Zhaikmunai LLP

Financial statements

For the year ended 31 December 2020

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Independent auditor's report

To the Board of directors and Participant of Zhaikmunai LLP

Opinion

We have audited the financial statements of Zhaikmunai LLP (hereinafter, the "Company"), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which indicates that the Company is the main operating entity within the Group Nostrum Oil & Gas PLC (hereinafter, the "Group"), the Group's Notes of $725 million fall due in July 2022, while the results of the discussions with bondholders, shareholders and the Government of the Republic of Kazakhstan to restructure the Group's debt and obtain requisite approvals and consents have not yet been concluded and the outcome of negotiations remains uncertain. As stated in note 2, these events or conditions, along with other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Estimation of oil and gas reserves and its impact on the impairment testing, depreciation, depletion and amortization (DD&A) and decommissioning provision	
We considered this matter to be one of the most significance in our audit due to the fact that reserves estimates are subjective in nature and have a pervasive impact on the financial statements through impairment testing, DD&A calculations and decommissioning provision estimate. The estimation of oil and gas reserves is a significant area of estimation due to the technical uncertainty in assessing reserves quantities. Reserves and resources are also a fundamental indicator of the future potential of the Company's performance and its ability to continue as a going concern. The estimation is potentially susceptible to management bias, including by recording results of estimates' revisions in the incorrect period. Management engaged independent petroleum engineers to perform a reserves audit. The Company's disclosures about oil and gas reserves, related impairment testing and decommissioning provision are included in Note 4, Note 6 and Note 16.	Our audit procedures have focused on management's estimation process, including whether bias exists in the determination of reserves. We performed evaluation of management's assumptions including commercial assumptions, in particular we: - obtained understanding of the Company's internal process and key controls associated with the oil and gas reserves estimation process. - held discussions with external specialists, engaged by the Company and assessed their competence and objectivity by inquiring of their qualifications, practical experience and independence. We have also assessed the competence of internal management's specialists. We checked the accuracy of the data transfer to the external specialist for audit. - analyzed management's commercial assumptions by comparing them to the publicly available benchmarks as well as actual and prior year data. We compared management's internal assumptions used in

reserves estimates to those adopted in the latest plans and budgets; we have also assessed management's capabilities to meet such plans by comparing prior periods' planned and actual results.

- reviewed the oil and gas reserves audit report prepared by the management's external specialist to understand the conclusion of their audit and any related audit findings. We performed direct inquiries of the management's external specialist.
- analyzed if the recognition of the downward revision in 2P reserves in the current year indicates bias towards overstating reserves estimates in the previous year, through understanding the factors that led to the change in the estimate.
- assessed whether the reserves estimates were included in the Company's consideration of oil and gas asset impairment testing, in accounting for DD&A and the determination of decommissioning dates.

Impairment of oil & gas assets

Owing to the reduction in the Company's reserves estimates and oil price volatility in 2020, there was a significant risk of further impairment to that recorded in 2019. We focused on this matter due to the significance of the carrying value of the assets being assessed, the current economic environment and the judgements involved in the key assumptions of the future prices of oil, natural gas and related products, the discount rate applied to future cash flow forecasts and the assumptions relevant to production volumes. The recoverable amount of the CGU is sensitive to changes in key inputs and assumptions.

There is also a risk that management may influence the development of significant judgements and estimates in respect of key assumptions in order to understate impairment to achieve targeted result.

In addressing the risk of impairment of oil & gas assets we involved our valuation specialists and analyzed management's impairment assessment by analyzing the key assumptions. We have:

- evaluated management's assessment of indicators of impairment or impairment reversal.
- walked through the controls designed by the Company relating to the assessment of the recoverable amount of oil & gas assets for impairment.
- assessed whether the value in use (VIU) or the fair value less costs of disposal (FVLCD) is the higher recoverable amount.
- tested the integrity of the discounted cash flow model with the assistance of our own specialists.

Building a better working world

Impairment charge in 2020 of $256 million was recorded (2019: $1,355 million).

Note 4 to the financial statements describes the significant accounting policies and Note 6 describes the details of oil & gas assets.

- evaluated the oil & gas prices and discount rate assumptions by comparing forecast price assumptions to the latest market evidence available, including forward curves, broker's estimates and other long-term price forecasts; and benchmarking the discount rate to the risks faced by the Company.
- considered the existence of any contradictory evidence to challenge the recoverable amount determined on the basis of the discounted cash flow model, including the Company's enterprise value.
- assessed the appropriateness of the oil and gas reserves and resources estimates, as described above in our report, and evaluated the risking factors applied in estimating the value associated with the contingent resources.
- assessed the valuation methodology for estimating the recoverable amount; specifically the value attributed to the contingent resources and the opportunity to fill the spare capacity of the Company's infrastructure.
- tested forecast cash flows by comparing the assumptions used within the impairment models to the approved budgets, business plans and other evidence of future intentions. We assessed the historical accuracy of management's budgets and forecasts by comparing them to actual performance.
- compared the exchange rate assumptions to external market data.
- evaluated management's sensitivity analysis in order to assess the potential impact of a range of reasonably possible outcomes. These sensitivities included adjustments to the discount rate, oil & gas prices, future production volumes, opex and capex assumptions.

- assessed the financial statement disclosures.

Other information included in the Company's 2020 Annual Report

Other information consists of the information included in the Company's 2020 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2020 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Board of directors of the Participant for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of directors of the Participant is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of directors of the Participant regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of directors of the Participant with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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From the matters communicated with the Board of directors of the Participant, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Paul Cohn.

Ernst & Young LLP

Paul Cohn
Audit Partner

Kairat Medetbayev Auditor	Rustamzhan Sattarov General Director Ernst and Young LLP
Auditor qualification certificate №МФ-0000137 dated 8 February 2013	State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

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27 April 2021

Statement of financial position

In thousands of US Dollars	Notes	**31 December 2020**	31 December 2019
Assets			
Non-current assets			
Property, plant and equipment, net	6	**339,406**	661,185
Right of use assets	7	**2,755**	6,875
Advances for non-current assets	8	**590**	1,368
Restricted cash	7	**7,713**	7,620
		350,464	677,048
Current assets			
Inventories	9	**28,805**	35,849
Prepayments and other current assets	10	**9,180**	10,609
Trade receivables	11	**13,540**	31,239
Cash and cash equivalents	12	**12,511**	13,716
		64,036	91,413
TOTAL ASSETS		**414,500**	768,461
Equity and liabilities			
Capital and reserves	13		
Partnership capital		**4,112**	4,112
Other reserves		**32,586**	32,586
Accumulated losses and reserves		**(845,518)**	(516,791)
		(808,820)	(480,093)
Non-current liabilities			
Long-term borrowings	14	**1,134,979**	1,100,573
Long-term finance guarantee	14	**1,559**	2,887
Long-term lease liability	15	**35**	641
Abandonment and site restoration provision	16	**28,936**	27,502
Due to Government of Kazakhstan	17	**4,832**	5,070
Deferred tax liability	27	**4,712**	40,924
		1,175,053	1,177,597
Current liabilities			
Current portion of long-term borrowings	14	**11,125**	4,013
Current portion of finance guarantee	14	**1,594**	1,594
Current portion of lease liability	15	**2,790**	6,735
Trade payables	18	**8,100**	29,395
Advances received		**186**	335
Current portion of due to Government of Kazakhstan	17	**1,031**	1,031
Other current liabilities	19	**23,441**	27,854
		48,267	70,957
TOTAL EQUITY AND LIABILITIES		**414,500**	768,461

General Director of Zhaikmunai LLP — *Zhomart Darkeev*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

The accounting policies and explanatory notes on pages 6 through 32 are an integral part of these financial statements

Statement of comprehensive income

In thousands of US Dollars	Notes	For the year ended 31 December **2020**	 2019
Revenue			
Revenue from export sales		**140,843**	218,511
Revenue from domestic sales		**35,096**	103,617
	20	**175,939**	322,128
Cost of sales	21	**(126,308)**	(174,204)
Gross profit		**49,631**	147,924
General and administrative expenses	22	**(6,892)**	(12,658)
Selling and transportation expenses	23	**(31,150)**	(46,362)
Taxes other than income tax	24	**(14,112)**	(22,930)
Finance costs	25	**(103,756)**	(46,747)
Impairment charge	4	**(256,386)**	(1,352,173)
Foreign exchange (loss) / gain, net		**(1,123)**	804
Interest income		**253**	86
Other income		**5,620**	8,411
Other expenses	26	**(6,885)**	(13,001)
Loss before income tax		**(364,800)**	(1,336,646)
Current income tax expense		**(139)**	(3,024)
Deferred income tax benefit		**36,212**	354,300
Income tax benefit	27	**36,073**	351,276
Loss for the year		**(328,727)**	(985,370)
Other comprehensive income for the year		**–**	–
Total comprehensive loss for the year		**(328,727)**	(985,370)

General Director of Zhaikmunai LLP — Zhomart Darkeev

Chief Accountant of Zhaikmunai LLP — Olga Shoshinova

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Statement of cash flows

In thousands of US Dollars	Notes	For the year ended 31 December 2020	2019
Cash flow from operating activities:			
Loss before income tax		**(364,800)**	(1,336,646)
Adjustments for:			
Depreciation, depletion and amortisation	21,22,23	**89,660**	143,077
Finance costs	25	**103,756**	46,747
Interest income		**(253)**	(86)
Impairment charge	4	**256,386**	1,352,173
Foreign exchange (gain)/loss on investing and financing activities		**(1,007)**	253
Loss on disposal of property, plant and equipment		**532**	116
Finance guarantee gain	14	**(1,328)**	(1,224)
Provision for doubtful debts		**40**	–
(Reversed) / accrued liabilities		**(328)**	3,934
Operating profit before working capital changes		**82,658**	208,344
Changes in working capital:			
Change in inventories		**7,044**	(6,265)
Change in trade receivables		**17,699**	4,493
Change in prepayments and other current assets		**1,389**	6,136
Change in trade payables		**(12,225)**	4,962
Change in advances received		**(149)**	(59)
Change in due to Government of Kazakhstan		**(1,031)**	(1,030)
Change in other current liabilities		**(4,171)**	(979)
Cash generated from operations		**91,214**	215,602
Income tax paid		**(1,031)**	(3,481)
Net cash flows from operating activities		**90,183**	212,121
Cash flow from investing activities:			
Interest received		**253**	86
Purchase of property, plant and equipment		**(26,501)**	(126,721)
Exploration and evaluation works		**(182)**	(983)
Advances for non-current assets		**778**	11,310
Net cash used in investing activities		**(25,652)**	(116,308)
Cash flow from financing activities:			
Finance costs paid	14	**(94,770)**	(100,647)
Payment of principal portion of lease liabilities		**(5,064)**	(14,831)
Finance charges on lease liabilities		**(354)**	(2,712)
Transfer to restricted cash		**(177)**	(599)
Proceeds from borrowings	14	**34,200**	29,650
Net cash used in financing activities		**(66,165)**	(89,139)
Effects of exchange rate changes on cash and cash equivalents		**429**	(17)
Net (decrease) / increase in cash and cash equivalents		**(1,205)**	6,657
Cash and cash equivalents at the beginning of the year		**13,716**	7,059
Cash and cash equivalents at the end of the year	12	**12,511**	13,716

General Director of Zhaikmunai LLP

Zhomart Darkeev

Chief Accountant of Zhaikmunai LLP

Olga Shoshinova

The accounting policies and explanatory notes on pages 6 through 32 are an integral part of these financial statements

Statement of changes in equity

In thousands of US Dollars	Partnership capital	Other reserves	Retained earnings/ (Accumulated losses)	Total
As at 1 January 2019	**4,112**	**32,586**	**468,579**	**505,277**
Loss for the year	–	–	(985,370)	(985,370)
Total comprehensive loss for the year	–	–	(985,370)	(985,370)
As at 31 December 2019	**4,112**	**32,586**	**(516,791)**	**(480,093)**
Loss for the year	–	–	(328,727)	(328,727)
Total comprehensive loss for the year	–	–	(328,727)	(328,727)
As at 31 December 2020	**4,112**	**32,586**	**(845,518)**	**(808,820)**

General Director of Zhaikmunai LLP — *Zhomart Darkeev*

Chief Accountant of Zhaikmunai LLP — *Olga Shoshinova*

The accounting policies and explanatory notes on pages 6 through 32 are an integral part of these financial statements

Notes to the financial statements

1. General

Overview

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

On 28 February 2014 the Partnership acquired in a transaction under common control 1,000 ordinary shares of Nostrum Oil & Gas Finance B.V., representing 100% of its charter capital, from Nostrum Oil & Gas B.V. (formerly known as Zhaikmunai Netherlands B.V.), an entity under control of a common parent. In 2014 the Partnership sold 100% interest in its dormant subsidiaries Zhaikmunai Finance B.V., Zhaikmunai International B.V. and Nostrum Oil & Gas Finance B.V. to Nostrum Oil & Gas B.V.

On 28 December 2018, the Partnership acquired 100% interest in Atom&Co LLP for cash consideration of US$ 1.7 million for the main purpose of gaining control over the administrative office in Uralsk. This transaction has been accounted as an asset acquisition, which was under finance lease with this entity (Note 28).

On 20 August 2019, the Partnership merged with Atom & Co LLP, its single subsidiary. Therefore, comparative financial information for the year ended 31 December 2019 presented in these financial statements are prepared on consolidated basis under IFRS 10 Consolidated financial statements and include net assets of Atom & Co LLP for the pre-merger period when it was a subsidiary of the Partnership. Subsequent to the merger the Partnership does not have any subsidiaries and, therefore, no longer applies IFRS 10 Consolidated financial statements.

The Partnership's operations comprise of a single operating segment and 1 (one) additional exploration concession located in Kazakhstan.

The Partnership does not have an ultimate controlling party. The indirect parent of the Partnership is Nostrum Oil & Gas PLC ("the Parent"), which is a public limited company incorporated in England and Wales and listed on the London Stock Exchange. Nostrum Oil & Gas PLC and its wholly-owned subsidiaries are hereinafter referred to as "the Group".

The registered legal address of the Partnership is: 43/1, Aleksandr Karev street, Uralsk, the Republic of Kazakhstan.

These financial statements were authorised for issue by the Partnership's General Director and Chief Accountant on 27 April 2021.

Subsoil use rights terms

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

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

The term of the Chinarevskoye subsoil use rights originally included a 5-year exploration period and a 25-year production period. Subsequently the exploration period for the Bobrishovskiy reservoir was extended to 26 August 2018, which was followed by production period.

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

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

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. Subsequently, the exploration period was extended until 31 December 2021. In October 2020, the rights and obligations related to the Yuzhno-Gremyachinskoye field were disposed of to a third party.

Royalty payments

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

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

Notes to the financial statements (continued)

Government "profit share"

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

2. Basis of preparation

Basis of preparation

These financial statements for the year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

The 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 financial statements are presented in US dollars and all values are rounded to the nearest thousand, except when otherwise indicated.

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

Going concern

The Partnership is the main operating entity within the Group. The Partnership's liquidity and its ability to continue in operation and to meet its liabilities as they become due for the foreseeable future, a period of not less than 12 months from the date of this report, are assessed as part of the Group. Therefore, the following Group level going concern matters and analysis, which were considered by the directors of the Parent (the 'Directors'), are directly relevant for the Partnership.

The Group monitors on an ongoing basis its liquidity position, near-term forecasts and key financial ratios to ensure that sufficient funds are available to meet its commitments as they arise and liabilities as they fall due. In addition, since April 2020, the Group has performed monthly sensitivity tests of its liquidity position for changes in product prices, production volumes and any other significant variables. Whilst looking for new opportunities to fill the spare capacity of the Group's infrastructure, the Directors are also focused on a range of actions aimed at improving the liquidity outlook in the near-term. These include efforts to restructure the Group's US$725 million 8.0% Senior Notes due July 2022 and/or its US$400 million 7.0% Senior Notes due February 2025 (the 'Notes'), as well as further cost optimization to reduce capital expenditures, operating costs and general and administration cost.

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

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

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

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

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

The Forbearance Agreement is subject to certain conditions, including:

- Any representation or warranty made by any of the Note Parties under the Forbearance Agreement continuing to be true and complete in all material respects as of the date of the Forbearance Agreement;
- The opening of a secured account into which a portion of the missed interest payments was paid. At the date of these financial statements, the full amount of US$21,541,990 required by the Forbearance Agreement has been transferred into secured account and is treated as restricted cash. The amount transferred as at 31 December 2020 was US$12,900,000;

Notes to the financial statements (continued)

- The appointment by the AHG of an observer who shall be entitled to attend and speak, but not vote, at any meetings of the Board or Committees of the Group where certain defined matters are to be discussed;
- The engagement of certain professional and technical advisors on behalf of the AHG;
- The observance by the Parent and its subsidiaries of certain operating and other restrictions and limitations; and
- The provision of certain financial and operating information to the advisors of the AHG.

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

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

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

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

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

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

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

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

After careful consideration of these material uncertainties, and on the basis that a restructuring of the Notes to an affordable level is increasingly likely, the Directors are satisfied that the Group has sufficient resources to continue in operation for the going concern period to 30 June 2022, a period of not less than 12 months from the date of publication of these financial statements. For these reasons, they continue to adopt the going concern basis in preparing the financial statements. Accordingly, the financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group and therefore the Partnership were unable to continue as a going concern.

Notwithstanding that the going concern period has been defined as the period to 30 June 2022, the Directors have considered events and conditions beyond the period of assessment which may cast doubt on the Group's ability to continue as a going concern. In the event that the Group is unable successfully to restructure its Notes, then under all reasonable assumptions the Group will be unable to meet its US$725m debt liability due in July 2022.

3. Changes in accounting policies and disclosures

New standards, interpretations and amendments adopted by the Partnership

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

Notes to the financial statements (continued)

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the financial statements of the Partnership, but may impact future periods should the Partnership enter into any business combinations.

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

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

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Partnership.

Conceptual Framework for Financial Reporting issued on 29 March 2018

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

Amendments to IFRS 16 Covid-19 Related Rent Concessions

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

Standards issued but not yet effective

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

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

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

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

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

Reference to the Conceptual Framework – Amendments to IFRS 3

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

Notes to the financial statements (continued)

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

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

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

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

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

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

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

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

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

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

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

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

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

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

4. Summary of significant accounting policies

Exploration expenditure

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

Notes to the financial statements (continued)

Significant estimates and assumptions: Exploration expenditure

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

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

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

The Partnership owns the Rostoshinskoye licence in the Western Kazakhstan region, where the exploration periods will expire on 16 August 2022. More detailed information on the subsoil use rights terms is disclosed in Note 1.

Property, plant and equipment

Oil and gas properties

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

The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. When a development project moves into the production stage, the capitalisation of certain construction/development costs ceases, and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to oil and gas property asset additions, improvements or new developments. All capitalised costs of oil and gas properties are depleted using the unit-of-production method based on estimated proved developed reserves of the field, except the Partnership 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.

Significant accounting judgment: oil and gas reserves

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

Significant estimates and assumptions: oil and gas reserves

The Partnership uses internal estimates to assess the oil and gas reserves of its fields. The reserves estimates are made in accordance with the methodology of the Society of Petroleum Engineers (the "SPE") and are confirmed or audited by independent reserve engineers. All reserve estimates involve some degree of uncertainty, which depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data, as well as long-term hydrocarbon pricing, which may affect classification of reserves.

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

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

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

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

Notes to the financial statements (continued)

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

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

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

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

Other properties

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

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

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

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

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

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

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

Significant accounting judgment: identification of cash-generating unit

Judgement is required to identify cash-generating units for the purpose of testing the assets for impairment. Management has determined a single cash-generating unit within the Partnership's non-current assets consisting of all Partnership's assets related to its Chinarevskoye and exploration fields as well as facilities. This is mainly based on the fact that hydrocarbons extracted from the Chinarevskoye field are processed and passed through a combination of various facilities, and in the future it is expected that hydrocarbons from other fields and external parties would pass through same set of various facilities.

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

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

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

The discounted cash flow model takes into consideration cashflows, which are expected to arise until 2032, i.e. during the licence term of the Chinarevskoye field, and is considered a level 3 valuation under the fair value hierarchy. The period exceeding five years is believed to be

Notes to the financial statements (continued)

appropriate based on the proved and probable reserves audited by independent engineers. The model also takes into account risked-value cashflows from contingent resources on the basis a market participant would place value on these resources.

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

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

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

The CGUs recoverable amount was estimated, and compared to its carrying amount, and a further impairment charge on oil and gas assets in the amount of US$256,207 thousand was recorded as at 31 December 2020, in addition to the US$1,301,640 thousand and US$117,575 thousand impairment charge recognized in 2019 and 2018, respectively. Following a consistent approach, the impairment charge in 2020 has been allocated between working oil & gas assets (Note 6), construction in progress (Note 6) and other property, plant and equipment (Note 6) proportionate to their carrying amounts at 31 December 2020, resulting in the recoverable amount of property, plant and equipment of US$339,406 thousand (2019: US$661,185 thousand), equalling its recoverable amount.

The impairment charge has been allocated as follows:

	For the year ended 31 December	
In thousands of US Dollars	2020	2019
Working oil and gas assets	223,695	1,169,828
Construction in progress	27,031	106,825
Other property, plant and equipment	5,481	24,987
	256,207	1,301,640
Exploration and evaluation assets	179	50,533
Exploration and evaluation related VAT assets	–	2,478
	256,386	1,354,651

Considering the significant volatilities in oil prices over the past 12 months, the Group has analysed the sensitivity of the recoverable amount to a scenario where the oil price decrease by US$10/bbl throughout the license period and noted that this would result in a further impairment charge of US$ 103,892 thousand. Additionally, further downgrades of reserves by 10%, or an increase in the post-tax discount rate by 3.5% would lead to US$125,278 thousand and US$62,417 thousand additional impairment charge, respectively, while increase in operating costs by 10% throughout the license period would lead to further impairment charge of US$50,963 thousand.

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

More detailed information related to carrying values of oil and gas properties and related depreciation, depletion, amortisation and impairment are shown in Note 6.

Leases

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

Right-of-use assets

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

Notes to the financial statements (continued)

Lease liabilities

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

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

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

Separation of lease and non-lease components

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

Distinguishing fixed and variable lease payment elements

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

Short-term leases and leases of low-value assets

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

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 Partnership establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authority. 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 Partnership and the tax authority.

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 comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

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

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

Deferred 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.

Notes to the financial statements (continued)

For more detailed information on current and deferred income tax disclosure as at 31 December 2020 and 2019, please see Note 27.

Significant accounting judgment: taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2020.

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

As at 31 December 2020 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Partnership's tax position will be sustained. To the extent that actual outcomes differ from management's estimates, income tax charges or credits, and changes in current and deferred tax assets or liabilities, may arise in future periods. For more information, see Note 27.

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 Partnership is the United States dollar (the "US dollar" or "US$").

Transactions in foreign currencies are initially recorded by the Partnership at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling 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.

Borrowing costs

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

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

Advances for non-current assets

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

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

Inventories

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

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

Other current liabilities

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

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

Notes to the financial statements (continued)

Provisions and contingencies

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

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

The Partnership does not recognise contingent liabilities but discloses contingent liabilities in Note 29, unless the possibility of an outflow of resources embodying economic benefits is remote.

Significant accounting judgment: provisions and contingencies

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

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

Decommissioning

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

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

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

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

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

Movements in the abandonment and site restoration provision are disclosed in Note 16.

Significant estimates and assumptions: provisions and contingencies

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

Management made its estimates based on the assumption that cash flow will take place at the expected end of the subsoil use rights. Therefore, the most decommissioning events are many years in the future and the precise date of wells abandonment and site restoration may change with the relative impact on the cash outflows. Management of the Partnership believes that the long-term US treasury real yield curve rates adjusted for country risk premium of Kazakhstan provides the best estimates of applicable real discount rate. Any changes in the expected future costs are reflected in both the provision and the asset. Moreover, actual decommissioning costs can differ from estimates because of constantly changing decommissioning technologies as well as changes in environmental laws and regulations and

Notes to the financial statements (continued)

public expectations. As a result, there could be significant adjustments to the provisions established which would affect future financial results. For more details on abandonment and site restoration provision please refer to Note 16.

Financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

Derecognition

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

- The rights to receive cash flows from the asset have expired; or
- The Partnership 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 Partnership has transferred substantially all the risks and rewards of the asset, or (b) the Partnership has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Notes to the financial statements (continued)

Impairment of financial assets

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

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

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

Financial liabilities

Initial recognition, measurement and derecognition

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

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

The Partnership's financial liabilities include trade and other payables, long-term borrowings and lease liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

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

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

Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

Financial liabilities at amortised cost (loans and borrowings)

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

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

This category generally applies to interest-bearing borrowings. For more information, refer to Note 14.

Derecognition

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

Offsetting of financial instruments

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

Notes to the financial statements (continued)

Cash and short-term deposits

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

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

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

Revenue recognition

The Partnership 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 Partnership sells gas under agreements at fixed prices.

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

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

5. Exploration and evaluation assets

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

In thousands of US Dollars	31 December 2020	31 December 2019
Subsoil use rights	3,414	15,835
Expenditures on geological and geophysical studies	8,651	34,698
Impairment	(12,065)	(50,533)
	–	–

During the year ended 31 December 2020 the Partnership had additions to exploration and evaluation assets of US$245 thousand which mainly includes capitalised social and training commitment expenditures (2019: US$920 thousand offset with derecognition of the capitalised social expenditures US$628 thousand in the view of the amendments to the subsoil agreement for Rostoshinskoye field). Interest was not capitalised on exploration and evaluation assets.

During the year ended 31 December 2020, the Partnership has written-off accumulated costs in the amount of US$ 179 thousand against respective impairment in relation to certain exploration and evaluation works on Rostoshinskoye field.

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

6. Property, plant and equipment

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

In thousands of US Dollars	31 December 2020	31 December 2019
Oil and gas properties	332,145	648,495
Other property, plant and equipment	7,261	12,690
	339,406	661,185

Notes to the financial statements (continued)

Oil and gas properties

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

In thousands of US Dollars	Working assets	Construction in progress	Total
Balance at 1 January 2019, net of accumulated depreciation, depletion and impairment	1,083,317	803,527	1,886,844
Additions	15,044	156,405	171,449
Transfers	839,331	(842,083)	(2,752)
Disposals	(90)	–	(90)
Disposals depreciation	41	–	41
Depreciation and depletion charge	(130,344)	–	(130,344)
Impairment charge	(1,169,828)	(106,825)	(1,276,653)
Impairment transfers	(43,234)	43,234	–
Balance at 31 December 2019, net of accumulated depreciation, depletion and impairment	594,237	54,258	648,495
Additions	1,641	16,511	18,152
Transfers	68,971	(68,971)	–
Disposals	(144)	–	(144)
Disposals depreciation	127	–	127
Depreciation and depletion charge	(83,878)	–	(83,878)
Impairment transfers	(60,923)	61,042	119
Impairment charge	(223,695)	(27,031)	(250,726)
Balance at 31 December 2020, net of accumulated depreciation, depletion and impairment	296,336	35,809	332,145
As at 31 December 2018			
Cost	1,961,397	803,527	2,764,924
Accumulated depreciation, depletion and impairment	(878,080)	–	(878,080)
Balance, net of accumulated depreciation, depletion and impairment	1,083,317	803,527	1,886,844
As at 31 December 2019			
Cost	2,883,423	167,684	3,051,107
Accumulated depreciation, depletion and impairment	(2,289,186)	(113,426)	(2,402,612)
Balance, net of accumulated depreciation, depletion and impairment	594,237	54,258	648,495
As at 31 December 2020			
Cost	2,953,891	115,224	3,069,115
Accumulated depreciation, depletion and impairment	(2,657,555)	(79,415)	(2,736,970)
Balance, net of accumulated depreciation, depletion and impairment	296,336	35,809	332,145

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

The depletion rate for oil and gas working assets was 15.39%% and 12.04% in 2020 and 2019, respectively. The Partnership engaged independent petroleum engineers to perform a reserves audit as at 31 December 2020. Depletion has been calculated using the unit of production method based on these reserves estimates.

The change in the long-term inflation rate and discount rate used to determine the abandonment and site restoration provision (Note 16) in the year ended 31 December 2020 resulted in the increase of the oil and gas properties by US$ 1,537 thousand (31 December 2019: an increase of US$ 4,354 thousand). The Partnership incurred borrowing costs including amortisation of arrangement fees. Capitalisation rate and capitalised borrowing costs were as follows as at 31 December 2020 and 31 December 2019:

In thousands of US Dollars	31 December 2020	31 December 2019
Borrowing costs including amortisation of arrangement fee	102,877	100,220
Capitalisation rate	9.26%	9.32%
Capitalised borrowing costs	426	55,691

As at 31 December 2020 the Partnership's property, plant and equipment of US$ 219,501 thousand were pledged as security for the loans due to Nostrum Oil & Gas Finance B.V. (Note 14) (31 December 2019: US$ 229,176 thousand).

Notes to the financial statements (continued)

Other property, plant and equipment

In thousands of US Dollars	Buildings	Machinery & equipment	Vehicles	Others	Total
Balance at 1 January 2019, net of accumulated depreciation, depletion and impairment	28,082	3,994	643	6,699	39,418
Additions	–	564	–	1,231	1,795
Transfers	135	25	–	2,592	2,752
Disposals	(33)	(68)	(16)	(466)	(583)
Disposals depreciation	33	26	7	450	516
Depreciation	(3,867)	(1,087)	(142)	(1,125)	(6,221)
Impairment charge	(16,147)	(2,291)	(326)	(6,223)	(24,987)
Balance at 31 December 2019, net of accumulated depreciation and impairment	8,203	1,163	166	3,158	12,690
Additions	8	1,035	–	441	1,484
Transfers	28	(47)	–	19	–
Disposals	(385)	(249)	–	(260)	(894)
Disposals depreciation	376	242	–	232	850
Depreciation	(782)	(188)	(24)	(275)	(1,269)
Impairment transfers	–	–	–	(119)	(119)
Impairment charge	(3,226)	(841)	(61)	(1,353)	(5,481)
Balance at 31 December 2020, net of accumulated depreciation and impairment	4,222	1,115	81	1,843	7,261
As at 31 December 2018					
Cost	50,602	20,410	1,566	14,881	87,459
Accumulated depreciation	(22,520)	(16,416)	(923)	(8,182)	(48,041)
Balance, net of accumulated depreciation and impairment	28,082	3,994	643	6,699	39,418
As at 31 December 2019					
Cost	49,598	20,931	1,551	18,239	90,319
Accumulated depreciation and impairment	(41,395)	(19,768)	(1,385)	(15,081)	(77,629)
Balance, net of accumulated depreciation and impairment	8,203	1,163	166	3,158	12,690
As at 31 December 2020					
Cost	49,249	21,670	1,551	18,439	90,909
Accumulated depreciation and impairment	(45,027)	(20,555)	(1,470)	(16,596)	(83,648)
Balance, net of accumulated depreciation and impairment	4,222	1,115	81	1,843	7,261

7. Right-of-use assets

In thousands of US Dollars	Machinery & equipment	Vehicles	Total
Balance at 1 January 2019, net of accumulated depreciation	26,825	7,359	34,184
Modification of lease agreements	(1,467)	(16)	(1,483)
Termination of lease agreements	(10,086)	–	(10,086)
Depreciation	(12,089)	(3,651)	(15,740)
Balance at 1 January 2020, net of accumulated depreciation	3,183	3,692	6,875
Modification of lease agreements	2,370	(1,857)	513
Depreciation	(2,883)	(1,750)	(4,633)
Balance at 31 December 2020, net of accumulated depreciation	2,670	85	2,755
As at 31 December 2019			
Cost	7,643	7,339	14,982
Accumulated depreciation	(4,460)	(3,647)	(8,107)
Balance, net of accumulated depreciation	3,183	3,692	6,875
As at 31 December 2020			
Cost	2,670	698	3,368
Accumulated depreciation	–	(613)	(613)
Balance, net of accumulated depreciation	2,670	85	2,755

The right-of-use assets are recognized for leases of vehicles and railway cars based on the amount equal to the lease liabilities. See Note 15 for lease liabilities.

Notes to the financial statements (continued)

8. Advances for non-current assets

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

In thousands of US Dollars	31 December 2020	31 December 2019
Advances for construction services	480	441
Advances for pipes and construction materials	110	927
	590	1,368

9. Inventories

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

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

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

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

10. Prepayments and other current assets

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

In thousands of US Dollars	31 December 2020	31 December 2019
VAT receivable	4,521	2,732
Advances paid	2,781	5,357
Other taxes receivable	1,502	1,713
Other	376	807
	9,180	10,609

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

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

11. Trade receivables

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

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

12. Cash and cash equivalents

In thousands of US Dollars	31 December 2020	31 December 2019
Current accounts in US Dollars	9,980	12,954
Current accounts in Tenge	2,527	712
Current accounts in other currencies	–	45
Petty cash	4	5
	12,511	13,716

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

Notes to the financial statements (continued)

13. Partnership capital and reserves

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

On 23 May 2014, Nostrum Oil & Gas Coöperatief U.A. made a contribution to the charter capital of the Partnership in the amount of 749,400 thousand tenge, equivalent to US$ 4,108 thousand.

On 21 April 2016 Zhaikmunai LLP bought back the 0.036% interest in the Partnership formerly held by Claydon Industrial Limited for US$ 220 thousand and the 0.044% interest formerly held by Nostrum Associated Investments LLP for KZT 92,526 thousand (equivalent to US$ 274 thousand).

On 30 June 2016 the Partnership sold the repurchased interest of 0.08% to Nostrum Oil & Gas Coöperatief U.A. for US$ 640 thousand. The surplus on the sale was recorded in other reserves. As the result of the transactions Nostrum Oil & Gas Coöperatief U.A. became the sole participant of the Partnership.

14. Borrowings

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

In thousands of US Dollars	31 December 2020	31 December 2019
Notes issued in 2012 and maturing 2033	559,820	559,714
Notes issued in 2014 and maturing in 2033	399,472	399,372
Nostrum Oil & Gas Finance B.V.	186,812	145,500
	1,146,104	1,104,586
Less amounts due within 12 months	(11,125)	(4,013)
Amounts due after 12 months	1,134,979	1,100,573

2012 and 2014 Notes

On 13 November 2012, Zhaikmunai International B.V. issued US$ 560,000 thousand notes (the "2012 Notes"). On 24 April 2013 Zhaikmunai LLP replaced Zhaikmunai International B.V. as issuer of the 2012 Notes and assumed all of the obligations of the issuer under the 2012 Notes.

On 14 February 2014, Nostrum Oil & Gas Finance B.V. issued US$ 400,000 thousand notes (the "2014 Notes"). On 6 May 2014, Zhaikmunai replaced Nostrum Oil & Gas Finance B.V. as issuer of the 2014 Notes and assumed all of the obligations of the issuer under the 2014 Notes.

On 17 February 2018, the outstanding 2012 Notes and the 2014 Notes held by persons other than Nostrum Oil & Gas PLC and its subsidiaries were purchased from the bondholders by Nostrum Oil & Gas Finance B.V.

On 2 May 2018, certain amendments to the terms and conditions of the 2012 and 2014 Notes became effective, whereby the interest rate on the 2012 and 2014 Notes was changed to 9.5%, being effective from 19 February 2018. The maturity dates of the 2012 and 2014 were moved to 25 June 2033 and 14 January 2033, respectively.

Interest on the 2012 and 2014 Notes is payable on 14 June and 14 December of each year.

Guarantee of 2017 Notes

On 25 July 2017, Nostrum Oil & Gas Finance B.V., an indirect wholly-owned subsidiary of Nostrum Oil & Gas PLC, issued US$ 725,000 thousand notes (the "2017 Notes").

The 2017 Notes are jointly and severally guaranteed on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V.

As at 25 July 2017, the Partnership recognised the granted guarantee liability at the fair value of US$ 5,177 thousand, which is present value of the guarantee premium estimated based on the assessment of credit risk of the 2017 Issuer. The present value of the estimated guarantee premium is discounted by the 2017 Notes' interest rate. During the year ended 31 December 2020, the Partnership recognised guarantee gain in the amount of US$ 1,059 thousand and the outstanding balance as at 31 December 2020 of the guarantee, both current and non-current totaled US$ 1,829 thousand (31 December 2019: US$ 2,888 thousand).

Guarantee of 2018 Notes

On 16 February 2018, Nostrum Oil & Gas Finance B.V. issued US$ 400,000 thousand notes (the "2018 Notes").

The 2018 Notes are jointly and severally guaranteed on a senior basis by Zhaikmunai LLP, Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A. and Nostrum Oil & Gas B.V.

As at 16 February 2018, the Partnership recognised the granted guarantee liability at the fair value of US$ 2,057 thousand, which is present value of the guarantee premium estimated based on the assessment of credit risk of the 2018 Issuer. The present value of the estimated guarantee premium is discounted by the 2018 Notes' interest rate. During the year ended 31 December 2020, the Partnership recognized guarantee gain in the amount of US$ 269 thousand and the outstanding balance as at 31 December 2020 of the guarantee, both current and non-current totaled US$ 1,324 thousand (31 December 2018: US$ 1,658 thousand).

Notes to the financial statements (continued)

Loans due to Nostrum Oil & Gas B.V.

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

On 15 September 2009 Frans van der Schoot B.V. provided an additional loan of US$ 261,650 thousand at then prevailing interest rate of 2.6% per year.

Subsequently, the interest rate was changed to 6.625% and the maturity date was moved to 31 December 2032.

The outstanding balance of the loan as at 31 December 2020 has an interest rate of 6.625% (31 December 2019: 6.625%).

With effect from 1 October 2019, under the intra-group loan agreement, the rights in respect of outstanding nominal amounts and unpaid interest were transferred from Nostrum Oil & Gas B.V. to Nostrum Oil & Gas Finance B.V. During the year ended 31 December 2020 the Partnership received additionally borrowed US$ 34,200 thousand from Nostrum Oil & Gas Finance B.V. in several instalments.

Changes in borrowings arising from financing activities are as follows:

In thousands of US Dollars	1 January 2020	Cash inflows	Cash outflows	Borrowing costs including amortisation of arrangement fees	Finance charges under leases	Modification and termination of leases	Other	31 December 2020
Long-term borrowings	1,100,573	34,200	–	206	–	–		1,134,979
Current portion of long-term borrowings	4,013	–	(94,770)	102,672	–	–	(790)	11,125
Long-term lease liability	641	–	–	–	354	513	(1,473)	35
Current portion of long-term lease liability	6,735	–	(5,418)	–	–	–	1,473	2,790
	1,111,962	34,200	(100,188)	102,878	354	513	(790)	1,148,929

In thousands of US Dollars	1 January 2019	Cash inflows	Cash outflows	Borrowing costs including amortisation of arrangement fees	Finance charges under leases	Modification and termination of leases	Other	31 December 2019
Long-term borrowings	1,070,736	29,650	–	187	–	–	–	1,100,573
Current portion of long-term borrowings	4,627	–	(100,647)	100,033	–	–	–	4,013
Long-term lease liability	16,216	–	–	–	–	(11,997)	(3,578)	641
Current portion of long-term lease liability	17,968	–	(17,543)	–	2,732	–	3,578	6,735
	1,109,547	29,650	(118,190)	100,220	2,732	(11,997)	–	1,111,962

15. Lease liabilities

In thousands of US Dollars	31 December 2020	31 December 2019
Lease liability as at 1 January	7,376	34,184
Modification of lease agreements	513	(1,483)
Termination of lease agreements	–	(10,514)
Finance charges	354	2,732
Paid during the period	(5,418)	(17,543)
	2,825	7,376
Less amounts due within 12 months	(2,790)	(6,735)
Amounts due after 12 months	35	641

The lease liabilities are recognized for leases of vehicles, drilling rigs, and railway cars previously classified as operating leases, service expenses or finance lease under IAS 17. The lease liability was recognized based on the future rentals as determined under IFRS 16. See Note 7 for right-of-use-assets.

In 2019, as a result of the early termination of the drilling rigs lease agreements the relevant right-of-use assets and respective lease liabilities were derecognized with net result reflected within profit and loss. In 2020 extension of the lease of railway cars has been recognized as additional right-of-use assets and respective lease liabilities in the amount of US$2,370 thousand were added (Note 7). Also, in 2020 there were modifications of the vehicle lease agreements which led to decrease in the relevant right-of-use assets and respective lease liabilities in the amount of US$1,857 thousand (Note 7).

The total cash outflows in respect of the Partnership's lease arrangements was US$5,418 thousand for the year ended 31 December 2020 (2019: US$17,684 thousand).

Notes to the financial statements (continued)

16. Abandonment and site restoration provision

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

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

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

The real discount rate used to determine the abandonment and site restoration provision at 31 December 2020 was 0.98% (31 December 2019: inflation and discount rates of 1.9% and 2.49%, respectively).

The change in the long-term inflation rate and discount rate in the year ended 31 December 2020 resulted in the increase of the abandonment and site restoration provision by US$ 1,537 thousand (31 December 2019: the increase by US$4,354 thousand).

17. Due to government of Kazakhstan

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

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

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

In thousands of US Dollars	31 December 2020	31 December 2019
Due to Government of Kazakhstan as at 1 January	6,101	6,311
Unwinding of discount	793	820
Paid during the year	(1,031)	(1,030)
	5,863	6,101
Less: current portion of due to Government of Kazakhstan	(1,031)	(1,031)
Due to Government of Kazakhstan as at 31 December	4,832	5,070

18. Trade payables

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

In thousands of US Dollars	31 December 2020	31 December 2019
Tenge denominated trade payables	4,295	15,292
Euro denominated trade payables	2,023	4,325
US Dollar denominated trade payables	1,776	9,646
Russian Rouble denominated trade payables	6	132
	8,100	29,395

Notes to the financial statements (continued)

19. Other current liabilities

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

In thousands of US Dollars	31 December 2020	31 December 2019
Training obligations accrual	10,088	11,325
Taxes payable, including corporate income tax	7,238	8,079
Other accruals	3,026	4,419
Due to employees	1,548	1,974
Accruals under the subsoil use agreements	993	1,270
Other current liabilities	548	787
	23,441	27,854

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

20. Revenue

In thousands of US Dollars	2020	2019
Revenue from oil and gas condensate sales	123,861	196,175
Revenue from gas and LPG sales	52,078	125,948
Revenue from sulphur sales	–	5
	175,939	322,128

The pricing for all of the Partnership'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 year ended 31 December 2020 was US$43.2 (2019: US$64.2).

During the year ended 31 December 2020 the revenue from sales to three major customers amounted to US$118,861 thousand, US$29,748 thousand and US$7,386 thousand respectively (2019: US$190,343 thousand, US$96,064 thousand and US$9,252 thousand respectively). The Partnership's exports are mainly represented by deliveries to Belarus and the Baltic ports of Russia.

21. Cost of sales

In thousands of US Dollars	2020	2019
Depreciation, depletion and amortisation	86,296	136,776
Payroll and related taxes	10,885	12,781
Repair, maintenance and other services	10,789	14,173
Management fees	4,103	7,811
Materials and supplies	3,974	4,499
Transportation services	1,907	2,094
Well workover costs	493	2,077
Environmental levies	114	167
Change in stock	7,279	(6,153)
Other	468	(21)
	126,308	174,204

22. General and administrative expenses

In thousands of US Dollars	2020	2019
Payroll and related taxes	2,734	3,493
Management fees	1,620	2,570
Professional services	869	2,047
Depreciation and amortisation	483	1,812
Insurance fees	465	989
Communication	183	276
Materials and supplies	139	157
Business travel	66	147
Bank charges	53	82
Lease payments	–	33
Other	280	1,052
	6,892	12,658

Notes to the financial statements (continued)

23. Selling and transportation expenses

In thousands of US Dollars	2020	2019
Transportation costs	12,760	12,405
Loading and storage costs	8,813	11,783
Marketing services	4,260	11,560
Depreciation	2,881	4,489
Payroll and related taxes	1,077	1,763
Other	1,359	4,362
	31,150	46,362

24. Taxes other than income tax

In thousands of US Dollars	2020	2019
Royalties	7,016	12,802
Export customs duty	5,017	7,281
Government profit share	2,044	2,802
Other taxes	35	45
	14,112	22,930

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.

25. Finance costs

In thousands of US Dollars	2020	2019
Interest expense on borrowings	102,451	44,529
Unwinding of discount on amounts due to Government of Kazakhstan	793	820
Unwinding of discount on lease liability	354	1,234
Unwinding of discount on abandonment and site restoration provision	158	164
	103,756	46,747

26. Other expenses

Other expenses comprise the following:

In thousands of US Dollars	2020	2019
Other taxes of the previous periods and penalties	3,820	1,873
Training	890	2,808
Loss on disposal of property, plant and equipment	521	96
Loss on disposal and impairment of inventories	392	24
Social program	337	313
Currency converting	196	211
Accruals under subsoil use agreements	113	1,181
Compensation	–	3,576
Impairment of tax asset	–	2,480
Sponsorship	–	77
Other	616	362
	6,885	13,001

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

27. Income tax

The income tax expense comprised the following:

In thousands of US Dollars	2020	2019
Deferred income tax benefit	(36,212)	(354,300)
Corporate income tax expense	596	3,096
Adjustment in respect of the current income tax for the prior periods	(457)	(72)
Total income tax benefit	(36,073)	(351,276)

The Partnership's profits are assessed for income taxes only 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:

Notes to the financial statements (continued)

In thousands of US Dollars	2020	2019
Loss before income tax	(364,800)	(1,336,646)
Tax rate applicable to the subsoil use rights	30%	30%
Expected tax provision	(109,440)	(400,994)
Effect of exchange rate on the tax base	15,653	13,302
Adjustments in respect of current income tax of previous years	(457)	(72)
Non-deductible interest expense on borrowings	27,798	26,210
Non-deductible impairment charges*	54	9,012
Non-deductible penalties	932	484
Previous period tax base adjustment	28,429	–
Net foreign exchange gain	337	(241)
Other non-deductible expenses	621	1,023
Income tax benefit reported in the financial statements	(36,073)	(351,276)

** The Partnership has not recognized deferred tax assets on the deductible temporary differences related to the exploration and evaluation assets in the amount of US$ 9,012 thousand in 2019.*

The Partnership's effective tax rate for the year ended 31 December 2020 is 9.9% (2019: 26.3%). The Partnership's effective tax rate, excluding effect of movements in exchange rates and non-deductible interest expense on borrowings, for the year ended 31 December 2020 is 21.8% (2019: 29.2%).

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 financial statements and are comprised of the following:

In thousands of US Dollars	2020	2019
Deferred tax asset		
Accounts payable and provisions	3,778	8,721
Deferred tax liability		
Property, plant and equipment	(5,479)	(45,999)
Inventories	(3,011)	(3,646)
	(4,712)	(40,924)

The movements in the deferred tax liability were as follows:

In thousands of US Dollars	31 December 2020	31 December 2019
Balance as at 1 January	40,924	395,224
Current period charge to statement of comprehensive income	(36,212)	(354,300)
Balance as at 31 December	4,712	40,924

28. Related party transactions

For the purpose of these financial statements transactions with related parties mainly comprise transactions between the Partnership and the participants and/or the subsidiaries or associated companies of the Nostrum Oil & Gas Group.

Accounts payable to and borrowings from related parties as at 31 December 2020 and 31 December 2019 consisted of the following:

In thousands of US Dollars	31 December 2020	31 December 2019
Borrowings		
Under common control:		
Nostrum Oil & Gas Finance B.V.	186,812	145,500
Trade payables		
With significant influence over the Partnership:		
JSC OGCC KazStroyService	236	430
Under common control:		
Nostrum Services N.V.	263	2,441

Notes to the financial statements (continued)

During the years ended 31 December 2020 and 2019 the Partnership had the following transactions with related parties:

In thousands of US Dollars	2020	2019
Received borrowings		
Under common control:		
Nostrum Oil & Gas B.V.	–	5,000
Nostrum Oil & Gas Finance B.V.	34,200	24,650
Interest paid		
Under common control:		
Nostrum Oil & Gas B.V.	–	6,471
Nostrum Oil & Gas Finance B.V.	3,213	2,092
Purchases		
With significant influence over the Partnership:		
JSC OGCC KazStroyService	–	11,322
Under common control:		
Nostrum Services N.V.	6,680	14,444

On 28 July 2014 the Partnership entered into a contract with JSC "OGCC KazStroyService" (the "Contractor") for the construction of the third unit of the Partnership's gas treatment facility (as amended by fourteen supplemental agreements since 28 July 2014, the "Construction Contract").

The Contractor is an affiliate of Mayfair Investments B.V., which as at 31 December 2020 owned approximately 17.1% of the ordinary shares of Nostrum Oil & Gas PLC.

Management fees are payable in accordance with the Technical Assistance Agreements signed between the Partnership and Nostrum Services N.V. related to the rendering of geological, geophysical, drilling, technical and other consultancy services. Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$ 1,341 thousand for the year ended 31 December 2020 (2019: US$ 1,935 thousand). Other key management personnel were employed and paid by Nostrum Services N.V. and their remuneration forms part of management fees and consulting services above.

29. Contingent liabilities and commitments

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe and where the tax authorities disagree with the positions taken by the Partnership the financial outcomes could be material. Administrative fines are generally 80% of the taxes additionally assessed and interest penalty is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2020. As at 31 December 2020 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Partnership's tax position will be sustained.

Abandonment and site restoration (decommissioning)

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

Environmental obligations

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

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

Capital commitments

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

Social and education commitments

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

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

Notes to the financial statements (continued)

The contracts for exploration and production of hydrocarbons from the Rostoshinskoye field requires fulfilment of several social and other obligations.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on 16 August 2019) require the subsurface user to:

- invest at least US$ 9,898 thousand for exploration of the field during the exploration period;
- create a liquidation fund to cover the Partnership's asset retirement obligations.

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

Domestic oil sales

In accordance with Supplement # 7 to the Contract, the Partnership is required to deliver at least 15% of produced oil to the domestic market on a monthly basis for which prices are materially lower than export prices.

30. Financial risk management objectives and policies

The Partnership'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 Rostoshinskoye field. The Partnership's financial assets consist of trade and other receivables and cash and cash equivalents that derive directly from its operations.

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

Commodity price risk

The Partnership is exposed to the effect of fluctuations in price of crude oil, which is quoted in US dollars on the international markets. The Partnership 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 Partnership is not exposed to interest rate risk in 2020 and 2019 as the Partnership had no financial instruments with floating rates as at years ended 31 December 2020 and 2019.

Foreign currency risk

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant. A devaluation of Tenge against US dollar by 14% would lead to decrease in the net Tenge liability position by US$ 1,924 as of 31 December 2020 and respective reduction of the loss before income tax for the year ended 31 December 2020. The impact on equity is the same as the impact on profit before tax.

	Change in Tenge to US dollar exchange rate	Effect on profit before tax
2020		
US Dollar thousand	14.00%	(1,924)
US Dollar thousand	(11.00)%	1,512
2019		
US Dollar thousand	12.00%	(631)
US Dollar thousand	(9.00)%	473

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

Notes to the financial statements (continued)

As at 31 December 2020	Tenge	Russian Roubles	Euro	Other	Total
Cash and cash equivalents	2,531	–	–	–	2,531
Trade receivables	877	–	–	–	877
Trade payables	(4,246)	(8)	(2,070)	–	(6,324)
Other current liabilities	(12,904)	–	–	–	(12,904)
	(13,742)	(8)	(2,070)	–	(15,820)

As at 31 December 2019	Tenge	Russian Roubles	Euro	Other	Total
Cash and cash equivalents	717	–	–	45	762
Trade receivables	24,276	–	–	–	24,276
Trade payables	(15,292)	(132)	(4,325)	–	(19,749)
Other current liabilities	(14,957)	–	–	–	(14,957)
	(5,256)	(132)	(4,325)	45	(9,668)

Liquidity risk

Liquidity risk is the risk that the Partnership will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. The Partnership 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 Partnership's objective is to maintain a balance between continuity of funding and flexibility through the use of notes, export financing and leases.

The Partnership's total outstanding debt consists of US$ 179,700 thousand of loan due to Nostrum Oil & Gas Finance B.V. and two notes: US$ 560 million issued in 2012 and maturing on 25 June 2033 and US$ 400 million issued in 2014 and maturing on 14 January 2033.

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

As at 31 December 2020	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	7,112	27,536	79,583	556,405	1,625,739	2,296,375
Lease liability	–	760	2,279	40	–	3,079
Trade payables	7,372	–	728	–	–	8,100
Other current liabilities	16,087	–	–	–	–	16,087
Due to Government of Kazakhstan	–	258	773	4,124	5,412	10,567
	30,571	28,554	83,363	560,569	1,631,151	2,334,208

As at 31 December 2019	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Borrowings	–	25,210	75,630	529,579	1,716,939	2,347,358
Lease liability	–	1,924	5,197	766	–	7,887
Trade payables	23,442	–	5,953	–	–	29,395
Other current liabilities	17,984	–	–	–	–	17,984
Due to Government of Kazakhstan	–	258	773	4,124	6,443	11,598
	41,426	27,392	87,553	534,469	1,723,382	2,414,222

Credit risk

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

The Partnership places its Tenge denominated cash with SB Sberbank JSC, which has a credit rating of Ba1 from Moody's rating agency and ING with a credit rating of Aa3 from Moody's rating agency at 31 December 2020. The Partnership does not guarantee obligations of other parties.

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

An impairment analysis is performed at each reporting date on an individual basis for major clients. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Partnership does not hold collateral as security. The Partnership 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.

Notes to the financial statements (continued)

Fair values of financial instruments

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

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

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

	Carrying amount		Fair value	
In thousands of US Dollars	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Financial liabilities measured at amortised cost				
Interest bearing borrowings	(1,146,104)	(1,104,586)	(417,212)	(453,270)
Lease liability	(2,825)	(7,376)	(2,825)	(7,376)
Total	(1,148,929)	(1,111,962)	(420,037)	(460,646)

The fair value of the financial assets and liabilities represents the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value of the quoted notes is based on price quotations at the reporting date and respectively categorised as Level 1 within the fair value hierarchy.

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

Capital management

For the purpose of the Partnership'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 Partnership's capital management is to maximise the shareholder value.

In order to achieve this overall objective, the Partnership'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 Partnership 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 Partnership may adjust the dividend payment to shareholders, return capital to shareholders or increase share capital. The Partnership monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Partnership includes within net debt, interest bearing loans and borrowings, less cash, short-term deposits and long-term deposits.

In thousands of US Dollars	31 December 2020	31 December 2019
Borrowings	1,146,104	1,104,586
Lease liabilities	2,825	7,376
Less: cash and cash equivalents and restricted cash	(20,224)	(21,336)
Net debt	1,128,705	1,090,626
Equity	(808,820)	(480,093)
Total capital	(808,820)	(480,093)
Capital and net debt	319,885	610,533
Gearing ratio	353%	179%

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

31. Events after the reporting period

Forbearance agreement

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

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

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