

**Nostrum Oil & Gas PLC**

Interim condensed consolidated financial statements (unaudited)

*For the nine months ended 30 September 2015*

## Interim condensed consolidated financial statements

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## Interim condensed consolidated financial statements

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION****As at 30 September 2015**

<i>In thousands of US Dollars</i>	<b>Notes</b>	<b>30 September 2015 (unaudited)</b>	<b>31 December 2014 (audited)</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Exploration and evaluation assets	3	29,768	24,380
Goodwill		32,425	32,425
Property, plant and equipment	4	1,548,792	1,442,157
Restricted cash	9	5,243	5,024
Advances for non-current assets	5	155,673	134,355
Derivative financial instruments	21	–	60,301
		<b>1,771,901</b>	<b>1,698,642</b>
<b>Current assets</b>			
Inventories		28,371	25,443
Trade receivables	6	48,551	30,110
Prepayments and other current assets	7	31,020	39,642
Derivative financial instruments	21	84,035	–
Income tax prepayment		5,287	13,925
Current investments	8	5,000	25,000
Cash and cash equivalents	9	208,577	375,443
		<b>410,841</b>	<b>509,563</b>
<b>TOTAL ASSETS</b>		<b>2,182,742</b>	<b>2,208,205</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Share capital and reserves</b>			
Share capital	10,11	3,203	3,203
Treasury capital		(1,888)	(1,888)
Retained earnings and reserves		849,549	916,365
		<b>850,864</b>	<b>917,680</b>
<b>Non-current liabilities</b>			
Long-term borrowings	12	934,875	930,090
Abandonment and site restoration provision		21,125	20,877
Due to Government of Kazakhstan		5,777	5,906
Deferred tax liability	22	263,709	206,784
		<b>1,225,486</b>	<b>1,163,657</b>
<b>Current liabilities</b>			
Current portion of long-term borrowings	12	18,513	15,024
Employee share option plan liability		5,761	6,449
Trade payables	13	46,540	49,619
Advances received		18	2,670
Income tax payable		1,763	1,459
Current portion of Due to Government of Kazakhstan		1,031	1,031
Other current liabilities	14	32,766	50,616
		<b>106,392</b>	<b>126,868</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,182,742</b>	<b>2,208,205</b>

The interim condensed 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 7 through 23 are an integral part of these interim condensed consolidated financial statements*

## Interim condensed consolidated financial statements

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****For the nine months ended 30 September 2015**

<i>In thousands of US Dollars</i>	Notes	Three months ended 30 September		Nine months ended 30 September	
		2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
<b>Revenue</b>					
Revenue from export sales		90,283	148,862	349,630	538,781
Revenue from domestic sales		10,432	26,426	25,138	81,484
	15	100,715	175,288	374,768	620,265
Cost of sales	16	(45,860)	(59,310)	(146,626)	(157,859)
<b>Gross profit</b>		54,855	115,978	228,142	462,406
General and administrative expenses	17	(11,613)	(14,693)	(36,565)	(42,199)
Selling and transportation expenses	18	(21,904)	(28,591)	(74,518)	(92,096)
Finance costs	19	(11,184)	(14,023)	(35,239)	(49,772)
Finance costs - reorganisation		-	(8,896)	(1,053)	(25,471)
Employee share option plan fair value adjustment	20	3,418	(45)	689	(4,630)
Foreign exchange loss, net		(13,438)	(1,243)	(14,682)	(3,446)
Gain on derivative financial instruments	21	27,510	9,020	23,734	2,894
Interest income		109	213	221	899
Other income		6,499	1,303	9,498	4,284
Other expenses		(1,465)	(13,070)	(15,596)	(27,128)
<b>Profit before income tax</b>		32,787	45,953	84,631	225,741
Current income tax expense		(5,210)	(26,294)	(45,422)	(101,439)
Deferred income tax expense		(60,535)	(2,800)	(56,932)	(15,678)
<b>Income tax expense</b>	22	(65,745)	(29,094)	(102,354)	(117,117)
<b>(Loss)/profit for the period</b>		(32,958)	16,859	(17,723)	108,624
<b>Total comprehensive (loss)/income for the period</b>		(32,958)	16,859	(17,723)	108,624
(Loss)/profit for the period attributable to the holders of Common Units/shares (in thousands of US Dollars)				(17,723)	108,624
Weighted average number of Common Units/shares				184,828,819	184,678,352
Basic and diluted earnings per Common Unit/share (in US Dollars)				(0.10)	0.59

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

The accounting policies and explanatory notes on pages 7 through 23 are an integral part of these interim condensed consolidated financial statements

## Interim condensed consolidated financial statements

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the nine months ended 30 September 2015**

<i>In thousands of US Dollars</i>	Notes	Nine months ended 30 September	
		2015 (unaudited)	2014 (unaudited)
<b>Cash flow from operating activities:</b>			
Profit before income tax		84,631	225,741
<i>Adjustments for:</i>			
Depreciation, depletion and amortisation	16,17	85,823	85,093
Finance costs - reorganisation		1,053	25,471
Finance costs	19	35,239	49,772
Employee share option plan fair value adjustment		(689)	–
Interest income		(221)	(899)
Foreign exchange gain on investing and financing activities		(95)	(2,673)
Loss on disposal of property, plant and equipment		12	396
Gain on derivative financial instruments	21	(23,734)	(2,894)
Accrued expenses		950	–
<b>Operating profit before working capital changes</b>		<b>182,969</b>	<b>380,007</b>
<i>Changes in working capital:</i>			
Change in inventories		(2,928)	(6,110)
Change in trade receivables		(18,440)	11,728
Change in prepayments and other current assets		8,622	(7,800)
Change in trade payables		7,250	13,456
Change in advances received		(2,652)	6,251
Change in due to Government of Kazakhstan		(773)	(774)
Change in other current liabilities		(16,192)	(17,820)
Payments under Employee share option plan		–	7,056
<b>Cash generated from operations</b>		<b>157,856</b>	<b>385,994</b>
Income tax paid		(38,420)	(82,446)
<b>Net cash flows from operating activities</b>		<b>119,436</b>	<b>303,548</b>
<b>Cash flow from investing activities:</b>			
Interest received		221	899
Purchase of property, plant and equipment		(200,736)	(193,372)
Purchase of exploration and evaluation assets		(5,962)	(7,464)
Acquisition of subsidiaries		(2,296)	–
Placement of bank deposits		(42,000)	–
Redemption of bank deposits		67,000	30,000
Loans granted		(5,000)	–
<b>Net cash used in investing activities</b>		<b>(188,773)</b>	<b>(169,937)</b>
<b>Cash flow from financing activities:</b>			
Finance costs paid		(45,561)	(42,389)
Issue of notes	12	–	400,000
Expenses paid on arrangement of notes		–	(6,525)
Repayment of notes		–	(92,505)
Transfer to restricted cash		(220)	(606)
Treasury shares sold/(purchased)		–	444
Distributions paid	10,11	(49,060)	(59,979)
Funds borrowed - reorganisation		–	2,350,405
Funds repaid - reorganisation		–	(2,350,405)
Finance costs - reorganisation		(987)	(25,471)
<b>Net cash from / (used in) financing activities</b>		<b>(95,828)</b>	<b>172,969</b>
Effects of exchange rate changes on cash and cash equivalents		(1,701)	(991)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(166,866)</b>	<b>305,589</b>
Cash and cash equivalents at the beginning of the period	9	375,443	184,914
<b>Cash and cash equivalents at the end of the period</b>	<b>9</b>	<b>208,577</b>	<b>490,503</b>

*The accounting policies and explanatory notes on pages 7 through 23 are an integral part of these interim condensed consolidated financial statements*

## Interim condensed consolidated financial statements

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2015

<i>In thousands of US Dollars</i>	Notes	Share capital	Share premium	Partnership capital	Treasury capital	Additional paid-in capital	Other reserves	Retained earnings	Total
<b>As at 1 January 2014 (audited)</b>		-	-	380,874	(30,751)	8,126	3,437	470,765	832,451
Profit for the period		-	-	-	-	-	-	108,624	108,624
<b>Total comprehensive income for the period</b>		-	-	-	-	-	-	<b>108,624</b>	<b>108,624</b>
Sale of treasury capital (GDRs)		-	-	-	440	769	-	-	1,209
Profit distribution		-	-	-	-	-	-	(64,615)	(64,615)
<i>Group reorganisation:</i>									
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
<b>Effect of the Group reorganisation</b>		<b>3,203</b>	<b>102,797</b>	<b>(380,874)</b>	<b>28,310</b>	<b>(8,895)</b>	<b>255,459</b>	<b>-</b>	<b>-</b>
Transfer to distributable reserves		-	(102,797)	-	-	-	-	-	(102,797)
Sale of treasury capital		-	-	-	113	-	2,393	-	2,506
<b>As at 30 September 2014 (unaudited)</b>		<b>3,203</b>	<b>-</b>	<b>-</b>	<b>(1,888)</b>	<b>-</b>	<b>261,289</b>	<b>514,774</b>	<b>777,378</b>
Profit for the period		-	-	-	-	-	-	37,801	37,801
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37,801</b>	<b>37,801</b>
Transfer to distributable reserves		-	-	-	-	-	-	102,797	102,797
Transaction costs		-	-	-	-	-	-	(296)	(296)
<b>As at 31 December 2014 (audited)</b>		<b>3,203</b>	<b>-</b>	<b>-</b>	<b>(1,888)</b>	<b>-</b>	<b>261,289</b>	<b>655,076</b>	<b>917,680</b>
Loss for the period		-	-	-	-	-	-	(17,723)	(17,723)
<b>Total comprehensive loss for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(17,723)</b>	<b>(17,723)</b>
Profit distribution		-	-	-	-	-	-	(49,060)	(49,060)
Transaction costs		-	-	-	-	-	-	(33)	(33)
<b>As at 30 September 2015 (unaudited)</b>		<b>3,203</b>	<b>-</b>	<b>-</b>	<b>(1,888)</b>	<b>-</b>	<b>261,289</b>	<b>588,260</b>	<b>850,864</b>

\* Comparative figures differ from Q3 2014 due to change in the valuation approach. This was accounted for in the 2014 annual financial statements.

The accounting policies and explanatory notes on pages 7 through 23 are an integral part of these interim condensed consolidated financial statements

## Interim condensed consolidated financial statements

**NOTES TO THE INTERIM CONDENSED 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 interim condensed consolidated financial statements include the financial position and the results of the operations of Nostrum Oil & Gas PLC and its following wholly owned subsidiaries:

<i>Company</i>	<b>Country of registration or incorporation</b>	<b>Form of capital</b>	<b>Ownership, %</b>
Claydon Industrial Limited	British Virgin Islands	Ordinary shares	100
Grandstil LLC	Russian Federation	Participatory interests	100
Jubilata Investments Limited	British Virgin Islands	Ordinary shares	100
Nostrum Associated Investments LLP <sup>1</sup>	Republic of Kazakhstan	Participatory interests	100
Nostrum E&P Services LLC <sup>2</sup>	Russian Federation	Participatory interests	100
Nostrum Oil BV	Netherlands	Ordinary shares	100
Nostrum Oil Coöperatief U.A.	Netherlands	Members' interests	100
Nostrum Oil & Gas BV <sup>3</sup>	Netherlands	Ordinary shares	100
Nostrum Oil & Gas UK Ltd.	England and Wales	Ordinary shares	100
Nostrum Services Central Asia LLP <sup>4</sup>	Republic of Kazakhstan	Participatory interests	100
Nostrum Services CIS BVBA <sup>5</sup>	Belgium	Ordinary shares	100
Nostrum Services N.V. <sup>6</sup>	Belgium	Ordinary shares	100
Zhaikmunai LLP	Republic of Kazakhstan	Participatory interests	100

<sup>1</sup> Formerly Condensate Holding LLP

<sup>2</sup> Formerly Investprofi LLC

<sup>3</sup> Formerly Zhaikmunai Netherlands B.V.

<sup>4</sup> Formerly Amersham Oil LLP

<sup>5</sup> Formerly Prolag BVBA

<sup>6</sup> Formerly Probel Capital Management N.V.

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

As at 30 September 2015, the Group employed 1122 employees.

**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

## Interim condensed consolidated financial statements

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

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

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. On 3 July 2015 the exploration period was extended until 8 February 2017.

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

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.

## **2. BASIS OF PREPARATION AND CONSOLIDATION**

### **Basis of preparation**

These interim condensed consolidated financial statements for the nine months ended 30 September 2015 have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting as adopted by the European Union. These interim condensed consolidated financial statements do not include all the information



## Interim condensed consolidated statements

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

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and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2014 prepared in accordance with IFRS as adopted by the European Union.

#### **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 9). The reorganisation is not a business combination and does not result in any change of economic substance of the Group. Accordingly, the interim condensed consolidated financial statements of Nostrum Oil & Gas PLC are a continuation of the existing group (Nostrum Oil & Gas LP and its subsidiaries).

#### **Going concern**

These interim condensed 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 interim condensed consolidated financial statements.

#### **New standards, interpretations and amendments adopted by the Group**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2014, except for the following new standards and interpretations effective as of 1 January 2015, and which did not have an impact on the Group:

- Defined Benefit Plans: Employee Contributions – Amendments to IAS 19
- Annual Improvements to IFRSs 2010-2012 Cycle
- Annual Improvements to IFRSs 2011-2013 Cycle

The standards and interpretations that are issued, but not yet applied, up to the date of issuance of the Group's interim condensed financial statements are disclosed below. The Group intends to adopt these standards, if applicable, from the effective dates adopted by EU.

- IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning 1 January 2016)
- Amendments to IAS 16 and IAS 38 – Clarification of Accountable Methods of Depreciation and Amortisation (effective for annual periods beginning 1 January 2016)
- Amendments to IFRS 11- Accounting for Acquisition of Interests in Joint Operations (effective for annual periods beginning 1 January 2016)
- Amendments to IAS 16 and IAS 41- Agriculture: Bearer Plants (effective for annual periods beginning 1 January 2016)
- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning 1 January 2017)
- IFRS 9 Financial Instruments (issued in 2014) (effective for annual periods beginning 1 January 2018)
- Amendments to IAS 27- Equity Method in Separate Financial Statements (effective for annual periods beginning 1 January 2016).

## Interim condensed consolidated financial statements

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. EXPLORATION AND EVALUATION ASSETS**

<i>In thousands of US Dollars</i>	<b>30 September 2015 (unaudited)</b>	31 December 2014 (audited)
Subsoil use rights	<b>15,835</b>	15,835
Expenditures on geological and geophysical studies	<b>13,933</b>	8,545
	<b>29,768</b>	24,380

During the nine months ended 30 September 2015 the Group had additions to exploration and evaluation assets of US\$5,388 thousand which mainly includes capitalised expenditures on geological and geophysical studies (9M 2014: US\$2,164 thousand). Interest was not capitalised on exploration and evaluation assets. During the nine months ended 30 September 2014 the Group repaid capitalised contingent consideration under the acquisition agreements for the Darjinskoye and Yuzhno-Gremyachinskoye oil and gas fields in the amount of US\$ 5,300 thousand.

**4. PROPERTY, PLANT AND EQUIPMENT**

During the nine months ended 30 September 2015 the Group had additions of property, plant and equipment of US\$192,471 thousand (9M 2014: US\$148,222 thousand). These additions are mostly associated with drilling costs, construction of a third unit for the gas treatment facility and capitalised interest of US\$18,883 thousand (9M 2014: US\$11,863 thousand).

See Note 24 for capital commitments.

**5. ADVANCES FOR NON-CURRENT ASSETS**

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

**6. TRADE RECEIVABLES**

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

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

**7. PREPAYMENTS AND OTHER CURRENT ASSETS**

As at 30 September 2015 and 31 December 2014 prepayments and other current assets comprised the following:

<i>In thousands of US Dollars</i>	<b>30 September 2015 (unaudited)</b>	31 December 2014 (audited)
VAT receivable	<b>17,946</b>	22,581
Other taxes receivable	<b>5,472</b>	5,921
Advances paid	<b>5,448</b>	9,184
Other	<b>2,154</b>	1,956
	<b>31,020</b>	39,642

## Interim condensed consolidated statements

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

Advances paid consist primarily of prepayments made to service providers.

**8. CURRENT INVESTMENTS**

Current investments as at 30 September 2015 were represented by a US\$5 million loan granted to Tethys Petroleum Limited (“Tethys”) on 10 August 2015 in order to support short-term liquidity of Tethys.

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

**9. CASH AND CASH EQUIVALENTS**

<i>In thousands of US Dollars</i>	<b>30 September 2015 (unaudited)</b>	31 December 2014 (audited)
Current accounts in US Dollars	<b>159,648</b>	356,316
Current accounts in Tenge	<b>3,815</b>	8,709
Current accounts in other currencies	<b>3,106</b>	10,413
Petty cash	<b>8</b>	5
Bank deposits with maturity less than three months	<b>42,000</b>	–
	<b>208,577</b>	375,443

Bank deposits as at 30 September 2015 were represented by an interest-bearing deposit placed on 30 September 2015 for a one-month period with an interest rate of 0.11% per annum and an interest-bearing deposit placed on 23 June 2015 for a six-month period with an interest rate of 0.45% per annum.

The Group has restricted cash accounts as liquidation fund deposit in the amount of US\$5,243 thousand with Sberbank in Kazakhstan (31 December 2014: US\$5,024 thousand), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

**10. SHARE CAPITAL AND RESERVES****Share capital of Nostrum Oil & Gas PLC**

As at 30 September 2015 the ownership interests in the Parent consist of issued and fully paid ordinary shares, which are listed on the London Stock Exchange.

<i>Number of shares</i>	<b>30 September 2015 (unaudited)</b>
	<b>Ordinary shares</b>
Balance at the beginning of the period	188,182,958
Issued during the period	–
Balance at the end of the period	188,182,958

The ordinary shares have a nominal value of GB£ 0.01.

**Distributions**

During the nine months ended 30 September 2015 Nostrum Oil & Gas PLC made a distribution of US\$ 0.27 per share to the shareholders which amounted to a total of US\$ 49,060 thousand and was paid in full on 26 June 2015.

## Interim condensed consolidated financial statements

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

During the nine months ended 30 September 2014 Nostrum Oil & Gas LP made a distribution of US\$ 0.35 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.

**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 30 September 2015 the book value per share amounted to US\$4.35 (31 December 2014: US\$4.70).

**11. 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.

	<b>Nine months ended 30 September</b>	
	<b>2015 (unaudited)</b>	2014 (unaudited)
(Loss)/profit for the period attributable to the holders of Common Units/shares (in thousands of US Dollars)	<b>(17,723)</b>	108,624
Weighted average number of Common Units/shares	<b>184,828,819</b>	184,678,352
<b>Basic and diluted earnings per Common Unit/share (in US Dollars)</b>	<b>(0.10)</b>	0.59

**12. BORROWINGS**

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

<i>In thousands of US Dollars</i>	<b>30 September 2015 (unaudited)</b>	31 December 2014 (audited)
Notes issued in 2012 and maturing in 2019	<b>554,463</b>	540,793
Notes issued in 2014 and maturing in 2019	<b>398,925</b>	404,321
	<b>953,388</b>	945,114
Less amounts due within 12 months	<b>(18,513)</b>	(15,024)
Amounts due after 12 months	<b>934,875</b>	930,090

**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

## Interim condensed consolidated statements

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

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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.

## Interim condensed consolidated financial statements

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

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

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

Covenants contained in the 2012 Notes and the 2014 Notes

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

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

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.

**13. TRADE PAYABLES**

Trade payables comprise the following as at 30 September 2015 and 31 December 2014:

<i>In thousands of US Dollars</i>	<b>30 September 2015 (unaudited)</b>	31 December 2014 (audited)
Tenge denominated trade payables	<b>20,558</b>	27,030
US Dollar denominated trade payables	<b>15,745</b>	17,889
Trade payables denominated in other currencies	<b>10,237</b>	4,700
	<b>46,540</b>	49,619

**14. OTHER CURRENT LIABILITIES**

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

## Interim condensed consolidated statements

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

<i>In thousands of US Dollars</i>	<b>30 September 2015 (unaudited)</b>	31 December 2014 (audited)
Training obligations accrual	<b>11,248</b>	9,686
Accruals under the subsoil use agreements	<b>11,073</b>	14,435
Due to employees	<b>4,608</b>	4,605
Taxes payable, other than corporate income tax	<b>4,173</b>	17,191
Liability accrued with respect to acquisitions	–	2,402
Other current liabilities	<b>1,664</b>	2,297
	<b>32,766</b>	50,616

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.

**15. REVENUE**

The pricing for all of the Group's crude oil, condensate and LPG is, directly or indirectly, related to the price of Brent crude oil. The average Brent crude oil price during the nine months ended 30 September 2015 was US\$51.3 (9M 2014: US\$103.5)

<i>In thousands of US Dollars</i>	<b>Three months ended 30 September</b>		<b>Nine months ended 30 September</b>	
	<b>2015 (unaudited)</b>	<b>2014 (unaudited)</b>	<b>2015 (unaudited)</b>	<b>2014 (unaudited)</b>
Oil and gas condensate	<b>68,331</b>	136,806	<b>252,283</b>	490,316
Gas and LPG	<b>32,384</b>	38,482	<b>122,485</b>	129,949
	<b>100,715</b>	175,288	<b>374,768</b>	620,265

During the nine months ended 30 September 2015 the revenue from sales to three major customers amounted to US\$121,494 thousand, US\$78,627 thousand and US\$72,213 thousand respectively (9M 2014: US\$264,835 thousand, US\$102,122 thousand and US\$77,113 thousand respectively). The Group's exports are mainly represented by deliveries to Finland, the Black Sea ports of Russia and the United Arab Emirates.

## Interim condensed consolidated financial statements

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****16. COST OF SALES**

<i>In thousands of US Dollars</i>	Three months ended 30 September		Nine months ended 30 September	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Depreciation, depletion and amortisation	28,501	27,379	84,556	84,058
Repair, maintenance and other services	6,328	8,619	20,378	26,553
Payroll and related taxes	4,977	6,082	15,016	15,896
Royalties	1,853	7,509	11,625	17,890
Materials and supplies	2,013	3,634	5,681	8,373
Well workover costs	1,313	2,048	3,187	5,821
Government profit share	975	5,690	2,226	(2,260)
Other transportation services	444	727	1,702	2,190
Environmental levies	200	177	1,207	803
Change in stock	(1,013)	(3,093)	(735)	(3,820)
Other	269	538	1,783	2,355
	<b>45,860</b>	<b>59,310</b>	<b>146,626</b>	<b>157,859</b>

**17. GENERAL AND ADMINISTRATIVE EXPENSES**

<i>In thousands of US Dollars</i>	Three months ended 30 September		Nine months ended 30 September	
	2015 (unaudited)	2014 (audited)	2015 (unaudited)	2014 (audited)
Payroll and related taxes	4,619	4,960	13,857	11,592
Professional services	3,514	5,085	9,692	16,022
Business travel	179	769	2,886	3,623
Training	868	747	2,635	2,136
Insurance fees	474	557	1,293	1,342
Depreciation and amortization	435	377	1,267	1,035
Sponsorship	358	618	1,224	1,650
Communication	181	445	622	1,100
Lease payments	216	203	620	539
Bank charges	174	150	489	517
Materials and supplies	146	154	449	413
Other taxes	63	64	283	138
Social program	75	75	225	225
Management fees	–	–	–	614
Other	311	489	1,023	1,253
	<b>11,613</b>	<b>14,693</b>	<b>36,565</b>	<b>42,199</b>



## Interim condensed consolidated statements

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****18. SELLING AND TRANSPORTATION EXPENSES**

<i>In thousands of US Dollars</i>	Three months ended 30 September		Nine months ended 30 September	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Transportation costs	9,834	11,794	36,668	40,992
Loading and storage costs	10,294	12,894	32,543	42,233
Payroll and related taxes	509	632	1,546	1,689
Management fees	55	131	124	131
Other	1,212	3,140	3,637	7,051
	<b>21,904</b>	<b>28,591</b>	<b>74,518</b>	<b>92,096</b>

**19. FINANCE COSTS**

<i>In thousands of US Dollars</i>	Three months ended 30 September		Nine months ended 30 September	
	2015 (unaudited)	2014 (unaudited)	2015 (unaudited)	2014 (unaudited)
Interest expense on borrowings	10,870	13,442	34,428	48,143
Unwinding of discount on amounts due to Government of Kazakhstan	258	258	644	659
Unwinding of discount on abandonment and site restoration provision	56	323	167	970
	<b>11,184</b>	<b>14,023</b>	<b>35,239</b>	<b>49,772</b>

**20. 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. 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).

To date, options relating to 2,611,413 shares remain outstanding (the "Subsisting Options"), 1,351,413 options with a Base Value of US\$4.00 and 1,260,000 options with a Base Value of US\$10.00.

Each Subsisting Option is a right for its holder to receive on exercise a cash amount equal to the difference between (i) the aggregate Base Value of the shares to which the Subsisting Option relates; and (ii) their aggregate market value on exercise.

**21. DERIVATIVE FINANCIAL INSTRUMENTS**

On 3 March 2014, in accordance with its hedging policy, Zhaikmunai LLP 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 Zhaikmunai LLP 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

## Interim condensed consolidated financial statements

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

will compensate the difference in price below US\$85/bbl. As part of this contract Zhaikmunai LLP 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 nine months ended 30 September 2015 and 2014 the movement in the fair value of derivative financial instruments was presented as follows:

<i>In thousands of US Dollars</i>	<b>Nine months ended 30 September</b>	
	<b>2015 (unaudited)</b>	<b>2014 (unaudited)</b>
Derivative financial instruments at fair value at 1 January	<b>60,301</b>	–
Gain on derivative financial instruments	<b>23,734</b>	2,894
<b>Derivative financial instruments at fair value at 30 September</b>	<b>84,035</b>	<b>2,894</b>

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

**22. DEFERRED INCOME TAX**

Corporate income tax is recognised based on the estimated annual effective income tax rate applied to the income before tax for the nine months ended 30 September 2015. Differences between the recognition criteria in IFRS and under the statutory taxation regulations give rise to a temporary difference between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the change in temporary differences is recorded at the applicable statutory rates, including the prevailing Kazakhstani tax rate of 30% applicable to income derived from the Chinarevskoye subsoil use license.

The major part of the Group's tax bases of non-monetary assets and liabilities is determined in Tenge. Therefore, any change in the US Dollar/Tenge exchange rates results in a change in the temporary difference between the tax bases of non-current assets and their carrying amounts in the financial statements.

During the nine months ended 30 September 2015, Tenge devaluated against US Dollar from 182.35 Tenge/US Dollar to 270.4 Tenge/US Dollar, which resulted in an increase of the temporary differences on non-current assets recognised as deferred tax expense in the amount of US Dollar 53,319 thousand (nine months ended 30 September 2014: US Dollar 25,900 thousand).

**23. RELATED PARTY TRANSACTIONS**

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

Accounts receivable from and advances paid to related parties represented by entities controlled by shareholders with significant influence over the Group as at 30 September 2015 and 31 December 2014 consisted of the following:

## Interim condensed consolidated statements

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

<i>In thousands of US Dollars</i>	<b>30 September 2015 (unaudited)</b>	31 December 2014 (audited)
<b>Trade receivables and advances paid</b>		
KazStroyService JSC	<b>35,525</b>	36,915

Accounts payable to related parties represented by entities controlled by shareholders with significant influence over the Group as at 30 September 2015 and 31 December 2014 consisted of the following:

<i>In thousands of US Dollars</i>	<b>30 September 2015 (unaudited)</b>	31 December 2014 (audited)
<b>Trade payables</b>		
KazStroyService JSC	<b>1,482</b>	2,753
Telco B.V.	<b>39</b>	29
Cervus Business Services	<b>8</b>	–

During the nine months ended 30 September 2015 and 2014 the Group had the following transactions with related parties represented by entities controlled by shareholders with significant influence over the Group:

<i>In thousands of US Dollars</i>	<b>Three months ended 30 September</b>		<b>Nine months ended 30 September</b>	
	<b>2015 (unaudited)</b>	<b>2014 (unaudited)</b>	<b>2015 (unaudited)</b>	<b>2014 (unaudited)</b>
<b>Purchases</b>				
KazStroyService JSC	<b>16,581</b>	2,744	<b>17,958</b>	2,744
<b>Management fees and consulting services</b>				
Cervus Business Services	<b>347</b>	399	<b>1,049</b>	1,605
Crest Capital Management N.V.	<b>417</b>	–	<b>799</b>	
Telco B.V.	<b>198</b>	–	<b>393</b>	
Nostrum Services Central Asia LLP	–	–	–	455
Nostrum Services CIS BVBA	–	–	–	130

On 28 July 2014 the Group entered into a contract with JSC “OGCC KazStroyService” (the “Contractor”) for the construction of the third unit of the Group’s gas treatment facility for a consideration of US\$150 million, which was amended with effect from 10 August 2015 by a supplementary agreement increasing that consideration to US\$160 million.

With effect from 1 August 2015 the Zhaikmunai LLP entered into a technical support & service agreement with the Contractor for an initial term ending on 31 December 2015 and an initial consideration of US\$3,375 thousand.

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

Management fees are payable in accordance with the Technical Assistance Agreements signed between Zhaikmunai LLP and Nostrum Services Central Asia LLP (formerly Amersham Oil LLP) and Nostrum Services CIS BVBA related to the rendering of geological, geophysical, drilling, technical and other consultancy services. Following the agreement on 19 May 2014 to acquire Nostrum Services Central Asia LLP and Nostrum Services CIS BVBA, these management fees were eliminated as intercompany transactions.

## Interim condensed consolidated financial statements

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

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During the nine months ended 30 September 2015 management and consulting services were provided in accordance with business centre and consultancy agreements signed between members of the Group and Cervus Business Services BVBA, Crest Capital Management N.V. and Telco B.V.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US\$3,161 thousand for the nine months ended 30 September 2015 (9M 2014: US\$3,526 thousand).

There were no payments made under the ESOP during the nine months ended 30 September 2015 (9M 2014: US\$769).

**24. CONTINGENT LIABILITIES AND COMMITMENTS****Taxation**

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

**Abandonment and site restoration (decommissioning)**

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

**Environmental obligations**

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

However, depending on any unfavourable 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 30 September 2015 the Group had contractual capital commitments in the amount of US\$185,608 thousand (31 December 2014: US\$248,644 thousand) mainly in respect to the Group's oil field exploration and 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.

## Interim condensed consolidated statements

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

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:

<i>In thousands of US Dollars</i>	<b>30 September 2015 (unaudited)</b>	31 December 2014 (audited)
No later than one year	<b>12,001</b>	14,788
Later than one year and no later than five years	<b>7,413</b>	17,671
Later than five years	–	–

Lease expenses of railway tank wagons for the nine months ended 30 September 2015 amounted to US\$11,824 thousand (9M 2014: US\$14,622 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 3 July 2015) require the subsurface user to:

- (i) spend US\$ 1,000 thousand for funding of development of Astana city in case of commercial discovery;
- (ii) invest at least US\$ 12,131 thousand for exploration of the field during the exploration period;
- (iii) reimburse historical costs of US\$ 383 thousand to the Government upon commencement of production stage;
- (iv) fund liquidation expenses equal to US\$ 161 thousand.

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

- (i) invest at least US\$ 18,502 thousand for exploration of the field during the exploration period;
- (ii) fund liquidation expenses equal to US\$ 64 thousand.

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

- (i) invest at least US\$ 29,971 thousand for exploration of the field during the exploration period;
- (ii) fund liquidation expenses equal to US\$ 177 thousand.

**Domestic oil sales**

## Interim condensed consolidated financial statements

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

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.

**25. 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	
	30 September 2015 (unaudited)	31 December 2014 (audited)	30 September 2015 (unaudited)	31 December 2014 (audited)
<i>In thousands of US Dollars</i>				
<b>Financial assets measured at fair value</b>				
Derivative financial instruments	84,035	60,301	84,035	60,301
<b>Financial liabilities measured at amortised cost</b>				
Interest bearing borrowings	(953,388)	(945,114)	(792,793)	(1,037,320)
<b>Total</b>	<b>(869,353)</b>	<b>(884,813)</b>	<b>(708,758)</b>	<b>(977,019)</b>

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

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

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

	30 September 2015 (unaudited)	31 December 2014 (audited)
Future price at the reporting date (US\$)	46.63-66.78	59.2-67.9
Historical volatility (%)	16	16.02-17.73
Risk-free interest rate (%)	0.28	0.25-0.67
Maturity (months)	1-5	3-15

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

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

## Interim condensed consolidated statements

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

	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)	(5,474)	5,495
Increase/(decrease) in gain on derivative financial instruments due to change in volatility rate assumption (+/- 2%)	11	10

**26. EVENTS AFTER THE REPORTING PERIOD**

On 7 October 2015, the Company announced that it had withdrawn its proposed offer to acquire the entire issued share capital of Tethys Petroleum Limited (“Tethys”).

In addition, on 27 October 2015, the Company announced that it had issued a notice of events of default to Tethys under the US\$5m loan agreement dated 10 August 2015 between the Company as lender and Tethys as borrower, that it had also issued an acceleration notice to Tethys making such loan immediately due and payable and that it had reserved all its rights and remedies in connection with such loan agreement.