees	**1,229**	863	**3,528**	2,450
Other transportation services	**727**	1,188	**2,190**	3,544
Environmental levies	**177**	269	**803**	843
Government profit share	**5,690**	9,956	**(2,260)**	14,205
Change in stock	**(3,093)**	(3,223)	**(3,820)**	624
Other	**238**	161	**1,617**	1,040
	59,485	71,213	**158,338**	206,544

The Partnership revised the estimates related to the government profit share and royalties in accordance with the recent supplement to the Chinarevskoye subsoil use rights and change in the coefficient of natural gas equivalent *(Note 1)*, which resulted in the total reversal of the government profit share in the amount of US$ 20,224 thousand and in the total reversal of the royalties in the amount of US$ 6,080 thousand related to prior periods.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
In thousands of US Dollars	**2014 (unaudited)**	2013 (unaudited)	**2014 (unaudited)**	2013 (unaudited)
Payroll and related taxes	**2,342**	1,978	**6,803**	5,357
Professional services	**418**	835	**5,884**	3,552
Management fees	**1,189**	976	**2,774**	2,620
Training	**747**	1,282	**2,136**	3,831
Sponsorship	**618**	2,084	**1,649**	2,709
Insurance fees	**428**	504	**1,087**	1,458
Depreciation and amortization	**334**	372	**975**	995
Communication	**223**	229	**622**	634
Bank charges	**138**	274	**491**	860
Business travel	**183**	133	**455**	405
Materials and supplies	**154**	140	**413**	416
Lease payments	**123**	119	**381**	356
Social program	**75**	75	**225**	225
Other taxes	**41**	211	**112**	462
Other	**133**	101	**372**	310
	7,146	9,313	**24,379**	24,190

15. SELLING AND TRANSPORTATION EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
In thousands of US Dollars	**2014 (unaudited)**	2013 (unaudited)	**2014 (unaudited)**	2013 (unaudited)
Loading and storage costs	**12,894**	9,364	**42,233**	25,354
Transportation costs	**11,794**	16,477	**40,992**	55,962
Payroll and related taxes	**632**	749	**1,689**	1,948
Management fees	**63**	165	**131**	640
Other	**3,140**	81	**7,051**	3,746
	28,523	26,836	**92,096**	87,650

The transportation costs for the nine months ended 30 September 2013 also included certain loading and storage costs provided by the transportation companies, which are included in loading costs for the nine months ended 30 September 2014.

16. FINANCE COSTS

	Three months ended 30 September		Nine months ended 30 September	
In thousands of US Dollars	**2014 (unaudited)**	2013 (unaudited)	**2014 (unaudited)**	2013 (unaudited)
Interest expense on borrowings	**15,453**	14,513	**56,319**	48,002
Unwinding of discount on Abandonment and site restoration provision	**323**	362	**970**	776
Unwinding of discount on amounts Due to Government	**258**	155	**659**	672
	16,034	15,030	**57,948**	49,450

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. INCOME TAX EXPENSE

The income tax expense consisted of the following:

	Three months ended 30 September		Nine months ended 30 September	
In thousands of US Dollars	**2014 (unaudited)**	2013 (unaudited)	**2014 (unaudited)**	2013 (unaudited)
Current income tax expenses	**22,830**	29,178	**96,058**	105,974
Adjustment in respect of the current income tax for the prior periods	**3,121**	–	**4,002**	–
Deferred income tax expense/(benefit)	**2,625**	2,995	**14,576**	(704)
Total income tax expense	**28,576**	32,173	**114,636**	105,270

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. By application of this method, the Partnership recognizes gains and losses on deferred income tax due to the effect of the changes in the value of the Kazakhstani Tenge on the tax bases of the fixed assets of the Partnership whose functional currency is the US dollar. This was the primary reason for the increase in the deferred income tax expense during the nine months ended 30 September 2014. These gains and losses are required by IFRS even though the devalued tax basis of the relevant assets will result in a reduced US dollar of depreciation deductions for tax purposes in the future periods throughout the useful lives of those assets. As a result, the resulting deferred income tax charge does not represent a separate obligation for the Partnership that is due and payable in any of the relevant periods.

18. DERIVATIVE FINANCIAL INSTRUMENTS

On 3 March 2014, in accordance with its hedging policy, the Group entered, at nil upfront cost, into a new 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 Group 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 Group 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.

During the nine months ended 30 September 2014 the movement in the fair value of derivative financial instruments was presented as follows:

	Three months ended 30 September		Nine months ended 30 September	
In thousands of US Dollars	**2014 (unaudited)**	2013 (unaudited)	**2014 (unaudited)**	2013 (unaudited)
Derivative financial instruments at fair value at 1 January	–	–	–	–
Gain on derivative financial instruments	9,020	–	2,894	–
Derivative financial instruments at fair value at 30 September (unaudited)	9,020	–	2,894	–

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Derivative financial instruments comprise the following as at 30 September 2014 and 31 December 2013:

In thousands of US Dollars	**30 September 2014 (unaudited)**	31 December 2013 (audited)
Assets		
Options maturing within 12 months	**1,316**	–
Options maturing after 12 months	**1,949**	–
	3,265	–
Liabilities		
Options maturing within 12 months	–	–
Options maturing after 12 months	**(371)**	–
	(371)	–
Derivative financial instruments at fair value	**2,894**	–

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 consolidated financial statements transactions with related parties mainly comprise transactions between the members of the Group and the participants and/or their subsidiaries or associated companies.

Accounts payable to and borrowings from related parties as at 30 September 2014 and 31 December 2013 consisted of the following:

In thousands of US Dollars	**30 September 2014 (unaudited)**	31 December 2013 (audited)
Borrowings		
Zhaikmunai Netherlands B.V.	**106,000**	210,186
Trade payables		
KazStroyService JSC	**2,931**	50
Probel Capital Management N.V.	**734**	109
Amersham Oil LLP	**183**	240
Prolag BVBA	–	52

During the nine months ended 30 September 2014 and 2013 the Group had the following transactions with related parties:

	Three months ended 30 September		**Nine months ended 30 September**	
In thousands of US Dollars	**2014 (unaudited)**	2013 (unaudited)	**2014 (unaudited)**	2013 (unaudited)
Repayment of borrowing				
Zhaikmunai Netherlands B.V.	–	60,000	**104,000**	60,000
Interest paid				
Zhaikmunai Netherlands B.V.	**1,756**	4,008	**8,094**	13,946
Purchases				
KazStroyService JSC	**2,744**	50	**2,744**	50
Management fees and consulting services				
Probel Capital Management N.V.	**2,192**	1,218	**6,168**	3,433
Amersham Oil LLP	**550**	529	**1,164**	1,179
Prolag BVBA	–	255	–	1,097

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Management fees are payable in accordance with the Technical Assistance Agreements signed between members of the Partnership and Amersham Oil LLP, Prolag BVBA and Probel Capital Management 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$ 431 thousand for the nine months ended 30 September 2014 (nine months ended 30 September 2013: US$ 460 thousand). Other key management personnel were employed and paid by Amersham Oil LLP and Probel Capital Management N.V. and whose remuneration forms part of management fees and consulting services above.

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 September 2014. As at 30 September 2014 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

Abandonment and site restoration (decommissioning)

As Kazakh laws and regulations concerning site restoration and clean-up evolve, the 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. 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 September 2014 the Group had contractual capital commitments in the amount of US$ 319,683 thousand (31 December 2013: US$ 26,842 thousand) mainly in respect to the Partnership's oil field development activities.

Operating lease

The Group 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

In thousands of US Dollars	**30 September 2014 (unaudited)**	31 December 2013 (audited)
No later than one year	**14,050**	12,501
Later than one year and no later than five years	**20,696**	23,846
Later than five years	**–**	–

Lease expenses of railway tank wagons for the nine months ended 30 September 2014 amounted to US$ 14,622 thousand (the nine months ended 30 September 2013: US$ 9,368 thousand).

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 Rostoshinskoye field (as amended on 9 August 2013) require the subsurface user to:

(i) spend at least US$ 42 thousand of investments for education of personnel engaged to work under the contract during the exploration stage;

(ii) spend US$ 1,450 thousand to finance social infrastructure of the region during the exploration stage (including US$ 1,000 thousand for funding of development of Astana city in case of commercial discovery);

(iii) invest at least US$ 17,545 thousand for exploration of the field during the exploration period;

(iv) reimburse historical costs of US$ 372 thousand to the Government upon commencement of production stage;

(v) create a liquidation fund (special deposit account with local bank) equal to US$ 206 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Darjinskoye field (after its amendment on 23 January 2014) require the subsurface user to:

(i) spend at least US$ 159 thousand for education of personnel engaged to work under the contract during the exploration stage;

(ii) spend US$ 75 thousand to finance social infrastructure of the region;

(iii) invest at least US$ 19,751 thousand for exploration of the field during the exploration period;

(iv) create a liquidation fund (special deposit account with local bank) equal to US$ 209 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on 23 January 2014) require the subsurface user to:

(i) spend at least US$ 315 thousand for education of personnel engaged to work under the contract during the exploration stage;

(ii) spend US$ 75 thousand to finance social infrastructure of the region;

(iii) invest at least US$ 33,042 thousand for exploration of the field during the exploration period;

(iv) create a liquidation fund (special deposit account with local bank) equal to US$ 345 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

In thousands of US Dollars	Carrying amount		Fair value	
	30 September 2014 (unaudited)	31 December 2013 (audited)	**30 September 2014 (unaudited)**	31 December 2013 (audited)
Financial instruments measured at fair value				
Derivative financial instruments	**2,894**	–	**2,894**	–
Financial liabilities measured at amortised cost				
Interest bearing borrowings	**(1,052,009)**	(838,303)	**(1,124,494)**	(686,795)
Total	**(1,049,115)**	(838,303)	**(1,121,600)**	(686,795)

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

The fair value of the financial assets and liabilities represents the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value of the quoted notes is based on price quotations at the reporting date and respectively categorised as Level 1 within the fair value hierarchy. The fair value of derivative financial instruments is categorised as Level 3 within the fair value hierarchy and is calculated using Black-Scholes valuation model based on Brent Crude Futures traded on the Intercontinental Exchange, with the relative expiration dates ranging from the current reporting date until 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 September 2014 and 31 December 2013:

	30 September 2014 (unaudited)	31 December 2013 (audited)
Future price at the reporting date (US$)	**94.67-97.49**	–
Historical volatility (%)	**15.22-18.23**	–
Risk-free interest rate (%)	**0.02-0.58**	–
Maturity (months)	**1-17**	–

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

Increase in volatilities used in the model by 2% (with all other variables held constant) would lead to an increase in the gain on derivative financial instruments by US$ 655 thousand and, respectively, decrease in the volatilities used in the model by 2% (with all other variables held constant) would lead to a decrease in the gain on derivative financial instruments by US$ 780 thousand.