SHAPING OUR FUTURE

Annual Report & Accounts **2020**

nostrum Oil & Gas

Nostrum Oil & Gas is an independent exploration & production company based in north-west Kazakhstan owning world-class facilities capable of processing 4.2bcm of gas per annum

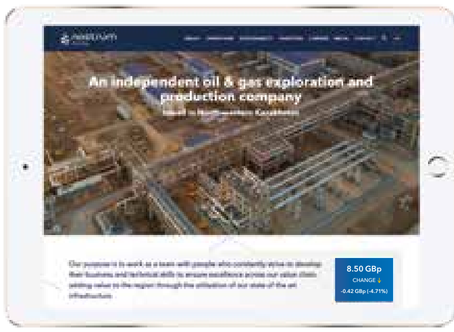
DELIVERING
OPTIMISING
MAXIMISING

The Group has been stabilised through significantly reducing our cost base, boosting production with a successful well intervention campaign in summer 2020 and engaging with stakeholders to restructure our debt. We will now pivot towards growth, transition into a multi-asset energy company and shape our future by:

- Delivering on our strategies, a comprehensive and cohesive environmental, social and governance performance and on our promises.
- Optimising production and cost efficiencies and our ability to raise finance in future through a sustainable restructuring of our debt.
- Maximising output from the Chinarevskoye field.

For more details please visit

www.nog.co.uk



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Our purpose

To work as a close-knit and well-integrated team across all disciplines to deliver excellence across the whole of our value chain.

Our vision

To add value to the region through the utilisation of our state-of-the-art infrastructure hub.

Our values

We are trustworthy and reliable, take our corporate, social and ecological responsibilities extremely seriously, and are dedicated to the health, safety and wellbeing of our employees.

Independent auditor's report to the members of Nostrum Oil and Gas PLC

Opinion

In our opinion:

- Nostrum Oil & Gas PLC's group financial statements and Parent Company financial statements (the financial statements) give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No.1606/2002 as it applies in the European Union;
- the Parent Company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Nostrum Oil & Gas PLC (the Parent Company) and its subsidiaries (the Group) for the year ended 31 December 2020 which comprise:

Group	Parent Company
Consolidated statement of financial position	Parent Company statement of financial position
Consolidated statement of comprehensive income	
Consolidated statement of cash flows	Parent Company statement of cash flows
Consolidated statement of changes in equity	Parent Company statement of changes in equity
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 16 to the financial statements including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards to the group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union and as regards the Parent Company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Material uncertainties related to going concern

We draw attention to note 2 in the financial statements, which highlights the following events or conditions in connection with the restructuring of the Group's Notes and which may cast significant doubt on the Group and Parent Company's ability to continue as going concerns:

- A restructuring of the Group's Notes being agreed with the informal ad-hoc committee of noteholders (AHG) and subsequently with sufficient bondholders, consistent with the preliminary restructuring terms discussed with the advisors to the AHG, that is affordable for the Group through the going concern period to 30 June 2022. Should the Group be unable to reach an agreement with the AHG by the end of the forbearance period, then bondholders may seek to enforce their rights under the bond indentures, including accelerating the Notes' obligations as a result of the missed interest payments; and
- If agreement is reached with the AHG and then sufficient bondholders, the Group being able to obtain the necessary permissions and waivers. Specifically, the Group may need to obtain permission for the proposed restructuring from its shareholders and will need to obtain permission for the restructuring and secure a waiver from the Government of the Republic of Kazakhstan. If agreement is reached with the bondholders but the Group is unable to obtain the necessary permissions and waiver, then the agreement with bondholders may not be implementable.

As stated in note 2, these events or conditions, along with the other matters as set forth in note 2, indicate that material uncertainties exist that may cast significant doubt on the Group and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, notwithstanding the material uncertainties described above, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Confirming our understanding of the directors' going concern assessment process and the key factors and assumptions that were considered in their assessment;
- Obtaining the director's going concern assessment, including the cash flow forecast and covenant calculations for the going concern period which covers 18 months from the year ended 31 December 2020 to 30 June 2022. The directors have modelled a number of adverse scenarios in order to incorporate unexpected changes to the forecast liquidity of the Group. We evaluated the sufficiency of those adverse scenarios as stress tests of the Group's forecast liquidity;
- Assessing the key factors and assumptions adopted in the assessment of going concern and the cash flow model. We considered whether there was any evidence to suggest management had exercised any bias in selecting their assumptions;
- Assessing the appropriateness of the method used to calculate the cash flow forecast and covenant calculations and testing the mathematical accuracy of the calculations;
- Checking the consistency of the factors and assumptions adopted in the going concern assessment with other areas of our audit, including the oil and gas asset impairment test;
- Assessing the director's ability to restructure the Group's Notes to an affordable level through the going concern period. We engaged our Restructuring Specialists to support us in this evaluation. We:
  - Understood the status and expected outcome of the directors' efforts to restructure the Group's Notes and critically examined the implication on the Group's ability to continue as a going concern;
  - Performed direct inquiries of the Group's financial and legal advisor to corroborate management's assertions around the restructuring plan; to understand the approvals that will be required; and to understand the key risks to the execution of the restructuring. We challenged the likelihood that a restructuring could be achieved;
  - Reviewed the Forbearance Agreement to understand the terms under which the Noteholders agreed to forbear certain rights and remedies under the bond indentures and verified that the Group were in compliance with these conditions; and
  - Read correspondence between the Group and the advisors to the informal ad hoc group of holders of the Notes, which provided evidence of the restructuring terms proposed by the advisors. We considered the affordability of these terms and the likelihood that a restructuring would be executed in this form and that the necessary approvals and waivers could be obtained in order to implement the restructuring.
- Performing a reverse stress test in order to identify what factors would lead to the Group utilising all liquidity during the going concern period. We assessed the likelihood of these factors in the context of the outlook for commodity prices and against historic market lows as well as our own industry experience;
- Challenging whether the ongoing COVID-19 pandemic threatens the Group's ability to achieve the forecast cash flows, noting limited operational disruption as a result of the pandemic; and
- Considering whether management's disclosures, in the Annual Report and Accounts, sufficiently and appropriately captured the material uncertainties in respect of on the going concern conclusion through consideration of the relevant disclosure standards and our understanding of the bond restructuring process.

Based on the results of our audit procedures, we consider management's going concern assessment process to be appropriate. We observed that the directors' going concern assessment, including the cash flow forecast, assumes a successful restructuring of the Group's Notes that reflects the current preliminary restructuring terms discussed with the advisors to the AHG. While progress has been made by the directors in their efforts to restructure the Group's Notes to an affordable level, material uncertainties exist in the eventual outcome of the restructuring process as described in note 2 to the financial statements. On the basis of insights we gained from the market consensus outlook for commodity prices and historic market lows, the likelihood of the factors identified in the reverse stress test materialising are remote. However, it is important to recognise that the stress tested cash flow forecasts reflect financing cash flows consistent with the current preliminary restructuring terms discussed with the advisers to the AHG, which is a significant assumption made by the directors and the source of a material uncertainty.

In relation to the Group and Parent Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in respect of the directors' identification in the financial statements of any material uncertainties to the Group and Parent Company's ability to continue as a going concern for the period to 30 June 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group and Parent Company's ability to continue as a going concern.

We draw attention to the Viability Statement on page 56, which indicates that an assumption to the statement of viability is management's ability to restructure the Group's Notes. The directors consider that the material uncertainties referred to in respect of going concern may cast significant doubt over the future viability of the Group and Parent Company should these events not complete. Our opinion is not modified in respect of this matter.

Overview of our audit approach

Materiality	Overall Group and Parent Company materiality of $1.6m which represents 2% of the Group's adjusted earnings before interest, tax, depreciation and amortisation, excluding non-recurring items (Adjusted EBITDA).
Audit scope	We performed an audit of the complete financial information of three components across the United Kingdom and Kazakhstan and audit procedures on specific balances for a further two components across Belgium and the Netherlands. The components where we performed full or specific audit procedures accounted for 101% of Adjusted EBITDA, 100% of Revenue and 98% of Total assets.
Key audit matters	We identified the following key audit matters that, in our professional judgement, had the greatest effect on our overall audit strategy, the allocation of resources in the audit and in directing the audit team's efforts: • Estimation of oil and gas reserves and its impact on impairment testing, depreciation, depletion and amortisation (DD&A) and the decommissioning provision • Impairment of oil & gas assets • Revenue recognition Although going concern was considered to represent a key audit matter, detail on our audit procedures and key observations are summarised in the 'Material uncertainties related to going concern' section of our report as opposed to the key audit matters table below.

An overview of the scope of the Parent Company and Group Audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each component within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls and changes in the business environment when assessing the level of work to be performed at each component.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 10 reporting components of the Group, we selected 5 components covering entities within the United Kingdom, Kazakhstan, Belgium and the Netherlands, which represent the principal business units within the Group.

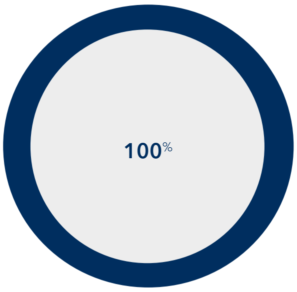
Of the five components selected (2019: four), we performed an audit of the complete financial information of three (2019: three) components (full scope components) which were selected based on their size or risk characteristics. For the remaining two (2019: one) components (specific scope component), we performed audit procedures on specific accounts within those components that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. The principal change in audit scope relative to the prior year was the inclusion of one additional specific scope component, which was driven by the reduction in materiality and the relative size of the specific account balances in that component.

The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group. We also instructed the United Kingdom, Kazakhstan, and Netherlands locations to perform specified procedures on the existence and valuation of cash balances and the completeness of payables. The audit scope for specified procedures are those where we perform procedures that address only specific account assertions rather than the account balance as a whole.

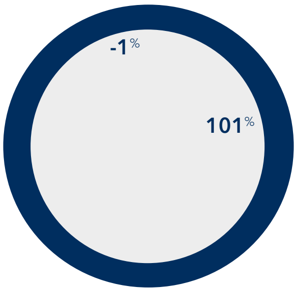
Of the remaining 5 (2019: 6) components that together represent -1% (2019: -3%) of the Group's Adjusted EBITDA, we performed other procedures, including analytical review, inquiries and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

Our audit coverage by full scope components, specific scope components and other procedures is illustrated below:

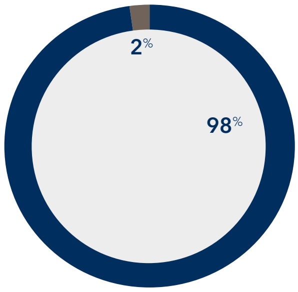
REVENUE



ADJUSTED EBITDA



TOTAL ASSETS



Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit team, or by component auditors from other EY global network firms operating under our instruction. Of the three full scope components, audit procedures were performed on two of these directly by the primary audit team and one by the component audit teams. One of the specific scope components and one full scope component, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole. The remainder of the components were audited directly by the primary audit team.

The Group audit team adopted their approach to interact with and oversee local EY teams in response to the COVID-19 pandemic. Due to COVID-19 travel restrictions imposed by governments, we did not complete our planned visits to the locations. In lieu of site visits, the primary team designed alternative procedures in our audit strategy to provide sufficient oversight and involvement with the work of the component teams to fulfil its responsibilities under auditing standards to evaluate, review and oversee the work of component teams on a remote basis.

Our remote oversight procedures included:

- An increased frequency of dialogue with our local EY component teams. This included additional meetings with our component teams and local management via videoconference;
- Performing remote reviews of the key workpapers associated with the component team's audit procedures, particularly in areas of significant risk, such as oil and gas reserves estimates, impairment and revenue recognition, through the interactive capability of EY Canvas, our global audit workflow tool; and
- Attending the closing meeting between our full scope local EY component team and local management by videoconference, to ensure that we were fully aware of the audit status and results of their audit procedures.

These procedures, together with the additional procedures performed at a Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matters described in the 'Material uncertainties related to going concern' section of our report, we identified the following key audit matters:

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Estimation of oil and gas reserves and its impact on impairment testing, depreciation, depletion and amortisation (DD&A) and the decommissioning provision Refer to the Audit Committee Report page 82; the estimates, assumptions and judgements on page 134; and the disclosures in Note 6 of the Consolidated Financial Statements (page 141). As at 31 December 2020, Nostrum reported 39 million barrels of oil equivalent (mmboe) of proved and probable (2P) reserves (2019:138 mmboe) and 146 mmboe of contingent (2C) resources (2019:185 mmboe). This was a significant risk due to the subjective nature of reserves estimates and the pervasive impact on the financial statements through impairment testing, DD&A calculations and the decommissioning provision estimate. Reserves are also considered a fundamental indicator of the future potential of the Group's performance and its ability to continue as a going concern. The estimation of oil and gas reserves is a significant area of estimation due to the technical uncertainty in assessing reserves quantities. The estimation is potentially susceptible to management bias, including by recording revisions to estimates in the incorrect period. Management's reserves and resource estimates are prepared by internal specialists and are audited by Ryder Scott, an independent reserves consultant. The scope of our procedures in respect to reserve estimation included contingent resources that impact the financial statements, primarily being those included in management's oil and gas asset impairment test. There is also a risk that management may influence the significant judgements and estimates in respect of commercial assumptions in order to portray favourable reserves disclosure to the market and understate the impact of impairment charges and the calculation of DD&A. The risk has increased compared with the prior year.	Our audit procedures have focused on management's estimation process, including whether bias exists in the determination of reserves. We assessed management's assumptions, including commercial assumptions, to ensure that they are based on supportable evidence. We have: • carried out procedures to walkthrough and understand the Group's internal process and key controls associated with oil and gas reserves estimation; • assessed the competence of internal management's specialists, to satisfy ourselves that they are appropriately qualified to carry out the volumes estimation; • met with management's external specialist during the planning and execution of the audit and assessed their competence and objectivity by enquiry of their qualifications, practical experience and independence. We checked the completeness and accuracy of the data transferred to the external specialist for audit; • reviewed the oil and gas reserves audit report prepared by management's external specialist to understand the conclusion of their audit and any related audit findings. We performed direct inquiries of Ryder Scott; • corroborated management's commercial assumptions by checking that they lie within an acceptable range compared to publicly available benchmarks where available. We compared management's internal assumptions to the latest plans and budgets for consistency. We also challenged management's capabilities to execute on such plans by comparison to prior performance; • assessed the appropriateness of the downward revision in 2P reserves to be recorded in the current year, and tested bias towards overstating reserves estimates in the previous year, through understanding the factors that led to the change in the estimate; • validated that the updated reserves estimates were appropriately included in the Group's consideration of oil and gas asset impairment testing, in accounting for DD&A and the determination of decommissioning dates; and • reviewed the accuracy of the reserves and resource estimates disclosure in the Annual Report.	Based on the audit procedures performed we concluded that the reserves and resource estimations are reasonable for use in impairment testing, management's going concern assessment, the calculation of DD&A and the determination of decommissioning dates. We did not identify any indication of management bias in the estimation process and we are satisfied that the reduction in reserves recorded in 2020 has been recorded in the correct period.
We performed full scope audit procedures over this risk area in one location (Kazakhstan).		

Risk	Our response to the risk	Key observations communicated to the Audit Committee
The risk of impairment of oil & gas assets Refer to the Audit Committee Report on page 82; the estimates, assumptions and judgements on page 135 and the disclosures in notes 6 to 7 of the Consolidated Financial Statements page 141). Impairment charge in 2020 of $245 million was recorded (2019: $1,355 million). At 31 December 2020, the carrying value of oil & gas assets $339 million (2019: $650 million). Owing to the reduction in the Group's reserves estimates and oil price volatility in 2020, there was a significant risk of further impairment to that recorded in 2019. We focused on this area due to the significance of the carrying value of the Cash Generating Unit (CGU), the current economic environment and the judgements involved in the key assumptions of the future prices of oil, natural gas and related products, the discount rate applied to future cash flow forecasts and the assumptions relevant to production volumes. The recoverable amount of the CGU is sensitive to changes in key inputs and assumptions. As a result of the impairment recorded in 2019, there is no headroom in the carrying value of the CGU compared to its recoverable amount. There is also a risk that management may influence the significant judgements and estimates in respect of management's key assumptions in order to understate the impairment charge to achieve targeted result. The risk has increased compared with the prior year.	In addressing the risk of impairment of oil & gas assets we utilised our valuation specialists and evaluated management's impairment assessment by testing the key assumptions. We have: • evaluated management's assessment of indicators of impairment or impairment reversal; • walked through the controls designed by the Group relating to the assessment of the recoverable amount of oil & gas assets for impairment; • assessed whether the value in use (VIU) or the fair value less costs of disposal (FVLCD) is the higher recoverable amount; • tested the integrity of the discounted cash flow model with the assistance of our own specialists; • evaluated the oil & gas prices and discount rate assumptions by comparing forecast price assumptions to the latest market evidence available, including forward curves, broker's estimates and other long-term price forecasts; and benchmarking the discount rate to the risks faced by the Group; • considered the existence of any contradictory evidence to challenge the recoverable amount determined on the basis of the discounted cash flow model, including the Group's enterprise value; • assessed the appropriateness of the oil and gas reserves and resources estimates, as described in the key audit matter above in this report, and evaluated the risking factors applied in estimating the value associated with the contingent resources; • challenged the valuation methodology for estimating the recoverable amount; specifically the value attributed to the contingent resources and the opportunity for utilising the spare GTU processing capacity, including the related judgements around risking; • tested forecast cash flows by comparing the assumptions used within the impairment models to the approved budgets, business plans and other evidence of future intentions; • assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance; • compared the exchange rate assumptions to external market data; • evaluated management's sensitivity analysis in order to assess the potential impact of a range of reasonably possible outcomes. These sensitivities included adjustments to the discount rate, oil & gas prices, future production volumes, opex and capex assumptions; and • evaluated the appropriateness of the financial statement disclosures.	In our view the Group's reserves and resources estimates, forecast costs and discount rate are appropriate and within reasonable ranges. The Group's oil and gas price assumptions are within reasonable ranges. In estimating the recoverable amount, the inclusion of risked value associated with contingent resources and the opportunity for utilising the spare GTU processing capacity, is appropriate and consistent with the requirements of a FVLCD valuation approach. We concluded that the estimated recoverable amount of the CGU fell within the range of acceptable valuations, including implied valuations based on the market value of the Group's equity and debt. Based on the results of the audit procedures performed, we concluded that the impairment charge was reasonable, there is no evidence of management bias in the determination of significant judgements and estimates, and that the related disclosures provided in the Group's financial statements are appropriate.
In addressing this risk, audit procedures were performed by the component team in Kazakhstan and the Group engagement team. By performing these procedures, we obtained full coverage of the related balances.		

Financial report

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition Refer to the Audit Committee Report on page 83; The Summary of significant accounting policies on page 140 and the disclosures in note 21 of the Consolidated Financial Statements (page 146). Revenue for the year ended 31 December 2020 amounts to $176 million (2019: $322 million). Revenue includes sales of crude oil, gas condensate, dry gas and liquefied petroleum gas (LPG). There is the risk of management manipulation to overstate revenue. This could be achieved by potentially recording sales in an incorrect period. The risk has remained consistent with the prior year.	Our component team in Kazakhstan performed procedures to walkthrough and understand the process and key controls associated with the revenue recognition and accounts receivable process. We performed enquiries of management and analysed contracts to evaluate whether revenue was recognised in accordance with the contractual terms. We also performed procedures that are designed to address the risk of manipulation of accounting records and the ability of management to override controls. We have: • tested a sample of third-party evidence to verify revenue transactions are recorded appropriately, this included inspection of sales contracts with customers and delivery documents. We performed substantive audit procedures on cash accounts to verify cash collection from customers; • analysed the entire population of revenue transactions and identified revenue journals for which the corresponding entry was not posted against trade receivables and where trade receivables were not cleared through cash. We assessed the appropriateness of these journals. Of the outstanding trade receivables due at the year-end, we confirmed the material balances with the relevant counterparties as well as tested that trade receivables were collected subsequent to year-end; • performed cut-off procedures at the period-end date to determine that transactions are recorded in the proper period; • tested the appropriateness of journal entries impacting revenue, using data extracted from the accounting system, as well as other adjustments made in the preparation of the financial statements; • carried out analytical review procedures on each revenue stream using disaggregated data, by volume, by product, by customer and by month to assess the respective products' underlying performance and corroborate the appropriateness of the timing of revenue recognition; and • evaluated the appropriateness of the financial statement disclosures.	We concluded that revenue is recognised consistently with the terms of sales agreements. We also concluded that the financial statements disclosures with respect to revenue fulfilled the requirements of the accounting standards.

We performed full scope audit procedures over this risk area in one location (Kazakhstan). By performing these procedures, we obtained full coverage of the risk amount.

In the prior year, our auditor's report included a key audit matter in relation to risk of management override. In the current year, we determined that the risk of management override does not represent a separate key audit matter, on the basis that it is our assessment that this risk principally manifests itself through the estimation of oil and gas reserves, the risk of impairment of oil & gas assets and revenue recognition, where there are a number of significant judgements and estimates involved that are susceptible to management bias.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be $1.6 million, which is 2% of Adjusted EBITDA. Adjusted EBITDA is a key performance indicator for the Group and is also a key metric used by the Group in the assessment of the performance of management. We also noted that market and analyst commentary on the performance of the Group uses EBITDA as a key metric. We, therefore, considered EBITDA to be the most appropriate performance metric on which to base our materiality calculation as we considered that to be the most relevant performance measure to the stakeholders of the Group. In adjusting EBITDA we have excluded non-recurring items, which in 2020 related to the impairment charge of $245 million.

We determined materiality for the Parent Company to be $1.6 million, which is based on 0.5% of the Parent Company's operating expenses.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely $800 thousand. We have set performance materiality at this percentage due to our past experience of the audit that indicates a higher risk of misstatements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was $0.4 million to $0.7 million.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $80 thousand, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report including the Strategic Report (set out on pages 2 – 65), Corporate Governance (set out on pages 66 – 114), Regulatory Information and Additional Disclosures sections (set out on pages 167 – 175), other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 (set out on pages 2 – 65) requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Aside from the impact of the matters disclosed in the 'Material uncertainties related to going concern section' of our report, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 130 and 131;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 56;
- Directors' statement on fair, balanced and understandable set out on page 114;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 52;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 50; and;
- The section describing the work of the audit committee set out on page 78.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 114, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below and in the key audit matters section above, where those risk areas are susceptible to management bias.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the jurisdictions in which the Group operates. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the UK Listing Authority, and those laws and regulations relating to health and safety, employee matters, data protection, environmental and anti-bribery and corruption practices;
- We understood how the Group is complying with those frameworks by making inquiries of management, those charged with governance and those responsible for legal and compliance procedures. We corroborated our inquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies and noted that there was no contradictory evidence;
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by meeting with management to understand where it considered there was susceptibility to fraud. We considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the programs and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud, and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error;
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified above. Our procedures involved: journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business, inquiries of those charged with governance, inquiries of both Group and local management, and focused testing, as referred to in the key audit matters section above; and
- Based on the results of our audit procedures, there were no significant instances of non-compliance with laws and regulations identified at the Group or component level.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at **https://www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Other matters we are required to address

Following the recommendation from the Audit Committee, we were re-appointed by the Company on 9 June 2020 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is seven years, covering the period from our initial appointment through to the year 31 December 2020.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.

The audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

William Binns (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
27 April 2021

Consolidated statement of financial position

In thousands of US Dollars	Notes	31 December 2020	31 December 2019
Assets			
Non-current assets			
Property, plant and equipment	6	**339,406**	650,229
Right-of-use assets	7	**2,755**	6,875
Advances for non-current assets	8	**9,034**	8,412
Restricted cash	12	**20,613**	7,620
		371,808	673,136
Current assets			
Inventories	9	**28,805**	35,849
Prepayments and other current assets	10	**12,303**	12,040
Income tax prepayment		**379**	90
Trade receivables	11	**13,540**	31,239
Cash and cash equivalents	12	**78,583**	93,940
		133,610	173,158
TOTAL ASSETS		**505,418**	846,294
Equity and liabilities			
Share capital and reserves	13		
Share capital		**3,203**	3,203
Treasury capital		**(1,660)**	(1,660)
Retained deficit and reserves		**(761,294)**	(433,627)
		(759,751)	(432,084)
Non-current liabilities			
Long-term borrowings	15	**–**	1,100,453
Long-term lease liabilities	16	**35**	641
Abandonment and site restoration provision	17	**28,936**	27,502
Due to Government of Kazakhstan	18	**4,832**	5,070
Deferred tax liability	29	**8,505**	42,787
		42,308	1,176,453
Current liabilities			
Current portion of long-term borrowings	15	**1,186,269**	35,633
Current portion of lease liabilities	16	**2,790**	6,735
Employee share option plan liability		**3**	4
Trade payables	19	**8,502**	27,638
Advances received		**186**	335
Current portion of due to Government of Kazakhstan	18	**1,031**	1,031
Other current liabilities	20	**24,080**	30,549
		1,222,861	101,925
TOTAL EQUITY AND LIABILITIES		**505,418**	846,294

The consolidated financial statements of Nostrum Oil & Gas PLC, registered number 8717287, were approved by the Board of Directors.

Signed on behalf of the Board:

Arfan Khan
Chief Executive Officer

27 April 2021

Martin Cocker
Interim Chief Financial Officer

27 April 2021

The accounting policies and explanatory notes on pages 129 through 152 are an integral part of these consolidated financial statements

Consolidated statement of comprehensive income

In thousands of US Dollars	Notes	For the year ended 31 December 2020	2019
Revenue			
Revenue from export sales		**140,843**	218,511
Revenue from domestic sales		**35,096**	103,617
	21	**175,939**	322,128
Cost of sales	22	**(125,392)**	(172,002)
Gross profit		**50,547**	150,126
General and administrative expenses	23	**(14,671)**	(21,399)
Selling and transportation expenses	24	**(31,037)**	(45,875)
Taxes other than income tax	25	**(14,113)**	(22,886)
Finance costs	26	**(102,067)**	(43,047)
Employee share options - fair value adjustment	27	**496**	(584)
Impairment charge	4	**(244,923)**	(1,354,651)
Foreign exchange (loss) / gain, net		**(1,827)**	361
Interest income		**253**	86
Other income	28	**4,757**	7,210
Other expenses	28	**(7,606)**	(12,490)
Loss before income tax		**(360,191)**	(1,343,149)
Current income tax expense		**(1,516)**	(4,972)
Deferred income tax benefit		**34,282**	358,194
Income tax benefit	29	**32,766**	353,222
Loss for the year		**(327,425)**	(989,927)
Other comprehensive income that could be reclassified to the income statement in subsequent periods			
Currency translation difference		**253**	211
Other comprehensive income		**253**	211
Total comprehensive loss for the year		**(327,172)**	(989,716)
Loss for the period attributable to the shareholders (in thousands of US dollars)		**(327,425)**	(989,927)
Weighted average number of shares		**185,234,079**	185,234,079
Basic and diluted earnings per share (in US dollars)	14	**(1.77)**	(5.34)

All items in the above statement are derived from continuous operations.

The accounting policies and explanatory notes on pages 129 through 152 are an integral part of these consolidated financial statements

Consolidated statement of cash flows

In thousands of US Dollars	Notes	For the year ended 31 December **2020**	2019*
Cash flow from operating activities:			
Loss before income tax		**(360,191)**	(1,343,149)
Adjustments for:			
Depreciation, depletion and amortisation	22,23,24	**89,777**	143,291
Impairment charge	4	**244,923**	1,354,651
Finance costs	26	**102,067**	43,047
Employee share option plan fair value adjustment		**(496)**	584
Interest income		**(253)**	(86)
Foreign exchange (gain)/loss on investing and financing activities		**(129)**	160
Loss on disposal of property, plant and equipment		**737**	96
Payments under derivative financial instruments		**–**	(3,741)
Accrued expenses		**–**	(5,096)
Operating profit before working capital changes		**76,435**	189,757
Changes in working capital:			
Change in inventories		**7,043**	(6,266)
Change in trade receivables		**17,699**	4,493
Change in prepayments and other current assets		**(132)**	5,494
Change in trade payables		**(9,171)**	3,949
Change in advances received		**(150)**	(59)
Change in due to Government of Kazakhstan		**(1,031)**	(1,031)
Change in other current liabilities		**(5,951)**	5,977
Cash generated from operations		**84,742**	202,314
Income tax paid		**(1,996)**	(5,477)
Net cash flows from operating activities		**82,746**	196,837
Cash flow from investing activities:			
Interest received		**253**	86
Purchase of property, plant and equipment		**(25,797)**	(114,762)
Exploration and evaluation works		**(483)**	(984)
Advances for non-current assets		**(622)**	(4,731)
Transfer to restricted cash		**(13,452)**	(599)
Net cash used in investing activities		**(40,101)**	(120,990)
Cash flow from financing activities:			
Finance costs paid		**(43,000)**	(86,000)
Other finance costs		**(10,013)**	–
Payment of principal portion of lease liabilities		**(5,064)**	(14,856)
Finance charges on lease liabilities		**(354)**	(2,853)
Net cash used in financing activities		**(58,431)**	(103,709)
Effects of exchange rate changes on cash and cash equivalents		**429**	49
Net decrease in cash and cash equivalents		**(15,357)**	(27,813)
Cash and cash equivalents at the beginning of the year	12	**93,940**	121,753
Cash and cash equivalents at the end of the year	12	**78,583**	93,940

** In the consolidated financial statements for the year ended 31 December 2019 transfer to restricted cash of US$599 thousand was presented within financing cashflows. The 2019 comparative above has been restated to be consistent with the classification in the current year.*

"Other finance costs" primarily represent bondholder consent fees in the amount of US$5,585 thousand and advisor fees of US$4,428 thousand paid by the Group in relation to the forbearance agreement and ongoing discussions with its bondholders regarding a possible restructuring of the Group's outstanding bonds. For more details on forbearance agreement and the consent fees see Note 1.

The accounting policies and explanatory notes on pages 129 through 152 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

In thousands of US Dollars	Notes	Share capital	Treasury capital	Other reserves	Retained earnings / (deficit)	Total
As at 1 January 2019		**3,203**	**(1,660)**	**262,233**	**293,223**	**556,999**
Loss for the year		–	–	–	(989,927)	(989,927)
Other comprehensive income		–	–	211	–	211
Total comprehensive loss for the year		**–**	**–**	**211**	**(989,927)**	**(989,716)**
Share based payments under LTIP*		–	–	633	–	633
As at 31 December 2019		**3,203**	**(1,660)**	**263,077**	**(696,704)**	**(432,084)**
Loss for the year		–	–	–	(327,425)	(327,425)
Other comprehensive income		–	–	253	–	253
Total comprehensive loss for the year		**–**	**–**	**253**	**(327,425)**	**(327,172)**
Share based payments under LTIP*		–	–	(495)	–	(495)
As at 31 December 2020		**3,203**	**(1,660)**	**262,835**	**(1,024,129)**	**(759,751)**

** Long-Term Incentive Plan ("LTIP")*

The accounting policies and explanatory notes on pages 129 through 152 are an integral part of these consolidated financial statements

Notes to the consolidated financial statements

1. General

Overview

Nostrum Oil & Gas PLC ("the Company" or "the Parent") is a public limited company incorporated on 3 October 2013 under the Companies Act 2006 and registered in England and Wales with registered number 8717287. The registered address of Nostrum Oil & Gas PLC is: 9th Floor, 20 Eastbourne Terrace, London, W2 6LG, UK.

These consolidated financial statements include the financial position and the results of the operations of Nostrum Oil & Gas PLC and its following wholly owned subsidiaries:

Company	Registered office	Form of capital	Ownership, %
Nostrum Associated Investments LLP	43B Karev street, 090000 Uralsk, Republic of Kazakhstan	Participatory interests	100
Nostrum E&P Services LLC	Liteyniy Prospekt 26 A, 191028 St. Petersburg, Russian Federation	Participatory interests	100
Nostrum Oil & Gas Coöperatief U.A.	Bloemendaalseweg 139, Hofstede Sparrenheuvel, 2061 CH Bloemendaal, The Netherlands	Members' interests	100
Nostrum Oil & Gas B.V.	Bloemendaalseweg 139, Hofstede Sparrenheuvel, 2061 CH Bloemendaal, The Netherlands	Ordinary shares	100
Nostrum Oil & Gas Finance B.V.	Bloemendaalseweg 139, Hofstede Sparrenheuvel, 2061 CH Bloemendaal, The Netherlands	Ordinary shares	100
Nostrum Oil & Gas UK Ltd.	20 Eastbourne Terrace, London W2 6LA, United Kingdom	Ordinary shares	100
Nostrum Services Central Asia LLP	Aksai 3a, 75/38, 050031 Almaty, Republic of Kazakhstan	Participatory interests	100
Nostrum Services N.V.	Chaussée de Wavre 20, 1360 Perwez, Belgium	Ordinary shares	100
Zhaikmunai LLP	43/1 Karev street, 090000 Uralsk, Republic of Kazakhstan	Participatory interests	100

Nostrum Oil & Gas PLC and its wholly owned subsidiaries are hereinafter referred to as "the Group". The Group's operations comprise of a single operating segment including all Group's assets related to its Chinarevskoye field, Rostoshinskoye exploration field as well as surface facilities, and are primarily conducted through its oil and gas producing entity Zhaikmunai LLP located in Kazakhstan.

As at 31 December 2020, the Group employed 564 employees (2019: 636).

Subsoil use rights terms

Zhaikmunai LLP 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 Zhaikmunai LLP 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 Zhaikmunai LLP 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 Zhaikmunai LLP 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 authority now known as the Ministry of Energy (the "MOE") 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. Subsequently the exploration period for the Bobrishovskiy reservoir was extended to 26 August 2018, which was followed by production period.

The contract for exploration and production of hydrocarbons from the Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. On 16 August 2019, the contract was amended so as to adopt the terms of the current model contract and the exploration period was extended until 16 August 2022.

The contract for exploration and production of hydrocarbons from the Darjinskoye field dated 28 July 2006 originally included a 6-year exploration period and a 19-year production period. Subsequently, the exploration period was extended until 31 December 2021. In October 2020, the rights and obligations related to the Darjinskoye field were disposed to a third party.

The contract for exploration and production of hydrocarbons from the Yuzhno-Gremyachinskoye field dated 28 July 2006 originally included a 5-year exploration period and a 20-year production period. Subsequently, the exploration period was extended until 31 December 2021. In October 2020, the rights and obligations related to the Yuzhno-Gremyachinskoye field were disposed to a third party.

Royalty payments

Zhaikmunai LLP 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"

Zhaikmunai LLP 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.

Forbearance agreement

On 31 March 2020, following the collapse in the oil price, the Group announced that it would seek to engage with its bondholders regarding a possible restructuring of the Group's US$725 million 8.0% Senior Notes due July 2022 and/or its US$400 million 7.0% Senior Notes due February 2025 (Notes).

In May 2020, the Group appointed Rothschild & Cie as financial advisers and White & Case as legal advisers to assist in the restructuring of the Notes. PJT Partners (UK) Limited were appointed as financial advisers and Akin Gump Strauss Hauer & Feld as legal advisers to an informal ad hoc committee of noteholders (AHG). In July 2020, the Group announced that it planned to utilise the applicable grace periods for the interest payments due on 25 July 2020 and 16 August 2020 with respect to the Notes. The 30-day grace period was to allow the Company to continue active discussions with the financial and legal advisers to the AHG with a view to entering into a forbearance agreement with the holders of the Notes in relation to those interest payments.

On 23 October 2020 the Company announced that the Company and certain of its subsidiaries (Note Parties) has entered into a forbearance agreement (Forbearance Agreement) with members of the AHG. The forbearance period initially expired at 4 p.m. GMT on 20 December 2020 (Initial Expiration Date), at which time the Initial Expiration Date automatically extended to 4 p.m. GMT on 18 February 2021, on which date it automatically extended again to 4 p.m. GMT on 20 March 2021.

Notes to the consolidated financial statements continued

Pursuant to the agreement, members of the AHG have agreed to forbear from the exercise of certain rights and remedies that they have under the indentures governing the Notes. The agreed forbearances include agreeing not to accelerate the Notes' obligations as a result of the missed interest payments (or the next missed interest periods if they occur prior to the expiry of the forbearance agreement).

The Forbearance Agreement is subject to certain conditions, including:

- Any representation or warranty made by any of the Note Parties under the Forbearance Agreement continuing to be true and complete in all material respects as of the date of the Forbearance Agreement;
- The opening of a secured account into which a portion of the missed interest payments was paid. Within 21 days of the effective date of the Forbearance Agreement an amount equal to 30% of the missed interest payments, equating to US$12,900 thousand, was transferred into the secured account (Note 12). The amount in the secured accounts was increased by a further transfer of 17.50% of the missed interest payments, equating to US$7,525 thousand 180 days after the effective date of the Forbearance Agreement. This transfer was made subsequent to the year end. The Company has the ability to make certain withdrawals from the account if its liquidity falls below an agreed level. At the date of this Annual report, the full amount of US$20,425 thousand required by the Forbearance Agreement has been transferred into secured account along with a further supplemental amount of US$1,117 thousand as discussed below;
- The appointment by the AHG of an observer who shall be entitled to attend and speak, but not vote, at any meetings of the Board or Committees of the Company where certain defined matters are to be discussed;
- The engagement of certain professional and technical advisors on behalf of the AHG;
- The observance by the Company and its subsidiaries of certain operating and other restrictions and limitations; and
- The provision of certain financial and operating information to the advisors of the AHG.

Holders in an aggregate principal amount of $361,215 thousand of the 2022 Notes and holders in an aggregate principal amount of $191,258 thousand of the 2025 Notes signed the Forbearance Agreement.

The Company agreed to pay, or procure payment of, certain consent fees in cash (Consent Fee) to each forbearing holder. At the date of this Annual Report, all Consent Fees have been paid. The first Consent Fee for the first 90 days of 29.7866 basis points, totalling US$3,350,992, was paid on 19 November 2020. The second consent fee of 19.8577 bps, totalling US$2,233,991, was paid on 22 December 2020. The final consent fee of 9.9288 bps, equating to US$1,116,990, was paid subsequent to the year end on 20 February 2021. The consent fees were recorded in the income statement (for more details please see Note 26).

On 19 March 2021, by unanimous consent of the AHG, the forbearance period was extended to 20 April 2021. On 20 April 2021, again by unanimous consent of the AHG, the forbearance period was extended to 20 May 2021. The extensions were to provide time for a final agreement to be reached with shareholders and bondholders.

In return for the AHG agreeing to extend the forbearance period to 20 April 2021, the Company also agreed to pay in the secured account an amount of US$1,116,990, equating to 9.9288 bps of the outstanding Notes. This amount was paid into the secured account in March 2021.

2. Basis of preparation and consolidation

Basis of preparation

These consolidated financial statements for the year ended 31 December 2020 have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The consolidated financial statements have been prepared based on a historical cost basis (Note 4). The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent and its subsidiaries as at 31 December 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

Subsidiaries

Nostrum Oil & Gas UK Ltd. registered and incorporated in the United Kingdom under Companies Number 08071559 is exempt from the requirements of the UK Companies Act 2006 relating to the audit of the individual accounts by virtue of the section 479A of the Act.

Going concern

The Group monitors on an ongoing basis its liquidity position, near-term forecasts and key financial ratios to ensure that sufficient funds are available to meet its commitments as they arise and liabilities as they fall due. In addition, since April 2020, the Group has performed monthly sensitivity tests of its liquidity position for changes in product prices, production volumes and any other significant variables. Whilst looking for new opportunities to fill the spare capacity of the Group's infrastructure, the Directors are also focused on a range of actions aimed at improving the liquidity outlook in the near-term. These include efforts to restructure the Notes, as well as further cost optimization to reduce capital expenditures, operating costs and general and administration cost.

The Directors have also considered any additional risks to liquidity posed by COVID-19. Oil and gas production has been classified as an essential business in Kazakhstan and operations are continuing. Contingency plans have been put in place both to protect the workforce and ensure that there are sufficient personnel to continue operations. There was no loss of production as a result of COVID-19 in 2020. Therefore, the Directors have concluded that there is currently no material impact on the Group's operations and liquidity at the time of publication of this Annual Report and Accounts as a result of COVID-19. However, it is recognized that there is uncertainty around future developments of COVID-19 which may affect the Group's ability to deliver the forecast production over 2021 and early 2022.

In March 2020, following the collapse in the oil price, the Group announced that it would seek to engage with its bondholders regarding a possible consensual restructuring of the Notes.

In May 2020, the Group appointed a financial adviser and a legal adviser in connection with this, and in July 2020 announced that it planned to utilise the applicable grace periods with respect to the Notes for the interest payments due on 25 July and 16 August 2020. The 30-day grace period was to allow the Company to continue active discussions between the financial and legal advisers and an informal ad-hoc committee of noteholders (AHG) with a view to entering into a forbearance agreement with the holders of the Notes in relation to those interest payments.

On 23 October 2020, the Company announced that, together with certain of its subsidiaries (Note Parties), it had entered into a forbearance agreement with members of the AHG.

Pursuant to the Forbearance Agreement, members of the AHG have agreed to forbear from the exercise of certain rights and remedies that they have under the indentures governing the Notes. The agreed forbearances include agreeing not to accelerate the Notes' obligations as a result of the missed interest payments (or the next missed interest periods if they occur prior to the expiry of the Forbearance Agreement).

The Forbearance Agreement is subject to certain conditions, including:

- Any representation or warranty made by any of the Note Parties under the Forbearance Agreement continuing to be true and complete in all material respects as of the date of the Forbearance Agreement;
- The opening of a secured account into which a portion of the missed interest payments was paid. At the date of this Annual Report, the full amount of US$21,541,990 required by the Forbearance Agreement has been transferred into secured account and is treated as restricted cash. The amount transferred as at 31 December 2020 was US$12,900,000;
- The appointment by the AHG of an observer who shall be entitled to attend and speak, but not vote, at any meetings of the Board or Committees of the Company where certain defined matters are to be discussed;
- The engagement of certain professional and technical advisors on behalf of the AHG;
- The observance by the Company and its subsidiaries of certain operating and other restrictions and limitations; and
- The provision of certain financial and operating information to the advisors of the AHG.

The company agreed to pay, or procure payment of, certain consent fees in cash (Consent Fee) to each forbearing holder. The Consent Fees were payable by reference to the total aggregate principal amount of the Notes outstanding. The first Consent fee for the first 90 days of 29.7866 basis points, totalling US$3,350,992, was paid on 19 November 2020. The second Consent Fee of 19.8577 bps, totalling US$2,233,991, was paid on 22 December 2020. The final consent fee of 9.9288 bps, equating to US$1,116,990, was paid subsequent to the year end on 20 February 2021. On each occasion, consent fees were paid to all of the total bondholders who agreed to forbear, equating to approximately 90% by value of each series of the Notes and evidencing an engaged and supportive creditor group. Further details of the forbearance agreement are disclosed in Note 1 to these consolidated financial statements.

On 19 March 2021, by unanimous consent of the AHG, the forbearance period was extended to 20 April 2021. On 20 April 2021, again by unanimous consent of the AHG, the forbearance period was extended to 20 May 2021.

The extensions were to provide more time for a lock-up and restructuring agreement to be reached with bondholders and potentially with other stakeholders. At the time of publication of this Annual Report and Accounts, negotiations with members of the AHG continue. The final form of the lock-up agreement and associated restructuring agreement is anticipated to be concluded by 20 May 2021. The key terms relevant to the consideration of going concern are that the debt will be foregone materially and interest on the restructured debt will partially be paid in cash and partially rolled up into the debt. As part of the agreement, it is likely that additional equity will be issued to bondholders, in which case significantly diluting the interests of the current equity holders.

Whilst the Group remains confident that agreement can be reached, discussions with bondholders, shareholders and the Government of the Republic of Kazakhstan to restructure the Notes, and the applications to obtain requisite approvals and consents have not yet concluded and so the outcome is uncertain and outside of the Group's control.

The Directors' going concern assessment is supported by future cash flow forecasts. The base case going concern assessment reflects production forecasts consistent with the Board approved plans and published guidance and assumes a Brent oil price of $45/bbl and $50/bbl, for 2021 and 2022, respectively. The forecast financing cashflows assume that the Notes are restructured in the form envisaged by the current preliminary restructuring terms discussed with the advisors to the AHG, reflecting the terms outlined above.

Therefore, in forming an assessment on the Group's ability to continue as a going concern, the Board has made significant assumptions about:

- A restructuring of the Notes being agreed with the AHG and subsequently with sufficient bondholders consistent with the preliminary restructuring terms discussed with the advisors to the AHG, that is affordable for the Group through the going concern period to 30 June 2022. Should the Group be unable to reach an agreement with the AHG by the end of the forbearance period, then bondholders may seek to enforce their rights under the bond indentures, including accelerating the Notes' obligations as a result of the missed interest payments; and
- If agreement is reached with the AHG and subsequently with sufficient bondholders, the Group being able to obtain the necessary permissions and waivers. Specifically, the Group may need to obtain permission for the proposed restructuring from its shareholders and will need to obtain permission for the restructuring and secure a waiver from the Government of the Republic of Kazakhstan. If agreement is reached with the bondholders but the Group is unable to obtain the necessary approvals and waivers, then the agreement with bondholders may not be implementable.

These assumptions represent material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern for the going concern period to 30 June 2022, being not less than 12 months from the date of this report.

After careful consideration of these material uncertainties, and on the assumption that a restructuring of the Notes to an affordable level is completed, the Directors have a reasonable expectation that the Group has sufficient resources to continue in operation for the going concern period to 30 June 2022, being a period of not less than 12 months from the date of this report. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts. Accordingly, the accompanying consolidated financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group were unable to continue as a going concern.

Notwithstanding that the going concern period has been defined as the period to 30 June 2022, the Directors have considered events and conditions beyond the period of assessment which may cast doubt on the Group's ability to continue as a going concern. The Directors draw attention to the Viability Statement on page 56 which highlights that the material uncertainties referred to in respect of the Going Concern assessment may cast significant doubt over the future viability of the Group. In the event that the Group is unable successfully to restructure its Notes, then under all reasonable assumptions the Group will be unable to meet its US$725m debt liability due in July 2022.

Notes to the consolidated financial statements continued

3. Changes in accounting policies and disclosures

New standards, interpretations and amendments adopted by the Group

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of the Group.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

Standards issued but not yet effective

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

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing borrowing agreements will be renegotiated.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. These amendments had no impact on the consolidated financial statements of the Group.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements

In February 2021 the IASB issued amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements. The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments will be effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. The Group does not expect early application of these amendments.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

In February 2021 the IASB issued amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events. The amendments will be effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. The Group does not expect early application of these amendments.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

4. Summary of significant accounting policies

Exploration expenditure

Costs directly associated with exploration wells are capitalised within exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials, fuel used, rig costs, payments made to contractors and asset retirement obligation fees.

Significant estimates and assumptions: Exploration expenditure

If hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as an asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons.

All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery, which is subject to estimation uncertainties. When this is no longer the case, the costs are written off.

Subsoil use rights acquisition costs are initially capitalised in exploration and evaluation assets. Subsoil use rights acquisition costs are reviewed at each reporting date to confirm that there is no indication that the carrying amount exceeds the recoverable amount. This review includes confirming that exploration drilling is still under way or firmly planned, or that it has been determined, or work is under way to determine that the discovery is economically viable based on a range of technical and commercial considerations and sufficient progress is being made on establishing development plans and timing. If no future activity is planned or the subsoil use rights have been relinquished or has expired, the carrying value of the subsoil use rights acquisition costs is written off through profit or loss.

The Group owns licence for the Rostoshinskoye field where the exploration period will expire on 16 August 2022. More detailed information on the subsoil use rights terms is disclosed in Note 1.

Property, plant and equipment

Oil and gas properties

Expenditure on the construction, installation or completion of infrastructure facilities such as treatment facilities, pipelines and the drilling of development wells, is capitalised within property, plant and equipment as oil and gas properties. The initial cost of an asset comprises of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligations, if any.

The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. When a development project moves into the production stage, the capitalisation of certain construction/development costs ceases, and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to oil and gas property asset additions, improvements or new developments.

All capitalised costs of oil and gas properties are depleted using the unit-of-production method based on estimated proved developed reserves of the field, except the Group depreciates its oil pipeline and oil loading terminal on a straight-line basis over the life of the relevant subsoil use rights. In the case of assets that have a useful life shorter than the lifetime of the field the straight-line method is applied.

Notes to the consolidated financial statements continued

Other properties

All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the year in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Buildings and constructions	7-15
Vehicles	8
Machinery and equipment	3-13
Other	3-10

For more detailed information in relation to property plant and equipment, please refer to Note 6.

Significant accounting judgment: oil and gas reserves

Oil and gas reserves are a material factor in the Group's computation of depreciation, depletion and amortisation (the "DD&A"). Management used significant accounting judgement in selecting proved developed hydrocarbon reserves for calculating the unit-of-production depletion rate, as it reflects the expected pattern of consumption of future economic benefits by the Group.

Significant estimates and assumptions: oil and gas reserves

The Group uses internal estimates to assess the oil and gas reserves of its fields. The reserves estimates are made in accordance with the methodology of the Society of Petroleum Engineers (the "SPE") and are confirmed or audited by independent reserve engineers. All reserve estimates involve some degree of uncertainty, which depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data, as well as long-term hydrocarbon pricing, which may affect classification of reserves.
The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability.

Reserves estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy.

Management's estimates of the Chinarevskoye 2P (Proven plus Probable) volume as at 31 December 2020 was 39 mmboe requiring 16 interventions (2019: 138.1mmboe requiring 45 interventions). The reduction of 99.2 mmboe was due to generally lower Type Well volumes, reduced hydrocarbon pricing rendering some previously planned wells uneconomic, as well as production of 8.1 mmboe in 2020.

The field development plan assumed in the estimations did not take into account any restructuring or repayment of the Company's 2022 and 2025 bonds and the ability to maintain sufficient liquidity to fund such a plan. There is no guarantee that the Group will be able to achieve this, which can have a material impact on the Group's ability to develop the remaining proven and probable reserves at Chinarevskoye.

Further downward revision of the proved developed reserves estimates by 5% would lead to additional DD&A expense of $1,211 thousand in Q4 2020.

Estimates of economically recoverable oil and gas reserves and related future net cash flows also impact the impairment assessment of the Group (see Impairment related significant judgements, estimates and assumptions for further details).

Details on carrying values of oil and gas properties and related depreciation, depletion and amortization are shown in Note 6.

In addition, provisions for decommissioning may require revision — where changes to reserves estimates affect expectations about when such activities will occur and the associated cost of these activities (see Decommissioning related significant judgements, estimates and assumptions for further details).

Impairment of property, plant and equipment, exploration and evaluation assets

The Group assesses assets or groups of assets, called cash-generating units (CGUs), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable; for example, changes in the Group's business plans, significant decreases in the market commodity prices, low plant utilisation, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. If any such indication of impairment exists, the Group makes an estimate of the asset's recoverable amount. Individual assets are grouped into CGU for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. A CGU's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and an impairment loss is recognised for the excess of carrying amount over recoverable amount.

The business cash flow internal model, which is approved on an annual basis by senior management, is the primary source of information for the determination of the recoverable amount. It contains forecasts for oil and gas production, sales volumes for various types of products, revenues, costs and capital expenditure. As an initial step in the preparation of this model, various assumptions are set by senior management. These assumptions take account of commodity prices, global supply-demand equilibrium for oil and natural gas, other macroeconomic factors and historical trends and variability. In assessing the recoverable amount, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a discount rate.

Significant accounting judgment: identification of cash-generating unit

Judgement is required to identify cash-generating units for the purpose of testing the assets for impairment. Management has determined a single cash-generating unit within the Group's non-current assets consisting of all Group's assets related to its Chinarevskoye and exploration fields as well as facilities. This is mainly based on the fact that hydrocarbons extracted from the Chinarevskoye field are processed and passed through a combination of various facilities.

Significant estimates and assumptions: impairment of property, plant and equipment, exploration and evaluation assets

Determination as to whether, and by how much, the CGU is impaired involves management's best estimates on highly uncertain matters such as future commodity prices, operating expenses and capital expenditures estimates, discount rate, fiscal regimes, proved and probable reserves, contingent resources and respective future production profiles.

Based on the management assessment the recoverable amount was determined by the fair value less costs of disposal (FVLCD) of the CGU, which was higher than its value-in-use. FVLCD was based on the discounted cash flow model as no recent third-party transactions existed on which a reliable market-based fair value could be established.

The discounted cash flow model takes into consideration cashflows, which are expected to arise until 2032, i.e. during the licence term of the Chinarevskoye field, and is considered a level 3 valuation under the fair value hierarchy. The period exceeding five years is believed to be appropriate based on the proved and probable reserves audited by independent engineers. The model also takes into account risked-value cashflows from contingent resources on the basis a market participant would place value on these resources.

The key assumptions used in the Group's discounted cash flow model reflecting past experience and taking into account external factors are subject to periodic review. These assumptions are:

- Oil prices (in real terms): US$50/bbl for 2021, and US$55/bbl throughout 2021-2032 (2019: US$45/bbl for 2020, US$50/bbl for 2021, US$55/bbl for 2022, and US$60/bbl for 2023-2032);
- Proved and probable hydrocarbon reserves confirmed by independent reserve engineers;
- Contingent resources as confirmed by independent reserve engineers split into risk categories for valuation purposes;
- Production profiles based on Group's internal estimates confirmed by independent reserve engineers;
- All cash flows are projected on the basis of stable prices, i.e. inflation/growth rates are ignored;
- Cost profiles for the development of the fields and subsequent operating costs consistent with reserves estimates and production profiles; and
- GTU spare capacity utilization – risk-weighted option value from processing under UOG contract;
- Post-tax discount rate of 8.0% (2019: 10.5%).

The Group identified indicators of impairment resulting from the further significant reduction of the 2P reserves as disclosed above in the significant estimates and assumptions related to oil and gas reserves.

The CGUs recoverable amount was estimated, and compared to its carrying amount, and a further impairment charge on oil and gas assets in the amount of US$244,744 thousand was recorded as at 31 December 2020, in addition to the US$1,301,640 thousand and US$150,000 thousand impairment charge recognized in 2019 and 2018, respectively, resulting in the carrying amount of property, plant and equipment of US$339,406 thousand (2019: US$650,229 thousand), equalling its recoverable amount.

The impairment charge has been allocated as follows:

	For the year ended 31 December	
In thousands of US Dollars	**2020**	2019
Working oil and gas assets	**212,203**	1,169,828
Construction in progress	**27,031**	106,825
Other property, plant and equipment	**5,510**	24,987
	244,744	1,301,640
Exploration and evaluation assets	**179**	50,533
Exploration and evaluation related VAT assets	**–**	2,478
	244,923	1,354,651

More detailed information related to carrying values of oil and gas properties and related depreciation, depletion, amortisation and impairment are shown in Note 7.

The following table summarizes sensitivity of the recoverable amount and respective additional impairment charges that would result from changes in the key assumptions:

Key assumption	Change	Impairment sensitivity
Oil price assumption	$10/bbl	103,892
Reserves downgrade by	10.0%	125,278
Contingent resources downgrade by	10.0%	19,133
Post-tax discount rate increase by	3.5%	62,417
Operating costs increase by	10.0%	50,963

On the other hand, certain positive development like successful mitigation of reservoir risks in the future and respective changes in the drilling plans and results, with the relevant increase in 2P reserves, or increase in utilisation of the Group's processing facilities, could have the effect of reversing the impairment. Any reversal would be limited so that the carrying amount of the CGU does not exceed the lower of its recoverable amount, or the carrying amount that would have been determined, net of depreciation, had no impairment charge been recognised for the CGU in prior years.

Leases

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Notes to the consolidated financial statements continued

Separation of lease and non-lease components

When contracts for lease (like lease of drilling rigs and rail-tank cars) include various additional services like personnel cost, maintenance, drilling related activities, and other items, the Group splits such non-lease components and recognises them separately. Where the additional services are not separately priced, the consideration paid is allocated based on the relative stand-alone prices of the lease and non-lease components.

Distinguishing fixed and variable lease payment elements

Certain lease contracts include fixed rates for when the asset is in operation, and various alternative rates (like "cold-stack rates" for leases of drilling rigs) for periods where the asset is engaged in specified activities or idle, but still under contract. In general, variability in lease payments under these contracts has its basis in different use and activity levels, and the variable elements have been determined to relate to non-lease components only. Consequently, the lease components of these contractual payments are considered fixed for the purposes of IFRS 16.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below US$ 5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Business combinations and goodwill

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

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Those acquired petroleum reserves and resources that can be reliably measured are recognised separately in the assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably measured, are not recognised separately, but instead are subsumed in goodwill.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for NCI over the fair value of the identifiable net assets acquired and liabilities assumed. If the fair value of the identifiable net assets acquired is in excess of the aggregate consideration transferred (bargain purchase), before recognising a gain, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the statement of profit or loss and other comprehensive income.

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

Where goodwill forms part of a Cash Generating Unit ("CGU") and part of the operation in that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax bases of income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Group and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that apply to the relevant taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

For more detailed information in current and deferred income tax disclosure as at 31 December 2020 and 2019, please see Note 29.

Significant accounting judgment: 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. 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 31 December 2020.

The Group is subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the tax authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for taxes for which it is considered probable will be payable, based on professional advice and consideration of the nature of current discussions with the tax authority.

As at 31 December 2020 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. To the extent that actual outcomes differ from management's estimates, income tax charges or credits, and changes in current and deferred tax assets or liabilities, may arise in future periods. For more information, see Note 29.

Foreign currency translation

The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

The functional currency of the Company is the United States dollar (the "US dollar" or "US$"). The functional currencies of the Group's subsidiaries are as follows:

Company	Functional currency
Nostrum Associated Investments LLP	Tenge
Nostrum E&P Services LLC	Russian rouble
Nostrum Oil & Gas Coöperatief U.A.	US dollar
Nostrum Oil & Gas BV	US dollar
Nostrum Oil & Gas Finance BV	US dollar
Nostrum Oil & Gas UK Ltd.	British Pound
Nostrum Services Central Asia LLP	Tenge
Nostrum Services N.V.	Euro
Zhaikmunai LLP	US dollar

Transactions in foreign currencies are initially recorded by the Group's subsidiaries at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. All differences are taken to the profit or loss.

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

In the consolidated financial statements, the assets and liabilities of non-US dollar functional currency subsidiaries are translated into US dollars at the spot exchange rate on the balance sheet date. The results and cash flows of non-US dollar functional currency subsidiaries are translated into US dollars using average rates of exchange. In the consolidated financial statements, exchange adjustments arising when the opening net assets and the profits for the year retained by non-US dollar functional currency subsidiaries are translated into US dollars are reported in the statement of comprehensive income.

Borrowing costs

The Group capitalises borrowing costs on qualifying assets. Assets qualifying for borrowing costs capitalisation include all assets under construction that are not being depreciated, depleted, or amortised, provided that work is in progress at that time. Qualifying assets mostly include wells and other operations field infrastructure under construction. Capitalised borrowing costs are calculated by applying the capitalisation rate to the expenditures on qualifying assets. The capitalisation rate is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the period. All other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred.

For more detailed information in relation to capitalisation of borrowing costs, please refer to Note 6.

Advances for non-current assets

Advances paid for capital investments/acquisition of non-current assets are qualified as advances for non-current assets regardless of the period of supplies of relevant assets or the supply of work or services to close advances. Advances paid for the purchase of non-current assets are recognised by the Group as non-current assets and are not discounted.

For more detailed information in relation to advances for non-current assets, please refer to Note 8.

Inventories

Inventories are stated at the lower of cost or net realisable value ("NRV"). Cost of oil, gas condensate and liquefied petroleum gas ("LPG") is determined on the weighted-average method based on the production cost including the relevant expenses on depreciation, depletion and impairment and overhead costs based on production volume. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

For more information in relation to the breakdown of inventories as at 31 December 2020 and 2019, please see Note 9.

Other current liabilities

The Group makes accruals for liabilities related to the underperformance and/or adjustments of work programs under subsoil use agreements (SUA) on a regular basis. When evaluating the adequacy of an accrual, management bases its estimates on the latest work program included in the SUA, and relevant signed supplements and potential future changes in payment terms (including the currency in which these liabilities are to be settled).

Future changes in the work programs may require adjustments to the accrual recorded in the consolidated financial statements.

Provisions and contingencies

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed by the Group at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

The Group classifies as contingent liabilities those possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise and the present obligations that arise from past events but are not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Group does not recognise contingent liabilities but discloses contingent liabilities in Note 32, unless the possibility of an outflow of resources embodying economic benefits is remote.

Notes to the consolidated financial statements continued

Significant accounting judgment: provisions and contingencies

Provisions and liabilities are recognized in the period when it becomes probable that there will be a future outflow of funds resulting from past operations or events and the amount of cash outflow can be reliably estimated. The timing of recognition and quantification of the liability require the application of judgment to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take account of changing facts and circumstances.

Significant management judgment is required to evaluate any claims and actions to determine whether a provision relating to a specific litigation should be recognized or revised, or a contingent liability is required to be disclosed, since the outcome of litigation is difficult to predict.

Decommissioning

Provision for decommissioning is recognised in full, when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made.

The Group estimates future dismantlement and site restoration costs for oil and gas properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement and the extent of site restoration required in accordance with current legislation and industry practice. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the obligation at current year prices discounted at applicable real rate.

The unwinding of the discount related to the obligation is recorded in finance costs. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related oil and gas properties. This asset is subsequently depreciated as part of the capital costs of the oil and gas properties on a unit-of-production basis.

The Group reviews site restoration provisions at each financial reporting date and adjusts them to reflect current best estimates in accordance with IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities.

Changes in the measurement of an existing decommissioning liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or changes to the discount rate:

- are added to, or deducted from, the cost of the related asset in the current period. If deducted from the cost of the asset the amount deducted shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognised immediately in the profit or loss; and
- if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss in accordance with IAS 36.

Movements in the abandonment and site restoration provision are disclosed in Note 17.

Significant estimates and assumptions: provisions and contingencies

The Group holds provision for the future decommissioning of oil and gas properties and site restoration. The estimation of the future dismantlement and site restoration costs involves use of significant estimates and assumptions by management, specifically for determining the timing of the future cash outflows and discount rate.

Management made its estimates based on the assumption that cash flow will take place at the expected end of the subsoil use rights. Therefore, the most decommissioning events are many years in the future and the precise date of wells abandonment and site restoration may change with the relative impact on the cash outflows.

Management of the Group believes that the long-term US Treasury real yield curve rates adjusted for country risk premium of Kazakhstan provides the best estimates of applicable real discount rate.

Any changes in the expected future costs are reflected in both the provision and the asset. Moreover, actual decommissioning costs can differ from estimates because of constantly changing decommissioning technologies as well as changes in environmental laws and regulations and public expectations.

As a result, there could be significant adjustments to the provisions established which would affect future financial results. For more details on abandonment and site restoration provision please refer to Note 17.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The Group determines the classification of its financial assets at initial recognition.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include cash, long-term and short-term deposits, trade and other receivables.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

Financial liabilities

Initial recognition, measurement and derecognition

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, long-term borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of long-term borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, long-term borrowings, and derivative financial instruments.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortised cost (loans and borrowings)

This is the category most relevant to the Group. After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing borrowings. For more information, refer to Note 15.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedging

The Group from time to time uses hedging contracts for oil export sales to cover part of its risks associated with oil price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives during the year that do not qualify for hedge accounting are taken directly to profit or loss.

Notes to the consolidated financial statements continued

Cash and short-term deposits

Cash and cash equivalents in the statement of financial position comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less, but exclude any restricted cash which is not available for use by the Group and therefore is not considered highly liquid – for example, cash set aside to cover decommissioning obligations or as required by the forbearance agreement.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank overdrafts.

For more detailed information in relation to cash and cash equivalents as at 31 December 2020 and 2019, please see Note 12.

Revenue recognition

The Group sells crude oil, gas condensate and LPG under agreements priced by reference to Platt's and/or Argus' index quotations and adjusted for freight, insurance and quality differentials where applicable. The Group sells gas under agreements at fixed prices.

Revenue from contracts with customers is recognised when control of the goods is transferred to the customer. For sales of crude oil, gas condensate and LPG, this generally occurs when the product is physically transferred into a vessel, pipe, railcar, trucks or other delivery mechanism; for sales of gas, it is when the product is physically transferred into a pipe.

The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods before transferring them to the customer.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in other reserves. Voting rights related to treasury shares are nullified for the Group and no distributions are accepted in relation to them. Share options exercised during the reporting period can be satisfied with treasury shares.

Share-based payments

The cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

The cost of equity-settled transactions is measured at fair value at the grant date. This fair value is expensed over the period until vesting with the recognition of a corresponding equity element, which is not remeasured subsequently until the settlement date.

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and distribution yield and making assumptions about them.

5. Exploration and evaluation assets

As at 31 December 2020 and 31 December 2019 exploration and evaluation assets comprised the following:

In thousands of US Dollars	Subsoil use rights	Geological and geophysical studies	**Total**
Balance at 1 January 2019, net*	**15,835**	**34,406**	**50,241**
Additions	–	292	292
Impairment	(15,835)	(34,698)	(50,533)
Balance at 31 December 2019, net*	**–**	**–**	**–**
Additions	–	179	179
Disposals	(12,422)	(26,226)	(38,648)
Disposals impairment reversal	12,422	26,226	38,648
Impairment (Note 4)	–	(179)	(179)
Balance at 31 December 2020, net*	**–**	**–**	**–**
Cost	15,835	34,698	50,533
Impairment	(15,835)	(34,698)	(50,533)
Balance at 31 December 2019, net*	**–**	**–**	**–**
Cost	3,413	8,651	12,064
Impairment	(3,413)	(8,651)	(12,064)
Balance at 31 December 2020, net*	**–**	**–**	**–**

** Balances, net of impairment*

During the year ended 31 December 2020 the Group had additions to exploration and evaluation assets of US$179 thousand which mainly includes capitalised social and training commitment expenditures (2019: additions of US$920 thousand offset with derecognition of the capitalised social expenditures US$628 thousand in the view of the amendments to the subsoil agreement for Rostoshinskoye field). Interest was not capitalised on exploration and evaluation assets.

During the year ended 31 December 2020, the Group has written-off accumulated costs in the amount of US$11,283 thousand against respective impairment in relation to certain exploration and evaluation works on Rostoshinskoye field.

In October 2020, the rights and obligations under the Darjinskoye and Yuzhno-Gremyachinskoye contracts for exploration and production of hydrocarbons were disposed to the third party. The exploration and evaluation costs related to these fields in the amount of US$16,622 thousand and US$10,564 thousand, respectively, and corresponding impairment balances have been derecognized at the date of disposal with no effect on the profit and loss for the period.

6. Property, plant and equipment

As at 31 December 2020 and 31 December 2019 property, plant and equipment comprised the following:

In thousands of US Dollars	**31 December 2020**	31 December 2019
Oil and gas properties	**332,145**	637,048
Other property, plant and equipment	**7,261**	13,181
	339,406	650,229

Oil and gas properties

The category "Oil and gas properties" represents mainly wells, oil and gas treatment facilities, oil transportation and other related assets. The movement of oil and gas properties for the years ended 31 December 2020 and 2019 was as follows:

In thousands of US Dollars	Working assets	Construc-tion in progress	**Total**
Balance at 1 January 2019, net*	**1,083,132**	**796,833**	**1,879,965**
Additions	15,044	151,837	166,881
Transfers	839,331	(842,083)	(2,752)
Disposals	(90)	–	(90)
Disposals depreciation	41	–	41
Depreciation and depletion charge	(130,344)	–	(130,344)
Accumulated impairment transfers	(43,234)	43,234	–
Impairment charge	(1,169,828)	(106,825)	(1,276,653)
Balance at 31 December 2019, net*	**594,052**	**42,996**	**637,048**
Additions	1,824	16,285	18,109
Transfers	57,479	(57,479)	–
Disposals	(144)	–	(144)
Disposals depreciation	127	–	127
Depreciation and depletion charge	(83,761)	–	(83,761)
Accumulated impairment transfers	(61,038)	61,038	–
Impairment charge	(212,203)	(27,031)	(239,234)
Balance at 31 December 2020, net*	**296,336**	**35,809**	**332,145**
As at 31 December 2018			
Cost	2,029,203	846,668	2,875,871
Accumulated depreciation**	(946,071)	(49,835)	(995,906)
Balance*	**1,083,132**	**796,833**	**1,879,965**
As at 31 December 2019			
Cost	2,883,488	156,422	3,039,910
Accumulated depreciation**	(2,289,436)	(113,426)	(2,402,862)
Balance*	**594,052**	**42,996**	**637,048**
As at 31 December 2020			
Cost	2,942,647	115,228	3,057,875
Accumulated depreciation**	(2,646,311)	(79,419)	(2,725,730)
Balance*	**296,336**	**35,809**	**332,145**

** Balances, net of accumulated depreciation, depletion and impairment*
*** Accumulated depreciation, depletion and impairment*

The category "Construction in progress" is represented by employee remuneration, materials and fuel used, rig costs, payments made to contractors, and asset retirement obligation fees directly associated with development of wells until the drilling of the well is complete and results have been evaluated.

The depletion rate for oil and gas working assets was 15.39% and 12.02% in 2020 and 2019, respectively. The Group engaged independent petroleum engineers to perform a reserves audit as at 31 December 2020. Depletion has been calculated using the unit of production method based on these reserves estimates.

The change in the long-term inflation rate and discount rate used to determine the abandonment and site restoration provision (Note 17) in the year ended 31 December 2020 resulted in the increase of the oil and gas properties by US$4,297 thousand (31 December 2019: an increase of US$4,354 thousand).

The Group incurred borrowing costs including amortisation of arrangement fees. Capitalisation rate and capitalised borrowing costs were as follows as at 31 December 2020 and 31 December 2019:

In thousands of US Dollars	**31 December 2020**	31 December 2019
Borrowing costs including amortisation of arrangement fee	**93,183**	92,543
Capitalisation rate	**8.44%**	8.62%
Capitalised borrowing costs	**388**	52,144

Other property, plant and equipment

In thousands of US Dollars	Buildings	Machi-nery & equip-ment	Vehicles	Others	Constru-ction in progress	**Total**
Balance at 1 January 2019*	**27,967**	**3,867**	**664**	**7,154**	**45**	**39,697**
Additions	–	564	–	1,592	–	2,156
Transfers	135	25	–	2,592	–	2,752
Disposals	(33)	(68)	(16)	(482)	–	(599)
Disposals depreciation	33	26	7	463	–	529
Depreciation	(3,867)	(1,087)	(147)	(1,303)	–	(6,404)
Impairment charge	(16,147)	(2,291)	(326)	(6,223)	–	(24,987)
Translation difference	–	–	–	37	–	37
Balance at 31 December 2019*	**8,088**	**1,036**	**182**	**3,830**	**45**	**13,181**
Additions	8	1,035	–	438	–	1,481
Transfers	28	(47)	–	19	–	–
Disposals	(385)	(249)	–	(1,317)	–	(1,951)
Disposals depreciation	376	242	–	746	–	1,364
Depreciation	(781)	(188)	(24)	(302)	–	(1,295)
Impairment charge	(3,164)	(789)	(68)	(1,470)	(19)	(5,510)
Translation difference	–	–	–	(9)	–	(9)
Balance at 31 December 2020*	**4,170**	**1,040**	**90**	**1,935**	**26**	**7,261**
As at 31 December 2018						
Cost	50,487	20,283	1,676	16,513	45	89,004
Accumulated depreciation**	(22,520)	(16,416)	(1,012)	(9,359)	–	(49,307)
Balance	**27,967**	**3,867**	**664**	**7,154**	**45**	**39,697**
As at 31 December 2019						
Cost	50,589	20,804	1,660	20,252	45	93,350
Accumulated depreciation**	(42,501)	(19,768)	(1,478)	(16,422)	–	(80,169)
Balance	**8,088**	**1,036**	**182**	**3,830**	**45**	**13,181**
As at 31 December 2020						
Cost	50,240	21,543	1,660	19,383	45	92,871
Accumulated depreciation**	(46,070)	(20,503)	(1,570)	(17,448)	(19)	(85,610)
Balance	**4,170**	**1,040**	**90**	**1,935**	**26**	**7,261**

** Balances, net of accumulated depreciation, amortisation and impairment*
*** Accumulated depreciation, amortisation and impairment*

Notes to the consolidated financial statements continued

7. Right-of-use assets

The movement of right-of-use assets for the years ended 31 December 2020 and 2019 was as follows:

In thousands of US Dollars	Machinery & equipment	Vehicles	Total
Balance at 1 January 2019, net*	**26,825**	**7,359**	**34,184**
Modification of lease agreements	(1,467)	(16)	(1,483)
Termination of lease agreements	(10,086)	–	(10,086)
Depreciation	(12,089)	(3,651)	(15,740)
Balance at 31 December 2019, net*	**3,183**	**3,692**	**6,875**
Modification of lease agreements	2,371	(1,858)	513
Depreciation	(2,884)	(1,749)	(4,633)
Balance at 31 December 2020, net*	**2,670**	**85**	**2,755**
As at 31 December 2019			
Cost	7,643	7,339	14,982
Accumulated depreciation	(4,460)	(3,647)	(8,107)
Balance*	**3,183**	**3,692**	**6,875**
As at 31 December 2020			
Cost	2,670	698	3,368
Accumulated depreciation	–	(613)	(613)
Balance*	**2,670**	**85**	**2,755**

** Balances, net of accumulated depreciation, depletion and impairment*

8. Advances for non-current assets

As at 31 December 2020 and 31 December 2019 advances for non-current assets comprised the following:

In thousands of US Dollars	**31 December 2020**	31 December 2019
Advances for other non-current assets	**8,444**	8,038
Advances for construction services	**369**	100
Advances for construction materials	**221**	274
	9,034	8,412

As at 31 December 2020 and 31 December 2019, advances for other non-current assets mainly comprised prepayments made to suppliers of services as part of the development of new opportunities. Such costs include technical, legal, advisory and other professional fees and have been capitalized in the course of potential acquisition of assets. In the event that new opportunities do not materialise as currently intended then the amounts will be written off.

9. Inventories

As at 31 December 2020 and 31 December 2019 inventories comprised the following:

In thousands of US Dollars	**31 December 2020**	31 December 2019
Spare parts and other inventories	**23,735**	23,500
Gas condensate	**2,907**	8,446
Crude oil	**2,018**	3,650
LPG	**69**	112
Dry Gas	**63**	67
Sulphur	**13**	74
	28,805	35,849

As at 31 December 2020 and 31 December 2019 inventories are carried at cost.

For the purpose of these consolidated financial statements the Group presents "Sulphur" as a separate line within Inventories. Previously, the "Sulphur" balances were included in "Spare parts and other inventories".

10. Prepayments and other current assets

As at 31 December 2020 and 31 December 2019 prepayments and other current assets comprised the following:

In thousands of US Dollars	**31 December 2020**	31 December 2019
Advances paid	**5,269**	6,035
VAT receivable	**4,741**	3,186
Other taxes receivable	**1,502**	1,716
Other	**791**	1,103
	12,303	12,040

Advances paid consist primarily of prepayments made to service providers. As at 31 December 2020, there were no impaired advances paid (31 December 2019: US$1,751 thousand). In 2020 the advances paid in amount of US$1,751 thousand were fully written off against the impairment provision made in 2018.

There were no other movements in the provision for impairment of advances paid during the years ended 31 December 2020 and 2019.

11. Trade receivables

As at 31 December 2020 and 31 December 2019 trade receivables were not interest-bearing and were mainly denominated in US dollars and Tenge. Their average collection period is 30 days.

As at 31 December 2020 and 31 December 2019 there were neither past due nor impaired trade receivables. Based on the assessments made, the Group concluded that no provision for expected credit losses should be recognized as at 31 December 2020 and 31 December 2019.

12. Cash and cash equivalents

In thousands of US Dollars	**31 December 2020**	31 December 2019
Current accounts in US Dollars	**73,412**	88,420
Current accounts in Tenge	**2,791**	791
Current accounts in Euro	**1,862**	3,997
Current accounts in other currencies	**514**	721
Petty cash	**4**	11
	78,583	93,940

For the purpose of these consolidated financial statements the Group presents "Current accounts in Euro" as a separate line within Cash and cash equivalents. Previously, the "Current accounts in Euro" were included in Current accounts in other currencies".

In addition to the cash and cash equivalents in the table above, the Group has restricted cash accounts as a liquidation fund deposit for the amount of US$446 thousand with Sberbank in Kazakhstan and US$7,267 thousand with Halyk bank (31 December 2019: US$805 thousand and US$6,815 thousand, respectively), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

In 2020, the Group transferred US$12,900 thousand to a secured cash account opened for the benefit of the holders of the Group's Notes under the terms of the Forbearance Agreement (Note 1). The Company has the ability to make certain withdrawals from the account if its liquidity falls below an agreed level.

13. Share capital and reserves

As at 31 December 2020 the ownership interests in the Parent consists of 188,182,958 issued and fully paid ordinary shares, which are listed on the London Stock Exchange. The ordinary shares have a nominal value of GB£ 0.01.

Number of shares	In circulation	Treasury capital	Total
As at 1 January 2019	**185,234,079**	**2,948,879**	**188,182,958**
Share options exercised	–	–	–
As at 31 December 2019	**185,234,079**	**2,948,879**	**188,182,958**
Share options exercised	–	–	–
As at 31 December 2020	**185,234,079**	**2,948,879**	**188,182,958**

Treasury shares were issued to support the Group's obligations to employees under the Employee Share Option Plan ("ESOP") and the Long-Term Incentive Plan ("LTIP") and are held by Intertrust Employee Benefit Trustee Limited as trustee for the Nostrum Oil & Gas Benefit Trust. In the case of the ESOP, upon request from employees to exercise options, the trustee would sell shares on the market and settle respective obligations under the ESOP. In the case of share-settled LTIP awards, the trustee would transfer shares to the relevant LTIP award holder (although no LTIP awards are currently exercisable). The Nostrum Oil & Gas Benefit Trust constitutes a special purpose entity under IFRS and therefore, the shares held in the trust are recorded as treasury capital of the Company.

The movements in the Group's other reserves is presented as follows:

In thousands of US Dollars	Group reorgani-sation reserve	Foreign currency translation reserves	Share-option reserves	Total
As at 1 January 2019	**255,459**	**2,841**	**3,933**	**262,233**
Currency translation difference	–	211	–	211
Share based payments under LTIP	–	–	633	633
As at 31 December 2019	**255,459**	**3,052**	**4,566**	**263,077**
Currency translation difference	–	253	–	253
Share based payments under LTIP	–	–	(495)	(495)
As at 31 December 2020	**255,459**	**3,305**	**4,071**	**262,835**

Group reorganisation reserve in the amount of US$255,459 thousand represents the difference between the partnership capital, treasury capital and additional paid-in capital of Nostrum Oil & Gas LP and the share capital of Nostrum Oil & Gas PLC, that arose during the reorganisation of the Group in 2014. Share-option reserves include amounts related to sale of treasury shares under ESOP as well as share-based payments under LTIP (for more details please see Note 27).

Distributions

There were no distributions made during the years ended 31 December 2020 and 2019.

Kazakhstan stock exchange disclosure requirement

The Kazakhstan Stock Exchange enacted on 11 October 2010 (as amended on 18 April 2014) a requirement for disclosure of "the book value per share" (total assets less intangible assets, total liabilities and preferred stock divided by the number of outstanding shares as at the reporting date). As at 31 December 2020 the book value per share amounted to US$4.12 negative (31 December 2019: US$2.30 negative).

14. Earnings per share

Basic EPS amounts are calculated by dividing the profit for the period by the weighted average number of shares outstanding during the period. The basic and diluted EPS are the same as there are no instruments that have a dilutive effect on earnings. There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these consolidated financial statements.

	For the year ended 31 December	
	2020	2019
Loss for the period attributable to the shareholders (in thousands of US dollars)	**(327,425)**	(989,927)
Weighted average number of shares	**185,234,079**	185,234,079
Basic and diluted earnings per share (in US dollars)	**(1.77)**	(5.34)

15. Borrowings

Borrowings are comprised of the following as at 31 December 2020 and 31 December 2019:

In thousands of US Dollars	**31 December 2020**	31 December 2019
Notes issued in 2017 and maturing in 2022	**767,956**	732,886
Notes issued in 2018 and maturing in 2025	**418,313**	403,200
	1,186,269	1,136,086
Less amounts due within 12 months	**(1,186,269)**	(35,633)
	–	1,100,453

2022 Notes

On 25 July 2017, a newly incorporated entity, Nostrum Oil & Gas Finance B.V. (the "2022 Issuer") issued US$725,000 thousand notes (the "2022 Notes"). The 2022 Notes bear interest at a rate of 8.00% per year, payable on 25 January and 25 July of each year.

On and after 25 July 2019, the 2022 Issuer shall be entitled at its option to redeem all or a portion of the 2022 Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2022 Note), plus accrued and unpaid interest on the 2022 Notes, if any, 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), if redeemed during the twelve-month period commencing on 25 July of the years set forth below:

Period	**Redemption Price**
2020	104.0%
2021 and thereafter	100.0%

The 2022 Notes are jointly and severally guaranteed (the "2022 Guarantees") on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V. (the "2022 Guarantors"). The 2022 Notes are the 2022 Issuer's and the 2022 Guarantors' senior obligations and rank equally with all of the 2022 Issuer's and the 2022 Guarantors' other senior indebtedness.

The issue of the 2022 Notes was used primarily to fund the refinancing of part of the Group's Notes issued in 2012 and 2014.

Notes to the consolidated financial statements continued

2025 Notes

On 16 February 2018, Nostrum Oil & Gas Finance B.V. (the "2025 Issuer") issued US$400,000 thousand notes (the "2025 Notes"). The 2025 Notes bear interest at a rate of 7.00% per year, payable on 16 August and 16 February of each year.

On and after 16 February 2021, the 2025 Issuer shall be entitled at its option to redeem all or a portion of the 2025 Notes upon not less than 10 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2025 Notes), plus accrued and unpaid interest on the 2025 Notes, if any, 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), if redeemed during the twelve-month period commencing on 16 February of the years set forth below:

Period	Redemption Price
2021	105.25%
2022	103.50%
2023	101.75%
2024 and thereafter	100.00%

The 2025 Notes are jointly and severally guaranteed (the "2025 Guarantees") on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V. (the "2025 Guarantors"). The 2025 Notes are the 2025 Issuer's and the 2025 Guarantors' senior obligations and rank equally with all of the 2025 Issuer's and the 2025 Guarantors' other senior indebtedness.

The issue of the 2025 Notes was used primarily to fund the refinancing of the remaining Group's Notes issued in 2012 and 2014.

Reclassification to current liabilities

On 26 August 2020 the Group announced that an event of default has occurred under the terms of the indenture governing 2022 Notes resulting from the Issuer's non-payment of interest due and payable on 25 July 2020 to the holders of the 2022 Notes and the expiration of the 30-day grace period which commenced on the same date. Following this, the Issuer also did not pay interest on 2025 Notes when due and upon the expiration of the 30-day grace period in respect of such payment. On 23 October 2020 the Company announced that the Company and certain of its subsidiaries (the "Note Parties") has entered into a forbearance agreement (the "Forbearance Agreement") with members of AHG. More detailed information related to forbearance agreement and discussions with bondholders is disclosed in the Note 1.

Considering these facts and circumstances, as at 31 December 2020 the Group has reclassified the carrying amounts of the 2022 Notes and 2025 Notes into current liabilities and presented them as the current portion of long-term borrowings.

Covenants contained in the 2022 Notes and 2025 Notes

The 2022 and the 2025 Notes contain consistent covenants that, among other things, restrict, subject to certain exceptions and qualifications, the ability of the 2022 Issuer, the 2025 Issuer, the 2022 Guarantors, the 2025 Guarantors and certain other members of the Group to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to the Parent or any of its restricted subsidiaries;
- sell, lease or transfer certain assets including shares of restricted subsidiaries;
- engage in certain transactions with affiliates;
- enter into unrelated businesses; and
- consolidate or merge with other entities.

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

Changes in liabilities arising from financing activities

In thousands of US Dollars	**1 January**	Cash outflows	Borrowing costs including amortisation of arrangement fees	Finance charges under leases	Modification and termination of leases	Reclassification from non-current to current	Other	**31 December**
2020								
Long-term borrowings	**1,100,453**	–	–	–	–	(1,100,453)	–	**–**
Current portion of long-term borrowings	**35,633**	(43,000)	93,183	–	–	1,100,453	–	**1,186,269**
Long-term lease liabilities	**641**	–	–	–	–	(606)	–	**35**
Current portion of lease liability	**6,735**	(5,418)	–	354	513	606	–	**2,790**
2019								
Long-term borrowings	**1,093,967**	–	6,486	–	–	–	–	**1,100,453**
Current portion of long-term borrowings	**35,633**	(86,000)	86,000	–	–	–	–	**35,633**
Long-term lease liabilities	**16,011**	–	–	1,351	(11,952)	–	(4,769)	**641**
Current portion of lease liability	**18,173**	(17,709)	–	1,502	–	–	4,769	**6,735**

16. Lease liabilities

In thousands of US Dollars	**31 December 2020**	31 December 2019
Lease liability as at 1 January	**7,376**	34,184
Modification of lease agreements	**513**	(1,483)
Termination of lease agreements	**–**	(10,469)
Finance charges	**354**	2,853
Paid during the period	**(5,418)**	(17,709)
	2,825	7,376
Less amounts due within 12 months	**(2,790)**	(6,735)
	35	641

The lease liabilities are recognized for leases of vehicles, drilling rigs, and railway cars. The lease was recognized based on the future rentals as determined under IFRS 16. See Note 6 for right-of-use-assets. Short-term lease expenses are disclosed in the Note 23.

In 2019, as a result of the early termination of the drilling rigs lease agreements the relevant right-of-use assets and respective lease liabilities were derecognized with net result reflected within profit and loss. In 2020, extension of the lease of railway cars has been recognized as additional right-of-use assets in the amount of US$2,371 thousand and respective lease liabilities, which was offset by derecognition of right-of-use assets in the amount of US$1,858 thousand (Note 7) and respective lease liabilities relating to reduction in the scope of vehicles leases during 2020.

The total cash outflows in respect of the Group's lease arrangements was US$5,985 thousand for the year ended 31 December 2020 (2019: US$18,431 thousand).

17. Abandonment and site restoration provision

The summary of changes in abandonment and site restoration provision during years ended 31 December 2020 and 2019 is as follows:

In thousands of US Dollars	**2020**	2019
Provision as at 1 January	**27,502**	21,894
Unwinding of discount	**158**	164
Additional provision	**115**	1,100
Provision used	**–**	(10)
Provision disposed	**(376)**	–
Change in estimates	**1,537**	4,354
Provision as at 31 December	**28,936**	27,502

Management made its estimate based on the assumption that cash flow will take place at the expected end of the subsoil use rights in 2033. There are uncertainties in estimation of future costs as Kazakh laws and regulations concerning site restoration evolve.

The real discount rate used to determine the abandonment and site restoration provision at 31 December 2020 was 0.98% (31 December 2019: long-term inflation and discount rates of 1.90% and 2.49%, respectively).

The change in the long-term inflation rate and discount rate during the year ended 31 December 2020 resulted in the increase of the abandonment and site restoration provision by US$ 4,297 thousand (31 December 2019: the increase by US$4,354 thousand).

18. Due to government of Kazakhstan

The amount due to Government of the Republic of Kazakhstan has been recorded to reflect the present value of a liability in relation to the expenditures made by the Government in the time period prior to signing the Contract that were related to exploration of the Contract territory and the construction of surface facilities in fields discovered therein and that are reimbursable by the Group to the Government during the production period. The total amount of liability due to Government as stipulated by the Contract is US$ 25,000 thousand.

Repayment of this liability commenced in 2008 with the first payment of US$1,030 thousand in March 2008 and with further payments by equal quarterly instalments of US$258 thousand until 26 May 2031. The liability was discounted at 13%.

The summary of the changes in the amounts due to Government of Kazakhstan during the years ended 31 December 2020 and 31 December 2019 is as follows:

In thousands of US Dollars	**31 December 2020**	31 December 2019
Balance as at 1 January	**6,101**	6,311
Unwinding of discount	**793**	821
Paid during the year	**(1,031)**	(1,031)
Balance as at 31 December	**5,863**	6,101
Less: current portion	**(1,031)**	(1,031)
Non-current portion	**4,832**	5,070

19. Trade payables

Trade payables comprise the following as at 31 December 2020 and 31 December 2019:

In thousands of US Dollars	**31 December 2020**	31 December 2019
Tenge denominated trade payables	**4,028**	12,852
US Dollar denominated trade payables	**2,114**	9,864
Euro denominated trade payables	**2,101**	4,617
Russian Rouble denominated trade payables	**7**	170
Trade payables denominated in other currencies	**252**	135
	8,502	27,638

20. Other current liabilities

Other current liabilities comprise the following as at 31 December 2020 and 31 December 2019:

In thousands of US Dollars	**31 December 2020**	31 December 2019
Training obligations accrual	**10,088**	11,325
Taxes payable, including corporate income tax	**7,397**	9,005
Accruals under the subsoil use agreements and other accruals	**4,216**	5,689
Due to employees	**1,852**	3,010
Other current liabilities	**527**	1,520
	24,080	30,549

Accruals under subsoil use agreements mainly include amounts estimated in respect of the contractual obligations for exploration and production of hydrocarbons from the Rostoshinskoye field (31 December 2019: Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields).

Notes to the consolidated financial statements continued

21. Revenue

In thousands of US Dollars	For the year ended 31 December 2020	2019
Revenue from oil and gas condensate sales	**123,861**	196,176
Revenue from gas and LPG sales	**52,078**	125,947
Revenue from sulphur sales	**–**	5
	175,939	322,128

The pricing for all of the Group's crude oil, condensate and LPG is, directly or indirectly, related to the price of Brent crude oil. The average Brent crude oil price the year ended 31 December 2020 was US$43.2/bbl (2019: US$64.2/bbl).

The operations of the Group are located in only one geographic location, Kazakhstan.

During the year ended 31 December 2020 the revenue from sales to three major customers amounted to US$118,861 thousand, US$29,748 thousand and US$7,386 thousand respectively (2019: US$190,343 thousand, US$95,064 thousand and US$9,252 thousand respectively). The Group's exports are mainly represented by deliveries to Belarus and the Baltic ports of Russia.

22. Cost of sales

In thousands of US Dollars	For the year ended 31 December 2020	2019
Depreciation, depletion and amortisation	**86,296**	136,776
Payroll and related taxes	**14,083**	18,465
Repair, maintenance and other services	**10,769**	14,242
Materials and supplies	**3,970**	4,481
Transportation services	**1,907**	2,129
Well workover costs	**505**	1,766
Environmental levies	**114**	167
Change in stock	**7,279**	(6,228)
Other	**469**	204
	125,392	172,002

23. General and administrative expenses

In thousands of US Dollars	For the year ended 31 December 2020	2019
Payroll and related taxes	**7,102**	10,162
Professional services	**4,655**	4,966
Insurance fees	**633**	1,256
Depreciation and amortisation	**600**	2,026
Short-term leases	**567**	722
Communication	**183**	276
Materials and supplies	**139**	170
Business travel	**128**	617
Bank charges	**95**	133
Other	**569**	1,071
	14,671	21,399

24. Selling and transportation expenses

In thousands of US Dollars	For the year ended 31 December 2020	2019
Transportation costs	**12,760**	12,405
Loading and storage costs	**8,813**	11,783
Marketing services	**3,724**	10,554
Depreciation of right-of-use assets	**2,881**	4,489
Payroll and related taxes	**1,501**	2,293
Other	**1,358**	4,351
	31,037	45,875

25. Taxes other than income tax

In thousands of US Dollars	For the year ended 31 December 2020	2019
Royalties	**7,016**	12,802
Export customs duty	**5,017**	7,281
Government profit share	**2,044**	2,802
Other taxes	**36**	1
	14,113	22,886

Export customs duty is comprised of customs duties for export of crude oil and customs fees for services such as processing of declarations, temporary warehousing etc.

26. Finance costs

In thousands of US Dollars	For the year ended 31 December 2020	2019
Interest expense on borrowings	**92,794**	40,399
Other finance costs	**7,968**	294
Unwinding of discount on amounts due to Government of Kazakhstan	**793**	821
Unwinding of discount on lease liability	**354**	1,369
Unwinding of discount on abandonment and site restoration provision	**158**	164
	102,067	43,047

Other finance costs primarily represent bondholder consent fees in the amount of US$3,761 thousands and advisor fees of US$4,088 thousand incurred by the Group in relation to the forbearance agreement and ongoing discussions with its bondholders regarding a possible restructuring of the Group's outstanding bonds. For more details on forbearance agreement and the consent fees see Note 1.

27. Employees' remuneration

The average monthly number of employees (including Executive Directors) employed was as follows:

	For the year ended 31 December	
In thousands of US Dollars	**2020**	2019
Management and administrative	**162**	177
Technical and operational	**439**	601
	601	778

Their aggregate remuneration comprised:

	For the year ended 31 December	
In thousands of US Dollars	**2020**	2019
Wages and salaries	**20,937**	33,655
Social security costs	**2,252**	3,692
Share-based payments	**(496)**	584
	22,693	37,931

Part of the Group's staff costs shown above is capitalised into the cost of intangible and tangible oil and gas assets under the Group's accounting policy for exploration, evaluation and oil and gas assets.

The amount ultimately remaining in the income statement was US$22,106 thousand (2019: US$31,784 thousand).

Key management personnel remuneration

	For the year ended 31 December	
In thousands of US Dollars	**2020**	2019
Short-term employee benefits	**4,124**	5,210
Share-based payments	**(131)**	155
	3,993	5,365

Directors' remuneration

	For the year ended 31 December	
In thousands of US Dollars	**2020**	2019
Short-term employees benefits	**2,258**	3,471
Share-based payments	**(228)**	121
	2,030	3,592

Employee share option plan (ESOP)

The Group's Phantom Option Plan was adopted by the board of directors of the Company on 20 June 2014 to allow for the continuation of the option plan previously maintained by Nostrum Oil & Gas LP. The rights and obligations in relation to this option plan were transferred to Nostrum Oil & Gas PLC from Nostrum Oil & Gas LP following the reorganisation.

Employees (including senior executives and executive directors) of members of the Group or their associates received remuneration in the form of equity-based payment transactions, whereby employees render services as consideration for share appreciation rights, which can only be settled in cash ("cash-settled transactions").

The cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

During 2008-2015, 4,337,958 equity appreciation rights (SARs) which can only be settled in cash were granted to senior employees and executive directors of members of the Group or their associates. These generally vest over a five-year period from the date of grant, so that one fifth of granted SARs vests on each of the five anniversaries from the date of grant. The contractual life of the SARs is ten years. The fair value of the SARs is measured at the grant date using a trinomial lattice valuation option pricing model taking into account the terms and conditions upon which the instruments were granted. SARs are exercisable at any time after vesting till the end of the contractual life and give its holder a right to a difference between the market value of the Group's ordinary shares at the date of exercise and a stated base value. The services received and a liability to pay for those services are recognised over the expected vesting period.

Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss as part of the employee benefit expenses arising from cash-settled share-based payment transactions.

The carrying value of the liability relating to 1,125,000 of SARs at 31 December 2020 is nil (31 December 2019: 1,225,000 of SARs with carrying value of nil). During the year ended 31 December 2020 8,000 SARs were fully vested (2019: 8,000). Based on the estimations of the carrying value of the liability, during the year ended 31 December 2020 the Group has not recognized any income or expense from employee share options fair value adjustment (2019: income of US$40 thousand).

The following table illustrates the number ("No.") and exercise prices ("EP") of, and movements in, SARs during the year:

	2020		2019	
	No.	**EP,US$**	No.	EP,US$
Total outstanding at 1 January	**100,000**	4	800,974	4
Total outstanding at 1 January	**1,125,000**	10	1,125,000	10
Total outstanding at 1 January	**1,225,000**		1,925,974	
Share options lapsed	**(100,000)**	4	(700,974)	4
Share options lapsed	**–**	10	–	10
Total outstanding at 31 December	**1,125,000**		1,225,000	
Total exercisable at 31 December	**1,209,000**		1,201,000	

There were no SARs granted during the years ended 31 December 2020 and 2019. As at 31 December 2020 the weighted average remaining contractual life of the outstanding options was 3.92 years (2019: 4.92 years).

The Hull-White trinomial lattice valuation model was used to value the share options. The following table lists the inputs to the model used for the plan for the years ended 31 December 2020 and 2019:

	2020	2019
Price at the reporting date (US$)	**0.12**	0.20
Distribution yield (%)	**0%**	0%
Expected volatility (%)	**64.6%**	53.5%
Risk-free interest rate (%)	**0.16%**	0.3%
Expected life (years)	**10**	10
Option turnover (%)	**10%**	10%
Price trigger	**2.0**	2.0

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. Option turnover rate represents the rate of employees expected to leave the Company during the vesting period, which is based on historical data and is may not necessarily be the actual outcome. The model considers that when share price reaches the level of exercise price multiplied by the price trigger the employees are expected to exercise their options.

2017 Long-term incentive plan

In 2017 the Group started operating a Long-term incentive plan ("the LTIP"), that was approved by the shareholders of the Company on 26 June 2017 and adopted by the board of directors of the Company on 24 August 2017. The LTIP is a discretionary benefit offered by the Company for the benefit of selected employees. Its main purpose is to increase the interest of the employees in the Company's long-term business goals and performance through share ownership. The LTIP is an incentive for the employees' future performance and commitment to the goals of the Company. The remuneration committee of the board of the Company has the right to decide, in its sole discretion, whether or not further awards will be granted in the future and to which employees those awards will be granted.

Employees (including senior executives and executive directors) of members of the Group or their associates may receive an award, which is a "nominal cost option" over a specified number of ordinary shares in the capital of the

Notes to the consolidated financial statements continued

Company. The option has an exercise price of 1p per share (but the Company has the discretion to waive this prior to exercise). In addition, under the Rules of the LTIP the Company has discretion to settle awards other than by transfer of shares such as by way of cash settlement. Generally, the awards are classified as equity-settled transactions. The share options are treated as equity-settled since there are no legal limitations expected on issue of shares for these upon vesting, the Group has a choice of settlement and the intention is to settle them in equity. However, in certain jurisdictions due to regulatory requirements the Company may not be able to settle the awards other than by transfer of cash, in which case the awards are classified as cash-settled transactions, and accounted for similar to SARs.

The award ordinarily vests and becomes exercisable as from later of the third anniversary of grant or two years after the date on which the Company determines whether the performance condition has been satisfied, subject to employee's continued service and to the extent to which the performance condition is satisfied, till the end of the contractual life. The contractual life of the share options is ten years.

The cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income.

The cost of equity-settled transactions is measured at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding equity element of "shares to be issued under LTIP", which is not remeasured subsequently until the settlement date.

The following table summarizes the movement in the number of share options during the year ended 31 December 2020:

	Equity-settled awards	Cash-settled awards	**Total awards**
Total outstanding as at 31 December 2018	**1,544,253**	**98,906**	**1,643,159**
Share options performance adjusted	(1,058,073)	(67,349)	(1,125,422)
Share options forfeited	(19,070)	–	(19,070)
Total outstanding as at 31 December 2019	**467,110**	**31,557**	**498,667**
Share options forfeited	(248,217)	(4,938)	(253,155)
Total outstanding as at 31 December 2020	**218,893**	**26,619**	**245,512**

In 2017 the Company granted 1,208,843 share options, of which 542,243 share options remained outstanding as at 31 December 2020 (2019: 1,101,342 share options). On 23 March 2018 the remuneration committee of the board of the Company determined the level of performance conditions that were met for the performance conditions set upon issue of the share options granted in 2017. After adjusting for the nonachievement of performance conditions, 245,512 share options are capable of vesting as of 31 December 2020 (2019: 498,667 share options) and all of these share options were vested as of 31 December 2020, in accordance with the management's best estimate.

On 28 November 2018 the Company granted a further 1,163,040 share options, however due to the performance conditions not being met none of these share options are capable of vesting.

The carrying value of the liability relating to 26,619 cash-settled share-options at 31 December 2020 is US$4 thousand (31 December 2019: 31,557 share options with carrying value of US$4 thousand). Based on the estimations of the carrying value of the liability, during the year ended 31 December 2020 the Group recognized a gain of US$1 thousand from employee share options fair value adjustment (2019: loss of US$11 thousand).

In accordance with the management's best estimate 245,512 share options were vested as at 31 December 2020. The fair value of the equity-settled share options at the valuation dates of 28 November 2018 and 23 March 2018 amounted to US$ 1.25 and US$ 2.76 per share option, respectively. Based on these estimations, during the year ended 31 December 2020 the Group recognized income from reversal of employee share option expense in the amount of US$495 thousand (2019: an expense of US$633 thousand).

The Hull-White trinomial lattice valuation model was used to value the share options. The following table lists the inputs to the model used for valuation of the share options at the grant date:

	10 October 2017	11 December 2017
Price at the reporting date (US$)	1.25	2.76
Distribution yield (%)	0%	0%
Expected volatility (%)	43.4%	40.4%
Risk-free interest rate (%)	1.38%	1.45%
Expected life (years)	10	10
Option turnover (%)	10%	10%
Price trigger	2.0	2.0

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. Option turnover rate represents the rate of employees expected to leave the Company during the vesting period, which is based on historical data and may not necessarily be the actual outcome. The model considers that when share price reaches the level of exercise price multiplied by the price trigger the employees are expected to exercise their options.

28. Other income and expenses

For the years ended 31 December 2020 and 2019 other income comprised the following:

	For the year ended 31 December	
In thousands of US Dollars	**2020**	2019
Reversals of other accruals	**1,473**	5,017
Reversals of training accruals	**950**	–
Refunds of taxes paid in previous periods	**433**	6
Goods received free of charge	**426**	45
Reversals of accruals under subsoil use agreements	**784**	12
Currency conversion	**169**	126
Compensation for damages	**12**	1,266
Other	**510**	738
	4,757	7,210

Other expenses comprised the following:

	For the year ended 31 December	
In thousands of US Dollars	**2020**	2019
Other taxes and penalties	**3,820**	–
Accruals under subsoil use agreements	**114**	3,054
Training	**890**	2,808
Loss on disposal of property, plant and equipment	**812**	–
Loss on disposal of inventories	**392**	–
Social program	**337**	313
Currency conversion	**223**	211
Compensation	**140**	3,576
Business development	**70**	1,495
Sponsorship	**–**	77
Other	**808**	956
	7,606	12,490

Other taxes and penalties mainly include additional taxes and penalties assessed in relation to prior periods considering new information, which was not available at the time of preparation of respective financial information, and relevant interpretations by the management.

29. Income tax

The income tax expense comprised the following:

In thousands of US Dollars	For the year ended 31 December 2020	2019
Deferred income tax expense	**(62,711)**	(358,194)
Adjustment in respect of the deferred income tax for the prior periods	**28,429**	–
Corporate income tax expense	**755**	4,146
Withholding tax	**1,146**	898
Adjustment in respect of the current income tax for the prior periods	**(385)**	(72)
	(32,766)	(353,222)

The Group's profits are assessed for income taxes mainly in the Republic of Kazakhstan. A reconciliation between tax expense and the product of accounting profit multiplied by the Kazakhstani tax rate applicable to the Chinarevskoye subsoil use rights is as follows:

In thousands of US Dollars	For the year ended 31 December 2020	2019
Loss before income tax	(360,191)	(1,343,149)
Tax rate applicable to the subsoil use rights	30%	30%
Expected tax provision	**(108,057)**	**(402,945)**
Effect of exchange rate on the tax base	15,653	13,302
Adjustments in respect of current income tax of previous years	(384)	(72)
Effect of loss / (income) taxed at different rate[1]	(128)	(121)
Non-deductible interest expense on borrowings	27,798	26,210
Non-deductible exploration assets impairment	–	9,012
Deferred tax asset not recognised	1,557	228
Non-deductible taxes and penalties	932	484
Adjustments to tax base balances brought forward	28,429	–
Net foreign exchange gain	491	(109)
Non-deductible social expenditures	–	81
Non-deductible cost of technological loss	133	209
Non-deductible loss on disposal of PPE	167	–
Other non-deductible expenses	643	499
Income tax benefit reported in the consolidated financial statements	**(32,766)**	**(353,222)**

1 Jurisdictions which contribute significantly to this item are Republic of Kazakhstan with an applicable statutory tax rate of 20% (for activities not related to the Contract), and the Netherlands with an applicable statutory tax rate of 25%.

Certain revisions to previous period tax assessments were made considering new information, which was not available at the time of preparation of respective financial information, and relevant interpretations by the management. While there were not adjustments to income taxes of previous periods resulting from such revisions, the tax base of property, plant and equipment has been adjusted to reflect the changes, which are reflected above as adjustments to tax base balances brought forward.

The Group's effective tax rate for the year ended 31 December 2020 is 9.1% (2019: 26.2%). The Group's effective tax rate, excluding effect of movements in exchange rates and non-deductible interest expense on borrowings, for the year ended 31 December 2020 is 21.2% (2019: 29.2%).

As at 31 December 2020 the Group has tax losses of US$105,432 thousand (2019: US$103,624 thousand) that are available to offset against future taxable profits in the companies in which the losses arose within 9 years after generation and will expire in the period 2023-2029. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group.

Deferred tax liability is calculated by applying the Kazakhstani statutory tax rate applicable to the Chinarevskoye subsoil use rights to the temporary differences between the tax amounts and the amounts reported in the consolidated financial statements and are comprised of the following:

In thousands of US Dollars	31 December 2020	31 December 2019
Deferred tax asset		
Accounts payable and provisions	**3,778**	8,835
Deferred tax liability		
Property, plant and equipment	**(5,479)**	(42,761)
Inventories	**(3,011)**	(3,648)
Long-term borrowings	**(3,793)**	(5,213)
Net deferred tax liability	**(8,505)**	(42,787)

The movements in the deferred tax liability were as follows:

In thousands of US Dollars	2020	2019
Balance as at 1 January	**42,787**	400,981
Current period charge to statement of comprehensive income	**(34,282)**	(358,194)
Balance as at 31 December	**8,505**	42,787

30. Related party transactions

For the purpose of these consolidated financial statements transactions with related parties mainly comprise transactions between subsidiaries of the Company and the shareholders and/or their subsidiaries or associated companies.

Accounts payable to related parties represented by entities controlled by shareholders with significant influence over the Group as at 31 December 2020 and 31 December 2019 consisted of the following:

In thousands of US Dollars	31 December 2020	31 December 2019
Trade payables		
JSC OGCC KazStroyService	**230**	430

During the years ended 31 December 2020 and 2019 the Group had the following transactions with related parties represented by entities controlled by shareholders with significant influence over the Group:

In thousands of US Dollars	For the year ended 31 December 2020	2019
Purchases		
JSC OGCC KazStroyService	**–**	11,322

On 28 July 2014 the Group entered into a contract with JSC "OGCC KazStroyService" (the "Contractor") for the construction of the third unit of the Group's gas treatment facility (as amended by fourteen supplemental agreements since 28 July 2014). The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 December 2020 owned approximately 17.1% of the ordinary shares of Nostrum Oil & Gas PLC.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$3,908 thousand for the year ended 31 December 2020 (2019: US$5,210 thousand).

Notes to the consolidated financial statements continued

31. Audit and non-audit fees

During the years ended 31 December 2020 and 2019 audit and non-audit fees comprise the following:

In thousands of US Dollars	For the year ended 31 December 2020	2019
Audit of the financial statements	**1,076**	491
Total audit services	**1,076**	491
Audit-related assurance services	–	171
Services relating to corporate finance transactions	–	578
Other non-audit services	–	4
Total non-audit services	–	753
	1,076	1,244

The audit fees in the table above include the audit fees of US$10 thousand in relation to the Parent.

The audit fees for the year ended 31 December 2020 include fees related to the audit of the 2019 financial statements in the amount of US$221 thousand.

32. 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 and where the tax authorities disagree with the positions taken by the Group the financial outcomes could be material. Administrative fines are generally 80% of the taxes additionally assessed and interest penalty is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 1.25. 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 31 December 2020. As at 31 December 2020 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 Group 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 Group 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 Group 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 court decisions with respect to any claims or penalties assessed by the Kazakh regulatory agencies, it is possible that the Group's future results of operations or cash flow could be materially affected in a particular period.

Capital commitments

As at 31 December 2020, the Group had contractual capital commitments in the amount of 6,167 thousand (31 December 2019: US$27,552 thousand), mainly in respect to the Group's oil field development activities.

Social and education commitments

As required by the Contract (after its amendment on 2 September 2019), the Group is obliged to:

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

The contracts for exploration and production of hydrocarbons from the Rostoshinskoye field requires 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 16 August 2019) require the subsurface user to:

- invest at least US$ 10,409 thousand for exploration of the field during the exploration period;
- create a liquidation fund to cover the Group's asset retirement obligations.

The Darjinskoye and Yuzhno-Gremyachinskoye fields were disposed of in October 2020 (see Note 1). All outstanding obligations under these licences were transferred to the purchaser.

Domestic oil sales

In accordance with Supplement # 7 to the Contract, Zhaikmunai LLP 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.

33. Financial risk management objectives and policies

The Group's principal financial liabilities comprise borrowings, payables to Government of Kazakhstan, trade payables and other current liabilities. The main purpose of these financial liabilities is to finance the Group's operations. The Group's financial assets consist of trade and other receivables and cash and cash equivalents that derive directly from its operations.

The Group is exposed to commodity price risk, foreign currency risk, liquidity risk and credit risk. The Group's senior management oversees the management of these risks. The Group's senior management ensures that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Commodity price risk

The Group is exposed to the effect of fluctuations in price of crude oil, which is quoted in US dollar on the international markets. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices in the future.

Interest rate risk

The Group is not exposed to interest rate risk in 2020 and 2019 as the Group had no financial instruments with floating rates as at years ended 31 December 2020 and 2019.

Foreign currency risk

As a significant portion of the Group's operation is Tenge denominated, the Group's statement of financial position can be affected by movements in the US dollar / Tenge exchange rates. The Group mitigates the effect of its structural currency exposure by borrowing in US dollars and denominating sales in US dollars.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant. A devaluation of Tenge against US dollar by 14% would lead to decrease in the net Tenge liability position by US$1,633 as of 31 December 2020 and respective reduction of the loss before income tax for the year ended 31 December 2020. The impact on equity is the same as the impact on profit before tax.

	Change in Tenge to US dollar exchange rate	Effect on profit before tax (In thousands of US Dollars)
2020	**14%**	1,633
	-11%	(1,644)
2019	**60%**	1,253
	-20%	(835)

The Group's foreign currency denominated monetary assets and liabilities were as follows:

In thousands of US Dollars	Tenge	Russian Roubles	Euro	Other	**Total**
As at 31 December 2020					
Cash and cash equivalents	2,791	95	1,862	423	5,171
Trade receivables	877	–	–	–	877
Trade payables	(4,028)	(7)	(2,101)	(207)	(6,343)
Other current liabilities	(12,940)	–	(299)	(105)	(13,344)
	(13,300)	**88**	**(538)**	**111**	**(13,639)**
As at 31 December 2019					
Cash and cash equivalents	797	107	4,003	613	5,520
Trade receivables	24,276	–	–	–	24,276
Trade payables	(12,852)	(170)	(4,617)	(135)	(17,774)
Other current liabilities	(15,561)	(53)	(1,131)	(828)	(17,573)
	(3,340)	**(116)**	**(1,745)**	**(350)**	**(5,551)**

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. The Group monitors its risk to a shortage of funds using a liquidity planning tool. The tool allows selecting severe stress test scenarios. To ensure an adequate level of liquidity a minimum cash balance has been defined as a cushion of liquid assets. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of notes, export financing and leases.

The Group's total outstanding debt consists of two notes: US$725 million issued in 2017 and maturing in 2022 and US$400 million issued in 2018 and maturing in 2025. Based on the assessments and other matters considered by the Board during the year, on the assumption that the Notes are successfully restructured, the Directors confirm that they have a reasonable expectation that the Group will continue in operation and meet its restructured liabilities as they fall due through the three-year viability assessment period ending 31 December 2023. Nevertheless, as highlighted in the Viability assessment, the material uncertainties referred to in respect of the Going Concern assessment may cast significant doubt over the future viability of the Group. For more information on analysis of the Group's ability to meet its liabilities on repayment of the Notes please see "Viability statement" section on the Annual report on pages 56-57.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2020 and 31 December 2019 based on contractual undiscounted payments:

In thousands of US Dollars	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	**Total**
As at 31 December 2020						
Borrowings	1,203,633	43,000	43,000	–	–	1,289,633
Lease liabilities	–	760	2,279	40	–	3,079
Trade payables	7,774	–	728	–	–	8,502
Other current liabilities	16,491	–	–	–	–	16,491
Due to Government of Kazakhstan	–	258	773	4,124	5,412	10,567
	1,227,898	**44,018**	**46,780**	**4,164**	**5,412**	**1,328,272**
As at 31 December 2019						
Borrowings	–	43,000	43,000	953,000	414,000	1,453,000
Lease liabilities	6,735	641	–	–	–	7,376
Trade payables	21,685	–	5,953	–	–	27,638
Other current liabilities	30,286	–	–	–	–	30,286
Due to Government of Kazakhstan	–	258	773	4,124	6,443	11,598
	58,706	**43,899**	**49,726**	**957,124**	**420,443**	**1,529,898**

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions and foreign exchange transactions.

The Group places its cash and deposits primarily with Citibank, N.A., ING Bank N.V., SB Sberbank JSC, and Halyk bank JSC with most recent credit ratings from Moody's rating agency of Aa3 (Stable), Aa3 (Stable), Ba1 (Stable), and Ba1 (Stable), respectively.

The Group sells its products and makes advance payments only to recognised, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts and recoverability of prepayments made is not significant and thus risk of credit default is low. Also, the Group's policy is to mitigate the payment risk on its off-takers by requiring all purchases to be prepaid or secured by a letter of credit from an international bank.

An impairment analysis is performed at each reporting date on an individual basis for major clients. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

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:

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

The table below presents carrying amounts and fair values of financial liabilities measured at amortised cost:

	Carrying amount		Fair value	
In thousands of US Dollars	**31 December 2020**	31 December 2019	**31 December 2020**	31 December 2019
Interest bearing borrowings	1,186,269	1,136,086	270,000	526,156
Total	**1,186,269**	**1,136,086**	**270,000**	**526,156**

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.

During the years ended 31 December 2020 and 2019 there were no transfers between the levels of fair value hierarchy of the Group's financial instruments.

Capital management

For the purpose of the Group's capital management, capital includes issued capital, additional paid-in capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the notes that define capital structure requirements. Breaches in meeting the financial covenants would permit the lenders to immediately call borrowings. There have been no breaches in the financial covenants of the notes in the current period nor the prior period.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or increase share capital. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings, less cash, short-term deposits and long-term deposits.

In thousands of US Dollars	**31 December 2020**	31 December 2019
Borrowings	1,186,269	1,136,086
Less: cash and cash equivalents	(78,583)	(93,940)
Net debt	**1,107,686**	**1,042,146**
Equity	(759,751)	(432,084)
Total capital	**(759,751)**	**(432,084)**
Capital and net debt	**347,935**	**610,062**
Gearing ratio	318%	171%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 31 December 2019.

34. Events after the reporting period

Relationship agreement

On 4 February 2021 the Company announced that the Company and Mayfair Investments BV ("Mayfair"), a shareholder in the Company, have by mutual agreement terminated the relationship agreement between them dated 19 May 2014 (as adhered to by Mayfair on 30 January 2015) (the "Relationship Agreement").

In the Relationship Agreement Nostrum had granted Mayfair the right to nominate a director to the Company's Board of Directors and Mayfair had made various undertakings to the Company designed to ensure that the Company is managed independently of Mayfair. Nostrum and Mayfair mutually agreed to terminate the Relationship Agreement given that Mayfair's shareholding in the Company reduced significantly in May 2020 and in January 2021 Mayfair decided to cease to nominate a director to the Company's Board of Directors.

Forbearance agreement

On 20 February 2021 pursuant to the requirements of the Forbearance Agreement the Company made the payment of the final consent fee for 9.9288 bps equating to US$1,116,990.

On 19 March 2021 the Company transferred into the secured account an amount of US$7,525 thousand, equating to 17.50% of the missed interest payments, and an additional amount of US$1,116,990, equating to 9.9288 bps of the outstanding Notes.

On 19 March 2021, by unanimous consent of the AHG, the forbearance period was extended to 20 April 2021. On 20 April 2021, again by unanimous consent of the AHG, the forbearance period was extended to 20 May 2021. The extensions were to provide time for a final agreement to be reached with shareholders and bondholders. More detailed information related to forbearance agreement and discussions with bondholders is disclosed in the Note 1.