Altius Holding Inc.

Consolidated financial statements

For the year ended 31 December 2020,
with independent auditor's report

CONTENTS

Independent auditor's report

Consolidated financial statements

Consolidated statement of financial position 1
Consolidated statement of comprehensive income 2
Consolidated statement of changes in equity 3
Consolidated statement of cash flows 4
Notes to the consolidated financial statements 5-34

Independent auditor's report

To the Shareholder and the Management of Altius Holding Inc

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 2020, 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 2020 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 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.

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.
- 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 management 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
№МФ-0000137 dated 8 February 2013

Rustamzhan Sattarov
General Director
Ernst and 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

050060, Republic of Kazakhstan, Almaty
Al-Farai ave., 77/7, Esentai Tower

3 March 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

In thousands of Tenge	Notes	31 December 2020	31 December 2019
Assets			
Non-current assets			
Property, plant and equipment	5	**15,018,182**	15,706,701
Intangible assets	6	**1,093,649**	1,307,115
Right-of-use asset		**80,864**	69,751
Deferred tax assets	20	**264,295**	225,936
Other long-term financial assets	7	**1,014,844**	882,767
Other long-term assets		**-**	109,300
		17,471,834	18,301,570
Current assets			
Cash and cash equivalents	8	**6,233,655**	4,588,405
Other short-term financial assets	7	**8,418**	-
Trade receivables and other current assets	9	**2,664,962**	2,542,815
Inventories	10	**1,170,664**	1,052,429
Income tax prepaid		**321,773**	674,457
		10,399,472	8,858,106
Total assets		**27,871,306**	27,159,676
Equity and liabilities			
Equity			
Charter capital	11	**145,432**	145,432
Foreign currency translation reserve		**12,577,589**	12,409,754
Retained earnings		**8,854,350**	5,951,332
		21,577,371	18,506,518
Non-current liabilities			
Deferred tax liabilities	20	**743,020**	776,272
Abandonment and site restoration liabilities	12	**3,894,261**	3,865,541
Long-term lease liabilities		**31,543**	38,529
		4,668,824	4,680,342
Current liabilities			
Trade payables and other current liabilities	13	**1,282,850**	1,264,602
Income tax payable		**342,261**	2,708,214
		1,625,111	3,972,816
Total equity and liabilities		**27,871,306**	27,159,676

Kim Man Sup
Managing Director

ALTIUS HOLDINGS INC Alberta Canada

Suk Kim
Financial Director

The accounting policies and explanatory notes on page 5 through 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

In thousands of Tenge	Notes	2020	2019
Revenue from contracts with customers	14	**20,158,227**	34,628,732
Cost of sales	15	**(8,307,040)**	(8,570,867)
Gross profit		**11,851,187**	26,057,865
Selling expenses	16	**(5,402,678)**	(8,759,743)
General and administrative expenses	17	**(1,932,299)**	(1,909,819)
Profit from operations		**4,516,210**	15,388,303
Reversal of expected credit loss	18	**–**	7,226,502
Finance income		**255**	19,617
Foreign exchange gain, net		**615,476**	171,228
Finance cost		**(303,131)**	(236,039)
Impairment of non-current assets	5, 6	**(184,866)**	–
Other income	19	**545,076**	618,035
Other expense		**(165,817)**	(63,995)
Income before income tax		**5,023,203**	23,123,651
Income tax expense	20	**(2,120,185)**	(7,635,461)
Profit for the year		**2,903,018**	15,488,190
Other comprehensive income			
Foreign currency translation difference		**167,835**	70,196
Total comprehensive profit for the year		**3,070,853**	15,558,386

Kim Man Sup
Managing Director

ALTIUS HOLDINGS. INC Alberta Canada

Suk Kim
Financial Director

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

In thousands of Tenge	Notes	Charter capital	Foreign currency translation reserve	Retained Earnings	Total equity
At 1 January 2019		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		–	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
Net profit for the year		–	–	**2,903,018**	**2,903,018**
Foreign currency translation differences for foreign operations		–	**167,835**	–	**167,835**
Total comprehensive income for the year		–	**167,835**	**2,903,018**	**3,070,853**
At 31 December 2020		**145,432**	**12,577,589**	**8,854,350**	**21,577,371**

Kim Man Sup
Managing Director

ALTIUS HOLDINGS, INC Alberta Canada

Suk Kim
Financial Director

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CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of Tenge	Notes	2020	2019
Cash flow from operating activities			
Profit before income tax		**5,023,203**	23,123,651
Adjustments for:			
Depreciation, depletion and amortization		**2,277,314**	2,343,955
Finance income		**(255)**	(19,617)
Foreign exchange gain, net		**(526,354)**	(171,228)
Finance cost		**303,131**	236,039
Reversal for expected credit loss		**–**	(7,226,502)
Impairment		**184,866**	-
Change in obsolete inventories		**(10,597)**	82,651
Loss on disposal of fixed assets		**18,803**	33,449
Operating cash flows before changes in working capital		**7,270,111**	18,402,398
Changes in working capital			
Change in inventories		**(107,638)**	(28,782)
Change in trade receivables and other current assets		**(118,164)**	300,975
Change in trade payables and other current liabilities		**(68,981)**	(26,144)
Cash generated from operating activity		**6,975,328**	18,648,447
Income tax paid		**(4,205,065)**	(4,069,213)
Interest received		**–**	7,243,706
Net cash generated from operating activities		**2,770,263**	21,822,940
Cash flow from investing activities			
Purchase of property, plant and equipment		**(1,618,582)**	(1,472,929)
Purchase of intangible assets		**–**	(151,719)
Placement of cash deposit		**(48,889)**	(10,395,773)
Withdrawal of deposits		**–**	11,523,540
Proceed from sale of property, plant and equipment		**8,975**	–
Net cash used in investing activities		**(1,658,496)**	(496,881)
Cash flow from financing activities			
Dividends paid	11	**–**	(20,371,026)
Lease liability payment		**(76,425)**	(39,376)
Net cash used in financing activities		**(76,425)**	(20,410,402)
Net change in cash and cash equivalents		**1,035,342**	915,657
Effects of exchange rate changes on cash and cash equivalents		**609,908**	185,227
Cash and cash equivalents, at the beginning of the year	8	**4,588,405**	3,487,521
Cash and cash equivalents, at the end of the year	8	**6,233,655**	4,588,405

Kim Man Sup
Managing Director

Suk Kim
Financial Director

The accounting policies and explanatory notes on page 5 through 35 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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 laws 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 2037
Karataikyz field	expires in 2029
Almbai field	expires in 2036

These consolidated financial statements of the Group for the year ended 31 December 2020 were approved for issue by the Managing Director and Financial Director on 3 March 2021.

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 currency of Altius Petroleum International B.V. Atyrau branch and Aktobe branch is Kazakhstani Tenge ("Tenge" or "KZT"). The results and financial position of entities whose functional currency is different from the presentation currency are translated into presentation currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

2. BASIS OF PREPARATION (continued)

Foreign currency translation (continued)

Transactions and balances (continued)

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recognised in OCI. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates 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. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

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 2020	31 December 2019
US dollars	**420.91**	382.59
Euro	**516.79**	429.00
Canadian dollars	**330.15**	293.58

3. SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

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

Amendments to IFRS 3: Definition of a Business

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Amendments to IAS 1 and IAS 8 Definition of Material

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

Conceptual Framework for Financial Reporting issued on 29 March 2018

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

Amendments to IFRS 16 Covid-19 Related Rent Concessions

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

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 are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

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 2023, 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 is not applicable to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

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

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

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

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

Reference to the Conceptual Framework – Amendments to IFRS 3

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

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

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

In May 2020, the IASB issued *Property, Plant and Equipment − Proceeds before Intended Use*, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

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

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

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

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 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.

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
- There 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

Sale of goods

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the customer, usually on delivery of the goods. 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).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 utilized.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes (continued)

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.

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 abandonment 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.

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	5-20 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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, other long-term financial assets.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets at fair value through profit or loss (continued)

Impairment of financial assets (continued)

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities at amortised cost (loans and borrowings) (continued)

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.

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, WACC and production volumes.

For the year ended 31 December 2020, 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 and Karataikyz do not exceed the recoverable amount, and thus no impairment amount for the year ended 31 December 2020 (2019: nil). The projection of cash flows was calculated using the sale price for Brent crude oil from USD 48.89 to USD 94.84 US dollars for the period from 2020 to 2037 based on average forecast of Consultant agencies (CERA, Woodmack, PIRA). Cash flows were discounted using the weighted average cost of capital ("WACC") of 15.93%, 15.13% and 15.14% for Akzhar, Besbolek and Karataikyz oilfields, respectively. According to the sensitivity analysis no impairment is observed on the Akzhar, Besbolek and Karataikyz if the discount rates are reduced/increased by 1% while other variables stay constant.

The result of impairment assessment for Alimbai oilfield indicated that the carrying value of assets exceeds the recoverable amount as at 31 December 2020 for 184,866 thousand Tenge. The projection of cash flows was calculated using the sale price for Brent crude oil from USD 48.89 to USD 82.51 US dollars for the period from 2020 to 2029, based on average forecast of Consultant agencies (CERA, Woodmack, PIRA). Cash flows were discounted using the WACC of 15.93%. According to the sensitivity analysis if the discount rate is reduced/increased by 1%, the recoverable amount will increase/decrease 17,053/19,741 thousand Tenge.

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.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Abandonment and site restoration liabilities (continued)

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.

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 ("SPE PRMS"). In estimating its reserves under SPE 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.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Oil and gas reserves (continued)

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 2020 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 2020 and 2019 is as follows:

In thousands of Tenge	Oil and Gas property	Construction-in-progress	Other property, plant and equipment	Total
Cost				
At 1 January 2019	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
Additions	**260,270**	**1,409,784**	**170,675**	**1,840,729**
Change in estimates	**(315,551)**	**–**	**–**	**(315,551)**
Disposals	**(58,617)**	**–**	**(40,880)**	**(99,497)**
Transfers	**977,384**	**(983,491)**	**6,107**	**–**
At 31 December 2020	**38,182,038**	**1,508,415**	**1,628,705**	**41,319,158**
Accumulated depreciation and impairment				
At 1 January 2019	(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)
Charge for the year	**(1,913,813)**	**–**	**(111,307)**	**(2,025,120)**
Disposals	**40,962**	**–**	**30,881**	**71,843**
Impairment	**(160,923)**	**–**	**–**	**(160,923)**
At 31 December 2020	**(24,917,852)**	**(434,373)**	**(948,751)**	**(26,300,976)**
Net book value				
At 31 December 2019	14,434,474	647,749	624,478	15,706,701
At 31 December 2020	**13,264,186**	**1,074,042**	**679,954**	**15,018,182**

As at 31 December 2020 property and equipment with the cost of 1,928,545 thousand Tenge were fully depreciated (as at 31 December 2019: 1,799,615 thousand Tenge).

6. INTANGIBLE ASSETS

The movement of intangible assets for the years ended 31 December 2020 and 2019 is as follows:

In thousands of Tenge	**2020**	2019
Cost		
At 1 January	**6,831,268**	6,679,549
Additions	**15,694**	151,719
At 31 December	**6,846,962**	6,831,268
Accumulated depreciation		
At 1 January	**(5,524,153)**	(5,231,502)
Charge for the period	**(205,217)**	(292,651)
Impairment	**(23,943)**	–
At 31 December	**(5,753,313)**	(5,524,153)
Net book value		
At 31 December	**1,307,115**	1,448,047
At 31 December	**1,093,649**	1,307,115

Intangible assets mostly represent computer software, historical costs and subsoil use rights as at 31 December 2020.

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

As at 31 December 2020, the Group held restricted cash deposits of 1,014,844 thousand Tenge (2019: 882,767 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 2020 short-term deposits of 8,418 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% in SB Sberbank JSC. 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 2020**	31 December 2019
Cash on bank account	**4,263,881**	4,587,112
Cash on deposit	**1,968,919**	–
Petty cash	**855**	1,293
	6,233,655	4,588,405

In 2020 the Group placed interest-bearing short-term cash deposit denominated in US dollar in amount equivalent to 1,968,919 thousand tenge with interest rate 0.1% per annum.

At 31 December 2020 and 2019, cash and cash equivalents were denominated in the following currencies:

In thousands of Tenge	**31 December 2020**	31 December 2019
USD	**4,674,621**	2,197,060
EUR	**972,508**	1,015,431
KZT	**586,526**	1,372,291
CAD	**–**	3,623
	6,233,655	4,588,405

9. TRADE RECEIVABLES AND OTHER CURENT ASSETS

In thousands of Tenge	**31 December 2020**	31 December 2019
Trade receivables	**1,489,116**	1,291,666
Advances paid	**426,730**	333,019
Other taxes prepaid	**371,090**	693,353
Value-added tax recoverable	**263,115**	121,256
Other current assets	**114,911**	103,521
	2,664,962	2,542,815

The Group classified trade receivables from export sales of crude oil to Euro-Asian Oil SA as financial assets at fair value through profit or loss due to the contractual terms of the financial instrument cash flows depend on changes in the market prices after the transfer of control.

Trade receivables are interest free and normally receivable within 30 days. All trade receivables are current as at 31 December 2020 and 31 December 2019 and represent amounts due from sales of crude oil.

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

		Neither past	Past due, but not impaired				
In thousands of Tenge	**Total**	**due nor impaired**	**1 to 30 days**	**31 to 90 days**	**91 to 180 days**	**181 to 360 days**	**Over 360 days**
31 December 2020	**1,489,116**	**1,486,059**	**3,057**	**–**	**–**	**–**	**–**
31 December 2019	1,291,666	1,061,875	133,875	2,009	93,632	275	–

Other taxes prepaid

In thousands of Tenge	**31 December 2020**	31 December 2019
Export custom duties prepaid	**211,549**	237,868
Rental tax prepaid	**60,981**	204,130
Mineral extraction tax prepaid	**48,949**	173,938
Personal income tax prepaid	**–**	15,853
Other	**49,611**	61,564
	371,090	693,353

10. INVENTORIES

In thousands of Tenge	**31 December 2020**	31 December 2019
Raw and other materials at cost or net realizable value	**678,148**	632,299
Finished goods – crude oil at cost	**451,543**	378,089
Work in progress at cost	**40,973**	42,041
	1,170,664	1,052,429

11. CHARTER CAPITAL

The charter capital of the Group as at 31 December 2020 and 2019 equals to 182,644,452 ordinary shares for 145,432 thousand Tenge. No shares were issued in 2020 and 2019. 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 2020 the Group declared no dividends (2019: 20,371,026 thousand Tenge equivalent to 53,442 thousand US dollars).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. ABANDONMENT AND SITE RESTORATION LIABILITIES

In thousands of Tenge	**2020**	2019
At 1 January	**3,865,541**	3,222,522
Additional provision for the year	**51,216**	58,749
Change in estimate	**(315,551)**	356,301
Unwinding of discount	**293,055**	227,969
At 31 December	**3,894,261**	3,865,541

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 7,737 thousand Tenge (2019: 7,197 thousand Tenge).

Akzhar

Net present value of abandonment obligation of wells and other assets are 1,966,194 thousand Tenge and 902,442 thousand Tenge, respectively (2019: 1,843,969 thousand Tenge and 859,478 thousand Tenge). The inflated rate is 5.57% as of 31 December 2020. As at 31 December 2020 the present value of the decommissioning obligation was discounted at a rate of 7.06% (2019: 7.61%).

Besbolek

Net present value of abandonment obligation wells and other assets are 365,178 thousand Tenge and 354,068 thousand Tenge, respectively (2019: 460,515 thousand Tenge and 431,908 thousand Tenge). The inflated rate is 5.54% as of 31 December 2020. As at 31 December 2020 the present value of the abandonment obligation was discounted at a rate of 7.54% (2019: 7.20%).

Alimbai

Net present value of abandonment obligation wells and other assets are 91,666 thousand Tenge and 113,521 thousand Tenge, respectively (2019: 82,170 thousand Tenge and 95,491 thousand Tenge). The inflated rate is 5.54% as of 31 December 2020. As at 31 December 2020 the present value of the abandonment obligation was discounted at a rate of 7,55% (2019: 8%).

Karataikyz

Net present value of abandonment obligation wells and other assets are 96,435 thousand tenge and 4,757 thousand Tenge, respectively (2019: 87,890 thousand Tenge and 4,120 thousand Tenge). The inflated rate is 5.57% as of 31 December 2020. As at 31 December 2020 the present value of the abandonment obligation was discounted at a rate of 7.06% (2019: 7.61%).

13. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

In thousands of Tenge	**31 December 2020**	31 December 2019
Trade payables	**751,031**	408,948
Unused vacation reserve	**297,012**	181,549
Contract liabilities	**67,295**	57,399
Other current liabilities	**60,647**	81,248
Short-term lease payable	**33,520**	34,793
Value-added tax payable	**–**	284,812
Other taxes	**73,345**	215,853
	1,282,850	1,264,602

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. REVENUE FROM CONTRACTS WITH CUSTOMERS

In thousands of Tenge	**2020**	2019
Type of goods or service		
Export oil sales	**11,384,082**	16,502,701
Domestic oil sales	**8,774,145**	18,126,031
	20,158,227	34,628,732
Geographical markets		
Europe – Netherlands, France, Switzerland	**11,384,082**	16,502,701
Asia - Kazakhstan	**8,774,145**	18,126,031
	20,158,227	34,628,732
Timing of revenue recognition		
Goods transferred at a point in time	**20,158,227**	34,628,732
	20,158,227	34,628,732

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 2020 the Group produced 287,096 tons and sold 276,282 tons (during 2019: 325,254 tons produced and sold 316,881) 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 2020 change between provisional and final price for contracts with customers is reflected in revenue and debited for 713,453 thousand Tenge (change in 2019: debited for 17,120 thousand Tenge).

15. COST OF SALES

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

In thousands of Tenge	**2020**	2019
Depreciation and depletion	**2,068,534**	2,123,700
Payroll expenses and related taxes	**1,455,621**	1,343,537
Rent of specialised equipment and transport	**1,290,602**	1,296,574
Repair and maintenance expenses	**970,796**	894,029
Mineral extraction tax	**814,337**	1,217,534
Fuel and electricity	**372,732**	357,649
Taxes other than income	**312,690**	322,514
Materials and supplies	**256,329**	228,783
Services	**225,405**	217,567
Catering	**134,733**	133,827
Security	**95,744**	91,052
Training and education	**62,311**	32,544
Insurance	**31,720**	11,500
Change in finished goods and work-in-process	**(72,386)**	23,941
Other	**287,872**	276,116
	8,307,040	8,570,867

The Group leases equipment and transport at variable payments based on rates agreed with the third party. Such variable lease payments are for the amount of 1,022,564 thousand Tenge for 2020 and 1,042,780 thousand Tenge for 2019, respectively.

16. SELLING EXPENSES

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

In thousands of Tenge	**2020**	2019
Transportation of crude oil	**2,934,729**	3,366,022
Export custom duties	**1,218,820**	2,209,754
Rental tax	**654,166**	2,585,488
Collection and storage of crude oil	**178,682**	209,406
Depreciation and depletion	**148,725**	171,814
Personnel and related taxes	**123,244**	111,895
Other	**144,312**	105,364
	5,402,678	8,759,743

17. GENERAL AND ADMINISTRATIVE EXPENSES

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

In thousands of Tenge	**2020**	2019
Personnel and related taxes	**1,294,804**	1,236,933
Professional services	**168,159**	165,269
Training and education	**102,387**	68,163
Sponsorship	**94,696**	85,887
Depreciation and amortization	**60,055**	48,441
Fines and penalties	**29,096**	83,514
Rent and office maintenance	**23,328**	36,150
Business trip expenses	**18,841**	34,417
Communication	**10,608**	11,041
Other	**130,325**	140,004
	1,932,299	1,909,819

18. REVERSAL OF EXPECTED CREDIT LOSS

In 2011 the Group issued loans to KNOC Kaz B.V. and Kernhem International B.V. in the 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 nonrecoverable loans for the full amount of loans issued and interest accrued on those loans.

In thousands of Tenge	**31 December 2020**	31 December 2019
KNOC Kaz B.V.		
At 1 January	**27,241,867**	32,097,623
Unwinding of discount (recognised in finance income)	**2,358,120**	2,506,307
Interest paid	**–**	(7,226,502)
Translation difference	**2,870,968**	(135,561)
	32,470,955	27,241,867
Expected credit loss		
At 1 January	**(27,241,867)**	(32,097,623)
Unwinding of discount	**(2,358,120)**	(2,506,307)
Reversal of expected credit loss	**–**	7,226,502
Translation difference	**(2,870,968)**	135,561
At 31 December	**(32,470,955)**	(27,241,867)
Kernhem International B.V.		
At 1 January	**611,982**	572,071
Unwinding of discount (recognised in finance income)	**53,181**	45,607
Translation difference	**65,857**	(5,696)
	731,020	611,982
Expected credit loss		
At 1 January	**(611,982)**	(572,071)
Unwinding of discount	**(53,181)**	(45,607)
Translation difference	**(65,857)**	5,696
At 31 December	**(731,020)**	(611,982)

18. REVERSAL OF EXPECTED CREDIT LOSS (continued)

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. No such operations in 2020.

19. OTHER INCOME

In thousands of Tenge	**2020**	2019
Income from services on collection and storage of crude oil	**496,044**	618,035
Other	**49,032**	–
	545,076	618,035

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 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	**2020**	2019
Corporate income tax	**1,539,585**	4,144,350
Adjustment of prior periods	**227,027**	(248,976)
Excess profit tax	**425,184**	2,869,632
	2,191,796	6,765,006
Deferred corporate income tax (benefit)/expense	**(88,252)**	1,173,458
Deferred excess profits tax expense/(benefit)	**16,641**	(303,003)
	(71,611)	870,455
Total income tax expense	**2,120,185**	7,635,461

Income tax expense for the years ended 31 December 2020 and 2019 is as follows:

In thousands of Tenge	**2020**	2019
Profit before income tax	**5,023,203**	23,123,651
Income tax at applicable tax rate 20%	**1,004,641**	4,624,730
Branch profit tax expense	**200,928**	924,947
Deferred excess profit tax	**16,641**	(303,003)
Excess profit tax	**425,184**	2,869,632
Reversal of expected credit loss	**–**	(1,734,360)
Unrecognised tax loss carry-forward	**(605,401)**	842,824
Adjustment of prior periods corporate income tax	**227,027**	(248,976)
Other differences	**851,165**	659,667
Income tax expense	**2,120,185**	7,635,461

20. INCOME TAX EXPENSE (continued)

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 2020**	**Charge in profit and loss statement**	31 December 2019	Charge in profit and loss statement	1 January 2019
Deferred tax assets					
Abandonment and site restoration liabilities	**902,556**	**(257,202)**	1,159,758	55,601	1,104,157
Inventories	**68,101**	**7,092**	61,009	13,938	47,071
Other taxes	**3,877**	**(13,313)**	17,190	17,190	–
Other current liabilities	**109,126**	**55,252**	53,874	10,904	42,970
Property, plant and equipment	**53,008**	**163,147**	(110,139)	95,534	(205,673)
Tax loss carryforwards	**237,423**	**(605,401)**	842,824	(608,362)	1,451,186
Provision for unrecognized deferred tax assets	**(237,423)**	**605,401**	(842,824)	(842,824)	–
Deferred tax assets, net	**1,136,668**	**–**	1,181,692	–	2,439,711
Deferred tax liabilities					
Property, plant and equipment	**(1,615,393)**	**116,635**	(1,732,028)	387,564	(2,119,592)
Deferred tax charge in statements of profit and loss, net	**–**	**71,611**	–	(870,455)	–
Deferred tax liabilities, net	**(1,615,393)**	**–**	(1,732,028)	–	(2,119,592)

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.

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.

21. COMMITMENTS AND CONTINGENCIES (continued)

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 170,000 thousand US dollars (equivalent to 83,455 thousand Tenge) and 1,000 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 2020 the Group incurred expenses for 73,427 thousand Tenge for social development and 44,347 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 2020 and 2019.

The domestic market delivery

As required by the Subsoil use contracts the Group is required to deliver 25% of crude oil produced on Akzhar, 35% on Alimbay and Karataikyz fields on domestic market. Domestic sales of crude oil produces on Besbolek field is directly regulated by Ministry of Energy of Republic of Kazakhstan. In 2020 the Group sold 170,390 tons (2019: 221,363 tons) on domestic market that comprises 62% (2019: 68%) of total production volume. As at 31 December 2020 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 2020 of 364,106 thousand Tenge (2019: 429,465 thousand Tenge). The management of the Group believes that the Group substantially complied with minimal work program requirements as at 31 December 2020.

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.

Capital commitments

As at 31 December 2020, according to subsoil use agreement, the Group has contractual commitments of 1,194,858 thousand tenge, excluding VAT (as at 31 December 2019: 1,286,382 thousand tenge, excluding VAT) on capital expenditures from 2021 to 2037.

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.

Coronavirus pandemic and market conditions

The coronavirus pandemic has turned into a global economic crisis. A significant decline in the price of oil occurred in 2020. The Group has been directly affected by the pandemic on oil revenues as a result of the price decline. However, there is currently a great deal of uncertainty as to the extent to which the Group's business operations, and therefore the results of operations and financial position of the Group, may be affected by the crisis as a whole. Because uncertainties about market trends and economic conditions may remain constant, given the length of time the COVID-19 has spread and the country's countermeasures, actual results in any future periods could differ materially from estimates. The Group will continue to monitor the situation closely.

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 80% of the amount of additional taxes accrued, and interest accrued at the refinancing rate set by the National Bank of Kazakhstan multiplied by 2.5. 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 2020. The Group believes that, as at 31 December 2020, 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 31 December 2020 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:

			December 31			
In thousands of Tenge	**Location**	**Agency**	**2020**	2019	**2020**	2019
SB Sberbank of Russia JSC	Kazakhstan	Moody's Investors Service	**Ba1/Stable**	Ba1/Stable	**3,275,610**	335,312
Citi bank Kazakhstan	Kazakhstan	S&P Global ratings	**BBB+/Stable**	A/Stable	**2,207,317**	2,666,448
KEB Hana of Netherlands	Netherlands	Moody's Investors Service	**A1/Stable**	A1/Stable	**1,628,502**	1,173,547
KEB Hana Bank Canada	Canada	Moody's Investors Service	**A1/Stable**	A1/Stable	**134,494**	–
Shinhan bank JSC	Kazakhstan	S&P Global ratings	**A/Stable**	A+/Stable	**163**	–
Halyk Bank JSC HSBK	Kazakhstan	S&P Global ratings	**BB/Stable**	BB/Stable	**–**	86
Royal Bank of Canada Calgary	Canada	S&P Global ratings	**AA-/Stable**	AA-/Stable	**–**	411,719

During 2020, 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 2020 and 2019.

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 realized 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:

In thousands of Tenge	**31 December 2020**	31 December 2019
Cash and cash equivalents	**5,651,340**	3,216,114
Other long-term financial assets	**882,767**	882,767
Other short-term financial assets	**4,207**	–
Trade receivables	**1,004,868**	1,288,827
	7,543,182	5,387,708

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 December 31, 2020 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**
2020	**14.00%**	**919,894**
	-11.00%	**(722,774)**
2019	12.00%	524,239
	-9.00%	(393,179)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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**
2020	**14.00%**	**136,151**
	-11.00%	**(106,976)**
2019	12.00%	121,852
	-9.00%	(91,389)

In thousands of Tenge	**Increase/ decrease in Tenge to canadian dollar exchange rate**	**Effect on profit before tax**
2020	**14.00%**	**–**
	-11.00%	**–**
2019	12.00%	435
	-9.00%	(326)

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 2020						
Long-term lease liability	**–**	**–**	**–**	**40,500**	**–**	**40,500**
Trade and other current liabilities	**–**	**831,698**	**13,500**	**–**	**–**	**845,198**
	–	**831,698**	**13,500**	**40,500**	**–**	**885,698**

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

22. FAIR VALUE AND RISK MANAGEMENT (continued)

Changes in liabilities arising from financial activities

Below is the movement of financial liabilities of the Group for the years ended 31 December 2020 and 2019:

In thousands of Tenge	**1 January 2020**	**Additions**	**Interest accrued**	**Cash outflows**	**31 December 2020**
Financial liabilities					
Lease liability	**73,322**	**58,090**	**10,076**	**(76,425)**	**65,063**
	73,322	**58,090**	**10,076**	**(76,425)**	**65,063**

In thousands of Tenge	1 January 2019	Additions	Interest accrued	Cash outflows	31 December 2019
Financial liabilities					
Lease liability	104,627	–	8,071	(39,376)	73,322
	104,627	–	8,071	(39,376)	73,322

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 2020 and 31 December 2019, the carrying amount of such receivables, net of provisions, is not materially different from their estimated fair value.

Fair value of financial instruments

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 2020 and 2019, the Group had no financial instruments classified as level 1 or level 2 financial instruments.

For the year ended 31 December 2020 and 2019, there were no transitions between levels 1, 2 and 3 of the fair value of financial instruments.

At 31 December 2020 and 2019, the carrying value of financial assets and financial liabilities approximates their fair value due to the short-term maturities of these instruments.

22. FAIR VALUE AND RISK MANAGEMENT (continued)

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 2020, 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 2020.

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 2020 and 2019, the Group entered into the following transactions with related parties:

Entities under common control

Other income

In thousands of Tenge	**2020**	2019
ADA Oil LLP	**409,602**	456,510
	409,602	456,510

Trade receivables

In thousands of Tenge	**31 December 2020**	31 December 2019
ADA Oil LLP	**64**	438
	64	438

Advances received

In thousands of Tenge	**31 December 2020**	31 December 2019
ADA Oil LLP	**51,929**	39,200
	51,929	39,200

Loans and borrowings

In thousands of Tenge	**31 December 2020**	31 December 2019
KNOC Kaz B.V.	**27,241,867**	27,241,867
Kernhem International B.V.	**611,982**	611,982
Provision	**(27,853,849)**	(27,853,849)
	–	–

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*).

23. RELATED PARTY TRANSACTIONS (continued)

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 2020 (as at 31 December 2019: 13 people). Total compensation to key management personnel included in general and administrative expenses in the consolidated statement of comprehensive income was equal to 445,397 thousand Tenge for the year ended 31 December 2020 (as at 31 December 2019: 361,280 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.