Altius Holding Inc.

Consolidated financial statements

For the year ended 31 December 2019,
with independent auditor's report

Building a better working world

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Independent auditor's report

To the Shareholders and the Management of Altius Holding Inc

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Altius Holding Inc. (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated 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 consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' 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.

Other matter

The financial statements of the Group for the year ended 31 December 2018 were audited by another auditor who issued an auditor's report dated 28 February 2019 with an unmodified opinion.

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Responsibilities of management for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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.

Ernst & Young LLP

Kairat Medetbayev
Auditor

Auditor qualification certificate
No. МФ - 0000137 dated 8 February 2013

Gulmira Turmagambetova
General Director
Ernst & Young LLP

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

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20 March 2020

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

In thousands of Tenge	Notes	31 December 2019	31 December 2018
Assets			
Non-current assets			
Property, plant and equipment	5	**15,706,701**	15,964,197
Right-of-use asset		**69,751**	–
Intangible assets	6	**1,307,115**	1,448,047
Deferred tax assets	20	**225,936**	1,627,342
Other long-term financial assets	7	**882,767**	857,720
Other long-term assets		**109,300**	–
		18,301,570	19,897,306
Current assets			
Cash and cash equivalents	8	**4,588,405**	3,487,521
Other short-term financial assets	7	**–**	1,152,600
Trade receivables and other current assets	9	**2,542,815**	2,801,746
Inventories	10	**1,052,429**	1,106,298
Income tax prepaid		**674,457**	920,227
		8,858,106	9,468,392
Total assets		**27,159,676**	29,365,698
Equity and liabilities			
Equity			
Charter capital	11	**145,432**	145,432
Foreign currency translation reserve		**12,409,754**	12,339,558
Retained earnings		**5,951,332**	10,834,168
		18,506,518	23,319,158
Non-current liabilities			
Deferred tax liabilities	20	**776,272**	1,307,223
Abandonment and site restoration liabilities	12	**3,865,541**	3,222,522
Long-term lease liabilities		**38,529**	–
		4,680,342	4,529,745
Current liabilities			
Trade payables and other current liabilities	13	**1,264,602**	1,196,571
Income tax payable		**2,708,214**	320,224
		3,972,816	1,516,795
Total equity and liabilities		**27,159,676**	29,365,698

Kim Man Sup
Managing Director

Suk Kim
Financial Director

The accounting policies and explanatory notes on page 5 through 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

In thousands of Tenge	Notes	2019	2018
Revenue from contracts with customers	14	**34,628,732**	35,066,257
Cost of sales	15	**(8,570,867)**	(8,208,247)
Gross profit		**26,057,865**	26,858,010
Selling expenses	16	**(8,759,743)**	(10,566,566)
General and administrative expenses	17	**(1,909,819)**	(1,706,717)
Profit from operations		**15,388,303**	14,584,727
Reversal of expected credit loss	18	**7,226,502**	–
Finance income		**19,617**	46,846
Foreign exchange gain, net		**171,228**	1,506,253
Finance cost		**(236,039)**	(204,271)
Other income	19	**618,035**	638,073
Other expense		**(63,995)**	(179,324)
Income before income tax		**23,123,651**	16,392,304
Corporate income tax (expense)	20	**(7,635,461)**	(4,462,888)
Profit for the year		**15,488,190**	11,929,416
Other comprehensive income			
Foreign currency translation difference	11	**70,196**	235,533
Total comprehensive profit for the year		**15,558,386**	12,164,949

Kim Man Sup
Managing Director

Suk Kim
Financial Director

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

In thousands of Tenge	Notes	Charter capital	Foreign currency translation reserve translation diff	Retained earnings	Total equity
At 1 January 2018		145,432	12,104,025	14,935,172	27,184,629
Net profit for the year		–	–	11,929,416	11,929,416
Foreign currency translation differences for foreign operations	11	–	235,533	–	235,533
Total comprehensive income for the year		–	235,533	11,929,416	12,164,949
Distribution of dividends	11	–	–	(16,030,420)	(16,030,420)
At 31 December 2018		**145,432**	**12,339,558**	**10,834,168**	**23,319,158**
Net profit for the year		–	–	**15,488,190**	**15,488,190**
Foreign currency translation differences for foreign operations	11	–	**70,196**	–	**70,196**
Total comprehensive income for the year		–	**70,196**	**15,488,190**	**15,558,386**
Distribution of dividends	11	–	–	**(20,371,026)**	**(20,371,026)**
At 31 December 2019		**145,432**	**12,409,754**	**5,951,332**	**18,506,518**

Kim Man Sup
Managing Director

Suk Kim
Financial Director

The accounting policies and explanatory notes on page 5 through 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

In thousands of Tenge	Notes	2019	2018
Cash flow from operating activities			
Profit before income tax		**23,123,651**	**16,392,304**
Adjustments for:			
Depreciation, depletion and amortization		**2,343,955**	2,386,201
Finance income		**(19,617)**	(46,846)
Foreign exchange gain, net		**(171,228)**	(1,506,253)
Finance cost		**236,039**	**204,271**
Reversal for expected credit loss		**(7,226,502)**	–
Change in obsolete inventories		**82,651**	(10,491)
Gain (loss) on disposal of fixed assets		**33,449**	34,820
Operating cash flows before changes in working capital		**18,402,398**	17,454,006
Changes in working capital			
Change in inventories		**(28,782)**	(119,346)
Change in trade receivables and other current assets		**300,975**	1,966,921
Change in trade payables and other current liabilities		**(26,144)**	441,675
Cash generated from operating activity		**18,648,447**	19,743,256
Income tax paid		**(4,069,213)**	(3,534,688)
Interest received		**7,243,706**	26,525
Net cash generated from operating activities		**21,822,940**	16,235,093
Cash flow from investing activities			
Purchase of property, plant and equipment		**(1,472,929)**	(1,659,719)
Purchase of intangible assets		**(151,719)**	(201)
Placement of cash deposit		**(10,395,773)**	(3,210,671)
Withdrawal of deposits		**11,523,540**	3,188,608
Repayment of historical cost liabilities		**–**	(234,091)
Net cash used in investing activities		**(496,881)**	(1,916,074)
Cash flow from financing activities			
Dividends paid	11	**(20,371,026)**	(16,030,420)
Lease liability payment		**(39,376)**	–
Net cash (used in) / from financing activities		**(20,410,402)**	(16,030,420)
Net change in cash and cash equivalents		**915,657**	(1,711,401)
Effects of exchange rate changes on cash and cash equivalents		**185,227**	1,299,823
Cash and cash equivalents, at the beginning of the year	8	**3,487,521**	3,899,099
Cash and cash equivalents, at the end of the year	8	**4,588,405**	3,487,521

Kim Man Sup
Managing Director

Suk Kim
Financial Director

The accounting policies and explanatory notes on page 5 through 33 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION

Altius Holdings Inc. (the "Company") and its subsidiary (together the "Group") are independent upstream oil and gas companies with a portfolio of development and production assets located in Kazakhstan. The Group operates four production fields located in Kazakhstan.

Altius Holdings Inc. is an entity established under the law of Canada. The Company is wholly owned by KNOC Black Hill Ltd., a Canadian entity, which is controlled by Korea National Oil Corporation, which, in its turn, is ultimately controlled by the Government of the Republic of Korea.

The registered legal address of the Company is 4500 Bankers Hall East, 855 – 2nd Street SW, Calgary, AB, T2P 4K7, Canada.

Altius Petroleum International B.V. ("API B.V."), 100% subsidiary of the Company, is engaged in oil and gas development and production on Akzhar, Besbolek, Karataikyz and Alimbai fields located in North-Western Kazakhstan through its branches registered in Aktobe and Atyrau cities. The Group's operating licenses, which were obtained from the Government of the Republic of Kazakhstan, expire:

Akzhar field	expires in 2029
Besbolek field	expires in 2021
Karataikyz field	expires in 2029
Almbai field	expires in 2036

These consolidated financial statements of the Group for the year ended 31 December 2019 were approved for issue by the Managing Director and Financial Director on 20 March 2020.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements. These consolidated financial statements are presented in Tenge and all values are rounded to the nearest thousands, except when otherwise stated.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The preparation of consolidated financial statements requires to use certain critical accounting estimates, it also requires management to make judgments on the assumptions in the applying of accounting policies. The areas involving a higher degree of complexity or judgements, also areas where assumption and estimate is significant to the consolidated financial statements are disclosed in *Note 4*.

Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in Kazakhstan Tenge ("Tenge" or "KZT"). The functional currency of Altius Holdings Inc. and Altius Petroleum International B.V. is US Dollar ("USD"). The functional and presentation currency of Altius Petroleum International B.V. Atyrau branch and Aktobe branch is Kazakhstani Tenge ("Tenge" or "KZT"). The results and financial position of a entities whose functional currency is different from the presentation currency are translated into presentation currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the spot rate of exchange ruling at the reporting date. All differences are taken to the statement of profit or loss and other comprehensive income. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2. BASIS OF PREPARATION (continued)

Foreign currency translation (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

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. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Exchange rates

The market exchange rate was established as an average exchange rate of Tenge against foreign currencies on the afternoon trading session at the Kazakhstan Stock Exchange ("KASE"). The following table shows the exchange rates of foreign currencies against Tenge used in preparation of the financial statement:

	31 December 2019	31 December 2018
US Dollars	**382.59**	384.20
Euro	**429**	439.37
Canadian Dollars	**293.58**	281.88

3. SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The Group applied IFRS 16 for the first time in 2019. The nature and effect of the changes as a result of adoption of new accounting standards and interpretations is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

IFRS 16 supersedes IAS 17, IFRIC 4, SIC-15 and SIC-27. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees also require remeasuring the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continues to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 16 Leases (continued)

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

As at 1 January 2019 and 31 December 2019:

- Right-of-use assets and lease liabilities were recognized at the present value of the remaining lease payments, discounted using the 11.2% rate for 104,627 thousand Tenge.

For the year ended 31 December 2019:

- Depreciation charge is included in 'General and administrative expenses' for 34,876 thouand Tenge;
- Finance cost of 8,071 thousand Tenge was recognized.

Right-of-use assets

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

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is generally 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 lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of 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 to be low value. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements that the Group reasonably expects will have an impact on its disclosures, financial position or performance when applied at a future date, are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective. Of the other standards and interpretations that are issued, but not yet effective, as these are not expected to impact the Group, they have not been listed.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

Annual improvement 2015-2017 cycle

IFRS 3 Business Combinations

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Annual improvement 2015-2017 cycle (continued)

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard has no impact on the Group as there are no insurance contract as at 31 December 2019.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not.

They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, '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 to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

Expected to be realised or intended to be sold or consumed in normal operating cycle;

- Expected to be realised or intended to be sold or consumed in normal operating cycle;
- Expected to be realised within 12 (twelve) months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is due to be settled within 12 (twelve) months after the reporting period; or
- Here is no unconditional right to defer the settlement of the liability for at least 12 (twelve) months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – techniques for which all inputs that relate to the lower hierarchy level which have a significant effect on the fair value are not observable.

For assets and liabilities that are revalued in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date the Group analyses changes in the cost of assets and liabilities that should be reanalysed reassessed in accordance with the Group's accounting policy. As a part of such analysis, the Group checks main inputs used at the latest evaluation by comparing information used at evaluation with agreements and other relevant documents. The Group and external appraisers of the Group also compare changes in fair value of each asset and liability with relevant external sources in order to determine the change relevancy.

Revenue from contracts with customers

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to inventory and credit risks.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

Sale of goods

Revenue from sale of goods is recognized at a point in time, when control over assets transfers to the customer, which usually occurs when the goods are shipped. Payment is usually made within 30-60 days from date of delivery.

Contract balances

Trade receivables

A receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section Financial assets – initial recognition and subsequent measurement.

Contract liabilities

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Taxes

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 are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

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

Excess profits tax

Under the Subsoil use contract, the Group is subject to excess profit tax. In accordance with the Tax Code of the Republic of Kazakhstan the object of taxation for excess profit tax shall be the part of net income calculated for each Subsoil use contract in a tax period that exceeds 25% of the Subsoil user's deductions for excess profit tax purpose. Net income for excess profit tax calculating purposes is determined as a difference between net income for Subsoil use contract computed for excess profit tax calculation purposes and corporate income tax for Subsoil use contract.

Deferred tax

Deferred tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability 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.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition 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;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes (continued)

Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

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.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances arises. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it occurred during the measurement period or recognised in the statement of profit or loss and other comprehensive income.

Value added tax

The tax authorities of Republic of Kazakhstan permit the settlement of sales and purchases value added tax (VAT) on a net basis.

VAT payable

VAT is payable to tax authorities upon collection of receivables from customers. Export sales are zero rated. VAT on purchases, which have been settled at the reporting date, is deducted from the amount payable. In addition, VAT related to sales which have not been collected at the reporting date is also included in the balance of VAT payable. Where allowance has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT payable is maintained until the debtor is written off for tax purposes.

VAT receivable

VAT receivable relates to purchases, which have not been settled at the reporting date. VAT receivable is reclaimable against VAT related to sales upon payment for the purchases or reimbursed by tax authorities of Republic of Kazakhstan by cash or by offset with other taxes payable.

Cash dividend

The Group recognises a liability to pay a dividend when the distribution is authorised and the distribution is no longer at the discretion of the Group. As per the corporate laws of Republic of Kazakhstan, a distribution is authorised when it is approved by the participants. A corresponding amount is recognised directly in equity.

Property and equipment

Property, plant and equipment' are stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost (if the asset was previously classified as assets in development), any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation and, for qualifying assets (where relevant), borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Oil and gas properties are depreciated/amortised on a unit-of-production basis over the total proved developed and undeveloped reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case, the straight-line method is applied. The unit-of-production rate calculation for the depreciation of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Other property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives, and major inspection costs are amortised over three to five years, which represents the estimated period before the next planned major inspection.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income when the asset is derecognised. The asset's residual values, useful lives and methods of depreciation/amortisation are reviewed at each reporting period and adjusted prospectively, if appropriate.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

Buildings and constructions	20-40 years
Machinery and equipment	5-205 years
Other property, plant and equipment	5-20 years
Oil and gas property	Unit-of-production basis

Construction-in-progress

Construction-in-progress represents property, plant and equipment under construction and machinery and equipment awaiting installation and is stated at cost. Construction-in-progress includes cost of construction and equipment and other direct costs. When construction of such assets is completed or when the machinery and equipment are ready for their intended use, construction-in-progress is transferred to the appropriate category. Construction-in-progress is not depreciated.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at initial cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets have finite useful lives.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. Expenses for amortization of intangible assets with finite useful life are recognized in the statement of comprehensive income in the category of expenses, which corresponds to the function of the intangible asset.

Historical costs and subsoil use rights are depleted on the unit-of-production basis over the total proved developed and undeveloped reserves of the relevant area. Intangible assets are amortised on a straight-line basis over their estimated useful lives of 3 to 5 years or using units-of-production method. The amortisation method used reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of 5(five) years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

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 classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price as disclosed in section (e) Revenue from contracts with customers.

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

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

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

Financial assets of the Group include cash and cash equivalents, trade and other accounts receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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 fair value through OCI (debt instruments)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The Group's debt instruments at fair value through OCI includes investments in quoted debt instruments included under other non-current financial assets.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its non-listed equity investments under this category.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are recognised as other income in the statement of profit or loss when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e. excluded from the statement of financial position) if:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition (continued)

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

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

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the note – Significant accounting judgements, estimates and assumptions *(Note 3*).

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

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

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and 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 loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Trade and other accounts payable

Liabilities for trade and other accounts payable are recognised at fair value to be paid in the future for goods and services received, whether or not billed to the Group.

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

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

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

This category generally applies to interest-bearing loans and borrowings.

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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised through the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are only offset and reported at the net amount in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to either settle on a net basis, to realise the asset and settle the liability simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of materials and supplies inventory is determined using weighted average method. The cost of crude oil is determined using weighted average method. The cost comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs.

Cash and short-term deposits

Cash includes petty cash and cash held on current bank accounts. Cash equivalents comprise short-term investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents comprise short-term bank deposits with an original maturity of three months or less. The carrying value of these assets is a reasonable estimate of their fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Transactions with shareholders

Gains or losses from transactions with shareholders or a party who is related to the shareholders and acts on behalf of the shareholders are recognized directly in equity.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In particular, the Group has identified the following areas where significant judgments, estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the consolidated financial statements.

Changes in estimates are accounted for prospectively.

Useful economic lives of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at each end of reporting period and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Recoverability of oil and gas and intangible assets

The Group assesses assets or CGU for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices, discount rates, future capital requirements, operating performance (including production and sales volumes) that are subject to risk and uncertainty. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered to be impaired and is written down to its recoverable amount. In assessing 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 that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

The key assumptions required for the recoverable amount estimation are the oil prices and WACC. The sensitivity of the headroom to changes in the key assumptions was estimated.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Recoverability of oil and gas and intangible assets (continued)

For the year ended 31 December 2019, management of the Group performed impairment assessment of the recoverable amount of oil and gas property of oilfields Akzhar, Besbolek, Karataikyz and Alimbai. The result of this assessment indicated that the carrying value of assets of Akzhar, Besbolek,Karataikyz and Alimbai do not exceed the recoverable amount, and thus no impairment amount for the year ended 31 December 2019 (2018: nil). The projection of cash flows was calculated using the sale price for Brent crude oil of 70-71 US Dollars from 2020 to 2025 and from 72 to 88 US Dollars for the period from 2026 to 2037 (adjusting for the expected long-term level of inflation for the US of 2% annually). All received cash flows were discounted using the WACC of 15.79%.

According to the sensitivity analysis no impairment is observed to the fluctuations of WACC while other variables stay constant. Sensitivity to the change of Brent price also does not lead to impairment.

Abandonment and site restoration liabilities

The Group estimates future dismantlement and site restoration cost 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 obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant and equipment. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the decommissioning provision is included as a finance cost. The Group estimates future abandonment cost of oil and gas assets using current year prices and the average long-term inflation rate. The settlement of obligation is estimated to be the date of a license expiry or proved reserve depletion whichever is earlier.

The Group reviews abandonment and site restoration obligations at each reporting date and adjust them to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

Taxation

The Group is subject to taxation in the Republic of Kazakhstan, in particular to Transfer Pricing law. Significant judgment is required in determining taxes due to inconsistent application, interpretation and enforcement of tax legislation. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences may impact income tax, taxes other than income tax and deferred tax provisions in the period in which such determination is made.

The Group exercises significant judgement when classifying differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes as temporary or permanent.

Recovery of deferred tax assets

Judgment is required to determine whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilised tax losses, require management to assess the likelihood that the Group will generate sufficient taxable earnings in future periods, in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, oil and natural gas prices, reserves, production expenses, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realize the net deferred tax assets recorded at the reporting date could be impacted.

In addition, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Oil and gas reserves

Oil and gas reserves are a material factor in the Group's computation of depreciation, depletion and amortization expenses. The Group estimates its oil and gas reserves in accordance with the methodology of the Petroleum Resources Management System ("PRMS"). In estimating its reserves under PRMS methodology, the Group uses long-term planning prices. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices. Management believes that long-term planning price assumptions, which are also used by management for their business planning and investment decisions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves.

All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

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

Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data, availability of new data, or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved reserves are used to calculate the unit of production rates for Depreciation Depletion & Amortization (DD&A) in relation to oil and gas production assets. The Group has included in proved reserves only those quantities that are expected to be produced during the initial subsoil use contract period. An increase in the Group's subsoil use contract periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings. A reduction in proved reserves will increase DD&A expense (assuming constant production), reduce income and could also result in an immediate write-down of the property's book value. Given the relatively small number of producing fields, it is possible that any changes in reserve estimates year on year could significantly affect prospective charges for DD&A.

The Group uses estimation of proved oil reserves in the calculation of amortization of subsoil use rights.

The most recent valuation of oil reserves was carried out as at 31 December 2019 by Oil Production Consultants Ltd and KazNIGRI LLP.

Commitments and contingencies

Contingent liabilities may arise from the ordinary course of business in relation to claims against the Group, including legal, contractor, land access and other claims. By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

5. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the years ended 31 December 2019 and 2018 is as follows:

In thousands of Tenge	Oil and gas property	Construction-in-progress	Other property, plant and equipment	Total
Cost				
At 1 January 2018	34,117,810	1,099,449	1,373,206	36,590,465
Additions	155,071	1,455,873	57,269	1,668,213
Disposals	(83,417)	–	(18,400)	(101,817)
Transfers	1,308,079	(1,355,622)	47,543	–
At 31 December 2018	35,497,543	1,199,700	1,459,618	38,156,861
Additions	**133,832**	**1,259,531**	**45,077**	**1,438,440**
Change in estimates	**356,301**	**–**	**–**	**356,301**
Disposals	**(43,382)**	**–**	**(14,743)**	**(58,125)**
Transfers	**1,374,258**	**(1,377,109)**	**2,851**	**–**
At 31 December 2019	**37,318,552**	**1,082,122**	**1,492,803**	**39,893,477**
Accumulated depreciation and impairment				
At 1 January 2018	(18,987,074)	(434,373)	(717,149)	(20,138,596)
Charge for the year	(2,053,043)	–	(62,505)	(2,115,548)
Disposals	47,860	–	13,620	61,480
At 31 December 2018	(20,992,257)	(434,373)	(766,034)	(22,192,664)
Charge for the year	**(1,903,380)**	**–**	**(113,048)**	**(2,016,428)**
Disposals	**11,559**	**–**	**10,757**	**22,316**
At 31 December 2019	**(22,884,078)**	**(434,373)**	**(868,325)**	**(24,186,776)**
Net book value				
At 31 December 2018	14,505,286	765,327	693,584	15,964,197
At 31 December 2019	**14,434,474**	**647,749**	**624,478**	**15,706,701**

As at 31 December 2019 property and equipment with the cost of 1,799,615 thousand Tenge were fully depreciated (as at 31 December 2018: 1,535,008 thousand Tenge).

6. INTANGIBLE ASSETS

The movement of intangible assets for the years ended 31 December 2019 and 2018 is as follows:

In thousands of Tenge	2019	2018
Cost		
At 1 January	**6,679,549**	6,681,557
Additions	**151,719**	201
Disposals	–	(2,209)
At 31 December	**6,831,268**	6,679,549
Accumulated depreciation		
At 1 January	**(5,231,502)**	(4,960,849)
Charge for the period	**(292,651)**	(270,653)
At 31 December	**(5,524,153)**	(5,231,502)
Net book value		
At 31 December	**1,448,047**	1,720,708
At 31 December	**1,307,115**	1,448,047

Intangible assets mostly represent computer software, historical costs and subsoil use rights as at 31 December 2019.

7. OTHER SHORT-TERM AND LONG-TERM FINANCIAL ASSETS

As at 31 December 2019, the Group held restricted cash deposits which amounted to 882,767 thousand Tenge (2018: 857,720 thousand Tenge) which are accumulated for the purpose of abandonment and site restoration of oil fields. The deposits mature at the inception of the liquidation programs approved by the Ministry of Energy of the Republic of Kazakhstan. The Group placed restricted cash deposits at 0.01% per annum in SB Sberbank of Russia JSC.

As at 31 December 2018 short-term deposits of 1,152,600 thousand Tenge are the bank deposits placed in US Dollars with maturity period of more than three months with an average interest rate of 1.8% in Shinhan bank JSC. The effective interest rate approximates the nominal interest rate as per deposit placement contracts. No such deposits placed as at 31 December 2019.

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are presented as follows:

In thousands of Tenge	**31 December 2019**	31 December 2018
Cash on bank account	**4,587,112**	3,485,006
Petty cash	**1,293**	2,515
	4,588,405	3,487,521

The Group placed non-interest bearing short-term deposits in 2019 and 2018.

At 31 December 2019 and 2018, cash and cash equivalents were denominated in the following currencies:

In thousands of Tenge	**31 December 2019**	31 December 2018
USD	**2,197,060**	2,609,203
KZT	**1,372,291**	300,972
EUR	**1,015,431**	573,997
CAD	**3,623**	3,349
	4,588,405	3,487,521

9. TRADE RECEIVABLES AND OTHER CURENT ASSETS

In thousands of Tenge	**31 December 2019**	31 December 2018
Trade receivables	**1,291,666**	1,042,087
Other taxes prepaid	**693,353**	919,522
Advances paid	**333,019**	468,148
Value-added tax recoverable	**121,256**	252,840
Other current assets	**103,521**	119,149
	2,542,815	2,801,746

As at 31 December, the ageing analysis of trade receivables is as follows:

In thousands of Tenge	**Total**	**Neither past due nor impaired**	**Past due, but not impaired**				
			1 to 30 days	**31 to 90 days**	**91 to 180 days**	**181 to 360 days**	**Over 360 days**
31 December 2019	**1,291,666**	**1,061,875**	**133,875**	**2,009**	**93,632**	**275**	**–**
31 December 2018	1,042,087	1,042,087	–	–	–	–	–

Other taxes prepaid

In thousands of Tenge	**31 December 2019**	31 December 2018
Mineral extraction tax prepaid	**237,868**	381,633
Rental tax prepaid	**204,130**	278,257
Export custom duties prepaid	**173,938**	174,270
Personal income tax prepaid	**15,853**	25,915
Other	**61,564**	59,447
	693,353	919,522

10. INVENTORIES

In thousands of Tenge	**31 December 2019**	31 December 2018
Raw and other materials at cost or net realizable value	**632,299**	662,227
Finished goods – crude oil at cost	**378,089**	410,868
Work in progress at cost	**42,041**	33,203
	1,052,429	1,106,298

11. CHARTER CAPITAL

The charter capital of the Group as at December 31, 2019 and 2018 equals to 182,644,452 ordinary shares for 145,432 thousand Tenge. No shares were issued in 2019 and 2018. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Group.

In accordance with the dividends distribution policy, approved by the shareholders of the Group, and according to the Resolutions of the Board of Directors of the Group during 2019 the Group declared and paid dividends of 20,371,026 thousand Tenge (equivalent to 53,442 thousand US Dollars) (2018: 16,030,420 thousand Tenge equivalent to 45,000 thousand US Dollars). The dividends paid are classified as cash outflows in the financing activities in the consolidated statement of cash flows.

Since 2014 Kazakhstani Tenge significantly devaluated against US Dollar, the functional currency of Altius Holding Inc. and Altius Petroleum International B.V., which increases the value assets and liabilities of foreign operations. Foreign currency differences are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity. The income and expenses of foreign operations are translated to the presentation currency at exchange rates at the dates of the transactions.

12. ABANDONMENT AND SITE RESTORATION LIABILITIES

In thousands of Tenge	**2019**	2018
At 1 January	**3,222,522**	3,024,095
Additional provision for the year	**58,749**	110,078
Change in estimate	**356,301**	(109,310)
Unwinding of discount	**227,969**	197,659
At 31 December	**3,865,541**	3,222,522

In order to comply with the Subsoil use contractual obligations, subsoil users are obliged to perform decommissioning and restoration works upon the abandonment of the field. Accordingly, the obligation, which is subject to significant judgment, was accrued.

The cost of restoration was estimated considering the prices and local risks. The abandonment obligation was accrued based on the best estimates available by that date. The average abandonment obligation of one well is 7,197 thousand Tenge (2018: 6,828 thousand Tenge).

Akzhar

Net present value of abandonment obligation of wells and other assets are 1,843,969 thousand Tenge and 859,478 thousand Tenge, respectively (2018: 1,436,775 thousand Tenge and 719,934 thousand Tenge). The inflated rate changed from 4.71% to 5.45% as of 31 December 2019. As at 31 December 2019 the present value of the decommissioning obligation was discounted at a rate of 7.61% (2018: 7.58%).

Besbolek

Net present value of abandonment obligation wells and other assets are 460,515 thousand Tenge and 431,908 thousand Tenge, respectively (2018: 436,195 thousand Tenge and 418,515 thousand Tenge). The inflated rate changed from 5.8% to 5.32% as of 31 December 2019. As at 31 December 2019 the present value of the abandonment obligation was discounted at a rate of 7.20% (2018: 6.7%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. ABANDONMENT AND SITE RESTORATION LIABILITIES (continued)

Alimbai

Net present value of abandonment obligation wells and other assets are 82,170 thousand Tenge and 95,491 thousand Tenge, respectively (2018: 61,639 thousand Tenge and 71,631 thousand Tenge). The inflated rate changed from 4.07% to 5.47% as of 31 December 2019. As at 31 December 2019 the present value of the abandonment obligation was discounted at a rate of 8% (2018: 7.7%).

Karataikyz

Net present value of abandonment obligation wells and other assets are 87,890 thousand Tenge and 4,120 thousand Tenge, respectively (2018: 74,348 thousand Tenge and 3,485 thousand Tenge). The inflated rate changed from 4.71% to 5.45% as of 31 December 2019. As at 31 December 2019 the present value of the abandonment obligation was discounted at a rate of 7.61% (2018: 7.58%).

13. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

In thousands of Tenge	**31 December 2019**	31 December 2018
Trade payables	**443,741**	632,111
Value-added tax payable	**284,812**	246,194
Unused vacation reserve	**181,549**	169,832
Contract liabilities	**57,399**	68,106
Other current liabilities	**81,248**	51,095
Other taxes	**215,853**	29,233
	1,264,602	1,196,571

14. REVENUE FROM CONTRACTS WITH CUSTOMERS

In thousands of Tenge	**2019**	2018
Type of goods or service		
Export oil sales	**16,502,701**	21,921,285
Domestic oil sales	**18,126,031**	13,144,972
	34,628,732	35,066,257
Geographical markets		
Europe – Netherlands, France, Switzerland	**16,502,701**	21,921,285
Asia – Kazakhstan	**18,126,031**	13,144,972
	34,628,732	35,066,257
Timing of revenue recognition		
Goods transferred at a point in time	**34,628,732**	35,066,257
	34,628,732	35,066,257

In accordance with the terms of contracts with customers, the Group has one single performance obligation for each contract, and revenue is recognized when the goods are delivered and accepted at the point negotiated in contracts.

During 2019 the Group produced 325,254 tons and sold 316,881 tons (during 2018: 338,052 tons produced and sold 324,371) of crude oil.

Sale of crude oil contracts stipulate preliminary pricing at the time of shipment, while final pricing is based on the market price for a specific future period. The final price is based on the average Brent crude oil quotes for each shipment, according to the Platt's Crude Oil Marketwire publications for the publication days to be agreed between the Group and the customer. In 2019 change between provisional and final price for contracts with customers is reflected in revenue and debited for 17,120 thousand Tenge (change in 2018: debited for 286,816 thousand Tenge).

15. COST OF SALES

For the years ended 31 December cost of sales comprised the following:

In thousands of Tenge	**2019**	2018
Depreciation and depletion	**2,123,700**	2,202,225
Payroll expenses and related taxes	**1,343,537**	1,073,320
Rent of specialised equipment and transport	**1,296,574**	1,083,750
Mineral extraction tax	**1,217,534**	1,645,444
Repair and maintenance expenses	**894,029**	684,775
Fuel and electricity	**357,649**	369,136
Taxes other than income	**322,514**	420,692
Materials and supplies	**228,783**	219,508
Services	**217,567**	205,997
Catering	**133,827**	131,995
Security	**91,052**	83,540
Training and education	**32,544**	40,837
Insurance	**11,500**	36,663
Change in finished goods and work-in-process	**23,941**	(87,087)
Other	**276,116**	97,452
	8,570,867	8,208,247

The Group leases equipment and transport to variable payments based on rates agreed with the third party. Such variable lease payments are for the amount of 1,042,780 thousand Tenge for 2019 and 882,845 thousand Tenge for 2018, respectively.

16. SELLING EXPENSES

For the years ended 31 December selling expenses comprised the following:

In thousands of Tenge	**2019**	2018
Transportation of crude oil	**3,366,022**	3,478,490
Rental tax	**2,585,488**	3,627,708
Export custom duties	**2,209,754**	2,991,527
Collection and storage of crude oil	**209,406**	136,548
Depreciation and depletion	**171,814**	166,331
Personnel and related taxes	**111,895**	87,958
Other	**105,364**	78,004
	8,759,743	10,566,566

17. GENERAL AND ADMINISTRATIVE EXPENSES

For the years ended 31 December general and administrative expenses comprised the following:

In thousands of Tenge	**2019**	2018
Personnel and related taxes	**1,236,933**	1,107,996
Professional services	**165,269**	177,810
Sponsorship	**85,887**	80,720
Fines and penalties	**83,514**	(1,941)
Training and education	**68,163**	80,522
Depreciation and amortization	**48,441**	17,645
Rent and office maintenance	**36,150**	115,662
Business trip expenses	**34,417**	50,620
Communication	**11,041**	11,600
Other	**140,004**	66,083
	1,909,819	1,706,717

18. REVERSAL OF EXPECTED CREDIT LOSS

In 2011 the Group issued loan to KNOC Kaz B.V. and Kernhem International B.V. in amount of 49,125 thousand US Dollars and 875 thousand US Dollars, respectively. In 2015 the Group has created a provision for impairment that represents management estimate of losses in respect of irrecoverable loans for the full amount of loans issued and interest accrued on those loans.

In thousands of Tenge	**31 December 2019**	31 December 2018
KNOC Kaz B.V.		
At 1 January	**32,097,623**	25,711,158
Interest accrued	**2,506,307**	2,130,690
Interest paid	**(7,226,502)**	–
Foreign exchange loss, net	**(135,561)**	(2,346,942)
	27,241,867	25,494,906
Impairment provision	**(27,241,867)**	(25,494,906)
At 31 December	**–**	–
Kernhem International B.V.		
At 1 January	**572,071**	458,182
Interest accrued	**45,607**	38,041
Foreign exchange loss, net	**(5,696)**	(42,202)
	611,982	454,021
Impairment provision	**(611,982)**	(454,021)
At 31 December	**–**	–

In 2019, the Group received from KNOC Kaz B.V. payment of 18,650 thousand US Dollars, which is equivalent to 7,226,502 thousand Tenge, and recognized reversal of expected credit loss for the amount of payment. The Group accrued interest of 9,929,949 thousand Tenge, for the period from provision accrual to 31 December 2019, which previously was not recognized.

19. OTHER INCOME

In thousands of Tenge	**2018**	2017
Income from services on collection and storage of crude oil	**618,035**	606,732
Other	**–**	31,341
	618,035	638,073

20. INCOME TAX EXPENSE

The Group's applicable tax rate for Kazakhstani operations is the income tax of 20%. The Group is also subject to branch profit tax of 5% after corporate income tax as determined under the laws of the Republic of Kazakhstan. Altius Holdings Inc., an entity registered in the Canada, has an applicable rate of 27%. API B.V., an entity registered in the Netherlands, has an applicable rate of 25%. The Group is a Subsoil user that is subject to excess profit tax which is determined based on a Subsoil user's net profits for the year.

In thousands of Tenge	**2019**	2018
Corporate income tax	**4,144,350**	4,091,137
Adjustment of prior periods	**(248,976)**	(447,080)
Excess profit tax	**2,869,632**	–
	6,765,006	3,644,057
Deferred corporate income tax expense	**1,173,458**	518,163
Deferred excess profits tax (benefit)/expense	**(303,003)**	300,668
	870,455	818,831
Total income tax expense	**7,635,461**	4,462,888

20. INCOME TAX EXPENSE (continued)

Income tax expense for the years ended 31 December 2019 and 2018 is as follows:

In thousands of Tenge	**2019**	2018
Profit before income tax	**23,123,651**	16,392,304
Income tax at applicable tax rate 20%	**4,624,730**	3,278,461
Branch profit tax expense	**924,947**	652,996
Change in tax rate	**(115,751)**	317,146
Deferred excess profit tax	**(187,252)**	(16,478)
Excess profit tax	**2,869,632**	–
Reversal of expected credit loss	**(1,734,360)**	–
Unrecognised tax loss carry-forward	**842,824**	–
Adjustment of prior periods corporate income tax	**(248,976)**	(447,080)
Other differences	**659,667**	677,843
Income tax expense	**7,635,461**	4,462,888

The tax effect of the major temporary differences that give rise to the deferred tax assets and liabilities at 31 December is presented below:

In thousands of Tenge	**31 December 2019**	**Charge in profit and loss statement**	31 December 2018	Charge in profit and loss statement	Charge in statement of comprehen-sive income	1 January 2018
Deferred tax assets						
Abandonment and site restoration liabilities	**284,101**	**(60,107)**	344,208	–	80,998	263,210
Inventories	**20,124**	**(1,716)**	21,840	–	3,965	17,875
Other taxes	**17,190**	**17,190**	–	–	–	–
Other current liabilities	**14,660**	**(1,121)**	15,781	–	(6,656)	22,437
Historical cost liabilities	**–**	**–**	–	–	(2,557)	2,557
Property, plant and equipment	**(110,139)**	**95,534**	(205,673)	–	(21,532)	(184,141)
Tax loss carry-forwards	**842,824**	**(608,362)**	1,451,186	(59,801)	(526,939)	2,037,926
Provision for unrecognized deferred tax assets	**(842,824)**	**(842,824)**	–	–	–	–
Deferred tax assets, net	**225,936**	**–**	1,627,342	–	–	2,159,864
Deferred tax liabilities						
Abandonment and site restoration liabilities	**875,657**	**115,708**	759,949	–	228,856	531,093
Historical cost liabilities	**–**	**–**	–	–	(53,046)	53,046
Inventories	**40,885**	**15,654**	25,231	–	3,339	21,892
Other current liabilities	**39,214**	**12,025**	27,189	–	5,503	21,686
Property, plant and equipment	**(1,732,028)**	**387,564**	(2,119,592)	–	(530,762)	(1,588,830)
Deferred tax charge in statements of profit and loss, net	**–**	**–**	–	(59,801)	–	–
Deferred tax charge in and comprehensive income, net	**–**	**(870,455)**	–	–	(818,831)	–
Deferred tax (liabilities), net	**(776,272)**	**–**	(1,307,223)	–	–	(961,113)

21. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies

Operating environment

The Government of the Republic of Kazakhstan continues economic reforms and development of legal, tax and regulatory frameworks, which would meet the requirements of a market economy. The stability of the Kazakhstan economy is significantly dependent upon these reforms and developments and the effectiveness actions taken by the Government in the field of economic, financial and monetary policy.

21. COMMITMENTS AND CONTINGENCIES (continued)

Contingent liabilities

The Group is party to various legal proceedings related to business operations, such as property damage claims and employee claims. The Group does not believe that pending or threatened claim of these types, individually or in aggregate, are likely to have any material adverse effect on the Group's financial position or results of operations. The Group assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that actual events giving rise to liability will occur and the amount of the liability can be reasonably estimated.

Subsoil use contracts compliance

The Government has the right to suspend or cancel the Subsoil use contracts if the Group is in material breach of its obligations and commitments under the Subsoil use contracts. Management believes the Group is in compliance with the commitments set forth in the Subsoil use contracts. However, such compliance may be questioned by the relevant authorities whose interpretations may differ significantly from those of the shareholders.

Commitment for social infrastructure development

In accordance with the Subsoil use contracts, the Group shall be directly involved in the social infrastructure development in the area of its operations. The Group spends 2,090 thousand US Dollars (equivalent to 799,613 thousand Tenge) per annum in these regards. Additionally, the Group annually incurs 1 percent of total operational expenses incurred during the year for education and professional trainings of the citizens of Kazakhstan. During 2019 the Group incurred expenses for 67,276 thousand Tenge for social development and 110,408 thousand Tenge for education and professional trainings, accordingly. The management of the Group believes that Subsoil use contract terms met in full as at 31 December 2019 and 2018.

The domestic market delivery

As required by the Subsoil use contracts the Group is required to deliver 15% of crude oil produced on Akzhar, Besbolek and Karataikyz fields and 20% on the Alimbai field on domestic market. In 2019 the Group sold 221,363 tons (2018: 193,000 tons) on domestic market that comprises 68% (2018: 57%) of total production volume. As at 31 December 2019 management of the Group believes that the Group fully complied with domestic sales commitments.

Compliance with minimal working program

In accordance with minimal working program the Group incurred capital commitments for 2019 of 429,465 thousand Tenge (2018: 603,979 thousand Tenge). The management of the Group believes that the Group substantially complied with minimal work program requirements as at 31 December 2019.

Insurance commitments

In accordance with the Subsoil use contracts, the Group is obliged to develop the business, property and liability risk insurance program and submit it for approval to the Ministry of Energy of the Republic of Kazakhstan. The Ministry of Energy of the Republic of Kazakhstan approved the business, property and liability risk insurance program submitted by the Group for Subsoil use contracts.

Environmental contingencies

The Group may also be subject to loss contingencies relating to regional environmental claims that may arise from the past operations of the related fields in which it operates. As Kazakhstan laws and regulations evolve concerning environmental assessments and site restoration, the Group may incur future costs, the amount of which is currently indeterminable due to such factors as the ultimate determination of responsible parties associated with these costs and the government's assessment of respective parties' ability to pay for the costs related to environmental reclamation. However, depending on any unfavorable claims or penalties assessed by the Kazakhstan regulatory agencies, it is possible that the Group's future results of operations or cash flow could be materially affected in a particular period. It is the opinion of management that there is a remote likelihood that such costs will have a material effect on the financial condition of the Group and accordingly no further provisions for future environmental claims or penalties are included in the accompanying financial statements.

21. COMMITMENTS AND CONTINGENCIES (continued)

Taxation

Various legislation and regulations are not always clearly written, and their interpretation is subject to the opinions of the local tax inspectors and the officials of the Ministry of Finance. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual.

Kazakhstan's tax laws and regulations are subject to constant change and interpretation. There are often differences of opinion between local, regional and national tax authorities, including opinions regarding the recording of income, expenses and other items in the financial statements in accordance with IFRS. The current system of fines and penalties for detected offences, based on the laws of Kazakhstan, is very severe. Penalties include fines-usually 50-80% of the amount of additional taxes accrued, and interest accrued at the refinancing rate set by the National Bank of Kazakhstan multiplied by 1.25. As a result, the amount of penalties and penalties may be several times higher than the amount of additional taxes. Financial periods remain open for review by the tax authorities during the five calendar years preceding the year in which the audit is conducted. Under certain circumstances, inspections may cover longer periods. In view of the uncertainty inherent in Kazakhstan's tax system, the final amount of taxes, penalties and interest, if any, may exceed the amount currently charged and accrued as at 31 December 2019. The Group believes that, as at 31 December 2019, its interpretation of applicable law is appropriate, and it is probable that the Group's tax position will be confirmed, except as provided for or otherwise disclosed in these financial statements.

Transfer pricing control

Transfer pricing control in Kazakhstan has a very wide scope and applies to many transactions that directly or indirectly relate to international business regardless of whether the transaction participants are related or not. The transfer pricing legislation requires that all taxes applicable to a transaction should be calculated based on market price.

The law on transfer pricing is not explicit and there is little precedence with some of its provisions. Moreover, the law is not supported by detailed guidance. As a result, application of transfer pricing control to various types of transactions is not clearly regulated.

As at December 31, 2019 management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group's positions with regard to transfer pricing will be sustained.

22. FAIR VALUE AND RISK MANAGEMENT

Exposure to concentration of commodity price risk as well as to the credit, foreign currency and liquidity risks arises in the normal course of the Group's business.

Commodity price risk

Commodity price risk is the risk that changes in market prices for commodities (crude oil) will negatively affect current or future revenues of the Group.

Credit risk

The Group trades only with recognized, creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group's concentration risk is significant. Based on the past practice the management believes that risk of trade receivable default is low.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, bank deposits, receivables from related parties, including the shareholder, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Group is exposed to credit risk from its operating activities and certain investing activities. With regard to investing activities, the Group mostly places deposits with Kazakhstan banks.

22. FAIR VALUE AND RISK MANAGEMENT (continued)

Credit risk (continued)

The table below shows the balances of cash and cash equivalents, bank deposits in banks as at the reporting date:

					31 December	
In thousands of Tenge	**Location**	**Agency**	**2019**	2018	**2019**	2018
Citi bank Kazakhstan	Kazakhstan	S&P Global ratings	**A/Stable**	A/Stable	**2,666,448**	1,888,208
KEB Hana of Netherlands	Netherlands	Moody's Investors Service	**A1/Stable**	A1/Stable	**1,173,547**	753,874
Royal Bank of Canada Calgary	Canada	S&P Global ratings	**AA-/Stable**	AA-/Stable	**411,719**	445,442
SB Sberbank of Russia JSC	Kazakhstan	Moody's Investors Service	**Ba1/Stable**	Ba3/Stable	**335,312**	345,447
Shinhan bank JSC	Kazakhstan	S&P Global ratings	**A+/Stable**	A+/Stable	**–**	51,940
Halyk Bank JSC HSBK	Kazakhstan	S&P Global ratings	**BB/Stable**	BB/Stable	**86**	95

During 2019, the Group did not recognize any allowance for expected credit losses on cash and cash equivalents. Trade receivables were neither past due nor impaired as at 31 December 2019 and 2018.

For interest receivable accrued as at 31 December 2019 the Group also recognized expected credit loss of 7,226,502 thousand Tenge. The increase is related to the fact that previously provision for finance income accrued according to these agreements was not recognized through expected credit loss but was reversed *(Note 18)*.

Foreign currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group's currency risk is primarily attributable to its cash and cash equivalents, trade receivables, long-term financial assets and short-term financial assets. Operational foreign currency risk of Group is connected to the sales of crude oil in currency other than functional currency of the Group. Most of Group's sales are expressed in US Dollars, while most of expenses are expressed in Tenge. Most of proceeds from revenue are realised within 30 days from the moment of sales. Thus, the exposure to exchange rate risk from trade receivables at any point in time is limited to one month. The Group does not use hedging instruments to eliminate exposure to exchange rate risk from loans from banks.

The carrying amounts of the Group's monetary assets by currency are as follows:

Denominated in foreign currency	**31 December 2019**	31 December 2018
Cash and cash equivalents	**3,216,114**	3,186,549
Other long-term financial assets	**882,767**	857,720
Other short-term financial assets	**–**	1,152,600
Trade receivables	**1,288,827**	1,034,543
	5,387,708	6,231,412

Foreign currency sensitivity

Exposure to foreign currency exchange rate risk arises on cash and cash equivalents, accounts receivables and other long-term assets as at 31 December 2019 that are denominated in a foreign currency other than the functional currency in which they are measured.

The following table demonstrates the sensitivity to a reasonable possible change in the foreign currency exchange rate, with all variables held constant, of the Group's profit before income tax (due to change in the fair value of monetary assets and liabilities). There is no impact on the Group's equity.

In thousands of Tenge	**Increase/decrease in Tenge to US Dollar exchange rate**	**Effect on profit before tax**
2019	**12.00%**	**524,239**
	-9.00%	**(393,179)**
2018	14.00%	791,449
	-10.00%	(565,320)

22. FAIR VALUE AND RISK MANAGEMENT (continued)

Foreign currency sensitivity (continued)

In thousands of Tenge	Increase/decrease in Tenge to Euro exchange rate	Effect on profit before tax
2019	**12.00%**	**121,852**
	-9.00%	**(91,389)**
2018	14.00%	80,360
	-10.00%	(57,400)

In thousands of Tenge	Increase/decrease in Tenge to Canadian Dollar exchange rate	Effect on profit before tax
2019	**12.00%**	**435**
	-9.00%	**(326)**
2018	14.00%	469
	-10.00%	(335)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities when they fall due. The Group's liquidity position is carefully monitored and managed. The Group makes use of a detailed budgeting and cash forecasting process to ensure that it has adequate cash available to meet its payment obligations.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

In thousands of Tenge	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Year ended 31 December 2019						
Long-term lease liability	**–**	**–**	**–**	**38,529**	**–**	**38,529**
Trade and other current liabilities	**–**	**498,894**	**26,095**	**–**	**–**	**524,989**
	–	**498,894**	**26,095**	**38,529**	**–**	**563,518**

In thousands of Tenge	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Year ended 31 December 2018						
Trade payables and other current liabilities	–	683,206	–	–	–	683,206
	–	683,206	–	–	–	683,206

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The following methods and assumptions were used to determine fair value:

- The carrying value of cash and cash equivalents, trade receivables, trade and other payables is approximately equal to their fair value due to the short-term nature of these financial instruments.
- Long-term fixed-rate or variable-rate loans are assessed by the Group on the basis of such parameters as interest rates, specific country risk factors, individual creditworthiness of the client and risk characteristics of the financed project. Based on this estimate, provisions are charged to expected losses on this receivable. As at 31 December 2019 and 31 December 2018, the carrying amount of such receivables, net of provisions, is not materially different from their estimated fair value.

22. FAIR VALUE AND RISK MANAGEMENT (continued)

Fair value of financial instruments (continued)

Hierarchy of fair value measurement

The Group uses the following hierarchical structure of measurement methods to determine and disclose the fair value of financial instruments:

- Level 1: quotes (unadjusted) in active markets for identical assets or liabilities.
- Level 2: valuation models for which all inputs that have a significant impact on the reported fair value are based, directly or indirectly, on information observed in the market.
- Level 3: valuation models that use inputs that have a significant impact on the reported fair value that are not based on market observable information.

As at 31 December 2019 and 31 December 2018, the Group had no financial instruments classified as level 1 or level 2 financial instruments.

For the year ended 31 December 2019 and 2018, there were no transitions between levels 1, 2 and 3 of the fair value of financial instruments.

At 31 December 2019 and 2018, the carrying value of financial assets and financial liabilities approximates their fair value due to the short-term maturities of these instruments.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through optimisation of the debt and equity structure. As at 31 December 2019, the capital structure of the Group comprises of the charter capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2019.

23. RELATED PARTY TRANSACTIONS

Related parties include shareholders, affiliates, entities under common ownership, entities over which the Group has the ability to exercise significant influence, and key management of the Group.

The Group's immediate parent company is KNOC Black Hill Ltd. (Canada), which is controlled by Korea National Oil Corporation, which produces publicly available financial statements. KNOC is ultimately controlled by the Government of the Republic of Korea.

During the years ended 31 December 2019 and 2018, the Group entered into the flowing transactions with related parties:

Entities under common control

Other income

In thousands of Tenge	**2019**	2018
ADA Oil LLP	**456,510**	494,330
	456,510	494,330

Trade receivables

In thousands of Tenge	**2019**	2018
ADA Oil LLP	**438**	590
	438	590

23. RELATED PARTY TRANSACTIONS (continued)

Entities under common control (continued)

Advances received

In thousands of Tenge	**2019**	2018
ADA Oil LLP	**39,200**	45,343
	39,200	45,343

Loans and borrowings

In thousands of Tenge	**2019**	2018
KNOC Kaz B.V.	**27,241,867**	25,494,906
Kernhem International B.V.	**611,982**	454,021
Impairment provision	**(27,853,849)**	(25,948,927)
	–	–

In 2015 the Group has created a provision for impairment that represents management estimate of losses in respect of irrecoverable loans for the full amount of loans issued and interest accrued on those loans *(Note 18)*.

Compensation to key management personnel

Key management personnel comprise members of the Management Board and independent directors of the Group. Key management personnel of the Group totaled 13 people as at 31 December 2019. Total compensation to key management personnel included in general and administrative expenses in the consolidated statement of comprehensive income was equal to 361,280 thousand Tenge for the year ended 31 December 2019 (as at 31 December 2018: 284,938 thousand Tenge). Compensation to key management personnel consists mainly of salaries and other compensation payments in accordance with internal policy of the Group.

24. SUBSEQUENT EVENTS

During the period after the reporting date, there were no significant events.