Altius Holdings Inc.

Consolidated Financial Statements
for the year ended 31 December 2014

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Independent Auditors' Report

To the Management of Altius Holdings Inc.

We have audited the accompanying consolidated financial statements of Altius Holdings Inc. (the "Company") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

ТОО «КПМГ Аудит», компания, зарегистрированная в соответствии с законодательством Республики Казахстан, член сети независимых фирм KPMG, входящих в ассоциацию KPMG International Cooperative ("KPMG International"), зарегистрированную по законодательству Швейцарии.

KPMG Audit LLC, a company incorporated under the Laws of the Republic of Kazakhstan, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Audit LLC

KPMG Audit LLC

26 February 2015

'000 KZT	Note	2014	2013
Revenue	7	33,480,129	41,657,221
Cost of sales	8	(7,957,155)	(8,601,070)
Gross profit		**25,522,974**	**33,056,151**
Selling expenses	9	(11,384,466)	(15,199,788)
Administrative expenses	10	(2,355,249)	(1,662,738)
Dry well expenses		(203,454)	(297,885)
Results from operating activities		**11,579,805**	**15,895,740**
Finance income	12	2,265,726	797,874
Finance costs	12	(165,372)	(62,748)
Net finance income		**2,100,354**	**735,126**
Other income	13	733,157	796,319
Other expenses		(192,490)	(77,425)
Profit before income tax		**14,220,826**	**17,349,760**
Corporate income tax expense	14	(4,000,590)	(5,048,883)
Excess profit tax expense	14	(1,253,794)	(2,042,976)
Profit for the year		**8,966,442**	**10,257,901**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Exchange difference on translation to presentation currency		1,698,429	-
Other comprehensive income for the year, net of income tax		**1,698,429**	**-**
Total comprehensive income for the year		**10,664,871**	**10,257,901**

These consolidated financial statements were approved by Management on 26 February 2015 and were signed on its behalf by:

ALTIUS HOLDINGS INC Alberta Canada

Seokwoo Shin
Managing Director

JungWoo Seo
Financial Director

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 40.

'000 KZT	**Note**	**2014**	**2013**
ASSETS			
Property, plant, and equipment	15	21,549,433	20,100,889
Intangible assets	16	3,325,138	3,763,252
Trade and other receivables	18	50,899	32,323
Loans to related parties	28	11,405,211	8,896,581
Other long-term investments	19	562,329	252,350
Non-current assets		**36,893,010**	**33,045,395**
Inventories	17	976,672	838,127
Trade and other receivables	18	3,959,402	6,082,050
Income tax receivable		2,956,519	331,450
Cash and cash equivalents	20	2,435,327	3,983,489
Current assets		**10,327,920**	**11,235,116**
Total assets		**47,220,930**	**44,280,511**
EQUITY AND LIABILITIES			
Share capital	21	0.1	0.1
Foreign currency translation reserve		1,698,429	-
Retained earnings		38,342,908	38,036,856
Total equity		**40,041,337**	**38,036,856**
Historical cost liabilities	22	332,905	344,399
Deferred tax liabilities	14	992,745	1,332,151
Abandonment and site restoration provision	23	1,765,535	1,573,411
Total non-current liabilities		**3,091,185**	**3,249,961**
Trade and other payables	24	1,410,390	1,120,671
Historical cost liabilities	22	131,734	100,332
Income tax payable		2,546,284	1,772,691
Total current liabilities		**4,088,408**	**2,993,694**
Total liabilities		**7,179,593**	**6,243,655**
Total equity and liabilities		**47,220,930**	**44,280,511**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 40.

'000 KZT	**Share capital**	**Foreign currency translation reserve**	**Retained earnings**	**Total**
Balance at 1 January 2013	0.1	-	36,334,882	36,334,882
Profit and total comprehensive income for the year	-	-	10,257,901	10,257,901
Transactions with owners, recorded directly in equity				
Dividends paid	-	-	(8,555,927)	(8,555,927)
Total transactions with owners	-	-	**(8,555,927)**	**(8,555,927)**
Balance at 31 December 2013	**0.1**	-	**38,036,856**	**38,036,856**
Balance at 1 January 2014	0.1	-	38,036,856	38,036,856
Profit for the year	-	-	8,966,442	8,966,442
Other comprehensive income				
Exchange difference on translation to presentation currency	-	1,698,429	-	1,698,429
Total other comprehensive income	-	**1,698,429**	-	**1,698,429**
Total comprehensive income for the year	-	**1,698,429**	**8,966,442**	**10,664,871**
Transactions with owners, recorded directly in equity				
Dividends paid	-	-	(8,660,390)	(8,660,390)
Total transactions with owners	-	-	**(8,660,390)**	**(8,660,390)**
Balance at 31 December 2014	**0.1**	**1,698,429**	**38,342,908**	**40,041,337**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 40.

'000 KZT	**Note**	**2014**	**2013**
Cash flows from operating activities			
Profit before income tax		**14,220,826**	**17,349,760**
Adjustments for:			
Depreciation and amortisation	15,16	2,900,816	2,575,889
Finance costs	12	165,372	62,748
Finance income	12	(2,265,726)	(797,874)
Dry well expenses		203,454	297,885
Accrual of allowance for obsolete inventories	10	42,351	8,399
Reversal of allowance on trade and other receivables	10	-	(36,243)
Loss on disposal of property, plant and equipment and intangible assets		11,040	18,867
Other		-	(15,040)
Cash from operating activities before changes in working capital		**15,278,133**	**19,464,391**
Change in inventories		(180,896)	(38,686)
Change in trade and other receivables		2,104,072	(193,171)
Change in trade and other payables		289,719	(29,633)
Cash from operating activities before interest paid		**17,491,028**	**19,202,901**
Income tax paid		(7,445,266)	(6,042,639)
Net cash from operating activities		**10,045,762**	**13,160,262**
Cash flows from investing activities			
Acquisition of other property, plant and equipment		(4,034,291)	(3,251,435)
Acquisition of intangible assets		(6,153)	(326,737)
Proceeds from disposal of other property, plant and equipment		-	61,866
Placement of cash to term deposits		(5,157,266)	(45,148)
Withdrawal of cash from term deposits		4,910,366	-
Interest received		16,509	-
Repayment of historical cost obligations		(122,100)	(97,215)
Net cash used in investing activities		**(4,392,935)**	**(3,658,669)**
Cash flows used in financing activities			
Dividends paid	21	(8,660,390)	(8,555,927)
Net cash used in financing activities		**(8,660,390)**	**(8,555,927)**
Net (decrease)/increase in cash and cash equivalents		**(3,007,563)**	**945,666**
Cash and cash equivalents at 1 January		3,983,489	3,037,823
Effect of movements in exchange rates on cash and cash equivalents		1,459,401	-
Cash and cash equivalents at 31 December	20	**2,435,327**	**3,983,489**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 40.

1 Reporting entity

(a) Business environment

The operations of Altius Holdings Inc. (the "Company") and its subsidiary (together referred to as the "Group") are primarily located in Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan. The consolidated financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organisation and operations

Altius Holdings Inc. is an independent upstream oil and gas company 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. Altius Holdings Inc. 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., 100% subsidiary of the Company, is engaged in oil and gas development and production on the Akzhar, Besbolek, Karataikyz and Alimbai fields located in North-Western Kazakhstan through its branches in Aktobe and Atyrau cities. The Group's operating licenses, which were obtained from the Government of Republic of Kazakhstan, expire in 2021-2036 (the "Subsoil agreements").

2 Basis of accounting

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

3 Functional and presentation currency

The national currency of the Republic of Kazakhstan is the Kazakhstan Tenge ("KZT"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in KZT has been rounded to the nearest thousands, except when otherwise indicated.

The functional currency of Altius Petroleum International B.V. is US Dollar ("USD"). The results and financial position of a subsidiary whose functional currency is different from the presentation currency are translated into presentation currency using the following procedures:

- assets and liabilities for statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for statement of comprehensive income presented are translated at exchange rates at the dates of the transactions; and
- all resulting exchange differences shall be recognised in other comprehensive income.

3 Functional and presentation currency, continued

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as official currency exchange rates in the Republic of Kazakhstan.

The currency exchange rate of KASE as at 31 December 2014, was KZT 182.35 to 1 USD. This rate was used to translate monetary assets and liabilities denominated in USD as at 31 December 2014 (2013: KZT 153.61 to USD).

4 Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is discussed below.

(a) Useful lifes of property, plant and equipment, intangible assets, abandonment and site restoration costs

The Group's oil and gas tangible and intangible assets are amortised over the respective life of the oil and gas fields using the units-of-production method based on proved developed reserves.

Oil and gas production properties are depreciated on units of production basis at a rate calculated by reference to proved developed reserves determined in accordance with the Society of Petroleum Engineers rules. The Group engaged independent appraiser named Petroleum Geo-Services Kazakhstan LLP and independent appraisal MX Consulting Ltd. to evaluate oil reserves. The Group estimates its commercial reserves based on information prepared by appropriately qualified personnel relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of oil in place, recovery factors and future oil prices.

When determining the life of the oil and gas field, assumptions that were valid at the time of estimation may change when new information becomes available. The factors that could affect the estimation of the life of an oil and gas field include the following:

- Changes of proved and probable oil and gas reserves;
- Differences between actual commodity prices and commodity price assumptions used in the estimation of oil and gas reserves;
- Unforeseen operational issues at the oil and gas field; and
- Changes in capital, operating, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of oil and gas reserves.

4 Use of estimates and judgements, continued

(a) Useful lifes of property, plant and equipment, intangible assets, abandonment and site restoration costs, continued

Any of these changes could affect prospective amortisation of oil and gas assets and their carrying value.

Other property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management periodically, at the end of each reporting period, reviews the appropriateness of the assets useful economic lives and residual values. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group and the estimated residual value.

Estimates in respect of the abandonment and site restoration costs are further discussed in the Note 5(l)(i).

(b) Impairment of non-current assets

If circumstances indicate that the net book value of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 *Impairment of Assets*. The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of sales and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales and amount of operating costs.

(c) Impairment losses on trade and other receivables

The Group recognises impairment losses on doubtful debts based on an assessment of the recoverability of trade and other receivables. Impairments are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgements and suitable estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables and doubtful debts expenses in the periods in which such an estimate has been changed.

(d) Net realisable value of inventories

The Group recognises a write-down on inventories based on an assessment of the net realisable value of the inventories. A write-down is applied to inventories where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimates, such difference will impact the carrying value of inventories and a write-down on inventories is charged to profit or loss in the periods in which such an estimate has been changed.

4 Use of estimates and judgements, continued

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. When an estimate changes in a subsequent period, the effect of such change is reflected in profit or loss in the period in which the estimate has been changed.

(f) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Under the framework with respect to the measurement of fair values the Financial Controller has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Financial Officer.

The Financial Controller regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the Financial Controller assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Chief Financial Officer.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1:* quoted prices (unadjusted) in active markets for identical assets or liabilities;
- *Level 2:* inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- *Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

5 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

5 Significant accounting policies, continued

(a) Basis of consolidation, continued

(ii) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

(b) Revenue

(i) Goods sold

Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For the export sales of crude oil, transfer usually occurs when the product is physically transferred on customer's vessel (FOB – Free On Board); for local shipments transfer occurs upon loading of crude oil into the magistral pipeline (DAP – Delivered At Point).

(ii) Services

Revenue from services rendered is recognised in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(c) Finance income and costs

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities.

Interest income or expense is recognised using the effective interest method.

5 Significant accounting policies, continued

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments which are recognised in other comprehensive income.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to the presentation currency at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to non-controlling interests.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such item form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

(e) 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.

5 Significant accounting policies, continued

(f) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognised for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of Republic of Kazakhstan, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

5 Significant accounting policies, continued

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average basis, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent expenditure

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its residual value.

Oil and gas properties are depreciated on a units-of-production basis over the proved developed 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. Land is not depreciated.

Other property, plant and equipment are generally depreciated on a straight-line basis over their estimated useful lives and include infrastructure that is not consumed as a proportion of production or that is commonly used in many fields and non-oil and gas assets such as office buildings, motor vehicles, information technology equipment and office fixtures and fittings.

5 Significant accounting policies, continued

(h) Property, plant and equipment, continued

(iii) Depreciation, continued

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

- buildings and constructions 18 years;
- machinery and equipment 6-10 years;
- vehicles 4 years;
- other property, plant and equipment 4-7 years.

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

(i) Intangible assets

(i) Subsoil use rights

Subsoil use rights are measured at cost less accumulated amortisation and accumulated impairment losses. The cost of acquisition of mineral rights comprises the capitalised expenditure relating to the reimbursement of historical costs. The Group is committed to reimburse historical costs incurred by the Government of the Republic of Kazakhstan in respect of licensing blocks prior to licences being issued. These historical costs are recognised as part of the acquisition cost with a corresponding liability equal to the present value of payments to be made during the licence period.

(ii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

(iv) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Amortisation is recognised in profit or loss on a straight line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. Subsoil use rights are amortised on units-of-production basis over the proved reserves.

The estimated useful lives for the current and comparative periods are as follows:

- software 2-7 years;
- capitalised exploration and evaluation costs 2-7 years.

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

5 Significant accounting policies, continued

(j) Financial instruments

The Group classifies non-derivative financial assets into the following categories: loans and receivables. The Group classifies non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in Note 18, other long-term investnments as presented in Note 27, cash and cash equivalents as presented in Note 20 and loans issued to related parties as presented in Note 28.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

(ii) Non-derivative financial liabilities - measurement

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, and trade and other payables.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

5 Significant accounting policies, continued

(k) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or observable date indicating that there is measurable decrease in expected cash flow from a group of financial assets.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or are not yet available for use, the recoverable amount is estimated each year at the same time.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit (CGU).

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

5 Significant accounting policies, continued

(k) Impairment, continued

(ii) Non-financial assets, continued

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Abandonment and site restoration provision

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*.

5 Significant accounting policies, continued

(m) Leases

(i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

At inception or upon reassessment of an arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(ii) Leased assets

Assets held by the Group under leases that transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's consolidated statement of financial position.

(iii) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(n) Other expenses

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in profit or loss as incurred.

6 New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2014, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.
- IFRS 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.
- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 July 2014. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

7 Revenue

'000 KZT	**2014**	**2013**
Export sales	22,093,148	37,417,699
Domestic sales	11,386,981	4,239,522
	33,480,129	**41,657,221**

8 Cost of sales

'000 KZT		2014	2013
Depreciation and amortisation	15,16	2,684,120	2,421,272
Mineral extraction tax		1,588,978	2,505,320
Personnel costs and related taxes	11	800,519	754,971
Repair and maintenance		783,302	682,297
Transportation		572,861	568,386
Services		359,988	604,516
Taxes other than income tax		277,680	257,107
Fuel and electricity		233,786	210,994
Materials and supplies		90,712	139,072
Insurance		88,153	29,261
Catering		80,477	80,473
Security		79,605	73,386
Training and education		14,999	10,307
Communication		10,142	15,362
Other		291,833	248,346
		7,957,155	**8,601,070**

9 Selling expenses

'000 KZT		2014	2013
Rental tax		5,197,614	8,208,007
Transportation		3,249,958	3,765,262
Custom duties		2,464,656	2,632,381
Depreciation and amortisation	15,16	152,225	138,398
Collection and storage of crude oil		143,673	315,117
Personnel costs and related taxes	11	58,948	21,703
Security		44,399	41,500
Property tax		24,581	26,062
Other		48,412	51,358
		11,384,466	**15,199,788**

10 Administrative expenses

'000 KZT	Note	2014	2013
Personnel costs and related taxes	11	835,534	727,465
Fines and penalties		817,157	278,522
Rent and office maintenance		179,430	180,740
Professional services		140,387	113,561
Donations		59,576	42,983
Training and education		48,542	56,355
Business trip expenses		43,186	38,483
Accrual of allowance for obsolete inventories	17	42,351	8,399
Materials and supplies		36,458	69,829
Taxes other than on income		32,807	27,410
Communication		23,450	26,408
Depreciation and amortisation	15,16	23,167	16,219
Advertising		4,467	21,247
Bank fees		2,855	8,163
Reversal of allowance on trade and other receivables		-	(36,243)
Other		65,882	83,197
		2,355,249	**1,662,738**

11 Personnel costs

'000 KZT	2014	2013
Wages and salaries	1,573,293	1,353,725
Social tax and compulsory social security contributions	159,690	150,414
	1,732,983	**1,504,139**

Personnel costs of KZT 800,519 thousand (2013: KZT 754,971 thousand) have been charged to cost of sales, KZT 835,534 thousand (2013: KZT 727,465 thousand) to administrative expenses and KZT 58,948 thousand (2013: KZT 21,703 thousand) to selling expenses and KZT 37,982 thousand (2013: nil) to other expenses.

12 Finance income and finance costs

'000 KZT	Note	2014	2013
Net foreign exchange gain		1,417,980	115,403
Interest income on loans to related parties		831,237	652,791
Other finance income		16,509	29,680
Finance income		**2,265,726**	**797,874**
Unwinding of discount	22,23	(165,372)	(62,748)
Finance costs		**(165,372)**	**(62,748)**
Net finance income recognised in profit or loss		**2,100,354**	**735,126**

13 Other income

'000 KZT	2014	2013
Income from services on collection and storage of crude oil	685,297	796,319
Other income	47,860	-
	733,157	**796,319**

14 Income tax

The Group's applicable tax rate is the income tax rate of 20% for Kazakhstan companies. 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. 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.

'000 KZT	2014	2013
Current income tax		
Corporate income tax	4,074,149	4,968,837
Excess profit tax	1,519,641	1,983,736
	5,593,790	**6,952,573**
Deferred tax (benefit)/expense		
Corporate income tax	(73,559)	80,046
Excess profit tax	(265,847)	59,240
	(339,406)	**139,286**
Total income tax expense	**5,254,384**	**7,091,859**

(a) Reconciliation of effective tax rate:

	2014		2013	
	'000 KZT	**%**	**'000 KZT**	**%**
Profit before income tax	**14,220,826**	**100**	**17,349,760**	**100**
Income tax at applicable tax rate	2,844,165	20.00	3,469,952	20.00
Excess profit tax	1,519,641	10.69	1,802,854	10.39
Branch profit tax expense	536,146	3.77	693,990	4.00
Tax on dividends	457,103	3.21	466,918	2.69
Tax effect of non-deductible items	202,112	1.42	146,135	0.84
Deferred excess profit tax (benefit)/expense	(265,847)	(1.87)	59,240	0.34
(Over)/underprovided in prior years	(38,936)	(0.27)	452,770	2.61
	5,254,384	**36.95**	**7,091,859**	**40.87**

In 2013 underprovided taxes in prior years represent transfer price accrual resulted from tax audit of the Aktobe branch for 2009-2012.

14 Income tax, continued

(b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 KZT	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Property, plant and equipment	-	-	(1,916,421)	(2,148,029)	(1,916,421)	(2,148,029)
Abandonment and site restoration provision	444,811	513,878	-	-	444,811	513,878
Historical cost liabilities	131,936	193,536	-	-	131,936	193,536
Provisions and accrued expenses	284,764	72,668	-	-	284,764	72,668
Tax losses carried forward	27,500	35,796	-	-	27,500	35,796
Inventories	34,665	-	-	-	34,665	-
Net tax assets/(liabilities)	**923,676**	**815,878**	**(1,916,421)**	**(2,148,029)**	**(992,745)**	**(1,332,151)**

(c) Movement in temporary differences during the year

'000 KZT	**1 January 2014**	**Recognised in profit or loss**	**31 December 2014**
Property, plant and equipment	(2,148,029)	231,608	(1,916,421)
Abandonment and site restoration provision	513,878	(69,067)	444,811
Historical cost liabilities	193,536	(61,600)	131,936
Provisions and accrued expenses	72,668	212,096	284,764
Tax losses carried forward	35,796	(8,296)	27,500
Inventories	-	34,665	34,665
	(1,332,151)	**339,406**	**(992,745)**

'000 KZT	**1 January 2013**	**Recognised in profit or loss**	**31 December 2013**
Property, plant and equipment	(1,668,613)	(479,416)	(2,148,029)
Abandonment and site restoration provision	190,328	323,550	513,878
Historical cost liabilities	183,329	10,207	193,536
Provisions and accrued expenses	60,373	12,295	72,668
Tax losses carried forward	18,087	17,709	35,796
Inventories	23,631	(23,631)	-
	(1,192,865)	**(139,286)**	**(1,332,151)**

15 Property, plant and equipment

'000 KZT	Oil and gas property	Construction in progress	Other property, plant and equipment	Total
Cost				
Balance at 1 January 2013	22,870,250	2,404,625	145,853	25,420,728
Additions	1,177,165	3,018,619	81,855	4,277,639
Disposals	(116,542)	-	(26,884)	(143,426)
Transfers	1,541,869	(2,638,119)	1,096,250	-
Balance at 31 December 2013	25,472,742	2,785,125	1,297,074	29,554,941
Balance at 1 January 2014	25,472,742	2,785,125	1,297,074	29,554,941
Additions	838,322	3,449,644	159,777	4,447,743
Disposals	(444,676)	-	(67,547)	(512,223)
Transfers	4,498,351	(4,561,180)	62,829	-
Balance at 31 December 2014	**30,364,739**	**1,673,589**	**1,452,133**	**33,490,461**
Depreciation and impairment losses				
Balance at 1 January 2013	(6,861,756)	-	(87,681)	(6,949,437)
Depreciation for the year	(2,187,314)	-	(80,957)	(2,268,271)
Impairment losses	-	(297,885)	-	(297,885)
Disposals	48,438	-	13,103	61,541
Transfers	391,120	-	(391,120)	-
Balance at 31 December 2013	(8,609,512)	(297,885)	(546,655)	(9,454,052)
Balance at 1 January 2014	(8,609,512)	(297,885)	(546,655)	(9,454,052)
Depreciation for the year	(2,378,688)	-	(125,698)	(2,504,386)
Impairment losses	-	(203,454)	-	(203,454)
Disposals	163,380	-	57,484	220,864
Balance at 31 December 2014	**(10,824,820)**	**(501,339)**	**(614,869)**	**(11,941,028)**
Carrying amounts				
At 1 January 2013	16,008,494	2,404,625	58,172	18,471,291
At 31 December 2013	16,863,230	2,487,240	750,419	20,100,889
At 31 December 2014	**19,539,919**	**1,172,250**	**837,264**	**21,549,433**

(a) Depreciation

Depreciation expense of KZT 2,291,302 thousand (2013: KZT 2,113,654 thousand) has been charged to cost of sales, KZT 19,555 thousand (2013: KZT 16,219 thousand) to administrative expenses, KZT 151,955 thousand (2013: KZT 138,398 thousand) to selling expenses and KZT 41,574 thousand (2013: nil) to other expenses.

15 Property, plant and equipment, continued

(b) Impairment testing for cash generating units

Due to a sharp decline of market prices for crude oil in December 2014, the management considered that there were indications showing that the recoverable amount of property, plant and equipment of cash generating unit "Besbolek" might be lower than its carrying amount. The recoverable amount of assets was estimated based on their value in use as determined by discounting the future cash flows of cash generating unit generated from the continuing use of property, plant and equipment and from its ultimate disposal.

Excess of the future discounted cash flows over the carrying amount of non-financial assets amounted to KZT 94,911 thousand, which made 2.6% of the carrying amount of the property, plant and equipment.

The key assumptions used in the estimation of value in use are:

- future nominal cash flows are estimated until 2021;
- forecast for weighted average annual oil price during forecast period fluctuates from a minimum to a maximum level of USD 69 per barrel and USD 74 per barrel, respectively. Oil price forecast as at 1 January 2015 is received from the report *Country Outlook* produced by *The Economist Intelligence Unit*;
- annual drop of oil output during forecast period fluctuates from a minimum to a maximum level of 6% to 45%, respectively;
- pre-tax discount rate is 27.8%;
- inflation rates as at 1 January 2015 are taken from the report *Country Outlook* produced by *The Economist Intelligence Unit.*

The management performed sensitivity analysis of key assumptions used in testing. The impairment loss to be recognised in the year ended 31 December 2014, all things being equal, arises if one of the following conditions are met:

- weighted average annual oil prices - below USD 64 per barrel;
- pre-tax discount rate - above 30.2%.

16 Intangible assets

'000 KZT	Licenses	Exploration and evaluation assets	Total
Cost			
Balance at 1 January 2013	5,391,995	1,004,653	6,396,648
Additions	326,736	-	326,736
Disposals	(51,714)	-	(51,714)
Balance at 31 December 2013	5,667,017	1,004,653	6,671,670
Balance at 1 January 2014	5,667,017	1,004,653	6,671,670
Additions	3,548	2,605	6,153
Disposals	-	(47,837)	(47,837)
Transfers	(717,406)	717,406	-
Balance at 31 December 2014	**4,953,159**	**1,676,827**	**6,629,986**
Amortisation			
Balance at 1 January 2013	(2,600,800)	-	(2,600,800)
Amortisation for the year	(307,618)	-	(307,618)
Balance at 31 December 2013	(2,908,418)	-	(2,908,418)
Balance at 1 January 2014	(2,908,418)	-	(2,908,418)
Amortisation for the year	(293,220)	(103,210)	(396,430)
Transfers	240,718	(240,718)	-
Balance at 31 December 2014	**(2,961,460)**	**(343,388)**	**(3,304,848)**
Carrying amounts			
At 1 January 2013	2,365,594	1,430,254	3,795,848
At 31 December 2013	2,337,134	1,426,118	3,763,252
At 31 December 2014	**1,991,699**	**1,333,439**	**3,325,138**

Exploration and evaluation assets represent topographical, geological and geophysical studies, costs of activities in relation to feasibility and commercial viability of extracting a mineral resource on Alimbai oilfield.

17 Inventories

'000 KZT	Note	2014	2013
Materials		630,297	662,422
Crude oil		436,963	231,598
Work in progress		37,758	30,102
		1,105,018	**924,122**
Allowance for obsolete inventories	10	(128,346)	(85,995)
		976,672	**838,127**

18 Trade and other receivables

'000 KZT	2014	2013
Value-added tax and other taxes recoverable	1,781,847	1,938,820
Trade receivables	1,328,181	3,468,778
Advances paid	642,041	599,870
Other receivables	258,232	106,905
	4,010,301	**6,114,373**
Non-current	50,899	32,323
Current	3,959,402	6,082,050
	4,010,301	**6,114,373**

Value-added tax and other taxes receivable

'000 KZT	2014	2013
Rental tax prepaid	675,902	400,553
Export customs duties prepaid	355,208	199,056
Mineral extraction tax prepaid	318,014	176,026
Value added tax receivable	277,305	838,572
Personal income tax prepaid	49,204	119,163
Other	106,214	240,352
	1,781,847	**1,973,722**
Allowance for non-recoverable taxes	-	(34,902)
	1,781,847	**1,938,820**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 25.

19 Other long-term investments

'000 KZT	2014	2013
Deposits in USD	560,392	250,639
Deposits in KZT	1,937	1,711
	562,329	**252,350**

As at 31 December 2014, the Group held restricted cash deposits which amounted to KZT 334,212 thousand (2013: KZT 250,639 thousand) 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. As at 31 December 2014, the Group also held restricted cash deposits amounted to KZT 1,937 thousand (2013: KZT 1,711 thousand) which are accumulated for the purpose securing its obligations on expatriate staff.

As at 31 December 2014, term deposits amounting to KZT 226,180 thousand are the bank deposits with maturity period of more than three months with an average interest rate of 1.5%. The effective interest rate approximates the nominal interest rate as per deposit placement agreements.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 25.

20 Cash and cash equivalents

'000 KZT	2014	2013
Bank balances	1,513,980	1,638,068
Deposits in USD	911,750	2,338,424
Petty cash	9,597	6,997
	2,435,327	**3,983,489**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 25.

21 Share capital

(a) Share capital

	Ordinary shares	
Number of shares unless otherwise stated	**2014**	**2013**
In issue at 1 January	182,644,452	182,644,452
Issued for cash	-	-
In issue at 31 December, fully paid	**182,644,452**	**182,644,452**

All ordinary shares rank equally with regard to the Company's residual assets.

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.

(b) Dividends

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 Company during 2014 the Company declared and paid dividends in the amount of KZT 8,660,390 thousand (equivalent to USD 57,000 thousand).

22 Historical cost liabilities

'000 KZT	2014	2013
Balance at 1 January	444,731	519,560
Arising during the year	50,523	-
Change in estimates	(47,837)	-
Foreign currency translation difference	83,464	-
Repayment	(122,100)	(97,215)
Unwinding of discount	55,858	22,386
Balance at 31 December	**464,639**	**444,731**
Current	131,734	100,332
Non-current	332,905	344,399
	464,639	**444,731**

22 Historical cost liabilities, continued

According to the Subsoil agreements the Group assumed obligations related to the historical cost of geological and geophysical data and drilling works incurred by the Government of Republic of Kazakhstan.

Payments of historical costs should be made on quarterly basis over 10 years from the date of commencement of production, provided that reserves are proved and commercial production has commenced.

At the inception of the Subsoil agreements the historical costs have been determined in the amount of USD 7,533,879 payable to the Government. At 31 December 2014 the Group's obligation in relation to historical costs was KZT 588,465 thousand (equivalent to USD 3,862,584). The future expected cash outflows for historical costs have been discounted at a rate of 9.24% (2013: 7.1%).

The Group's exposure to currency and liquidity risks related to historical cost liabilities is disclosed in Note 25.

23 Abandonment and site restoration provision

'000 KZT	**2014**	**2013**
Balance at 1 January	1,573,411	582,214
Provision for the year	424,565	164,166
Change in estimates	(341,955)	808,125
Unwinding of discount	109,514	40,362
Utilised	-	(21,456)
Balance at 31 December	**1,765,535**	**1,573,411**

In order to comply with the subsoil 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 decommissioning obligation was accrued based on the best estimates available by that date. The decommissioning obligation for the Akzhar, Besbolek, Karataikyz and Alimbai fields over the term of the contract adjusted at an inflation rate of 6.2% is KZT 6,085,769 thousand. As at 31 December 2014 the present value of the decommissioning obligation was discounted at the rate of 9.24% (2013: 7.10%).

24 Trade and other payables

'000 KZT	2014	2013
Trade payables	692,942	434,549
Taxes payable	468,023	444,350
Vacation pay accrual	177,098	112,413
Advances received	18,430	93,952
Other payables	53,897	35,407
	1,410,390	**1,120,671**

Taxes payable

'000 KZT	2014	2013
Withholding tax	227,938	153,611
Personal income tax	18,712	273,102
Other taxes	221,373	17,637
	468,023	**444,350**

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 25.

25 Fair value and risk management

(a) Classification in the financial statements and fair value

The Group's management believes that fair value of financial assets and liabilities of the Group approximates its carrying amounts.

(b) Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

(i) Risk management framework

The management has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management is established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits with a significant involvement of the ultimate controlling party.

25 Fair value and risk management, continued

(b) Financial risk management, continued

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

		Carrying amount	
'000 KZT	**Note**	**2014**	**2013**
Loans to related parties	28(c)	11,405,211	8,896,581
Cash and cash equivalents	20	2,425,730	3,976,492
Trade and other receivables	18	1,586,413	3,575,683
Other long-term investments	19	562,329	252,350
		15,979,683	**16,701,106**

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of the Group's customer base, including the default risk of the industry and country, in which customers operate, particularly in the currently deteriorating economic circumstances. Approximately 59% (2013: 72%) of the Group's revenue is attributable to sales transactions with a single customer.

The Group's most significant customer, Titan Oil GmbH, accounts for KZT 1,062,951 thousand of the trade and other receivables carrying amount at 31 December 2014 (2013: KZT 2,763,491 thousand).

More than 70% of the Group's customers have been transacting with the Group for more than three years, and losses have occurred infrequently. Trade and other receivables relate mainly to the Group's wholesale customers. None of trade receivables is overdue.

The Group establishes an allowance for impairment that represents its' estimate of incurred losses in respect of trade and other receivables and investments.

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was as follows:

	Carrying amount	
'000 KZT	**2014**	**2013**
Europe	1,063,867	2,763,491
Domestic	522,546	199,609
Asia	-	612,583
	1,586,413	**3,575,683**

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables as the balance, which includes the amount owed by the Group's most significant customer (see above), relates to customers that have a good track record with the Group.

25 Fair value and risk management, continued

(b) Financial risk management, continued

(ii) Credit risk, continued

Cash and cash equivalents and long-term investments

The Group held cash and cash equivalents and long-term deposits of KZT 2,425,730 thousand and KZT 562,329 thousand, respectively (2013: KZT 3,976,492 thousand and KZT 252,350 thousand, respectively), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank counterparties, which are rated B2 to Aa3, based on Moody's Ratings.

Management believes no counterparty will fail to meet its obligations and cash held with financial institutions is fully recoverable and no impairment allowance is required.

The remaining amount comprises petty cash held at the Group.

Loans to related parties

The Group limits its exposure to credit risk by only investing with counterparties which are controlled by Korea National Oil Corporation, ultimate controlling party.

Given the fact that the Group provided loans to the counterapties under common control of Korea National Oil Corporation, management does not expect any counterparty to fail to meet its obligations.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Exposure to liquidity risk

The following are the contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted and include estimated interest payments and exclude the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

2014 '000 KZT	Carrying amount	Total contractual cash flows	Less than 2 months	2-12 months	1-2 years	2-5 years	Over 5 years
Non-derivative financial liabilities							
Trade and other payables	746,839	746,839	746,839	-	-	-	-
Historical cost liabilities	464,639	572,622	-	131,734	131,736	272,608	36,544
	1,211,478	**1,319,461**	**746,839**	**131,734**	**131,736**	**272,608**	**36,544**

25 Fair value and risk management, continued

(b) Financial risk management, continued

(iii) Liquidity risk, continued

Exposure to liquidity risk, continued

2013 '000 KZT	Carrying amount	Total contractual cash flows	Less than 2 months	2-12 months	1-2 years	2-5 years	Over 5 years
Non-derivative financial liabilities							
Trade and other payables	469,956	469,956	469,956	-	-	-	-
Historical cost liabilities	444,731	516,386	-	100,332	106,222	309,832	-
	914,687	**986,342**	**469,956**	**100,332**	**106,222**	**309,832**	**-**

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will negatively affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk to the extent that there is a mismatch between currencies in which sales, purchases and borrowings are primarily denominated and the functional currency of Group entities. The functional currency of the Group entities are KZT and USD. The currency in which these transactions are primarily denominated is USD. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

'000 KZT	USD-denominated	EUR-denominated	USD-denominated	EUR-denominated
	2014	**2014**	**2013**	**2013**
Cash and cash equivalents	1,683,187	60,174	3,212,258	57,182
Other long-term investments	560,392		250,639	
Trade receivables	1,472,997	-	3,385,999	-
Historical cost liabilities	(464,639)	-	(444,731)	-
Trade payables	(5,512)	(11,543)	(3,111)	-
Net exposure	**3,246,425**	**48,631**	**6,401,054**	**57,182**

25 Fair value and risk management, continued

(b) Financial risk management, continued

(iv) Market risk, continued

Exposure to currency risk, continued

The following significant exchange rates applied during the year:

in KZT	Average rate		Reporting date spot rate	
	2014	2013	2014	2013
EUR 1	238.03	202.08	221.59	211.17
USD 1	179.19	152.13	182.35	153.61

Sensitivity analysis

A strengthening (weakening) of the KZT, as indicated below, against the following currencies at 31 December would have increased (decreased) profit or loss, net of corporate income tax, by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Carrying amount	
'000 KZT	Strengthening of KZT (5%)	Weakening of KZT (20%)
31 December 2014		
USD	(129,857)	519,428
EUR	(1,945)	7,781
31 December 2013		
USD	(256,042)	1,024,169
EUR	(2,287)	9,149

(v) Interest rate

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity. As at 31 December 2014 the Group was not subject to significant exposure of interest rate risk.

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial instruments as fair value through profit or loss or as available-for-sale. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

25 Fair value and risk management, continued

(c) Capital management

The management's key policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, which the Group defines as result from operating activities divided by total shareholders' equity.

Neither the Company nor its subsidiary are subject to externally imposed capital requirements. There were no changes in the Group's approach to capital management during the year.

26 Commitments

The Group's major commitments according to the terms and conditions of the Subsoil agreements are as follows:

(a) Social and education commitments

As required by the Subsoil agreements the Group is obliged to spend KZT 1,000 thousand per annum to finance social development of the region and 1 percent from the operating expenditures incurred during the year for education purposes of the citizens of Kazakhstan on an annual basis until the end of the Subsoil agreement. As at 31 December 2014 management of the Group believes that the Group substantially complied with social and education commitments.

(b) Domestic sales commitment

As required by the Subsoil agreements the Group is obliged to sell 15% of crude oil produced on the Akzhar, Besbolek and Karataikyz fields and 20% on the Alimbai field on domestic market at prices which are significantly lower than export prices. In 2014 the Group sold 189,957 tones (2013: 80,478 tones) on domestic market that comprises 45% (2013: 19%) of total production volume. As at 31 December 2014 management of the Group believes that the Group fully complied with domestic sales commitments.

(c) Kazakhstan content

According to the requirements of the Subsoil agreements the Group is obliged to hire Kazakhstani personnel and purchase goods, works and services of Kazakhstan origin in the following percentage (depending on field):

- Services: not less than 70%-87% from the total cost.
- Goods: not less than 30%-35% from the total cost.

As at 31 December 2014 management of the Group believes that the Company substantially complied with Kazakhstan content commitments.

(d) Investment commitments

In accordance with the terms of licenses for the Akzhar, Besbolek, Karataikyz and Alimbai fields, the Group during the period of validity of the licenses should invest in the development of the fields at least KZT 24,329,646 thousand (2013: KZT 24,608,981 thousand). As at 31 December 2014 management of the Group believes that the Company substantially complied with minimal work program requirements.

26 Commitments, continued

(e) Subsoil use legislation

Under the Law On Subsoil Use of the Republic of Kazakhstan dated 24 June 2010 (the "Law") subsoil users should have an approved general work program as a mandatory part of the Subsoil agreements. The general work program has to be prepared based on a field-development program and include estimated annual extraction volumes, expenses and other data for the whole Subsoil agreements'period. Non-compliance with the requirements of the Law may potentially result in early termination of the Contract by the Ministry of Energy of the Republic of Kazakhstan.

The management of the group believes that it has undertaken all reasonable steps to comply with the requirements of the Law and subsequent interpretation of requirements of the Law will not have a significant impact on the Group's business and financial performance.

27 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for a certain properties which have minor values, while other mandatory insurances including third party liabilites in respect of property or environment damages are in place. Management believes that a potential risk and/or damage from such properties without adequate insurance coverage would not have a material adverse effect on the Group's operations and financial position.

(b) Environmental contingencies

The enforcement of environmental regulation in Kazakhstan is evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Potential liabilities which may arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation cannot be reasonably estimated. Under existing legislation management believes that there are no probable or possible liabilities which could have a material adverse effect on the Group's financial position or results of operations.

(c) Taxation contingencies

The taxation system in Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Kazakhstan that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

28 Related party transactions

(a) Control relationships

The Company'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 government of the Republic of Korea.

(b) Transactions with key management personnel

Management remuneration

Total compensation to key management personnel for the year ended 31 December 2014 amounted KZT 109,580 thousand which were recognised within administrative expenses (2013: total amount was KZT 171,166 thousand of which KZT 84,087 thousand and KZT 87,079 thousand were recognised within cost of sales and administrative expenses, respectively).

(c) Other related parties transactions

(i) Revenue

'000 KZT	Transaction value 2014	Transaction value 2013	Outstanding balance 2014	Outstanding balance 2013
Sales of materials and services to related party				
ADA Oil LLP	529,033	246,924	9,353	-

(ii) Expenses

'000 KZT	Transaction value 2014	Transaction value 2013	Outstanding balance 2014	Outstanding balance 2013
Services received from related party				
KNOC Caspian LLP	-	24,904	-	-
Harvest Operation Corp	-	453	-	-
	-	**25,357**	**-**	**-**

(iii) Loans and borrowings

'000 KZT	Transaction value 2014	Transaction value 2013	Outstanding balance 2014	Outstanding balance 2013
KNOC Kaz B.V.	816,707	641,367	11,205,606	8,740,891
Kernhem International B.V.	14,530	11,424	199,605	155,690
	831,237	**652,791**	**11,405,211**	**8,896,581**

Loan was made to KNOC Kaz B.V. in amount of USD 49,125 thousand bearing interest rate of 7.985% per annum and is repayable on 11 August 2021.

Loan was issued to Kernhem International B.V. in amount of USD 875 thousand bearing interest rate of 8% per annum and is repayable on 11 August 2021.