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Altius Holdings Inc.

Consolidated Financial Statements
for the year ended 31 December 2016

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Independent Auditors' Report

To Management of Altius Holdings Inc.

Opinion

We have audited the consolidated financial statements of Altius Holdings Inc. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (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 and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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 auditors' 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.

«КПМГ Аудит» ЖШС, Қазақстанда тіркелген жауапкершілігі шектеулі серіктестік, Швейцария заңнамасы бойынша тіркелген KPMG International Cooperative ("KPMG International") қауымдастығына кіретін KPMG тәуелсіз фирмалар желісінің мүшесі.

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

Auditors' Responsibilities for the Audit of the 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 auditors' 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 auditors' 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditors' report is Mukhit Kossayev:

KPMG Audit LLC

KPMG Audit LLC

1 March 2017

'000 KZT	Note	2016	2015
Revenue	7	23,656,487	20,978,240
Cost of sales	8	(8,255,357)	(8,655,380)
Gross profit		**15,401,130**	**12,322,860**
Selling expenses	9	(8,020,771)	(9,565,175)
Administrative expenses	10	(1,261,831)	(1,314,419)
Impairment loss on loans issued		-	(22,964,327)
Impairment loss on property, plant and equipment and intangible assets	15	(964,343)	-
Results from operating activities		**5,154,185**	**(21,521,061)**
Finance income	12	187,207	5,469,483
Finance costs	12	(485,600)	(366,060)
Net finance (costs)/income		**(298,393)**	**5,103,423**
Other income	13	514,262	2,174,878
Other expenses		(125,424)	(154,980)
Profit/(loss) before income tax		**5,244,630**	**(14,397,740)**
Corporate income tax expense	14	(2,492,095)	(2,555,371)
Excess profit tax expense	14	(274,283)	(39,768)
Profit/(loss) for the year		**2,478,252**	**(16,992,879)**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Foreign currency translation differences for foreign operations		(287,088)	10,762,430
Other comprehensive income, net of income tax		**(287,088)**	**10,762,430**
Total comprehensive income for the year		**2,191,164**	**(6,230,449)**

These consolidated financial statements were approved by management on 1 March 2017 and were signed on its behalf by:

Lim Keon Mug
Managing Director

ALTIUS HOLDINGS INC Alberta Canada

이재규

Jai-Kyun Lee
Financial Director

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 43.

'000 KZT	Note	2016	2015
ASSETS			
Property, plant, and equipment	15	17,033,738	19,829,856
Intangible assets	16	2,035,886	2,925,920
Deferred tax assets	14	102,140	-
Other long-term investments	19	670,449	651,261
Non-current assets		**19,842,213**	**23,407,037**
Inventories	17	1,308,913	1,058,931
Trade and other receivables	18	3,406,753	3,990,033
Income tax receivable		967,024	1,017,151
Other short-term investments	19	1,526,319	6,989,490
Cash and cash equivalents	20	8,850,240	1,133,868
Current assets		**16,059,249**	**14,189,473**
Total assets		**35,901,462**	**37,596,510**
EQUITY AND LIABILITIES			
Share capital	21	145,432	0.1
Foreign currency translation reserve		12,173,771	12,460,859
Retained earnings		18,921,067	20,461,541
Total equity		**31,240,270**	**32,922,400**
Historical cost liabilities	22	275,339	465,377
Deferred tax liabilities	14	872,705	870,217
Abandonment and site restoration provision	23	2,327,462	2,154,625
Total non-current liabilities		**3,475,506**	**3,490,219**
Trade and other payables	24	762,935	968,771
Historical cost liabilities	22	218,541	215,120
Income tax payable		204,210	-
Total current liabilities		**1,185,686**	**1,183,891**
Total liabilities		**4,661,192**	**4,674,110**
Total equity and liabilities		**35,901,462**	**37,596,510**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 43.

'000 KZT	Share capital	Foreign currency translation reserve	Retained earnings	Total
Balance at 1 January 2015	0.1	1,698,429	38,342,908	40,041,337
Loss for the year	-	-	(16,992,879)	(16,992,879)
Other comprehensive income				
Foreign currency translation differences for foreign operations	-	10,762,430	-	10,762,430
Total other comprehensive income	**-**	**10,762,430**	**-**	**10,762,430**
Total comprehensive income for the year	**-**	**10,762,430**	**(16,992,879)**	**(6,230,449)**
Transactions with owners, recorded directly in equity				
Dividends paid	-	-	(888,488)	(888,488)
Total transactions with owners	**-**	**-**	**(888,488)**	**(888,488)**
Balance at 31 December 2015	**0.1**	**12,460,859**	**20,461,541**	**32,922,400**
Balance at 1 January 2016	0.1	12,460,859	20,461,541	32,922,400
Profit for the year	-	-	2,478,252	2,478,252
Other comprehensive income				
Foreign currency translation differences for foreign operations	-	(287,088)	-	(287,088)
Total other comprehensive loss	**-**	**(287,088)**	**-**	**(287,088)**
Total comprehensive income for the year	**-**	**(287,088)**	**2,478,252**	**2,191,164**
Transactions with owners, recorded directly in equity				
Contribution to share capital, Note 21(a)	145,432	-	(145,432)	-
Dividends paid	-	-	(3,873,294)	**(3,873,294)**
Total transactions with owners	**145,432**	**-**	**(4,018,726)**	**(3,873,294)**
Balance at 31 December 2016	**145,432**	**12,173,771**	**18,921,067**	**31,240,270**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 43.

'000 KZT	Note	2016	2015
Cash flows from operating activities			
Profit/(loss) before income tax		**5,244,630**	**(14,397,740)**
Adjustments for:			
Depreciation and amortisation	15,16	3,026,914	3,572,229
Finance costs	12	485,600	366,060
Finance income	12	(187,207)	(5,469,483)
(Reversal)/accrual of allowance for obsolete inventories	10	(23,091)	37,740
Loss on disposal of property, plant and equipment and intangible assets		7,754	7,464
Impairment loss on loans issued	28(c)	-	22,964,327
Impairment loss on property, plant and equipment and intangible assets	15,16	964,343	-
Cash from operating activities before changes in working capital		**9,518,943**	**7,080,597**
Change in inventories		(226,891)	(119,999)
Change in trade and other receivables		517,993	1,149,723
Change in trade and other payables		(146,289)	(543,221)
Cash from operating activities before income tax paid		**9,663,756**	**7,567,100**
Income tax paid		(2,611,693)	(3,324,583)
Net cash from operating activities		**7,052,063**	**4,242,517**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(289,277)	(1,239,167)
Acquisition of intangible assets		(10,453)	(7,585)
Placement of cash to term deposits		(14,538,327)	(7,967,047)
Withdrawal of cash from term deposits		20,041,676	3,285,100
Interest received		37,612	38,437
Repayment of historical cost obligations	22	(267,787)	(142,421)
Net cash from/(used in) investing activities		**4,973,444**	**(6,032,683)**
Cash flows used in financing activities			
Dividends paid	21	(3,873,294)	(888,488)
Net cash used in financing activities		**(3,873,294)**	**(888,488)**
Net increase/(decrease) in cash and cash equivalents		**8,152,213**	**(2,678,654)**
Cash and cash equivalents at 1 January		1,133,868	2,435,327
Effect of movements in exchange rates on cash and cash equivalents		(435,841)	1,377,195
Cash and cash equivalents at 31 December	20	**8,850,240**	**1,133,868**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 9 to 43.

1 Reporting entity

(a) Business environment

The operations of Altius Holdings Inc. (the "Company") and its subsidiary (together referred to as the "Group") are primarily located in Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan. In addition, recent significant depreciation of the Kazakhstan tenge, and reductions in the global price of oil, have increased the level of uncertainty in the business environment.

The consolidated financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

(b) Organisation and operations

Altius Holdings Inc. is an independent upstream oil and gas company with a portfolio of development and production assets located in Kazakhstan. The Group operates four production fields located in Kazakhstan.

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

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

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

2 Basis of accounting

Statement of compliance

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

3 Functional and presentation currency

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

3 Functional and presentation currency, continued

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

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

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

The currency exchange rate of KASE as at 31 December 2016 was KZT 333.29 to USD 1. This rate was used to translate monetary assets and liabilities denominated in USD as at 31 December 2016 (2015: KZT 340.01 to USD 1).

4 Use of estimates and judgments

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

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 5(h) – depreciation of property, plant and equipment;
- Note 5(i) – amortisation of intangible assets;
- Note 5(k) – impairment; and
- Note 14 – income tax expense.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 14 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used;
- Note 15 – impairment test: key assumptions used in projected discounted cash flows;
- Note 23 – site restoration provision;
- Note 26 – commitments; and
- Note 27 – contingencies.

4 Use of estimates and judgements, continued

(a) Measurement of fair values

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

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

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

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

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

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

5 Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

5 Significant accounting policies, continued

(a) Basis of consolidation, continued

(ii) Loss of control

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

(iii) Transactions eliminated on consolidation

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

(b) Revenue

(i) Goods sold

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

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

(ii) Services

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

(c) Finance income and costs

The Group's finance income and finance costs include:

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

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

5 Significant accounting policies, continued

(d) Foreign currency

(i) Foreign currency transactions

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

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

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

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

(ii) Foreign operations

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

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

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

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

(e) Employee benefits

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

5 Significant accounting policies, continued

(f) Income tax

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

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

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

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

5 Significant accounting policies, continued

(g) Inventories

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

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

(h) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

Oil and gas properties are depreciated on a units-of-production basis over the proved developed reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Land is not depreciated.

5 Significant accounting policies, continued

(h) Property, plant and equipment, continued

(iii) Depreciation, continued

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

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

- buildings and constructions 18 years;
- machinery and equipment 6-10 years;
- vehicles 4 years;
- other property, plant and equipment 4-7 years;
- oil and gas properties units-of-production basis.

Units-of-production rates are calculated by reference to proved developed reserves determined in accordance with the Society of Petroleum Engineers rules. The Group engaged independent appraisers Oilfield Production Consultants to evaluate oil reserves for Besbolek, Karataykiz and Alimbai oilfields. As at reporting date reserves for Akzhal oilfield were evaluated by the Group's internal engineers.

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

(i) Intangible assets

(i) Subsoil use rights

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

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(iv) Amortisation

Intangible assets are amortised on a straight-line basis over their estimated useful lives of 2 to 7 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. Units-of-production rates are based on estimated proved oil reserves, see Note 5(h)(iii).

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

5 Significant accounting policies, continued

(j) Financial instruments

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

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

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

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

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

Loans and receivables

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

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in Note 18, other long-term and short-term investments as presented in Note 19, cash and cash equivalents as presented in Note 20 and loans issued to related parties as presented in Note 28.

Cash and cash equivalents

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

(ii) Non-derivative financial liabilities - measurement

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Subsequent to initial recognition, the financial guarantee is measured at a higher of the amount initially recognised less cumulative amortisation recognised and amount based on the best estimate of the settlement of the financial guarantee.

Other financial liabilities comprise financial guarantees issued and trade and other payables.

(iii) Share capital

Ordinary shares

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

5 Significant accounting policies, continued

(k) Impairment

(i) Non-derivative financial assets

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

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

Financial assets measured at amortised cost

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

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

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

(ii) Non-financial assets

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

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

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

5 Significant accounting policies, continued

(k) Impairment, continued

(ii) Non-financial assets, continued

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

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

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

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

(l) Provisions

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

(i) Abandonment and site restoration provision

The Group estimates future dismantlement and site restoration cost for oil and gas properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement and the extent of site restoration required in accordance with current legislation and industry practice.

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

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

5 Significant accounting policies, continued

(m) Leases

(i) Determining whether an arrangement contains a lease

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

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

(ii) Leased assets

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

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

(iii) Lease payments

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

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

(n) Other expenses

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

6 New standards and interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

(a) Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

(b) Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the amendments. So far, the Group does not expect any significant impact.

(c) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programs*.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group has not completed an initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements.

(d) IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments*, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group has not completed an initial assessment of the potential impact of the adoption of IFRS 9 on its consolidated financial statements.

6 New standards and interpretations not yet adopted, continued

(e) IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

IFRS 16 is effective for annual periods beginning on or after 1 January 2019, early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Group has not started yet an initial assessment of the potential impact of the adoption of IFRS 16 on its consolidated financial statements.

(f) Other amendments

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

– *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).*

7 Revenue

'000 KZT	2016	2015
Export sales	20,398,188	17,740,103
Domestic sales	3,258,299	3,238,137
	23,656,487	**20,978,240**

8 Cost of sales

'000 KZT		2016	2015
Depreciation and amortisation		2,811,184	3,351,972
Mineral extraction tax		1,399,744	1,362,821
Rent of specialised equipment and transport		934,567	813,099
Personnel costs and related taxes	11	800,479	725,539
Repair and maintenance		788,069	854,493
Services		294,186	271,465
Taxes other than income tax		291,887	300,989
Fuel and electricity		221,724	222,363
Materials and supplies		175,037	127,873
Catering		108,819	105,671
Security		72,275	77,823
Insurance		17,298	23,063
Training and education		16,575	6,058
Communication		3,279	4,417
Other		320,234	407,734
		8,255,357	**8,655,380**

9 Selling expenses

'000 KZT		2016	2015
Transportation		3,457,476	3,613,206
Custom duties		2,900,838	3,392,301
Rental tax		1,164,161	2,018,048
Depreciation and amortisation	15	167,761	168,506
Collection and storage of crude oil		159,665	198,042
Personnel costs and related taxes	11	83,547	70,770
Security		38,737	39,420
Property tax		22,794	22,896
Other		25,792	41,986
		8,020,771	**9,565,175**

10 Administrative expenses

'000 KZT	Note	2016	2015
Personnel costs and related taxes	11	827,123	727,207
Professional services		112,520	201,320
Rent and office maintenance		107,223	149,671
Donations		62,342	46,223
Business trip expenses		33,646	40,597
Fines and penalties		33,347	6,663
Depreciation and amortisation	15	22,588	21,221
Training and education		17,071	27,226
Communication		16,757	17,262
Materials and supplies		7,503	6,884
Taxes other than on income		2,987	3,884
Bank fees		2,525	3,151
Advertising		1,293	4,970
(Reversal)/accrual of allowance for obsolete inventories	17	(23,091)	37,740
Other		37,997	20,400
		1,261,831	**1,314,419**

11 Personnel costs

'000 KZT	2016	2015
Wages and salaries	1,555,139	1,388,280
Social tax and compulsory social security contributions	181,845	161,501
	1,736,984	**1,549,781**

Personnel costs of KZT 800,479 thousand (2015: KZT 725,539 thousand) have been charged to cost of sales, KZT 827,123 thousand (2015: KZT 727,207 thousand) to administrative expenses and KZT 83,547 thousand (2015: KZT 70,770 thousand) to selling expenses and KZT 25,835 thousand (2015: KZT 26,265 thousand) to other expenses.

12 Finance income and finance costs

'000 KZT	Note	2016	2015
Net foreign exchange gain		-	4,257,990
Interest income on loans to related parties		-	1,112,162
Other finance income		187,207	99,331
Finance income		**187,207**	**5,469,483**
Unwinding of discount	22,23	(251,703)	(203,564)
Other finance expense		-	(162,496)
Net foreign exchange loss		(233,897)	-
Finance costs		**(485,600)**	**(366,060)**
Net finance (costs)/income recognised in profit or loss		**(298,393)**	**5,103,423**

13 Other income

'000 KZT	2016	2015
Income from services on collection and storage of crude oil	468,510	593,179
Income on reversal of provision on tax inspection	-	1,497,418
Other income	45,752	84,281
	514,262	**2,174,878**

14 Income tax

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

'000 KZT	2016	2015
Current income tax		
Corporate income tax	2,537,616	2,710,456
Excess profit tax	328,414	7,211
	2,866,030	**2,717,667**
Deferred tax benefit		
Corporate income tax	(45,521)	(155,085)
Excess profit tax	(54,131)	32,557
	(99,652)	**(122,528)**
Total income tax expense	**2,766,378**	**2,595,139**

14 Income tax, continued

(a) Reconciliation of effective tax rate:

	2016		2015	
	'000 KZT	**%**	**'000 KZT**	**%**
Profit/loss before income tax	**5,244,630**	**100**	**(14,397,740)**	**100**
Income tax at applicable tax rate	1,048,927	20.00	(2,879,548)	20.00
Excess profit tax	328,414	6.26	7,211	(0.05)
Branch profit tax expense	207,854	3.96	303,120	(2.11)
Tax on dividends	204,569	3.90	46,780	(0.32)
Tax effect of (non-taxable)/non-deductible items, net	(39,927)	(0.76)	158,408	(1.10)
Deferred excess profit tax (benefit)/expense	(54,131)	(1.03)	32,557	(0.23)
Effect of tax rates in foreign jurisdictions	4,010	0.08	(1,093,619)	7.60
Deductible temporary differences for which no deferred tax recognised	896,732	17.10	5,741,082	(39.87)
Under provided in prior years	169,930	3.24	279,148	(1.94)
	2,766,378	**52.75**	**2,595,139**	**(18.02)**

(b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 KZT	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Property, plant and equipment	-	-	(1,545,837)	(1,803,182)	(1,545,837)	(1,803,182)
Abandonment and site restoration provision	529,761	580,093	-	-	529,761	580,093
Historical cost liabilities	139,290	153,091	-	-	139,290	153,091
Provisions and trade and other payables	48,810	31,917	-	-	48,810	31,917
Tax loss carry-forwards	20,649	111,054	-	-	20,649	111,054
Inventories	36,762	56,810	-	-	36,762	56,810
Tax assets/(liabilities)	**775,272**	**932,965**	**(1,545,837)**	**(1,803,182)**	**(770,565)**	**(870,217)**
Set off of tax	(673,132)	(932,965)	673,132	932,965	-	-
Net tax assets/(liabilities)	**102,140**	**-**	**(872,705)**	**(870,217)**	**(770,565)**	**(870,217)**

14 Income tax, continued

(c) Movement in temporary differences during the year

'000 KZT	1 January 2016	Recognised in profit or loss	31 December 2016
Property, plant and equipment	(1,803,182)	257,345	(1,545,837)
Abandonment and site restoration provision	580,093	(50,332)	529,761
Historical cost liabilities	153,091	(13,801)	139,290
Provisions and trade and other payables	31,917	16,893	48,810
Tax loss carry-forwards	111,054	(90,405)	20,649
Inventories	56,810	(20,048)	36,762
	(870,217)	**99,652**	**(770,565)**

'000 KZT	1 January 2015	Recognised in profit or loss	31 December 2015
Property, plant and equipment	(1,916,421)	113,239	(1,803,182)
Abandonment and site restoration provision	444,811	135,282	580,093
Historical cost liabilities	131,936	21,155	153,091
Provisions and trade and other payables	284,764	(252,847)	31,917
Tax loss carry-forwards	27,500	83,554	111,054
Inventories	34,665	22,145	56,810
	(992,745)	**122,528**	**(870,217)**

The tax losses arisen as a result of the Group's operations in the Republic of Kazakhstan expire in ten years. The deductible temporary differences do not expire under current tax legislation.

Deferred tax assets and liabilities could not be offset under different subsoil use agreements or as a part of different legal entities, because there is no legally enforceable right to set off current tax assets against current tax liabilities.

(d) Unrecognised deferred tax assets

At 31 December 2016 deferred tax assets have not been recognised in respect of the following items:

- Deferred tax assets of KZT 218,400 thousand (2015: nil) with respect to temporary differences arisen on a impairment loss recognised for property, plant and equipment. Deferred tax asset has not been recognised because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.
- Deferred tax assets of KZT 6,419,414 thousand (2015: KZT 5,741,082 thousand) with respect to an impairment loss on loans issued to related parties. Deferred tax asset has not been recognised because it is not probable that the impairment loss will be deductible for tax purposes.

15 Property, plant and equipment

'000 KZT	Oil and gas property	Construction in progress	Other property, plant and equipment	Total
Cost				
Balance at 1 January 2015	30,364,739	1,673,589	1,452,133	33,490,461
Additions	378,549	1,074,329	59,564	1,512,442
Disposals	(67,928)	-	(31,322)	(99,250)
Internal transfers	1,080,898	(944,237)	(136,661)	-
Balance at 31 December 2015	**31,756,258**	**1,803,681**	**1,343,714**	**34,903,653**
Balance at 1 January 2016	31,756,258	1,803,681	1,343,714	34,903,653
Additions	231,416	89,731	10,266	331,413
Disposals	(89,631)	(66,966)	(13,069)	(169,666)
Internal transfers	902,164	(908,226)	6,062	-
Balance at 31 December 2016	**32,800,207**	**918,220**	**1,346,973**	**35,065,400**
Depreciation and impairment losses				
Balance at 1 January 2015	(10,824,820)	(501,339)	(614,869)	(11,941,028)
Depreciation for the year	(3,116,327)	-	(62,018)	(3,178,345)
Disposals	30,951	-	14,625	45,576
Internal transfers	(118,655)	-	118,655	-
Balance at 31 December 2015	**(14,028,851)**	**(501,339)**	**(543,607)**	**(15,073,797)**
Balance at 1 January 2016	(14,028,851)	(501,339)	(543,607)	(15,073,797)
Depreciation for the year	(2,425,077)	-	(87,347)	(2,512,424)
Impairment loss	(507,434)	-	(33,205)	(540,639)
Disposals	20,475	66,966	7,757	95,198
Balance at 31 December 2016	**(16,940,887)**	**(434,373)**	**(656,402)**	**(18,031,662)**
Carrying amounts				
At 1 January 2015	19,539,919	1,172,250	837,264	21,549,433
At 31 December 2015	**17,727,407**	**1,302,342**	**800,107**	**19,829,856**
At 31 December 2016	**15,859,320**	**483,847**	**690,571**	**17,033,738**

15 Property, plant and equipment, continued

(a) Depreciation

Depreciation expense of KZT 2,303,446 thousand (2015: KZT 2,960,635 thousand) has been charged to cost of sales, KZT 15,836 thousand (2015: KZT 18,674 thousand) to administrative expenses, KZT 167,761 thousand (2015: KZT 168,506 thousand) to selling expenses and KZT 25,381 thousand (2015: KZT 30,530 thousand) to other expenses.

(b) Impairment loss

Due to continuing volatility of market prices for crude oil throughout the year and significant decrease of oil reserves, the management considered that there were indications showing that the recoverable amount of property, plant and equipment and intangible assets of cash generating unit "Alimbai" might be lower than its carrying amount. The recoverable amount of assets was estimated based on their value in use as determined by discounting the future cash flows of cash generating unit generated from the continuing use of property, plant and equipment and from its ultimate disposal.

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

- future nominal cash flows are estimated until 2030;
- forecast for nominal annual oil price during forecast period fluctuates from a minimum to a maximum level of USD 42 per barrel and USD 76 per barrel, respectively. Oil price forecast as at 1 January 2017 is received from the report *Country Outlook* produced by *The Economist Intelligence Unit*;
- annual drop of oil output during the forecast period fluctuates from a minimum to a maximum level of 17% to 50%, respectively;
- pre-tax discount rate is 30.8%;
- inflation rates and exchange rate of KZT against USD as at 1 January 2017 are taken from the report *Country Outlook* produced by *The Economist Intelligence Unit.*

The values assigned to the key assumptions represent management's assessment of future trends in the oil and gas industry and are based on both external sources and internal sources.

Based on the assessment, the carrying amount of the property, plant and equipment of the Alimbai oilfield was determined to be KZT 910,000 thousand higher than its recoverable amount and an impairment loss was recognised. The impairment loss of KZT 486,296 thousand and KZT 423,704 thousand recognised against property, plant and equipment and intangible assets, respectively.

The impairment loss was presented as separate line item in the Group's consolidated statement of profit or loss and other comprehensive income.

The management performed sensitivity analysis of the key assumptions used. No impairment loss would be recognised, other things being equal, if one of the following conditions are met:

- an increase of 33% in the nominal annual oil prices;
- an increase of 66% in the annual production.

16 Intangible assets

'000 KZT	Subsoil use rights	Exploration and evaluation assets	Total
Cost			
Balance at 1 January 2015	4,953,159	1,676,827	6,629,986
Additions	1,463	6,122	7,585
Disposals	(1,761)	(11,158)	(12,919)
Internal transfers	1,671,791	(1,671,791)	-
Balance at 31 December 2015	**6,624,652**	**-**	**6,624,652**
Balance at 1 January 2016	6,624,652	-	6,624,652
Additions	48,160	-	48,160
Balance at 31 December 2016	**6,672,812**	**-**	**6,672,812**
Amortisation			
Balance at 1 January 2015	(2,961,460)	(343,388)	(3,304,848)
Amortisation for the year	(283,952)	(109,932)	(393,884)
Internal transfers	(453,320)	453,320	-
Balance at 31 December 2015	**(3,698,732)**	**-**	**(3,698,732)**
Balance at 1 January 2016	(3,698,732)	-	(3,698,732)
Amortisation for the year	(514,490)	-	(514,490)
Impairment loss, Note 15(b)	(423,704)	-	(423,704)
Balance at 31 December 2016	**(4,636,926)**	**-**	**(4,636,926)**
Carrying amounts			
At 1 January 2015	1,991,699	1,333,439	3,325,138
At 31 December 2015	2,925,920	-	2,925,920
At 31 December 2016	**2,035,886**	**-**	**2,035,886**

17 Inventories

'000 KZT	Note	2016	2015
Crude oil		706,765	518,124
Materials		690,007	671,115
Work in progress		55,136	35,778
		1,451,908	**1,225,017**
Allowance for obsolete inventories	10	(142,995)	(166,086)
		1,308,913	**1,058,931**

18 Trade and other receivables

'000 KZT	2016	2015
Trade receivables	1,812,574	1,845,437
Value-added tax and other taxes prepaid	1,023,934	1,411,944
Advances paid	375,562	552,175
Other receivables	194,683	180,477
	3,406,753	**3,990,033**

Value-added tax and other taxes prepaid

'000 KZT	2016	2015
Value-added tax receivable	467,721	466,440
Export customs duties prepaid	282,374	602,045
Mineral extraction tax prepaid	102,820	66,292
Rental tax prepaid	83,136	101,089
Personal income tax prepaid	19,274	18,508
Other	68,609	157,570
	1,023,934	**1,411,944**

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

19 Other short-term and long-term investments

'000 KZT	2016	2015
Deposits in USD	1,669,034	7,637,476
Deposits in KZT	527,734	3,275
	2,196,768	**7,640,751**
Non-current	670,449	651,261
Current	1,526,319	6,989,490
	2,196,768	**7,640,751**

As at 31 December 2016, the Group held restricted cash deposits which amounted to KZT 669,164 thousand (2015: KZT 647,986 thousand) which are accumulated for the purpose of abandonment and site restoration of oil fields. The deposits mature at the inception of the liquidation programs approved by the Ministry of Energy of the Republic of Kazakhstan. As at 31 December 2016, the Group also held restricted cash deposits amounted to KZT 1,285 thousand (2015: KZT 3,275 thousand) which are accumulated for the purpose securing its obligations on expatriate staff.

As at 31 December 2016, term deposits amounting to KZT 526,449 thousand (2015: nil) are the bank deposits placed in KZT with maturity period of more than three months with an average interest rate of 7.03% (2015: nil). As at 31 December 2016 term deposits amounting to KZT 999,870 thousand (2015: KZT 6,989,490 thousand) are the bank deposits placed in USD with maturity period of more than three months with an average interest rate of 1.7% (2015: 1.6%). The effective interest rate approximates the nominal interest rate as per deposit placement agreements.

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

20 Cash and cash equivalents

'000 KZT	2016	2015
Bank balances	8,845,821	1,125,418
Petty cash	4,419	8,450
	8,850,240	**1,133,868**

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

21 Share capital

(a) Share capital

	Ordinary shares	
Number of shares unless otherwise stated	**2016**	**2015**
In issue at 1 January	182,644,452	182,644,452
Issued for cash	-	-
In issue at 31 December, fully paid	**182,644,452**	**182,644,452**

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

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

21 Share capital, continued

(a) Share capital, continued

During 2016 the owners of the Company contributed to share capital accumulated retained earnings of KZT 145,432 thousand (equivalent to 541,274 USD). Contribution did not change number of shares.

(b) Dividends

In accordance with the dividends distribution policy, approved by the shareholders of the Group, and according to the Resolutions of the Board of Directors of the Company during 2016 the Company declared and paid dividends in the amount of KZT 3,873,294 thousand (equivalent to USD 11,400 thousand).

22 Historical cost liabilities

'000 KZT	2016	2015
Balance at 1 January	680,497	464,639
Change in estimates	37,706	(11,158)
Foreign currency exchange difference	(10,825)	329,659
Repayment	(267,787)	(142,421)
Unwinding of discount	54,289	39,778
Balance at 31 December	**493,880**	**680,497**
Non-current	275,339	465,377
Current	218,541	215,120
	493,880	**680,497**

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

Payments of historical costs should be made on quarterly basis over 5-10 years from the date of commencement of production, provided that reserves are proved and commercial production has commenced.

At the inception of the Subsoil use agreements the historical costs have been determined in the amount of USD 7,533,879 payable to the Government. At 31 December 2016 the Group's obligation in relation to historical costs was KZT 500,408 thousand (equivalent to USD 1,501,420). The future expected cash outflows for historical costs have been discounted at a rate of 1.22% (2015: 9.03%).

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

23 Abandonment and site restoration provision

'000 KZT	2016	2015
Balance at 1 January	2,154,625	1,765,535
Provision for the year	108,869	58,075
Change in estimates	(133,446)	167,229
Unwinding of discount	197,414	163,786
Balance at 31 December	**2,327,462**	**2,154,625**

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 decommissioning obligation was accrued based on the best estimates available by that date. The decommissioning obligation for the Akzhar, Besbolek, Karataikyz and Alimbai fields over the term of the contract adjusted at an inflation rate of 4.92% is KZT 5,963,012 thousand. As at 31 December 2016 the present value of the decommissioning obligation was discounted at a rate of 8.60% (2015: 9.03%).

24 Trade and other payables

'000 KZT	Note	2016	2015
Trade payables		408,824	538,284
Vacation pay accrual		125,540	105,709
Taxes payable		101,130	105,319
Other payables		73,892	30,130
Financial guarantee issued	28(c)(iv)	40,541	101,602
Advances received		13,008	87,727
		762,935	**968,771**

Taxes payable

'000 KZT	2016	2015
Mineral extraction tax	50,686	-
Rental tax	16,884	-
Social tax	1,824	73,489
Personal income tax	543	5,122
Other taxes	31,193	26,708
	101,130	**105,319**

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

25 Fair value and risk management

(a) Classification in the financial statements and fair value

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

(b) Financial risk management

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

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

(i) Risk management framework

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

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

(ii) Credit risk

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

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

		Carrying amount	
'000 KZT	**Note**	**2016**	**2015**
Cash and cash equivalents	20	8,845,821	1,125,418
Other long-term and short-term investments	19	2,196,768	7,640,751
Trade and other receivables	18	2,007,257	2,025,914
		13,049,846	**10,792,083**

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of the Group's customer base, including the default risk of the industry and country, in which customers operate, particularly in the currently deteriorating economic circumstances. Approximately 86% (2015: 85%) of the Group's revenue is attributable to sales transactions with a single customer.

The Group's most significant customer, Euro-Asian Oil S.A., accounts for KZT 1,786,439 thousand of the trade and other receivables carrying amount at 31 December 2016 (2015: KZT 1,822,346 thousand).

More than 50% of the Group's customers have been transacting with the Group for more than three years, and no impairment loss has been recognised against these customers. Trade and other receivables relate mainly to the Group's wholesale customers. None of trade receivables is overdue.

25 Fair value and risk management, continued

(b) Financial risk management, continued

(ii) Credit risk, continued

Trade and other receivables, continued

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

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

	Carrying amount	
'000 KZT	**2016**	**2015**
Europe	1,809,287	1,831,362
Domestic	197,970	194,552
	2,007,257	**2,025,914**

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

Cash and cash equivalents and long-term investments

The Group held cash and cash equivalents and term deposits of KZT 8,845,821 thousand and KZT 2,196,768 thousand, respectively (2015: KZT 1,125,418 thousand and KZT 7,640,751 thousand, respectively), which represents its maximum credit exposure on these assets. The cash and cash equivalents and other long-term and short-term investments are held with bank counterparties, which are rated A1 to Caa2, based on Moody's Ratings.

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

The remaining amount comprises petty cash held at the Group.

Financial guarantees

As at 31 December 2016, the Group had the following outstanding financial guarantees:

- KZT 4,550,000 thousand (equivalent to USD 25,000 thousand) issued to Shinhan Bank Kazakhstan JSC and London Branch of SHINHAN BANK to secure liabilities of an entity under common control.
- KZT 3,332,900 thousand (equivalent to USD 10,000 thousand) issued to Altyn Bank JSC, subsidiary of Halyk Bank JSC, to secure liabilities of entities under common control.

The Group's policy is to provide financial guarantees only for counterparties which are controlled by Korea National Oil Corporation, ultimate controlling party. The Management believes it is unlikely that any cash outflows will be required to make a payment under these financial guarantees.

Loans to related parties

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

As at 31 December 2015 the management accrued an impairment loss of KZT 22,964,327 thousand (equivalent to USD 67,540 thousand) in respect of loans issued to intermediate parent due to significant financial difficulties being experienced by the ultimate debtor due to continuous decline for prices of crude oil and devaluation of KZT. As at 31 December 2016, management found no indicators the loans issued to related parties become recoverable.

25 Fair value and risk management, continued

(b) Financial risk management, continued

(iii) Liquidity risk

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

Exposure to liquidity risk

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

2016 '000 KZT	Carrying amount	Total contractual cash flows	Less than 2 months	2-12 months	1-2 years	2-5 years
Non-derivative financial liabilities						
Trade and other payables	482,716	482,716	482,716	-	-	-
Historical cost liabilities	493,880	500,408	-	265,194	235,214	-
Financial guarantee issued	40,541	7,882,900	-	7,882,900	-	-
	1,017,137	**8,866,024**	**482,716**	**8,148,094**	**235,214**	**-**

2015 '000 KZT	Carrying amount	Total contractual cash flows	Less than 2 months	2-12 months	1-2 years	2-5 years
Non-derivative financial liabilities						
Trade and other payables	568,414	568,414	568,414	-	-	-
Historical cost liabilities	680,497	778,283	-	267,785	270,541	239,957
Financial guarantee issued	101,602	4,550,000	-	4,550,000	-	-
	1,350,513	**5,896,697**	**568,414**	**4,817,785**	**270,541**	**239,957**

25 Fair value and risk management, continued

(b) Financial risk management, continued

(iv) Market risk

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

Currency risk

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

Exposure to currency risk

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

'000 KZT	USD-denominated	
	2016	2015
Cash and cash equivalents	8,258,266	763,658
Trade receivables	1,786,439	1,822,346
Other short-term investments	999,870	6,989,490
Other long-term investments	669,164	647,986
Historical cost liabilities	(493,880)	(680,497)
Trade payables	-	(2,773)
Net exposure	**11,219,859**	**9,540,210**

The following significant exchange rates applied during the year:

in KZT	Average rate		Reporting date spot rate	
	2016	2015	2016	2015
EUR 1	378.42	246.89	352.42	371.46
USD 1	341.78	222.68	333.29	340.01

Sensitivity analysis

A strengthening (weakening) of the KZT, as indicated below, against the following currencies at 31 December would have increased (decreased) profit or loss, net of corporate income tax, by the amounts shown below. There would have been no effect directly in equity. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

25 Fair value and risk management, continued

(b) Financial risk management, continued

(iv) Market risk, continued

Sensitivity analysis, continued

	Carrying amount	
'000 KZT	**Strengthening of KZT (20%)**	**Weakening of KZT (5%)**
31 December 2016		
USD	1,795,177	(448,794)
31 December 2015		
USD	1,526,434	(381,608)

(v) Interest rate

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity. As at 31 December 2016 the Group was not subject to significant exposure of interest rate risk.

Fair value sensitivity analysis for fixed rate instruments

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

(c) Capital management

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

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

26 Commitments

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

(a) Social and education commitments

As required by the Subsoil use agreements the Group is obliged to spend USD 177,027 (equivalent to KZT 59,001 thousand) per annum to finance social development of the region and 1 percent from the operating expenditures incurred during the year for education purposes of the citizens of Kazakhstan on an annual basis until the end of the Subsoil use agreement. As at 31 December 2016 management of the Group believes that the Group substantially complied with social and education commitments.

(b) Domestic sales commitment

As required by the Subsoil use agreements the Group is obliged to sell 15% of crude oil produced on the Akzhar, Besbolek and Karataikyz fields and 20% on the Alimbai field on domestic market. In 2016 the Group sold 134,000 tonnes (2015: 140,000 tonnes) on domestic market that comprises 39% (2015: 35%) of total production volume. As at 31 December 2016 management of the Group believes that the Group fully complied with domestic sales commitments.

(c) Kazakhstan content

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

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

As at 31 December 2016 management of the Group believes that the Group substantially complied with Kazakhstan content commitments.

(d) Minimal work programme commitments

In accordance with minimal work programme the Group has capital commitments for 2016 of KZT 678,242 thousand (2015: KZT 639,641 thousand). As at 31 December 2016 management of the Group believes that the Group substantially complied with minimal work program requirements.

(e) Subsoil use legislation

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

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

27 Contingencies

(a) Insurance

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

(b) Environmental contingencies

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

(c) Taxation contingencies in Kazakhstan

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

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

28 Related party transactions

(a) Control relationships

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

(b) Transactions with key management personnel

Management remuneration

Total compensation to key management personnel for the year ended 31 December 2016 amounted KZT 199,980 thousand (2015: KZT 128,402 thousand) which were recognised within administrative expenses.

28 Related party transactions, continued

(c) Other related parties transactions

(i) Revenue

'000 KZT	Transaction value 2016	Transaction value 2015	Outstanding balance 2016	Outstanding balance 2015
Sales of materials and services to related party				
ADA Oil LLP	477,290	588,338	268	48,267
KNOC Caspian LLP	5,693	-	5,693	-
	482,983	**588,338**	**5,961**	**48,267**

(ii) Expenses

'000 KZT	Transaction value 2016	Transaction value 2015	Outstanding balance 2016	Outstanding balance 2015
Services received from related party				
ADA Oil LLP	-	6,136	-	5,870

(iii) Loans and borrowings

'000 KZT	Transaction value 2016	Transaction value 2015	Outstanding balance 2016	Outstanding balance 2015
KNOC Kaz B.V.	-	1,092,692	16,664,500	22,562,369
Kernhem International B.V.	-	19,470	5,845,957	401,958
Impairment provision	-	(22,964,327)	(22,510,457)	(22,964,327)
	-	**(21,852,165)**	-	-

In 2011 the Group issued a loan to KNOC Kaz B.V. in amount of USD 49,125 thousand bearing an interest rate of 7.985% per annum and repayable on 11 August 2021.

In 2011 the Group issued a loan to Kernhem International B.V. in amount of USD 875 thousand bearing an interest rate of 8% per annum and repayable on 11 August 2021.

As at 31 December 2016 and 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. As at 31 December 2016, management performed subsequent analysis of financial performance of the borrowers and found no indicators the loans issued to related parties become recoverable.

28 Related party transactions, continued

(c) Other related parties transactions, continued

(iv) Financial guarantee issued

The Group has issued a financial guarantee to Shinhan Bank Kazakhstan JSC and London Branch of SHINHAN BANK to secure liabilities of Ken-Sary LLP, an entity under common control. The financial guarantee comes into effect the next day following the date when the ratio of total debt covered by financial guarantee agreement divided by cash flows from operating activities of Ken-Sary LLP is equal to or greater than five at the date of annual closing of fiscal year.

As at 31 December 2016 the Ken-Sary LLP was in compliance with the covenant. As at 31 December 2016 outstanding guarantee amount was KZT 4,550,000 thousand (equivalent to USD 25,000 thousand).

As at 31 December 2016 the carrying amount of the financial guarantee amounts to KZT 40,541 thousand and is included in trade and other payables in the consolidated statement of financial position.

During 2016, the API B.V. has issued a financial guarantee to Altyn Bank JSC, subsidiary of Halyk Bank JSC, to secure liabilities of KNOC Caspian LLP, Ken-Sary LLP and Meerbusch LLP (the "Borrowers"), entities under common control. Liability under the financial guarantee becomes due when Borrowers do not meet their obligations under the credit line with Altyn Bank JSC and the Group receives a request letter from the bank. The guarantee covers the amount of USD 10,000 thousand (equivalent to KZT 3,332,900 thousand). As at 31 December 2016 the Group did not recognise liabilities under this financial guarantee as the Borrowers did not withdraw funds from the credit line as at reporting date.

29 Subsequent events

Subsequent to the reporting date, according to the Resolution of the Board of Directors of the Company the Company declared and paid dividends in the amount of KZT 4,551,735 thousand (equivalent to USD 14,250 thousand).