Nostrum Oil & Gas plc

Consolidated financial statements

For the year ended 31 December 2014

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NOSTRUM OIL & GAS PLC

Dear members

We present our audit report on the Group and Parent company financial statements of Nostrum Oil & Gas PLC (the 'financial statements'), which comprise the Group and Parent primary statements and related notes.

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.

Opinion on financial statements

In our opinion:

- 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 2014 and of the group's profit for the year then ended;

- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and

- the parent company financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Group and Parent Company Statements of Financial Position, the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Cash Flows, the Group and Parent Company Statements of Changes in Equity and the related group Notes 1 to 36 and Parent company notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Opinion 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; and

- 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.

Our application of materiality

Materiality is a key part of planning and executing our audit strategy. For the purposes of determining whether the financial statements are free from material misstatement, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. As we develop our audit strategy, we determine materiality at the overall financial statement level and at the individual account level. Performance materiality is the application of materiality at the individual account level. In assessing whether errors are material, either individually or in aggregate, we consider qualitative as well as quantitative factors.

Planning Materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected and undetected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the Group to be US$ 17.0 million (2013: US$ 18.4 million) which is approximately 5% (2013: 5%) of adjusted pre-tax profit which is explained below. We believe this provides us with a consistent year on year basis for determining planning materiality and the most relevant performance measure for the stakeholders of the group. In 2014 profit before tax was adjusted by US$29 million mainly relating to the costs associated with the reorganisation of the Group that we concluded are non-recurring and therefore added back when calculating materiality. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

Performance Materiality

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group was 50% (2013:50%) of planning materiality, namely US$ 8.5 million (2013: US$ 9.2 million). Our objective in adopting this approach was to ensure that the total uncorrected and undetected audit differences did not exceed our planning materiality of US$17 million for the financial statements as a whole.

Reporting Threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of US$ 0.85 million (2013: US$ 0.92 million), which is set at 5% of planning materiality. We report all corrected audit differences that in our view warrant reporting on qualitative grounds or where the corrected difference exceeds performance materiality. We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accountings policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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An overview of the scope of our audit

For the Parent company – our assessment of audit risk and our evaluation of materiality determines our audit scope for the Parent company financial statements. This helps us to form an opinion on the company financial statements under the International Standards on Auditing (UK and Ireland).

For the Group - our assessment of audit risk, our evaluation of materiality and our allocation of that materiality determine our audit scope for each entity within the Group which, when taken together, enable us to form an opinion on the consolidated financial statements under International Standards on Auditing (UK and Ireland). We take into account the size, risk profile, changes in the business environment and other factors when assessing the level of work to be performed at each entity. The range of performance materiality allocated to components in 2014 was US$ 1.7 million to US$ 6.4 million.

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 Group engagement team, or by component auditors from another EY global network firm operating under our instructions. The Group engagement team performed the audit of the consolidation in Amsterdam. In assessing the risk of material misstatement to the Group financial statements, our Group audit scope focused on the Group's main operating locations. We selected five components covering entities within the Netherlands, Belgium, and Kazakhstan, which represent the principal business units within the Group and account for 99% of the Group's profit before tax. Two of these components were subject to a full scope audit, whereas the remaining three were subject to audit procedures on specific accounts based on our risk assessment. The two full scope components account for 97% of the Group net assets, 99% of the Group's revenue and 99% of the Group's profit before tax. The specific scope locations do not have operating activities and we audited cash, payroll, the employee share option plan, other current liabilities and the costs associated with the reorganisation of the Group.

We are satisfied that the components selected have provided an appropriate basis for undertaking audit work to address the risks of material misstatement identified below. The audit work performed at the five components was executed based on levels of materiality applicable to each individual entity. These materiality thresholds were lower than Group materiality. For the remaining components we assessed group wide controls and performed analytical reviews and enquiry procedures to address the residual risk of material misstatement.

The Group audit team followed a programme of planned site visits that was designed to ensure that a senior member of the team visited each of the three audit locations at least once a year. In 2014, the Group audit team including the Senior Statutory Auditor, who leads the audit, visited Kazakhstan where the operations of the Group take place. These visits involved discussing the audit approach and any issues arising from the work with the component team. The Group audit team interacted regularly with the component team during various stages of the audit, reviewed key working papers and were responsible for the scope and the direction of the audit process. This, together with the additional procedures performed at Group level in Amsterdam, gave us appropriate audit evidence for our opinion on the Group financial statements.

Our assessment of risks of material misstatement

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considered future events that are inherently uncertain. As in all our audits, we also addressed the risk of management override of internal controls, including evaluating whether there is evidence of bias by the directors that may represent a risk of material misstatement due to fraud.

We have identified the risks of material misstatement which had the greatest effect on the audit strategy and directed the efforts and resources of the engagement team to:

- Impairment of exploration licenses and goodwill
- Estimation of oil and gas reserves and its impact of the estimation of DDA expense
- Revenue recognition
- Completeness of related party transactions and the related disclosures
- Risk of management override

Our responses to the risk of material misstatement identified

AREA OF FOCUS	AUDIT APPROACH
Impairment of exploration licenses and goodwill ***Refer to the Group Audit Committee report on page 78, the estimates and judgments on page 24 and the disclosures in note 6 of the Group Financial Statements***	
The potential impairment of goodwill and exploration licenses is a key area of audit focus due to their value. Further, management are required to make a number of significant judgements in determining the recognition of, and the carrying value of these assets and in determining whether there are any indicators of impairment. The fall in oil prices will impact financial performance, as well as increase the risk of uncommercial exploration activities and potential non-renewal of exploration licenses.	We focused on this area as it involves complex and subjective judgements about forecasts. In evaluating whether any impairment was necessary to the remaining carrying value of goodwill and other assets, our audit work involved obtaining evidence regarding their recoverable amount. We utilised our valuation specialists and challenged management's impairment assessment by evaluating the following key assumptions: • forecast cash flows by comparing the assumptions used within the impairment model to the approved budgets, business plans and other evidence of future intentions; • forecast oil prices were compared to independent external sources; and • the discount rate was benchmarked to the risks faced by the group. We assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance. We evaluated management's sensitivity analysis of goodwill impairment testing in order to assess the potential impact of a range of reasonably possible outcomes. We evaluated the financial statement disclosures for compliance with the requirements of accounting standards.
Estimation of oil and gas reserves and its impact of the estimation of depreciation, depletion and amortisation ("DDA") expense ***Refer to the Group Audit Committee report on page 78, the estimates and judgments on page 23 and the disclosures in note 8 of the Group Financial Statements***	
This was considered to be a significant risk due to the subjective nature of reserves estimates and	We gained an understanding of the Group's internal process for reserves estimation and challenged

their impact on the financial statements through impairment and DD&A calculations. Management has engaged a third party expert in connection with the estimation of reserves.	management's assumptions including commercial assumptions to ensure that they are based on supportable evidence. In doing so, we have: • met with management's third party expert during the planning and execution of the audit and assessed their competence as well as that of internal specialists involved in due diligence procedures over oil and gas reserves; • reviewed the final oil and gas reserves estimation report prepared by management's third party expert in light of our understanding of the business and agreed key financial inputs to corroborative evidence; and • assessed the reasonableness of key assumptions (such as oil price, gas and LPG price, opex and capex per barrel) by comparing them to external data.
Revenue recognition ***Refer to the Group Audit Committee report on page 78,and the disclosures of revenue in note 22 of the Group Financial Statements***	
The risk of recognising revenue in the wrong period is heightened due to the complexity of the Production Sharing Agreement ("the PSA") and the point at which title passes to the customer and therefore revenue can be recognised.	We identified and tested controls over the sales process, made enquiries of management and analysed contracts to evaluate whether revenue was recognised in accordance with the terms. We specifically: • audited sales agreements to understand the contractual terms and checked compliance with the PSA and appropriate revenue recognition; • performed analytical procedures, test of details, cut-off testing on customer delivery notes around period end and tested a sample of journals relating to revenue; and • ensured that the financial statement disclosures were in accordance with accounting standards.
Completeness of related party transactions ("RPT") and the related disclosures ***Refer to the Group Audit Committee report on page 78 and the disclosures of related party transactions in note 32 of the Group Financial Statements***	
As part of the premium listing on the LSE, the Group undertook restructuring activities and has entered into material contracts with related parties. Therefore RPTs and the related disclosures are considered to be a significant risk.	In order to obtain evidence over the completeness of related party transactions and the related disclosures, we have: • obtained an understanding of the process that management has established to identify, account for and disclose RPTs and authorise and approve significant RPTs and arrangements outside the normal course of business; • inspected bank and legal confirmations, minutes of meetings and significant agreements with new counterparties; • obtained sufficient evidence that RPTs were conducted on terms equivalent to an arm's length transaction; • obtained an updated list of all related parties to the

	Group and reviewed the general ledger against this list to ensure completeness of transactions; • investigated any unusual or high value transactions; • made enquiries of management in order to identify if any related party transactions outside the normal course of business have taken place; and • verified the completeness of disclosures in the financial statements.
Risk of management override	
We consider the likelihood of management override occurring. We base our consideration on our understanding of the nature and risk of both management's opportunity and incentive to manipulate earnings or financial ratios or to misappropriate assets. **Specifically we considered the heightened expectations following the premium listing of the Group on the LSE and the sizable shareholdings of senior executives.**	We considered whether there was evidence of bias by the Directors in significant accounting estimates and judgements. We tested journal entries and also assessed the control environment and interviewed internal audit.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 97, the directors are responsible for the preparation of the group and parent financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group and parent financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

► materially inconsistent with the information in the audited financial statements; or

► apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or

► is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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- ► 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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 95, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Richard Addison (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

24 March 2015

Note: The maintenance and integrity of the Nostrum Oil and Gas plc website is the responsibility of Nostrum Oil and Gas plc.; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

In thousands of US Dollars	**Notes**	**31 December 2014**	31 December 2013
ASSETS			
Non-current assets			
Exploration and evaluation assets	**7**	**24,380**	20,434
Goodwill	**6**	**32,425**	30,386
Property, plant and equipment	**8**	**1,442,157**	1,330,903
Restricted cash	**14**	**5,024**	4,217
Advances for non-current assets	**9**	**134,355**	10,037
Derivative financial instruments	**29**	**60,301**	–
Non-current investments	**13**	**–**	30,000
		1,698,642	1,425,977
Current assets			
Inventories	**10**	**25,443**	22,085
Trade receivables	**11**	**30,110**	66,565
Prepayments and other current assets	**12**	**39,642**	31,192
Income tax prepayment		**13,925**	5,042
Current investments	**13**	**25,000**	25,000
Cash and cash equivalents	**14**	**375,443**	184,914
		509,563	334,798
TOTAL ASSETS		**2,208,205**	1,760,775
EQUITY AND LIABILITIES			
Share capital and reserves	**15**		
Share capital		**3,203**	–
Treasury capital		**(1,888)**	(30,751)
Partnership capital		**–**	380,874
Additional paid-in capital		**–**	8,126
Retained earnings and reserves		**916,365**	474,202
		917,680	832,451
Non-current liabilities			
Long-term borrowings	**17**	**930,090**	621,160
Abandonment and site restoration provision	**18**	**20,877**	13,874
Due to Government of Kazakhstan	**19**	**5,906**	6,021
Deferred tax liability	**31**	**206,784**	152,545
		1,163,657	793,600
Current liabilities			
Current portion of long-term borrowings	**17**	**15,024**	7,263
Employee share option plan liability	**28**	**6,449**	12,016
Trade payables	**20**	**49,619**	58,518
Advances received		**2,670**	36
Income tax payable		**1,459**	1,232
Current portion of Due to Government of Kazakhstan	**19**	**1,031**	1,031
Other current liabilities	**21**	**50,616**	54,628
		126,868	134,724
TOTAL EQUITY AND LIABILITIES		**2,208,205**	1,760,775

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:

Kai-Uwe Kessel
Chief Executive Officer

Jan-Ru Muller
Chief Financial Officer

The accounting policies and explanatory notes on pages 13 through 59 are an integral part of these consolidated financial statements

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2014

In thousands of US Dollars	**Notes**	**2014**	2013
Revenue			
Revenue from export sales		**676,064**	765,029
Revenue from domestic sales		**105,814**	129,985
	22	**781,878**	895,014
Cost of sales	**23**	**(221,921)**	(286,222)
Gross profit		**559,957**	608,792
General and administrative expenses	**24**	**(54,878)**	(56,019)
Selling and transportation expenses	**25**	**(122,254)**	(121,674)
Finance costs	**26**	**(61,939)**	(43,615)
Finance costs - reorganisation	**27**	**(29,572)**	–
Employee share option plan fair value adjustment		**3,092**	(4,430)
Foreign exchange loss		**(4,235)**	(636)
Gain on derivative financial instruments	**29**	**60,301**	–
Interest income		**986**	764
Other expenses	**30**	**(49,844)**	(25,593)
Other income		**10,086**	4,426
Profit before income tax		**311,700**	362,015
Income tax expense	**31**	**(165,275)**	(142,496)
Profit for the year		**146,425**	219,519
Total comprehensive income for the year		**146,425**	219,519
Profit for the year attributable to the holders of Common Units/shares (in thousands of US Dollars)		**146,425**	219,519
Weighted average number of Common Units/shares		**184,678,352**	185,289,560
Basic and diluted earnings per Common Unit/share (in US Dollars)		**0.79**	1.18

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2014

In thousands of US Dollars	Notes	2014	2013
Cash flow from operating activities:			
Profit before income tax		**311,700**	362,015
Adjustments for:			
Depreciation, depletion and amortisation	**23,24**	**111,869**	120,370
Finance costs - reorganisation	**27**	**29,572**	–
Finance costs	**26**	**61,939**	43,615
Employee share option plan fair value adjustment		**(3,093)**	4,430
Interest income		**(986)**	(764)
Foreign exchange (gain)/loss on investing and financing activities		**(574)**	48
Gain on derivative financial instruments	**29**	**(60,301)**	–
Accrued liabilities		**(2,296)**	–
Operating profit before working capital changes		**447,830**	529,714
Changes in working capital:			
Change in inventories		**(3,358)**	2,879
Change in trade receivables		**36,455**	(12,561)
Change in prepayments and other current assets		**(7,714)**	(6,823)
Change in trade payables		**(5,633)**	(5,747)
Change in advances received		**2,921**	(23)
Change in due to Government of Kazakhstan		**(1,032)**	(1,031)
Change in other current liabilities		**341**	8,803
Payments under Employee share option plan		**(2,475)**	(2,202)
Cash generated from operations		**467,335**	513,009
Income tax paid		**(118,213)**	(154,455)
Net cash flows from operating activities		**349,122**	358,554
Cash flow from investing activities:			
Interest received		**986**	764
Purchase of property, plant and equipment		**(325,462)**	(201,306)
Purchase of exploration and evaluation assets	**7**	**(10,445)**	(5,045)
Acquisition of subsidiaries		**372**	(28,433)
Placement of bank deposits		**(25,000)**	(30,000)
Redemption of bank deposits		**55,000**	25,000
Net cash used in investing activities		**(304,549)**	(239,020)
Cash flow from financing activities:			
Finance costs paid		**(62,229)**	(49,613)
Issue of notes	**17**	**400,000**	–
Expenses paid on arrangement of notes		**(6,525)**	–
Repayment of notes		**(92,505)**	–
Transfer to restricted cash		**(807)**	(565)
Treasury shares sold/(purchased)		**3,715**	(18,993)
Distributions paid	**15**	**(64,615)**	(63,179)
Funds borrowed - reorganisation	**27**	**2,350,405**	–
Funds repaid - reorganisation		**(2,350,405)**	–
Finance costs - reorganisation		**(29,572)**	–
Net cash from / (used in) financing activities		**147,462**	(132,350)
Effects of exchange rate changes on cash and cash equivalents		**(1,506)**	–
Net increase/(decrease) in cash and cash equivalents		**190,529**	(12,816)
Cash and cash equivalents at the beginning of the year	**14**	**184,914**	197,730
Cash and cash equivalents at the end of the year	**14**	**375,443**	184,914

During the year ended 31 December 2014, non-cash transactions included offset of tax liabilities in the amount of US$9,426 thousand, including corporate income tax liabilities in the amount of US$2,480 thousand with value added tax receivables.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014

In thousands of US Dollars	Notes	Share capital	Share premium	Partnership capital	Treasury capital	Additional paid-in capital	Other reserves	Retained earnings	Total
As at 1 January 2013		**–**	**–**	**380,874**	**(9,727)**	**6,095**	**3,437**	**314,425**	**695,104**
Profit for the year		–	–	–	–	–	–	219,519	219,519
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**	**219,519**	**219,519**
Buyback of GDRs		–	–	–	(22,165)	–	–	–	(22,165)
Sale of treasury capital		–	–	–	1,141	2,031	–	–	3,172
Profit distribution		–	–	–	–	–	–	(63,179)	(63,179)
As at 31 December 2013		**–**	**–**	**380,874**	**(30,751)**	**8,126**	**3,437**	**470,765**	**832,451**
Profit for the year		–	–	–	–	–	–	146,425	146,425
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**	**146,425**	**146,425**
Sale of treasury capital		–	–	–	440	769	–	–	1,209
Profit distribution	**15**	–	–	–	–	–	–	(64,615)	(64,615)
Group reorganisation:									–
Replacement of GDRs		–	–	(380,874)	30,311	(8,895)	255,459	–	(103,999)
Issue of share capital		3,203	102,797	–	(2,001)	–	–	–	103,999
Effect of the Group reorganisation	**15**	**3,203**	**102,797**	**(380,874)**	**28,310**	**(8,895)**	**255,459**	**–**	**–**
Transfer to distributable reserves		–	(102,797)	–	–	–	–	102,797	–
Sale of treasury capital		–	–	–	113	–	2,393	–	2,506
Transaction costs		–	–	–	–	–	–	(296)	(296)
As at 31 December 2014		**3,203**	**–**	**–**	**(1,888)**	**–**	**261,289**	**655,076**	**917,680**

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: 4th Floor, 53-54 Grosvenor Street, London, UK, W1K 3HU.

The Parent became the holding company of the remainder of the Group (via its subsidiary Nostrum Oil Coöperatief U.A.) on 18 June 2014 and was listed on the London Stock Exchange ("LSE") on 20 June 2014 (Note 15). On the same date the former parent of the Group, Nostrum Oil & Gas LP, was delisted from the LSE. In addition to the subsidiaries of Nostrum Oil & Gas LP, Nostrum Oil Coöperatief U.A. acquired substantially all of the assets and liabilities of Nostrum Oil & Gas LP on 18 June 2014. The Parent does not have an ultimate controlling party.

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	**Country of registration or incorporation**	**Form of capital**	**Ownership, %**
Claydon Industrial Limited	British Virgin Islands	Ordinary shares	100
Condensate Holding LLP	Republic of Kazakhstan	Participatory interests	100
Grandstil LLC	Russian Federation	Participatory interests	100
Investprofi LLC	Russian Federation	Participatory interests	100
Jubilata Investments Limited	British Virgin Islands	Ordinary shares	100
Nostrum Oil & Gas Finance B.V.	Netherlands	Ordinary shares	100
Nostrum Oil & Gas UK Ltd.	England and Wales	Ordinary shares	100
Nostrum Oil BV	Netherlands	Ordinary shares	100
Nostrum Oil Coöperatief U.A.	Netherlands	Members' interests	100
Probel Capital Management N.V.	Belgium	Ordinary shares	100
Prolag BVBA	Belgium	Ordinary shares	100
Zhaikmunai LLP	Republic of Kazakhstan	Participatory interests	100
Zhaikmunai Netherlands B.V.	Netherlands	Ordinary shares	100

Nostrum Oil & Gas plc, its wholly-owned subsidiaries and Amersham Oil LLP are hereinafter referred to as "the Group". The Group's operations comprise of a single operating segment with three exploration concessions and are primarily conducted through its oil and gas producing entity Zhaikmunai LLP located in Kazakhstan.

As at 31 December 2014, the Group employed 1005 employees.

Sale and purchase agreements for the acquisition of Amersham Oil LLP ("Amersham") and Prolag BVBA ("Prolag") were entered into on 19 May 2014 by Nostrum Oil Coöperatief U.A. Under the terms of the sale and purchase agreements, the Group controls the entities and has the economic risk and benefit in the entities since 19 May 2014.

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 Ministry of Oil and Gas (the "MOG") of the Republic of Kazakhstan.

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

The contract for exploration and production of hydrocarbons from Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. On 27 April 2009 the exploration period was extended so as to have a total duration of 6 years. In January 2012 the MOG made the decision to extend the exploration period until 8 February 2015 and the corresponding supplementary agreement between MOG and Zhaikmunai LLP was signed on 9 August 2013 (Note 36).

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

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

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.

Change in estimates

The volumes of hydrocarbons extracted and the sales prices of the products form the basis of the royalty and government profit share calculations. During the year ended 31 December 2014 Zhaikmunai LLP changed the calculation of the coefficient of natural gas equivalent from density ratio used in the prior periods to compression ratio based on newly received researches on the conversion coefficient conducted by independent consultants.

As a result Zhaikmunai LLP revised the calculations of the royalty and government profit share for the prior periods. This change in estimate was applied prospectively since updated information on composition of the natural gas became available only in 2014. Also during the year ended 31 December 2014 Zhaikmunai LLP reassessed the government profit share for 2013 following the revision of the work program for the Chinarevskoye oil and gas condensate field operations.

This change in estimate was applied prospectively since updated information on composition of the natural gas became available only in 2014.

2. BASIS OF PREPARATION AND CONSOLIDATION

Basis of preparation

These consolidated financial statements for the year ended 31 December 2014 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board ("IASB") as adopted by the European Union and the requirements of the Disclosure and Transparency Rules ("DTR") of the Financial Conduct Authority ("FCA") in the United Kingdom as applicable to annual financial statements.

The consolidated financial statements have been prepared based on a historical cost basis, except for certain financial instruments which are carried at fair value as stated in the accounting policies (Note 4). The consolidated financial statements are presented in US Dollars and all values are rounded to the nearest thousands, 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 2014. 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 result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Group reorganisation

The Group has been formed through a reorganisation in which Nostrum Oil & Gas plc became a new parent entity of the Group (Note 15). The reorganisation is not a business combination and does not result in any change of economic substance of the Group. Accordingly, the consolidated financial statements of Nostrum Oil & Gas plc are a continuation of the existing group (Nostrum Oil & Gas LP and its subsidiaries). The consolidated financial statements reflect the difference in share capital as an adjustment to equity (Other reserves) that is not subject to reclassification to income statement in the future periods.

Going concern

These consolidated financial statements have been prepared on a going concern basis. The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New standards, interpretations and amendments thereof, adopted by the Group

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as at 1 January 2014:

Amendments to IFRS 10, IFRS12 and IAS 27 – Investment Entities

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

Amendments to IAS 36 – Disclosures on Recoverable Amount for Non-financial Assets

These amendments eliminate unintended consequences of IFRS 13 Fair Value Measurement in part of information disclosure according to IAS 36 Asset Impairment. Besides, these amendments require disclosing the recoverable amount of assets or cash generation unit (“CGU”) on which the impairment loss was recognized or recovered during the reporting period. These amendments had no impact on the consolidated financial statements of the Group.

Amendment to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

principles under *IAS 37 Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of *IFRIC 21* in prior years.

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 is not expected to have an effect on the classification and measurement of the Group's financial assets and the Group's financial liabilities.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard does not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group have defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

It is not expected that this amendment would have impact on the Group's future consolidated financial statements.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). It is not expected that this amendment would have any impact on the Group's future consolidated financial statements.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

These amendments are not expected to have any impact on the Group's financial position or performance.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. These amendments are not expected to have any impact on the Group's future consolidated financial statements considering that the Group's property, plant and equipment are stated at historical cost.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. These amendments are not expected to have effect on the Group's future consolidated financial statements, since the Group always disclosed the companies providing management services as related parties.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

These amendments are not expected to have impact on the Group's future consolidated financial statements, since the Group has no joint arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). It is not expected that the amendment will have material effect on the Group's financial position or performance.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

These amendments are not expected to have any impact on the Group.

IFRS 15 Revenue from Contracts with Customers

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

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

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

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in their separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group's consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments, estimates and assumptions

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material change to the carrying amounts of assets and liabilities are discussed below:

Oil and gas reserves

Oil and gas reserves are a material factor in the Group's computation of depreciation, depletion and amortization (the "DD&A"). The Group estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (the "SPE"). In estimating its reserves under SPE methodology, the Group uses long-term planning prices which are also used by management to make investment decisions about development of a field. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices. Management believes that long-term planning price assumptions (Note 6) are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves. All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

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

Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A. The estimates of economically recoverable oil and gas reserves and related future net cash flows also impact the impairment assessment of the Group.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Abandonment and site restoration provision

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 adjusted for expected inflation and discounted at applicable rate. The Group reviews site restoration provisions at each date of financial position and adjusts it to reflect the current best estimate in accordance with

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". Estimating the future closure costs involves significant estimates and judgments by management. Significant judgments in making such estimates include estimate of discount rate and timing of cash flow. The management made its estimate based on the assumption that cash flow will take place at the expected end of the subsoil use rights.

Management of the Group believes that the long term interest rates on the Eurobonds issued by the Ministry of Finance of the Republic of Kazakhstan shall provide best estimates of applicable risk uncorrected discount rate. The discount rate shall be applied to the nominal risk adjusted amounts the management expects to spend on site restoration in the future. The Group estimates future well abandonment cost using current year prices and the average long-term inflation rate.

Due to fact that cash outflows related to abandonment and site restoration cost are mainly denominated in USD, during the year ended 31 December 2014 the Group revisited the assumptions used, including abandonment cost, US$ inflation rate and discount rates. All these changes resulted in increase of abandonment and site restoration provision and respective asset in the amount of US$ 4,306 thousand. These changes were accounted for prospectively.

The long term inflation and discount rates used to determine the balance sheet obligation at 31 December 2014 were 3.75% and 4.88% respectively. Movements in the provision for decommissioning liability are disclosed in Note 18.

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.

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 currency of the Group's subsidiaries is the US dollar, except for Condensate (functional currency of which is Kazakhstani Tenge (the "Tenge").

Transactions and balances denominated in foreign currencies

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value, and any resulting gain or loss is recognised in the statement of profit or loss and other comprehensive income. It is then considered in the determination of goodwill. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. All contingent consideration arrangements classified as liabilities or assets arising from a business combination are subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

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.

Property, plant and equipment

Exploration expenditure

Geological and geophysical exploration costs are charged to profit or loss as incurred. 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 and materials and fuel used, rig costs and payments made to contractors and asset retirement obligation fees. 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. When this is no longer the case, the

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

costs are written off. The exploration expenditure expensed to profit or loss during 2014 amounted to nil (2013: US$ 3,810 thousand).

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. Upon recognition of proved reserves and internal approval for development, the relevant expenditure is transferred to oil and gas properties.

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 its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, 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 amortised 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.

Oil and gas reserves

Proved oil and gas reserves are estimated quantities of commercially viable hydrocarbons which existing geological, geophysical and engineering data show to be recoverable in future years from known reservoirs.

The Group uses the reserve estimates provided by an independent appraiser on an annual basis to assess the oil and gas reserves of its oil and gas fields. These reserve quantities are used for calculating the unit of production depreciation rate as it reflects the expected pattern of consumption of future economic benefits by the Group.

Advances for non-current assets

Advances paid for capital investments/acquisition of non-current assets shall be 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.

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 recognized 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Impairment of non-financial assets

The Group assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash inflows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Group makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Impairment losses of continuing operations, including impairment of inventories, are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

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 amortized, 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.

Inventories

Inventories are stated at the lower of cost or net realizable 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 realizable value is the estimated selling price in the ordinary course of business, less selling expenses.

Provisions

Provisions are recognized 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.

Abandonment and site restoration (decommissioning)

Provision for decommissioning is recognized in full, on a discounted cash flow basis, 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 amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted at applicable rate. The unwinding of the discount related to the obligation is recorded in finance costs. A corresponding amount equivalent to the provision is also recognized 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.

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:

a) 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 recognized immediately in the profit or loss; and
b) 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.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method ("EIR"), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs.

Accounts receivable

Accounts receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for uncollectible amounts is made when collection of the full amount is no longer probable. These estimates are reviewed periodically, and as adjustments become necessary, they are reported as expense (credit) in the period in which they become known.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- 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, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognizes 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Financial assets carried at amortized cost

For financial assets carried at amortized cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and borrowings.

Subsequent measurement

After initial recognition, interest bearing borrowings are subsequently measured at amortized cost using the EIR. Gains and losses are recognized in the profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the profit or loss.

Derecognition

A financial liability is derecognized 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 35.

Derivative financial instruments and hedging

The Group uses hedging contracts for oil export sales to cover part of its risks associated with oil price fluctuations. Such derivative financial instruments are initially recognized 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.

The fair value of financial instruments is determined by reference to market values for similar instruments.

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.

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.

Taxation

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 utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized 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.

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 the sale of crude oil, gas condensate, gas and LPG is recognized when delivery has taken place and risks and rewards of ownership have passed to the customer.

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured.

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 are satisfied with treasury shares.

Share-based payments

The Group measures the cost of cash-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. 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. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 28.

5. BUSINESS COMBINATIONS

On 19 May 2014 the Group agreed to acquire 100% of the share capital of Prolag BVBA (Prolag) and Amersham Oil LLP (Amersham), companies providing management and consulting services to the Group, from related parties of the Group, in connection with the premium listing on the London Stock Exchange of the Group's listed entity, so as to comply with certain exchange requirements that listed companies be managed by persons employed by entities within the listed company's group.

A cash consideration consisting of initial purchase price of US$1 and a price adjustment of US$212 thousand was agreed and paid with respect to the acquisition of Prolag. Historically, Prolag provided consulting services to the Group on certain marketing, transportation and logistics matters.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

It was agreed that Amersham be acquired in exchange for a cash consideration consisting of initial purchase price of US$1,915 thousand, subject to a price adjustment based on accounts of Amersham at 31 December 2014. The amount of the price adjustment with respect to the acquisition of Amersham has not yet been agreed or paid as at the date of the authorisation of the financial statements for issue, but it is estimated at US$487 thousand. Respective liability for this amount has been recognised within other current liabilities (Note 21) as at 31 December 2014. Certain managers of the Group historically provided services to the Group pursuant to a service agreement between Amersham and the Group.

The goodwill arising on acquisition represents the savings of the Group on management fees and is not expected to be deductible for tax purposes.

There were no significant revenues or profits/losses of the acquired subsidiaries since the respective acquisition dates included in the consolidated statements of comprehensive income for the years ended 31 December 2014 and 2013.

The provisional fair values of the identifiable assets and liabilities of Amersham and Prolag as at the date of acquisition were:

In thousands of US Dollars	**Prolag BVBA**	**Amersham Oil**	**Total**
Assets			
Property, plant and equipment	15	2	17
Advances for non-current assets	287	–	287
Prepayments and other current assets	721	15	736
Cash and cash equivalents	219	365	584
	1,242	**382**	**1,624**
Liabilities			
Trade payables	496	7	503
Other current liabilities	427	12	439
	923	**19**	**942**
Total identifiable net assets at fair value	**319**	**363**	**682**
Goodwill arising on acquisition		2,039	2,039
Gain arising on acquisition	(106)		(106)
Total purchase consideration	**212**	**2,402**	**2,615**

The purchase consideration comprised of:

In thousands of US Dollars	
Consideration satisfied by cash	212
Working capital adjustment	2,402
Total purchase consideration	**2,615**
Consideration satisfied by cash	(212)
Cash and cash equivalents acquired	584
Purchase of subsidiaries per the cash flow statement	**372**

On 30 December 2013 the Group has acquired 100% of the share capital of Probel Capital Management N.V. ("Probel"), a company providing management and consulting services to the Group, from Group's related parties, in exchange for a cash consideration consisting of initial purchase price of US$28,836 thousand and a price adjustment of US$4,598 thousand estimated as at the acquisition date based on accounts of Probel at 30 December 2013. The actual amount of price adjustment agreed was US$3,631 thousand and paid on 18 June 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Historically, certain senior managers of the Group have provided their services to the Group pursuant to a service agreement between Probel and the Group. The Probel acquisition was agreed upon in connection with the premium listing on the London Stock Exchange of the Group's listed entity, so as to comply with certain exchange requirements that listed companies be managed by persons employed by entities within the listed company's group. The goodwill arising on acquisition represents the savings of the Group on management fees.

The provisional fair values of the identifiable assets and liabilities of Probel as at the date of acquisition were:

In thousands of US Dollars	**Probel Capital Management N.V.**
Assets	
Property, plant and equipment	32
Prepayments and other current assets	2,554
Cash and cash equivalents	1,953
	4,539
Liabilities	
Trade payables	1,021
Other current liabilities	470
	1,491
Total identifiable net assets at fair value	3,048
Goodwill arising on acquisition	30,386
Total purchase consideration	**33,434**

The purchase consideration comprised of:

In thousands of US Dollars	
Consideration satisfied by cash	28,836
Working capital adjustment	4,598
Total purchase consideration	**33,434**
Consideration satisfied by cash	(28,836)
Cash and cash equivalents acquired	1,953
Purchase of subsidiaries per the cash flow statement	**(26,883)**

6. GOODWILL

As at 31 December 2014 and 2013, goodwill comprised the following due to business combinations:

In thousands of US Dollars	**31 December 2014**	31 December 2013
Balance at the beginning of the period	**30,386**	–
Goodwill addition	**2,039**	30,386
Balance at the end of the period	**32,425**	30,386

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Impairment testing

The goodwill arising from the purchase of Probel and Amersham relates to a single cash-generating unit. Respectively, goodwill is tested for impairment by comparing the recoverable amount against the carrying value of the underlying cash generating unit.

The 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 and gas treatment facility. Impairment testing is performed by comparing the recoverable amount against the carrying value of the cash generating unit. The recoverable amount is determined by calculation of the value-in-use based on discounted cash flow model as no recent third party transactions exist on which a reliable market-based fair value can be established. The value-in-use calculation model, which formally approved by the management, takes into consideration cashflows, which are expected to arise until 2032, i.e. during the license term of the Chinarevskoye field. The period exceeding five years is believed to be appropriate based on the proved and probable reserves audited by independent engineers and respective past history of the Group's ability to transfer probable reserves into proved.

The key assumptions used in the Group's discounted cash flow models reflect past experience and take account of external factors. These assumptions are:

- Oil prices for 2015-2022 are based on the forward curve of the ICE Brent Oil Futures, and for 2023-2032 are kept constant at the level applied for 2022;
- Proved and probable hydrocarbon reserves confirmed by independent reserve engineers;
- Production profiles based on Group's internal estimates confirmed by independent reserve engineers;
- All cashflows 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
- Pre-tax discount rate of 14%.

None of the reasonably possible changes in key assumptions causes the cash generating unit's carrying amount to exceed its recoverable amount.

7. EXPLORATION AND EVALUATION ASSETS

In thousands of US Dollars	**31 December 2014**	31 December 2013
Subsoil use rights	**15,835**	15,835
Expenditures on geological and geophysical studies	**8,545**	4,599
	24,380	20,434

During the year ended 31 December 2014 the Group had additions to exploration and evaluation assets of US$3,946 thousand which includes capitalised expenditures on geological and geophysical studies (2013: US$20,434 thousand, mainly represented by capitalised consideration under the acquisition agreements for the Darjinskoye, Rostoshinskoye and Yuzhno-Gremyachinskoye oilfields). Interest was not capitalised in exploration and evaluation assets. During the year ended 31 December 2014; the Group repaid capitalised contingent consideration under the acquisition agreements for the Darjinskoye and Yuzhno-Gremyachinskoye oil and gas fields in the amount of US$ 5,300 thousand.

8. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2014 and 2013 property, plant and equipment comprised the following:

In thousands of US Dollars	**31 December 2014**	31 December 2013
Oil and gas properties	**1,401,847**	1,292,073
Other property, plant and equipment	**40,310**	38,830
	1,442,157	1,330,903

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 2014 and 2013 was as follows:

In thousands of US Dollars	**Working assets**	**Construction in progress**	**Total**
Balance at 1 January 2013, net of accumulated depreciation and depletion	**1,002,602**	**189,446**	**1,192,048**
Additions	5,108	210,076	215,184
Transfers	197,271	(197,271)	–
Depreciation and depletion charge	(115,159)	–	(115,159)
Balance at 31 December 2013, net of accumulated depreciation and depletion	**1,089,822**	**202,251**	**1,292,073**
Additions	9,730	205,153	214,883
Transfers	38,640	(38,445)	195
Disposals	(666)	–	(666)
Disposals depreciation	214	–	214
Depreciation and depletion charge	(104,852)	–	(104,852)
Balance at 31 December 2014, net of accumulated depreciation and depletion	**1,032,888**	**368,959**	**1,401,847**
As at 31 December 2012			
Cost	1,209,373	189,446	1,398,819
Accumulated depreciation	(206,771)	–	(206,771)
Balance, net of accumulated depreciation and depletion	**1,002,602**	**189,446**	**1,192,048**
As at 31 December 2013			
Cost	1,411,752	202,251	1,614,003
Accumulated depreciation	(321,930)	–	(321,930)
Balance, net of accumulated depreciation and depletion	**1,089,822**	**202,251**	**1,292,073**
As at 31 December 2014			
Cost	1,459,457	368,959	1,828,416
Accumulated depreciation	(426,569)	–	(426,569)
Balance, net of accumulated depreciation and depletion	**1,032,888**	**368,959**	**1,401,847**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The category "Oil and Gas properties" represents mainly wells, oil and gas treatment facilities, oil transportation and other related assets. The subcategory “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 10.02% and 12.14% in 2014 and 2013, respectively.

The Group incurred borrowing costs including amortisation of arrangement fees. Capitalisation rate and capitalised borrowing costs were as follows as at 31 December 2014 and 2013:

In thousands of US Dollars	**31 December 2014**	31 December 2013
Borrowing costs including amortisation of arrangement fee	**77,959**	56,023
Capitalisation rate	**7.28%**	8.95%
Capitalised borrowing costs	**17,134**	14,609

Other property, plant and equipment

In thousands of US Dollars	**Buildings**	**Machinery & Equipment**	**Vehicles**	**Others**	**Construction in progress**	**Total**
Balance at 1 January 2013, net of accumulated depreciation	**5,607**	**6,496**	**1,170**	**4,002**	**13,342**	**30,617**
Additions	562	2,410	560	1,217	8,654	13,403
Transfers	21,799	–	–	150	(21,949)	–
Disposals	(35)	(102)	(50)	(44)	–	(231)
Disposals depreciation	16	52	49	30	–	147
Depreciation	(1,653)	(2,378)	(334)	(741)	–	(5,106)
Balance at 31 December 2013, net of accumulated depreciation	**26,296**	**6,478**	**1,395**	**4,614**	**47**	**38,830**
Additions	585	1,501	324	6,279	258	8,947
Transfers	24	309	412	(940)	–	(195)
Disposals	(6)	(24)	(159)	(244)	–	(433)
Disposals depreciation	5	16	157	193	–	371
Depreciation	(3,136)	(2,430)	(484)	(1,160)	–	(7,210)
Balance at 31 December 2014, net of accumulated depreciation	**23,768**	**5,850**	**1,645**	**8,742**	**305**	**40,310**
As at 31 December 2012						
Cost	8,561	10,977	3,003	5,853	13,342	41,736
Accumulated depreciation	(2,954)	(4,481)	(1,833)	(1,851)	–	(11,119)
Balance, net of accumulated depreciation	**5,607**	**6,496**	**1,170**	**4,002**	**13,342**	**30,617**
As at 31 December 2013						
Cost	30,887	13,285	3,513	7,166	47	54,898
Accumulated depreciation	(4,591)	(6,807)	(2,118)	(2,552)	–	(16,068)
Balance, net of accumulated depreciation	**26,296**	**6,478**	**1,395**	**4,614**	**47**	**38,830**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2014						
Cost	31,497	15,068	4,167	12,270	305	63,307
Accumulated depreciation	(7,729)	(9,218)	(2,522)	(3,528)	–	(22,997)
Balance, net of accumulated depreciation	**23,768**	**5,850**	**1,645**	**8,742**	**305**	**40,310**

9. ADVANCES FOR NON-CURRENT ASSETS

As at 31 December 2014 and 2013, advances for non-current assets comprised the following:

In thousands of US Dollars	**31 December 2014**	31 December 2013
Advances for pipes and construction materials	**67,465**	6,241
Advances for construction services	**66,884**	3,796
Advances for purchase of software licenses	**6**	–
	134,355	10,037

During the year ended 31 December 2014 the Group made significant advances for construction services and related materials for the construction of the third unit of the Group's gas treatment facility.

10. INVENTORIES

As at 31 December 2014 and 2013 inventories comprised the following:

In thousands of US Dollars	**31 December 2014**	31 December 2013
Materials and supplies	**20,472**	16,739
Gas condensate	**3,383**	2,986
Crude oil	**1,262**	1,754
LPG	**326**	606
	25,443	22,085

As at 31 December 2014 and 2013 inventories are carried at cost.

11. TRADE RECEIVABLES

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

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

			Past due but not impaired			
In thousands of US Dollars	**Total**	**Neither past due nor impaired**	**<30 days**	**60-90 days**	**90-120 days**	**>120 days**
31 December 2014	**30,110**	**30,110**	**–**	**–**	**–**	**–**
31 December 2013	66,565	66,561	–	–	–	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. PREPAYMENTS AND OTHER CURRENT ASSETS

As at 31 December 2014 and 2013 prepayments and other current assets comprised the following:

In thousands of US Dollars	**31 December 2014**	31 December 2013
VAT receivable	**28,502**	17,192
Advances paid	**9,184**	7,817
Other	**1,956**	6,183
	39,642	31,192

Advances paid consist primarily of prepayments made to service providers.

13. CURRENT AND NON-CURRENT INVESTMENTS

Current investments as at 31 December 2014 were represented by an interest bearing deposit placed on 30 September 2014 for a six-month period with an interest rate of 0.24% per annum. As at 31 December 2014 no non-current investments were placed by the Group.

Current investments as at 31 December 2013 were represented by an interest bearing short-term deposit placed on 30 September 2013 for a six-month period with interest rate of 0.31% per annum. Non-current investments as at 31 December 2013 were represented by an interest bearing deposit placed on 30 September 2013 for a period of more than one year and an interest bearing deposit placed on 4 March 2013 for a two-year period, which was terminated on 23 April 2014.

14. CASH AND CASH EQUIVALENTS

In thousands of US Dollars	**31 December 2014**	31 December 2013
Current accounts in US Dollars	**356,316**	150,931
Current accounts in tenge	**8,709**	5,485
Current accounts in other currencies	**10,413**	3,492
Petty cash	**5**	6
Bank deposits with maturity less than three months	**–**	25,000
	375,443	184,914

The Group has restricted cash accounts as liquidation fund deposit in the amount of US$5,023 thousand with Kazkommertsbank JSC and Sberbank in Kazakhstan (31 December 2013: US$4,217 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liability of the Group.

Bank deposits with maturity of less than three months as at 31 December 2013 represent an interest bearing short-term deposit placed on 30 December 2013.

15. SHARE CAPITAL AND RESERVES

Partnership capital of Nostrum Oil & Gas LP before the reorganisation

Other reserves include foreign currency translation reserve accumulated before 2009, when the functional currency of the Group was Kazakhstani Tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Prior to the reorganization the partnership capital of the Group comprised of the partnership capital of Nostrum Oil & Gas LP.

Distributions

During the year ended 31 December 2014 Nostrum Oil & Gas LP made a distribution of US$0.35 per Common Unit (2013: US$0.34 per Common Unit) to the holders of Common Units representing limited partnership interests which amounted to a total of US$64,615 thousand and was paid in full on 6 June 2014 (2013: a distribution of US$63,179 thousand was announced which was paid in full on 19 July 2013).

Reorganisation

On 17 June 2014 the limited partners of Nostrum Oil & Gas LP duly passed all proposed resolutions at the special general meeting of limited partners.

The resolutions passed by the limited partners included a resolution to approve the new corporate structure (the "Scheme") whereby Nostrum Oil & Gas plc was to become the new holding company for the business of Nostrum Oil & Gas LP.

Furthermore the limited partners approved special resolutions to approve the amendment to the limited partnership agreement (to permit implementation of the Scheme) and the dissolution of Nostrum Oil & Gas LP, which was completed on 27 August 2014.

On 18 June 2014, following the decision of the board of directors, Nostrum Oil & Gas LP commenced the Group's reorganization. This was implemented by means of an exchange offer made by the Company to the GDR holders of Nostrum Oil & Gas LP, which were entitled to receive 1 share of Nostrum Oil & Gas plc for each GDR of Nostrum Oil & Gas LP.

The GDR facility was cancelled on 22 September 2014.

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 as at the date of the transaction amounting to US$255,459 has been included in the other reserves of the Group.

On 17 September 2014 US$102,797,484 were transferred from the share premium account to distributable reserves based on a Special Resolution passed at a general meeting of the Parent, which was confirmed by an Order of the High Court of Justice.

The following table represents the movement of GDRs/shares:

Number of GDRs/shares	**In circulation**	**Treasury capital**	**Total**
As at 1 January 2013	**186,051,235**	**2,131,723**	**188,182,958**
Buyback of GDRs	(1,808,726)	1,808,726	–
Share options exercised	285,375	(285,375)	–
As at 31 December 2013	**184,527,884**	**3,655,074**	**188,182,958**
Share options exercised	100,935	(100,935)	–
Replacement of GDRs	(184,628,819)	(3,554,139)	(188,182,958)
Shares issued	184,628,819	3,554,139	188,182,958
Share options exercised	200,000	(200,000)	–
As at 31 December 2014	**184,828,819**	**3,354,139**	**188,182,958**

Please refer to Note 27 for information on the costs related to the reorganisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Share capital of Nostrum Oil & Gas plc

As at 31 December 2014 the ownership interests in the Parent consist of issued and fully paid ordinary shares, which are listed on the London Stock Exchange. As at 31 December 2013 the Parent had subscriber shares and redeemable preference shares, all of which were cancelled on 7 August 2014.

After the reorganisation the share capital of the Group comprised of the share capital of Nostrum Oil & Gas Plc:

		31 December 2014
Number of shares	**Subscriber and redeemable preference shares**	Ordinary shares
Balance at the beginning of the period	**410,002**	-
Share capital	**–**	188,182,958
Cancellation of shares	**(410,002)**	–
Balance at the end of the period	**–**	188,182,958

The subscriber and redeemable preference shares had a nominal value of GB£ 1 and the ordinary shares have a nominal value of GB£ 0.01.

Kazakhstan stock exchange disclosure requirement

The Kazakhstan Stock Exchange has 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 2014 the book value per share amounted to US$4.70 (31 December 2013: US$4.26).

16. EARNINGS PER SHARE

Basic EPS amounts are calculated by dividing the profit for the period by the weighted average number of Common Units/ 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 authorization of these financial statements.

	2014	2013
Profit for the year attributable to the holders of Common Units/shares (in thousands of US Dollars)	**146,425**	219,519
Weighted average number of Common Units/shares	**184,678,352**	185,289,560
Basic and diluted earnings per Common Unit/share (in US Dollars)	**0.79**	1.18

17. BORROWINGS

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

In thousands of US Dollars	**31 December 2014**	31 December 2013
Notes issued in 2012 and maturing in 2019	**540,793**	536,301
Notes issued in 2014 and maturing in 2019	**404,321**	–
Notes issued in 2010 and maturing in 2015	**–**	92,122
	945,114	628,423
Less amounts due within 12 months	**(15,024)**	(7,263)
Amounts due after 12 months	**930,090**	621,160

2010 Notes

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

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

The 2010 Notes bore interest at the rate of 10.50% per year. Interest on the 2010 Notes was payable on 19 April and 19 October of each year, beginning on 19 April 2011. Prior to 19 October 2013, the 2010 Issuer could, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2010 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 110.50% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2010 Notes (including Additional Notes as defined in the indenture relating to the 2010 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

In addition, the 2010 Notes could have been redeemed, in whole or in part, at any time prior to 19 October 2013 at the option of the 2010 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2010 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2010 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Applicable Premium means, with respect to any 2010 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2010 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2010 Note at 19 October 2013 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2010 Note through 19 October 2013 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2010 Note.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

2012 Notes

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

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

The 2012 Notes bear interest at the rate of 7.125% per year. Interest on the 2012 Notes is payable on 14 May and 13 November of each year, beginning on 14 May 2013. Prior to 13 November 2016, the 2012 Issuer may, at its option, on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2012 Notes with the net cash proceeds of one or more equity offerings at a redemption price of 107.125% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that (1) at least 65% of the original principal amount of the 2012 Notes (including Additional Notes as defined in the indenture relating to the 2012 Notes) remains outstanding after each such redemption; and (2) the redemption occurs within 90 days after the closing of the related equity offering.

In addition, the 2012 Notes may be redeemed, in whole or in part, at any time prior to 13 November 2016 at the option of the 2012 Issuer upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to each holder of 2012 Notes at its registered address, at a redemption price equal to 100% of the principal amount of the 2012 Notes redeemed plus the Applicable Premium (as defined below) as of, and accrued and unpaid interest to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). Applicable Premium means, with respect to any 2012 Note on any applicable redemption date, the greater of: (1) 1.0% of the principal amount of such 2012 Note; and (2) the excess, if any, of: (a) the present value at such redemption date of (i) the redemption price of such 2012 Note at 13 November 2016 plus (ii) all required interest payments (excluding accrued and unpaid interest to such redemption date) due on such 2012 Note through 13 November 2016 computed using a discount rate equal to the United States treasury rate as of such redemption date plus 50 basis points; over (b) the principal amount of such 2012 Note.

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

2014 Notes

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

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

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

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

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

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

Covenants contained in the 2010 Notes, the 2012 Notes and the 2014 Notes

The indentures governing the 2010 Notes, the 2012 Notes and the 2014 Notes contain a number of covenants that, among other things, restrict, subject to certain exceptions,

· 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.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. ABANDONMENT AND SITE RESTORATION PROVISION

The summary of changes in abandonment and site restoration provision during years ended 31 December 2014 and 2013 is as follows:

In thousands of US Dollars	**2014**	2013
Abandonment and site restoration provision as at 1 January	**13,874**	11,064
Unwinding of discount	**197**	1,034
Additional provision	**2,500**	2,500
Change in estimates	**4,306**	(724)
Abandonment and site restoration provision as at 31 December	**20,877**	13,874

The 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 long-term inflation and discount rates used to determine the abandonment and site restoration provision at 31 December 2014 were 3.75% and 4.88%, respectively (31 December 2013: 7% and 10%). Change in the discount rate resulted in the increase of the provision by US$19,068 thousand which was offset by a decrease of the provision by US$14,762 thousand due to change in the inflation rate and other assumptions.

19. 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 May 26, 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 2014 and 2013 is as follows:

In thousands of US Dollars	**2014**	2013
Due to Government of Kazakhstan as at 1 January	**7,052**	7,153
Unwinding of discount	**917**	930
Paid during the year	**(1,032)**	(1,031)
	6,937	7,052
Less: current portion of due to Government of Kazakhstan	**(1,031)**	(1,031)
Due to Government of Kazakhstan as at 31 December	**5,906**	6,021

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. TRADE PAYABLES

Trade payables comprise the following as at 31 December 2014 and 2013:

In thousands of US Dollars	**31 December 2014**	31 December 2013
Tenge denominated trade payables	**27,030**	42,950
US dollar denominated trade payables	**17,889**	12,719
Trade payables denominated in other currencies	**4,700**	2,849
	49,619	58,518

21. OTHER CURRENT LIABILITIES

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

In thousands of US Dollars	**31 December 2014**	31 December 2013
Taxes payable, other than corporate income tax	**17,191**	32,110
Accruals under the subsoil use agreements	**14,435**	–
Training obligations accrual	**9,686**	8,986
Due to employees	**4,605**	3,227
Liability accrued with respect to acquisitions	**2,402**	1,953
Production bonus	**449**	–
Pension obligations	**314**	204
Contingent consideration	**–**	5,300
Other current liabilities	**1,534**	2,848
	50,616	54,628

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

22. REVENUE

In thousands of US Dollars	**2014**	2013
Oil and gas condensate	**620,164**	709,107
Gas and LPG	**161,714**	185,907
	781,878	895,014

The Group's exports are mainly represented by deliveries to Finland and the Black Sea ports of Russia.

During the year ended 31 December 2014 the revenue from sales to three major customers amounted to US$321,755 thousand, US$124,823 thousand and US$77,113 thousand respectively (2013: two major customers: US$202,945 thousand and US$173,440 thousand respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. COST OF SALES

In thousands of US Dollars	**2014**	2013
Depreciation, depletion and amortisation	**110,460**	118,957
Repair, maintenance and other services	**35,818**	52,361
Royalties	**24,330**	39,356
Payroll and related taxes	**21,560**	17,240
Materials and supplies	**10,929**	12,262
Well workover costs	**6,296**	2,794
Government profit share	**4,594**	30,747
Other transportation services	**2,929**	4,306
Environmental levies	**1,098**	1,029
Management fees	**–**	3,558
Change in stock	**376**	2,490
Other	**3,531**	1,122
	221,921	286,222

The change in the structure of cost of sales is driven by the acquisition of Probel Capital Management N.V. on 30 December 2013 and agreement on 19 May 2014 to acquire Prolag BVBA and Amersham Oil LLP, which led to the elimination of intercompany management fees, and recognition of those expenses as payroll and related taxes.

Besides that Zhaikmunai LLP revised the estimates related to the government profit share and royalties in accordance with the recent supplement to the Chinarevskoye subsoil use rights and change in the coefficient of natural gas equivalent (Note 1), which resulted in the total reversal of the government profit share in the amount of US$17,846 thousand and in the total reversal of the royalties in the amount of US$5,451 thousand related to prior periods.

24. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of US Dollars	**2014**	2013
Professional services	**19,776**	9,072
Payroll and related taxes	**15,668**	7,576
Business travel	**4,786**	4,089
Training	**2,535**	2,736
Sponsorship	**1,826**	2,919
Insurance fees	**1,768**	2,050
Depreciation and amortization	**1,409**	1,413
Communication	**1,195**	1,010
Other taxes	**1,006**	4,839
Lease payments	**895**	585
Bank charges	**813**	1,100
Materials and supplies	**626**	664
Management fees	**605**	16,006
Social program	**300**	300
Other	**1,670**	1,660
	54,878	56,019

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The change in the structure of general and administrative expenses is driven by the acquisition of Probel Capital Management N.V. on 30 December 2013 and agreement on 19 May 2014 to acquire Prolag BVBA and Amersham Oil LLP, which led to the elimination of intercompany management fees, and recognition of those expenses as professional services and payroll and related taxes.

25. SELLING AND TRANSPORTATION EXPENSES

In thousands of US Dollars	**2014**	2013
Loading and storage costs	**56,351**	36,991
Transportation costs	**54,878**	72,229
Payroll and related taxes	**2,211**	2,486
Management fees	**183**	701
Other	**8,631**	9,267
	122,254	121,674

The transportation costs for the year ended 31 December 2013 also included certain loading and storage costs provided by the transportation companies, which are included in loading and storage costs for the year ended 31 December 2014.

26. FINANCE COSTS

In thousands of US Dollars	**2014**	2013
Interest expense on borrowings	**60,825**	41,651
Unwinding of discount on amounts Due to Government	**917**	930
Unwinding of discount on Abandonment and site restoration provision	**197**	1,034
	61,939	43,615

27. FINANCE COSTS – REORGANISATION

The "finance costs – reorganisation" are represented by the costs associated with introduction of Nostrum Oil & Gas plc as the new holding company of the Group and respective reorganisation. These costs include US$14,389 thousand under the facility agreements with VTB Capital plc (under which US$3,000,000 thousand were committed and US$2,350,405 thousand were lent), US$7,193 thousand related to the new listing and the cancellation of the GDR program and US$7,990 thousand financing costs related to advisory and other services incurred in relation to the reorganisation.

28. EMPLOYEES' REMUNERATION

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

	2014	**2013**
Management and administrative	**289**	259
Technical and operational	**721**	702
	1,010	961

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Their aggregate remuneration comprised:

In thousands of US Dollars	**2014**	2013
Wages and salaries	**36,025**	24,545
Share-based payments	**2,475**	2,346
Social security costs	**4,333**	3,906
	42,833	30,797

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$39,440 thousand (2013: US$27,302 thousand).

Key management personnel remuneration

In thousands of US Dollars	**2014**	2013
Short-term employee benefits	**1,506**	634
Share-based payments	**725**	2,202
	2,231	2,836

During the year ended 31 December 2013 certain key management personnel were employed and paid by Amersham Oil LLP and Probel Capital Management N.V. and their remuneration formed part of management fees and consulting services rendered to the Group. During 2014 all key management personnel are employed and paid by the Group.

Directors' remuneration

In thousands of US Dollars	**2014**	2013
Short-term employees benefits	**3,242**	2,899
Share-based payments	**1,750**	–
	4,992	2,899

Employee share option plan

The Group operates one option plan (the Phantom Option Plan), that 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 (Note 2).

Employees (including senior executives and executive directors) of members of the Group or their associates receive 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.

The equity-based payment plan is described below.

During 2008-2014, 4,297,958 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 2,611,413 of SARs at 31 December 2014 is US$ 6,449 thousand (31 December 2013: 2,912,348 SARs with carrying value of US$ 12,016 thousand). During the year ended 31 December 2014 302,000 SARs were fully vested (2013:728,487).

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

	2014		2013	
	No.	**EP,US$**	No.	EP,US$
Total outstanding at the beginning of the year (with EP of US$ 4)	**1,646,348**	**4**	1,931,723	4
Total outstanding at the beginning of the year (with EP of US$ 10)	**1,266,000**	**10**	200,000	10
Total outstanding at the beginning of the year	**2,912,348**		2,131,723	
Share option granted	**–**	**10**	1,115,000	10
Share option exercised	**(294,935)**	**4**	(285,375)	4
Share option exercised	**(6,000)**	**10**	–	–
Share options lapsed	**–**	**10**	(49,000)	10
Total outstanding at the end of the year	**2,611,413**		2,912,348	
Total exercisable at the end of the year	**1,815,413**		1,808,348	

There were no SARs granted during the year ended 31 December 2014. The weighted average fair value of SARs granted during the year ended 31 December 2013 amounted to US$ 6.22 per SAR. The weighted average price at the date of exercise for SARs exercised during the year ended 31 December 2014 amounted to US$ 8.22 per SAR (2013: US$ 8.22 per SAR). 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 2014 and 2013:

	2014	2013
GDR (2013) or ordinary share (2014) price at the reporting date (US$)	**6.6**	13.0
Distribution yield (%)	**3.0%**	3.0%
Expected volatility (%)	**85.0%**	85.0%
Risk-free interest rate (%)	**1.0%**	2.0%
Expected life (years)	**10.0**	10.0
Option turnover (%)	**10.0%**	10.0%
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. DERIVATIVE FINANCIAL INSTRUMENTS

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

During the years ended 31 December 2014 and 2013 the movement in the fair value of derivative financial instruments was presented as follows:

In thousands of US Dollars	**2014**	2013
Derivative financial instruments at fair value at 1 January	**–**	–
Gain on derivative financial instruments	**60,301**	–
Derivative financial instruments at fair value at 31 December	**60,301**	–

The Group classifies the asset constituted by the hedging contract as non-current since no settlement is expected to occur under or in respect of the hedging contract until 29 February 2016.

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

30. OTHER EXPENSES

In thousands of US Dollars	**2014**	2013
Export customs duty	**19,733**	12,268
Accruals under subsoil use agreements	**16,083**	–
Compensation	**10,116**	6,387
Other	**3,912**	6,938
	49,844	25,593

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. Based on their interpretation of CIS free-trade legislation the Kazakhstan customs authorities imposed customs duties on oil exports from Kazakhstan to Ukraine starting from December 2012.

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

31. INCOME TAX

The income tax expense comprised the following:

In thousands of US Dollars	**2014**	2013
Corporate income tax	**117,827**	138,883
Adjustment in respect of the current income tax for the prior periods	**(6,785)**	–
Deferred income tax expense /(benefit)	**54,233**	3,613
Total income tax expense	**165,275**	142,496

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	**2014**	2013
Profit before income tax	**311,700**	362,015
Tax rate applicable to the suboil use rights	**30%**	30%
Expected tax provision	**93,510**	108,605
Effect of exchange rate on the tax base	**34,533**	2,836
Adjustments in respect of current income tax of previous years	**(6,785)**	–
Effect of income taxed at different rate[1]	**(3,790)**	31
Non-deductible interest expense on borrowings	**23,390**	19,084
Deferred tax asset not recognised	**10,384**	–
Non-deductible penalties	**4,556**	2,037
Non-deductible compensation for gas	**2,813**	1,711
Net foreign exchange loss	**1,020**	1,624
Non-deductible social expenditures	**886**	890
Non-deductible cost of technological loss	**192**	1,850
Other non-deductible expenses	**4,566**	3,828
Income tax expenses reported in the consolidated financial statements	**165,275**	142,496

[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 20%.

As at 31 December 2014 the Group has tax losses of US$41,643 thousand (mainly originated from the Group reorganisation costs) that are available to offset against future taxable profits in the companies in which the losses arose. 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

In thousands of US Dollars	**31 December 2014**	31 December 2013
Deferred tax asset:		
Accounts payable and provisions	**3,616**	2,811
Deferred tax liability:		
Property, plant and equipment	**(196,855)**	(155,356)
Derivative financial instruments	**(12,060)**	
Other	**(1,485)**	
Net deferred tax liability	**(206,784)**	(152,545)

The movements in the deferred tax liability were as follows:

In thousands of US Dollars	**2014**	2013
Balance at 1 January	**152,545**	148,932
Current period charge to statement of income	**54,239**	3,613
Balance at 31 December	**206,784**	152,545

32. RELATED PARTY TRANSACTIONS

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

Accounts receivable from and advances paid to related parties represented by entities controlled by the shareholders with significant influence over the Group as at 31 December 2014 and 2013 consisted of the following:

In thousands of US Dollars	**31 December 2014**	31 December 2013
Trade receivables and advances paid		
KazStroyService JSC	**36,915**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Accounts payable to related parties represented by entities controlled by the shareholders with significant influence over the Group as at 31 December 2014 and 2013 consisted of the following:

In thousands of US Dollars	**31 December 2014**	31 December 2013
Trade payables		
KazStroyService JSC	**2,753**	50
Telco B.V.	**29**	–
Prolag BVBA	**–**	240
Amersham Oil LLP	**–**	52

During the years ended 31 December 2014 and 2013 the Group had the following transactions with related parties represented by entities controlled by the shareholders with significant influence over the Group:

In thousands of US Dollars	**2014**	2013
Purchases		
KazStroyService JSC	**6,538**	–
Management fees and consulting services		
Cervus Business Services	**1,981**	–
Amersham Oil LLP	**455**	1,506
Prolag BVBA	**668**	1,253
Probel Capital Management N.V.	**–**	17,507
Crest Capital Management N.V.	**824**	–
Telco B.V.	**744**	–

On 19 May 2014, SEPOL AG and Nostrum Oil Coöperatief U.A. (“Co-op”) entered into a purchase agreement for the acquisition by Co-op of the entire issued share capital of Amersham Oil LLP (the “Amersham Acquisition Agreement”) for an initial consideration of US$1,915 thousand.

On 19 May 2014 Crest Capital Management NV, Petra Noé and Co-op entered into a purchase agreement for the acquisition by Co-op of the entire issued share capital of Prolag BVBA (the “Prolag Acquisition Agreement”) for an initial consideration of US$1, as all services previously provided by Prolag to the Group were internalised within Probel prior to the acquisition of Probel. A price adjustment of US$212 thousand was agreed and paid with respect to the acquisition of Prolag BVBA.

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

The Contractor is an affiliate of KazStroyService B.V., which as at 31 December 2014 owned approximately 26.6% of the Company's ordinary shares.

On 30 December 2013 ELATA Burgerlijke Maatschap, Petra Noé, Frank Monstrey and Co-op entered into a purchase agreement for the acquisition by Co-op of the entire issued share capital of Probel Capital Management NV for an initial consideration of US$28,836 thousand, and a price adjustment of US$3,631 thousand.

As at 31 December 2013 management fees and consulting services were payable in accordance with the Technical Assistance Agreements signed between members of the Group and Amersham Oil LLP and Prolag BVBA related to the rendering of geological, geophysical, drilling, technical and other consultancy services.

During the year ended 31 December 2014 management and consulting services were provided in accordance with business center and consultancy agreements signed between members of the Group and Cervus Business Services BVBA.

33. AUDIT AND NON-AUDIT FEES

During the years ended 31 December 2014 and 2013 audit and non-audit fees comprise the following:

In thousands of US Dollars	**2014**	2013
Audit of the financial statements	**684**	314
Total audit services	**684**	314
Audit-related assurance services	**319**	105
Taxation compliance services	**40**	40
Services relating to corporate finance transactions	**730**	252
Total non-audit services	**1,089**	397
Total fees	**1,773**	711

The audit fees in the table above include the audit fees of US$12 thousand in relation to parent company.

34. CONTINGENT LIABILITIES AND COMMITMENTS

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2014. As at 31 December 2014 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

Abandonment and site restoration (decommissioning)

As Kazakh laws and regulations concerning site restoration and clean-up evolve, the 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. 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 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 2014 the Group had contractual capital commitments in the amount of US$248,644 thousand (31 December 2013: US$26,842 thousand) mainly in respect to the Group's oil field development activities.

Operating lease

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

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

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

In thousands of US Dollars	**31 December 2014**	31 December 2013
No later than one year	**14,788**	12,501
Later than one year and no later than five years	**17,671**	23,846
Later than five years	**–**	–

Lease expenses of railway tank wagons for the year ended 31 December 2014 amounted to US$14,622 thousand (FY 2013: US$12,628 thousand).

Social and education commitments

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

i. spend US$ 300 thousand per annum to finance social infrastructure;

ii. make an accrual of one percent per annum of the actual investments for the Chinarevskoye field for the purposes of educating Kazakh citizens; and

iii. adhere to a spending schedule on education which lasts until (and including) 2020.

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

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

i. spend US$1,196 thousand to finance social infrastructure of the region during the exploration stage (including US$1,000 thousand for funding of development of Astana city in case of commercial discovery);

ii. invest at least US$16,820 thousand for exploration of the field during the exploration period;

iii. reimburse historical costs of US$372 thousand to the Government upon commencement of production stage;

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

i. spend at least US$52 thousand for education of personnel engaged to work under the contract during the exploration stage;
ii. spend US$73 thousand to finance social infrastructure of the region;
iii. invest at least US$19,392 thousand for exploration of the field during the exploration period;
iv. create a liquidation fund (special deposit account with local bank) equal to US$208 thousand.

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

i. spend at least US$101 thousand for education of personnel engaged to work under the contract during the exploration stage;
ii. spend US$74 thousand to finance social infrastructure of the region;
iii. invest at least US$32,298 thousand for exploration of the field during the exploration period;
iv. create a liquidation fund (special deposit account with local bank) equal to US$342 thousand;

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.

35. 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 development of the Chinarevskoye oil and gas condensate field and its operations as well as exploration of the three new oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye. The Group's financial assets consist of trade and other receivables, non-current investments, current investments and cash and cash equivalents.

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk, liquidity risk, credit risk and commodity price risk. The Group's management reviews and agrees policies for managing each of these risks, which are summarized 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 2014 and 2013 as the Group had no financial instruments with floating rates as at years ended 31 December 2014 and 2013.

Foreign currency risk

As a significant portion of the Group's operation is the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the US dollars exchange rate, with all other variables held constant, of the Group's profit before tax. 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
2014		
US Dollar thousand	+ 17.37%	(1,168)
US Dollar thousand	- 17.37%	1,168
2013		
US Dollar thousand	+ 30.00%	(3,294)
US Dollar thousand	+ 10.00%	(1,098)

During the year ended 31 December 2014 a significant drop in oil prices and some other non-economic factors were observed which caused increase in volatility of Tenge exchange rates and overall market volatility. Statistics for the year ended 31 December 2014 reflect the expected behaviour of market in 2015. The ranges of reasonably possible changes in market risk variables were estimated by analysing annual standard deviations based on the historical market data for the year ended 31 December 2014.

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

As at 31 December 2014	Tenge	Russian Roubles	Euro	Other	Total
Cash and cash equivalents	8,713	–	10,307	106	19,126
Trade receivables	12,331	–	–	–	12,331
Trade payables	(27,030)	(965)	(3,479)	(256)	(31,730)
Other current liabilities	(19,331)	(115)	(7,010)	(7)	(26,463)
	(25,317)	**(1,080)**	**(182)**	**(157)**	**(26,736)**

As at 31 December 2013	Tenge	Russian Roubles	Euro	Other	Total
Cash and cash equivalents	5,491	–	3,492	–	8,983
Trade receivables	27,619	–	1	–	27,620
Trade payables	(42,950)	(372)	(2,472)	(5)	(45,799)
Other current liabilities	(257)	–	(7,173)	–	(7,430)
	(10,097)	**(372)**	**(6,152)**	**(5)**	**(16,626)**

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

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, loans, hedges, export financing and financial leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Group’s policy is that, while it has an investment program on-going: a) not more than 25% of borrowings should mature in the next twelve-month period and b) a minimum balance of US$ 50 million is retained on the balance sheet post repayment or refinancing of any debt due in the next twelve-month period.

The Group's total outstanding debt consists of two notes: US$ 560 million issued in 2012 and maturing in 2019 and US$ 400 million issued in 2014 and maturing in 2019. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2014 and 2013 based on contractual undiscounted payments:

As at 31 December 2014	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	–	12,750	52,650	1,221,600	–	**1,287,000**
Trade payables	48,095	–	1,524	–	–	**49,619**
Other current liabilities	18,126	–	–	–	–	**18,126**
Due to the government of Kazakhstan	–	258	773	4,124	11,340	**16,495**
	66,221	**13,008**	**54,947**	**1,225,724**	**11,340**	**1,371,240**

As at 31 December 2013	On demand	Less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Borrowings	–	–	43,613	259,902	594,691	**898,206**
Trade payables	58,518	–	–	–	–	**58,518**
Other current liabilities	20,571	–	–	–	–	**20,571**
Due to the government of Kazakhstan	–	258	773	4,124	12,371	**17,526**
	79,089	**258**	**44,386**	**264,026**	**607,062**	**994,821**

Credit risk

Financial instruments, which potentially subject the Group to credit risk, consist primarily of derivative financial instruments, accounts receivable and cash in banks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. The Group considers that its maximum exposure is reflected by the amount of trade accounts receivable, cash and cash equivalents and derivative financial instruments.

The Group places its Tenge denominated cash with SB Sberbank JSC, which has a credit rating of Ba3 (stable) from Moody's rating agency and its US Dollar denominated cash with BNP Paribas with a credit rating of A1 (negative) and ING with a credit rating of A2 (negative) from Moody's rating agency at 31 December 2014. The Group does not guarantee obligations of other parties.

The Group sells its products and makes advance payments only to recognized, 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.

Customer credit risk is managed by each business unit subject to the Group’s established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard. Outstanding customer receivables are regularly monitored.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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:

	Carrying amount		Fair value	
In thousands of US Dollars	**31 December 2014**	**31 December 2013**	**31 December 2014**	**31 December 2013**
Financial instruments measured at fair value				
Derivative financial instruments	**60,301**	–	**60,301**	–
Financial liabilities measured at amortised cost				
Interest bearing borrowings	**945,114**	628,423	**1,037,320**	686,795
Total	**1,005,415**	628,423	**1,097,621**	686,795

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

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

The following table shows ranges of the inputs depending on maturity, which are used in the model for calculation of the fair value of the derivative financial instruments as at 31 December 2014 and 31 December 2013:

	31 December 2014	31 December 2013
Future price at the reporting date (US$)	**59.2-67.9**	–
Historical volatility (%)	**16.02-17.73**	–
Risk-free interest rate (%)	**0.25-0.67**	–
Maturity (months)	**3-15**	–

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

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

In thousands of US Dollars	**Increase in the assumption**	**Decrease in the assumption**
Increase/(decrease) in gain on derivative financial instruments due to change in oil price assumption (+/-US$2/bbl)	(4,959)	5,165
Increase/(decrease) in gain on derivative financial instruments due to change in discount rate assumption (+/-2%)	808	(664)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The contingent consideration liability under acquisition agreement of Darjinskoye and Yuzhno-Gremyachenskoye oil and gas fields (Note 7 and 21) outstanding as at 31 December 2013 was recognised at fair value, which was assessed to be equal to its nominal amount due to its short-term nature and, respectively, categorised as Level 3 within the fair value hierarchy. There were no gains or losses arising during 2013 from fair value measurement of this contingent consideration liability.

During the years ended 31 December 2014 and 2013 there were no transfers between the levels of fair value hierarchy of the Groups' 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 distribution payment to participants, return capital to participants or increase partnership capital. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 20% and 40%. 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	**2014**	2013
Interest bearing borrowings	**945,114**	628,423
Less: cash and cash equivalents, restricted cash and current and non-current investments	**(405,467)**	(244,131)
Net debt	**539,647**	384,292
Equity	**917,680**	832,451
Total capital	**917,680**	832,451
Capital and net debt	**1,457,327**	1,216,743
Gearing ratio	**37%**	32%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014 and 2013.

36. EVENTS AFTER THE REPORTING PERIOD

The initial purchase price of US$1,915 thousand with respect to the acquisition of Amersham Oil LLP was paid on 28 January 2015. The amount of the price adjustment with respect to the acquisition of Amersham Oil LLP has not yet been agreed or paid as at the date of the authorisation of the financial statements for issue, but it is estimated at US$487 thousand. Respective liability for this amount has been recognised within other current liabilities (Note 21) as at 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

The contract for exploration and production of hydrocarbons from Darjinskoye field and the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field were both amended on 24 February 2015 to reduce the obligations referred to in note 33 above in relation to those fields.

On 11 March 2015 the Group received the written permission on extension of the exploration period for the Rostoshinskoye field to 8 February 2017. The supplementary agreement is expected to be signed soon.

The Board is proposing a final dividend of US$0.27 per Ordinary Share for the year ended 31 December 2014, subject to shareholder approval at the AGM.