Altius Holdings Inc.

Consolidated Financial Statements
for the year ended 31 December 2017

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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 2017, 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 2017, 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 Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

«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.

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.

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

28 February 2018

'000 KZT	Note	2017	2016
Revenue	5	25,484,620	23,656,487
Cost of sales	6	(7,933,097)	(8,255,357)
Gross profit		**17,551,523**	**15,401,130**
Selling expenses	7	(8,572,553)	(8,020,771)
Administrative expenses	8	(1,592,733)	(1,261,831)
Impairment loss on property, plant and equipment and intangible assets	13,14	-	(964,343)
Results from operating activities		**7,386,237**	**5,154,185**
Finance income	10	66,614	187,207
Finance costs	10	(360,637)	(485,600)
Net finance costs		**(294,023)**	**(298,393)**
Other income	11	578,323	514,262
Other expenses		(173,440)	(125,424)
Profit before income tax		**7,497,097**	**5,244,630**
Corporate income tax benefit/(expense)	12	26,047	(2,492,095)
Excess profit tax expense	12	(761,795)	(274,283)
Profit for the year		**6,761,349**	**2,478,252**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Foreign currency translation differences for foreign operations		(69,746)	(287,088)
Other comprehensive income, net of income tax		**(69,746)**	**(287,088)**
Total comprehensive income for the year		**6,691,603**	**2,191,164**

These consolidated financial statements were approved by management on 28 February 2018 and were signed on its behalf by:

Lim Keon Mug
Managing Director

ALTIUS HOLDINGS INC Alberta Canada

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 42.

'000 KZT	Note	2017	2016
ASSETS			
Property, plant, and equipment	13	16,451,869	17,033,738
Intangible assets	14	1,720,708	2,035,886
Deferred tax assets	12	2,159,864	102,140
Other long-term investments	17	722,342	670,449
Non-current assets		**21,054,783**	**19,842,213**
Inventories	15	976,461	1,308,913
Trade and other receivables	16	4,522,076	3,406,753
Income tax receivable		1,247,524	967,024
Other short-term investments	17	996,990	1,526,319
Cash and cash equivalents	18	3,899,099	8,850,240
Current assets		**11,642,150**	**16,059,249**
Total assets		**32,696,933**	**35,901,462**
EQUITY AND LIABILITIES			
Share capital	19	145,432	145,432
Foreign currency translation reserve		12,104,025	12,173,771
Retained earnings		14,935,172	18,921,067
Total equity		**27,184,629**	**31,240,270**
Historical cost liabilities	20	-	275,339
Deferred tax liabilities	12	961,113	872,705
Abandonment and site restoration provision	21	3,024,095	2,327,462
Total non-current liabilities		**3,985,208**	**3,475,506**
Trade and other payables	22	757,262	762,935
Historical cost liabilities	20	231,682	218,541
Income tax payable		538,152	204,210
Total current liabilities		**1,527,096**	**1,185,686**
Total liabilities		**5,512,304**	**4,661,192**
Total equity and liabilities		**32,696,933**	**35,901,462**

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 42.

'000 KZT	Share capital	Foreign currency translation reserve	Retained earnings	Total
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 income	**-**	**(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 19(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**
Balance at 1 January 2017	145,432	12,173,771	18,921,067	31,240,270
Profit for the year	-	-	6,761,349	6,761,349
Other comprehensive income				
Foreign currency translation differences for foreign operations	-	(69,746)	-	(69,746)
Total other comprehensive income	**-**	**(69,746)**	**-**	**(69,746)**
Total comprehensive income for the year	**-**	**(69,746)**	6,761,349	**6,691,603**
Transactions with owners, recorded directly in equity				
Dividends paid	-	-	(10,747,244)	(10,747,244)
Total transactions with owners	**-**	**-**	**(10,747,244)**	**(10,747,244)**
Balance at 31 December 2017	**145,432**	**12,104,025**	**14,935,172**	**27,184,629**

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 42.

'000 KZT	Note	2017	2016
Cash flows from operating activities			
Profit before income tax		**7,497,097**	**5,244,630**
Adjustments for:			
Depreciation and amortisation	13,14	2,451,934	3,026,914
Finance costs	10	360,637	485,600
Finance income	10	(66,614)	(187,207)
Reversal of allowance for obsolete inventories	8	(5,912)	(23,091)
Loss on disposal of property, plant and equipment and intangible assets		7,665	7,754
Impairment loss on property, plant and equipment and intangible assets	13,14	-	964,343
Cash from operating activities before changes in working capital		**10,244,807**	**9,518,943**
Change in inventories		338,364	(226,891)
Change in trade and other receivables		(1,198,719)	517,993
Change in trade and other payables		40,563	(146,289)
Cash from operating activities before income tax paid		**9,425,015**	**9,663,756**
Income tax paid		(2,651,622)	(2,611,693)
Net cash from operating activities		**6,773,393**	**7,052,063**
Cash flows from investing activities			
Acquisition of property, plant and equipment		(1,059,913)	(289,277)
Acquisition of intangible assets		(8,745)	(10,453)
Placement of cash to term deposits		(1,867,120)	(14,538,327)
Withdrawal of cash from term deposits		2,340,919	20,041,676
Interest received		28,201	37,612
Repayment of historical cost obligations	20	(265,198)	(267,787)
Net cash (used in)/from investing activities		**(831,856)**	**4,973,444**
Cash flows used in financing activities			
Dividends paid	19	(10,747,244)	(3,873,294)
Net cash used in financing activities		**(10,747,244)**	**(3,873,294)**
Net (decrease)/increase in cash and cash equivalents		**(4,805,707)**	**8,152,213**
Cash and cash equivalents at 1 January		8,850,240	1,133,868
Effect of movements in exchange rates on cash and cash equivalents		(145,434)	(435,841)
Cash and cash equivalents at 31 December	18	**3,899,099**	**8,850,240**

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 42.

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, depreciation of the Kazakhstan tenge which took place during 2015, and a reduction 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 2017 was KZT 332.33 to USD 1. This rate was used to translate monetary assets and liabilities denominated in USD as at 31 December 2017 (2016: KZT 333.29 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 27(h) – depreciation of property, plant and equipment;
- Note 27(i) – amortisation of intangible assets;
- Note 27(k) – impairment; and
- Note 12 – 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 12 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used;
- Note 13 – impairment test: key assumptions used in projected discounted cash flows;
- Note 21 – site restoration provision;
- Note 24 – commitments; and
- Note 25 – contingencies.

4 Use of estimates and judgments, continued

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 Revenue

'000 KZT	2017	2016
Export sales of crude oil	19,528,118	20,398,188
Domestic sales of crude oil	5,956,502	3,258,299
	25,484,620	**23,656,487**

6 Cost of sales

'000 KZT	Note	2017	2016
Depreciation and amortisation		2,236,860	2,811,184
Mineral extraction tax		1,112,139	1,399,744
Rent of specialised equipment and transport		1,019,086	934,567
Repair and maintenance		859,838	788,069
Personnel costs and related taxes	9	850,547	800,479
Taxes other than income tax		315,142	291,887
Fuel and electricity		260,376	221,724
Services		256,765	294,186
Oil for own use		184,299	145,842
Materials and supplies		160,968	175,037
Catering		122,773	108,819
Security		77,338	72,275
Insurance		37,991	17,298
Training and education		15,774	16,575
Communication		284	3,279
Other		422,917	174,392
		7,933,097	**8,255,357**

7 Selling expenses

'000 KZT	Note	2017	2016
Transportation		3,311,713	3,457,476
Custom duties		2,579,584	2,900,838
Rental tax		2,217,255	1,164,161
Depreciation	13	168,932	167,761
Collection and storage of crude oil		127,748	159,665
Personnel costs and related taxes	9	80,253	83,547
Security		38,632	38,737
Property tax		20,134	22,794
Other		28,302	25,792
		8,572,553	**8,020,771**

8 Administrative expenses

'000 KZT	Note	2017	2016
Personnel costs and related taxes	9	896,112	827,123
Rent and office maintenance		143,073	107,223
Professional services		164,306	112,520
Fines and penalties		99,275	33,347
Training and education		71,466	17,071
Donations		62,308	62,342
Business trip expenses		50,273	33,646
Depreciation and amortisation		19,466	22,588
Communication		13,653	16,757
Materials and supplies		8,547	7,503
Bank fees		1,257	2,525
Advertising		900	1,293
Taxes other than on income		5,274	2,987
Reversal of allowance for obsolete inventories	15	(5,912)	(23,091)
Other		62,735	37,997
		1,592,733	**1,261,831**

9 Personnel costs

'000 KZT	2017	2016
Wages and salaries	1,661,295	1,555,139
Social tax and compulsory social security contributions	198,947	181,845
	1,860,242	**1,736,984**

Personnel costs of KZT 850,547 thousand (2016: KZT 800,479 thousand) have been charged to cost of sales, KZT 896,112 thousand (2016: KZT 827,123 thousand) to administrative expenses and KZT 80,253 thousand (2016: KZT 83,547 thousand) to selling expenses and KZT 33,330 thousand (2016: KZT 25,835 thousand) to other expenses.

10 Finance income and finance costs

'000 KZT	Note	2017	2016
Amortisation of guarantee payable	26(c)(iii)	40,541	61,061
Other finance income		26,073	126,146
Finance income		**66,614**	**187,207**
Unwinding of discount	20,21	(207,129)	(251,703)
Net foreign exchange loss		(153,508)	(233,897)
Finance costs		**(360,637)**	**(485,600)**
Net finance costs recognised in profit or loss		**(294,023)**	**(298,393)**

11 Other income

'000 KZT	2017	2016
Income from services on collection and storage of crude oil	544,559	468,510
Other income	33,764	45,752
	578,323	**514,262**

12 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	2017	2016
Current income tax		
Corporate income tax	2,379,085	2,367,686
Excess profit tax	697,621	328,414
(Over)/underprovided in prior years	(371,642)	169,930
	2,705,064	**2,866,030**
Deferred tax benefit		
Corporate income tax	(2,033,490)	(45,521)
Excess profit tax	64,174	(54,131)
	(1,969,316)	**(99,652)**
Total income tax expense	**735,748**	**2,766,378**

(a) Reconciliation of effective tax rate:

	2017		2016	
	'000 KZT	%	'000 KZT	%
Profit before income tax	**7,497,097**	**100**	**5,244,630**	**100**
Income tax at applicable tax rate	1,499,420	20.00	1,048,927	20.00
Excess profit tax	697,621	9.31	328,414	6.26
Tax on dividends	402,806	5.37	204,569	3.90
Branch profit tax expense	300,763	4.01	207,854	3.96
Change in tax rate	58,129	0.78	6,675	0.13
Tax effect of non-deductible/(non-taxable) items, net	181,249	2.42	(39,927)	(0.76)
Deferred excess profit tax benefit	6,045	0.08	(60,806)	(1.16)
Recognition of tax effect of previously unrecognised tax losses	(2,037,926)	(27.18)	-	-
(Over)/underprovided in prior years	(371,642)	(4.96)	169,930	3.24
Effect of tax rates in foreign jurisdictions	(717)	(0.01)	4,010	0.08
Deductible temporary differences for which no deferred tax recognised	-	-	896,732	17.10
	735,748	**9.81**	**2,766,378**	**52.75**

12 Income tax, continued

(b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
'000 KZT	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Property, plant and equipment	-	-	(1,772,971)	(1,545,837)	(1,772,971)	(1,545,837)
Abandonment and site restoration provision	794,303	529,761	-	-	794,303	529,761
Historical cost liabilities	70,921	139,290	-	-	70,921	139,290
Provisions and trade and other payables	44,123	48,810	-	-	44,123	48,810
Inventories	24,449	36,762	-	-	24,449	36,762
Tax loss carry-forwards	2,037,926	20,649	-	-	2,037,926	20,649
Tax assets/(liabilities)	**2,971,722**	**775,272**	**(1,772,971)**	**(1,545,837)**	**1,198,751**	**(770,565)**
Set off of tax	(811,858)	(673,132)	811,858	673,132	-	-
Net tax assets/(liabilities)	**2,159,864**	**102,140**	**(961,113)**	**(872,705)**	**1,198,751**	**(770,565)**

(c) Movement in temporary differences during the year

'000 KZT	**1 January 2017**	**Recognised in profit or loss**	**31 December 2017**
Property, plant and equipment	(1,545,837)	(227,134)	(1,772,971)
Abandonment and site restoration provision	529,761	264,542	794,303
Historical cost liabilities	139,290	(68,369)	70,921
Provisions and trade and other payables	48,810	(4,687)	44,123
Inventories	36,762	(12,313)	24,449
Tax loss carry-forwards	20,649	2,017,277	2,037,926
	(770,565)	**1,969,316**	**1,198,751**

'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)**

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.

12 Income tax, continued

(d) Unrecognised deferred tax assets

At 31 December 2017 deferred tax assets of KZT 2,037,926 thousand have been recognised with respect to tax losses incurred by the Company's subsidiary API B.V. The tax losses are represented by the amount of foreign currency translation reserve which is tax deductible for Dutch tax purposes.

At 31 December 2017 deferred tax assets have not been recognised in respect of the following items:

- Deferred tax assets of KZT 218,400 thousand (2016: KZT 218,400 thousand) with respect to temporary differences arisen on a impairment loss recognised for property, plant and equipment recognised in 2016. 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 6,543,357 thousand (2016: KZT 6,419,414 thousand) with respect to an impairment loss on loans issued to related parties. Deferred tax asset has not been recognised because the impairment loss is not deductible for tax purposes.

13 Property, plant and equipment

'000 KZT	Oil and gas property	Construction in progress	Other property, plant and equipment	Total
Cost				
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**
Balance at 1 January 2017	32,800,207	918,220	1,346,973	35,065,400
Additions	651,690	886,136	30,133	1,567,959
Disposals	(15,254)	(12,905)	(14,735)	(42,894)
Internal transfers	681,167	(692,002)	10,835	-
Balance at 31 December 2017	**34,117,810**	**1,099,449**	**1,373,206**	**36,590,465**
Depreciation and impairment losses				
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)**
Balance at 1 January 2017	(16,940,887)	(434,373)	(656,402)	(18,031,662)
Depreciation for the year	(2,053,889)	-	(74,122)	(2,128,011)
Disposals	7,702	-	13,375	21,077
Balance at 31 December 2017	**(18,987,074)**	**(434,373)**	**(717,149)**	**(20,138,596)**
Carrying amounts				
At 1 January 2016	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**
At 31 December 2017	**15,130,736**	**665,076**	**656,057**	**16,451,869**

13 Property, plant and equipment, continued

(a) Depreciation

Depreciation expense of KZT 1,917,719 thousand (2016: KZT 2,303,446 thousand) has been charged to cost of sales, KZT 14,684 thousand (2016: KZT 15,836 thousand) to administrative expenses, KZT 168,932 thousand (2016: KZT 167,761 thousand) to selling expenses and KZT 26,676 thousand (2016: KZT 25,381 thousand) to other expenses.

(b) Impairment test

Due to continuing volatility of market prices for crude oil throughout the year, 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 cash generating unit was determined by separating a group of assets of a particular oilfield, that generates cash inflows and are largely independent of the cash inflows from other groups of assets. 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 estimated recoverable amount of the cash generating unit Alimbai approximates its carrying amount.

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

- future nominal cash flows are estimated for the period of the subsoil use agreement's duration ending 2032;
- forecast for nominal annual oil Brent price during forecast period changes from a minimum to a maximum level of USD 58 per barrel and USD 81 per barrel, respectively. Oil price forecast as at 11 December 2017 was obtained from *Consensus Economics;*
- annual drop of oil output during the forecast period changes from a minimum to a maximum level of 7% to 23%, respectively;
- pre-tax discount rate is 24.2%; the discount rate was estimated based on experience, and industry weighted average cost of capital, which was based on a possible range of debt leveraging of 30% at a market interest rate of 13.2%.
- inflation rates and exchange rate of KZT against USD as at 1 January 2018 are taken from the report *Country Outlook* produced by *The Economist Intelligence Unit.*

The management performed sensitivity analysis of the key assumptions used. The impairment loss of KZT 100,000 thousand would be recognised in 2017 if one of the following conditions are met:

- a decrease of 12% in the nominal annual oil prices;
- a decrease of 18% in the annual production;
- pre-tax discount rate – 55%.

14 Intangible assets

'000 KZT	2017	2016
Cost		
Balance at 1 January	6,672,812	6,624,652
Additions	8,745	48,160
Balance at 31 December	**6,681,557**	**6,672,812**
Amortisation		
Balance at 1 January	(4,636,926)	(3,698,732)
Amortisation for the year	(323,923)	(514,490)
Impairment loss	-	(423,704)
Balance at 31 December	**(4,960,849)**	**(4,636,926)**
Carrying amounts		
At 31 December	**1,720,708**	**2,035,886**

15 Inventories

'000 KZT	Note	2017	2016
Materials		756,560	690,007
Crude oil		334,980	706,765
Work in progress		22,004	55,136
		1,113,544	**1,451,908**
Allowance for obsolete inventories	8	(137,083)	(142,995)
		976,461	**1,308,913**

16 Trade and other receivables

'000 KZT	2017	2016
Trade receivables	2,636,328	1,812,574
Value-added tax and other taxes prepaid	1,229,379	1,023,934
Advances paid	442,689	375,562
Other receivables	213,680	194,683
	4,522,076	**3,406,753**

16 Trade and other receivables, continued

Value-added tax and other taxes prepaid

'000 KZT	2017	2016
Value-added tax receivable	387,340	467,721
Mineral extraction tax prepaid	337,976	102,820
Export customs duties prepaid	247,529	282,374
Rental tax prepaid	160,922	83,136
Personal income tax prepaid	20,287	19,274
Other	75,325	68,609
	1,229,379	**1,023,934**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 23.

17 Other short-term and long-term investments

'000 KZT	2017	2016
Deposits in USD	1,717,936	1,669,034
Deposits in KZT	1,396	527,734
	1,719,332	**2,196,768**
Non-current	722,342	670,449
Current	996,990	1,526,319
	1,719,332	**2,196,768**

As at 31 December 2017, the Group held restricted cash deposits which amounted to KZT 720,946 thousand (2016: KZT 669,164 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 2017, the Group also held restricted cash deposits amounted to KZT 1,396 thousand (2016: KZT 1,285 thousand) which are accumulated for the purpose securing its obligations on expatriate staff.

As at 31 December 2017 there are no term bank deposits placed in KZT with maturity period of more than three months (2016: KZT 526,449 thousand). As at 31 December 2017 term deposits amounting to KZT 996,990 thousand (2016: KZT 999,870 thousand) are the bank deposits placed in USD with maturity period of more than three months with an average interest rate of 1.8% (2016: 1.7%). 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 23.

18 Cash and cash equivalents

'000 KZT	2017	2016
Bank balances	3,889,714	8,845,821
Petty cash	9,385	4,419
	3,899,099	**8,850,240**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 23.

19 Share capital

(a) Share capital

	Ordinary shares	
Number of shares unless otherwise stated	**2017**	**2016**
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.

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 2017 the Company declared and paid dividends in the amount of KZT 10,747,244 thousand (equivalent to USD 33,345 thousand) (2016: KZT 3,873,294 thousand equivalent to USD 11,400 thousand). The dividends paid are classified as outflows in the financing activities in the consolidated statement of cash flows.

20 Historical cost liabilities

'000 KZT	**2017**	**2016**
Balance at 1 January	493,880	680,497
Change in estimates	(793)	37,706
Foreign currency exchange difference	(604)	(10,825)
Repayment	(265,198)	(267,787)
Unwinding of discount	4,397	54,289
Balance at 31 December	**231,682**	**493,880**
Non-current	-	275,339
Current	231,682	218,541
	231,682	**493,880**

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 2017 the Group's obligation in relation to historical costs was KZT 234,536 thousand (equivalent to USD 705,733). The future expected cash outflows for historical costs have been discounted at a rate of 1.79% (2016: 1.22%).

During 2018 the Group plans to repay outstanding obligations in relation to historical cost liabilities.

The Group's exposure to currency and liquidity risks related to historical cost liabilities is disclosed in Note 23.

21 Abandonment and site restoration provision

'000 KZT	2017	2016
Balance at 1 January	2,327,462	2,154,625
Provision for the year	42,150	108,869
Change in estimates	451,751	(133,446)
Unwinding of discount	202,732	197,414
Balance at 31 December	**3,024,095**	**2,327,462**

In order to comply with the subsoil use contractual obligations, subsoil users are obliged to perform decommissioni ng 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 4.81% is KZT 5,961,702 thousand (2016: KZT 5,963,012 thousand). As at 31 December 2017 the present value of the decommissioning obligation was discounted at a rate of 6.46% (2016: 8.60%).

22 Trade and other payables

'000 KZT	Note	2017	2016
Trade payables		477,833	408,824
Vacation pay accrual		179,663	125,540
Advances received		51,579	13,008
Taxes payable		25,317	101,130
Other payables		22,870	73,892
Financial guarantee issued	26(c)(iii)	-	40,541
		757,262	**762,935**

Taxes payable

'000 KZT	2017	2016
Social tax	5,429	1,824
Mineral extraction tax	-	50,686
Rental tax	-	16,884
Personal income tax	-	543
Other taxes	19,888	31,193
	25,317	**101,130**

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in Note 23.

23 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, due to their nature and short maturity of financial assets and liabilities.

(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**	**2017**	**2016**
Cash and cash equivalents	18	3,889,714	8,845,821
Trade and other receivables	16	2,850,008	2,007,257
Other long-term and short-term investments	17	1,719,332	2,196,768
		8,459,054	**13,049,846**

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 77% (2016: 86%) 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 2,043,981 thousand of the trade and other receivables carrying amount at 31 December 2017 (2016: KZT 1,786,439 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.

23 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	**2017**	**2016**
Europe	2,143,197	1,809,287
Domestic	706,811	197,970
	2,850,008	**2,007,257**

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 other long-term and short-term investments

The Group held cash and cash equivalents and term deposits of KZT 3,889,714 thousand and KZT 1,719,332 thousand, respectively (2016: KZT 8,845,821 thousand and KZT 2,196,768 thousand, respectively), which represents its maximum credit exposure on these assets. Cash and cash equivalents and other long-term and short-term financial investments are held with the following financial institutions:

			Carrying amount	
'000 KZT	**Rating agency**	**Credit rating**	**2017**	**2016**
Citibank Kazakhstan JSC	N/A	not rated	3,017,224	8,633,616
Shinhan Bank Kazakhstan JSC	N/A	not rated	1,016,076	1,004,803
Subsidiary Bank Sberbank of Russia JSC	Moody's Investors Service	'Ba3' (stable outlook)	894,301	-
KEB Hana Bank	Moody's Investors Service	'A1' (stable outlook)	626,059	8,886
Royal Bank of Canada	Moody's Investors Service	'A1' (stable outlook)	45,847	45,191
Halyk Savings Bank of Kazakhstan JSC	Moody's Investors Service	'Ba1' (stable outlook)	6,908	6,909
BankCenterCredit JSC	S&P Global Ratings	'B' (stable outlook)	2,098	1,263,710
Kazkommertsbank JSC	Moody's Investors Service	'Ba2' (stable outlook)	533	79,474
			5,609,046	**11,042,589**

23 Fair value and risk management, continued

(b) Financial risk management, continued

(ii) Credit risk, continued

Cash and cash equivalents and other long-term and short-term investments, continued

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.

Financial guarantees issued to Shinhan Bank Kazakhstan JSC and Altyn Bank JSC expired on 31 August 2017 and 30 May 2017, respectively. During the reporting period no cash outflows took place and no guarantee prolongation was made.

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 2017, management found no indicators the loans issued to related parties become recoverable.

(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.

23 Fair value and risk management, continued

(b) Financial risk management, continued

(iii) Liquidity risk, continued

Exposure to liquidity risk, continued

2017 '000 KZT	Carrying amount	Total contractual cash flows	Less than 2 months	2-12 months	1-2 years
Non-derivative financial liabilities					
Trade and other payables	500,703	500,703	500,703	-	-
Historical cost liabilities	231,682	234,537	-	234,537	-
	732,385	**735,240**	**500,703**	**234,537**	**-**

2016 '000 KZT	Carrying amount	Total contractual cash flows	Less than 2 months	2-12 months	1-2 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**

(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.

23 Fair value and risk management, continued

(b) Financial risk management, continued

(iv) Market risk, continued

Exposure to currency risk

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

'000 KZT	USD-denominated	
	2017	2016
Cash and cash equivalents	3,306,442	8,258,266
Trade receivables	2,043,981	1,786,439
Other short-term investments	996,990	999,870
Other long-term investments	720,946	669,164
Historical cost liabilities	(231,632)	(493,880)
Net exposure	**6,836,727**	**11,219,859**

The following significant exchange rates applied during the year:

in KZT	Average rate		Reporting date spot rate	
	2017	2016	2017	2016
EUR 1	368.62	378.42	398.23	352.42
USD 1	326.04	341.78	332.33	333.29

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.

	Carrying amount	
'000 KZT	Strengthening of KZT (10%)	Weakening of KZT (10%)
31 December 2017		
USD	(546,938)	546,938
31 December 2016		
USD	(897,589)	897,589

(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 2017 the Group was not subject to significant exposure of interest rate risk.

23 Fair value and risk management, continued

(b) Financial risk management, continued

(v) Interest rate, continued

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.

24 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 58,831 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 2017 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 2017 the Group sold 156,000 tonnes (2016: 134,000 tonnes) on domestic market that comprises 48% (2016: 39%) of total production volume. As at 31 December 2017 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 2017 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 2017 of KZT 647,245 thousand (2016: KZT 678,242 thousand). As at 31 December 2017 management of the Group believes that the Group substantially complied with minimal work program requirements.

24 Commitments, continued

(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. As at 31 December 2017 the Group has substantially fulfilled its contractual obligations.

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.

25 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.

26 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 2017 amounted KZT 202,037 thousand (2016: KZT 199,980 thousand) which were recognised within administrative expenses.

(c) Other related parties transactions

(i) Revenue

'000 KZT	Transaction value 2017	Transaction value 2016	Outstanding balance 2017	Outstanding balance 2016
Sales of materials and services to related party				
ADA Oil LLP	444,139	477,290	(48)	268
KNOC Caspian LLP	4,084	5,693	4,084	5,693
	448,223	**482,983**	**4,036**	**5,961**

(ii) Loans and borrowings

'000 KZT	Transaction value 2017	Transaction value 2016	Outstanding balance 2017	Outstanding balance 2016
KNOC Kaz B.V.	-	-	16,616,500	16,664,500
Kernhem International B.V.	-	-	5,829,119	5,845,957
Impairment provision	-	-	(22,445,619)	(22,510,457)
	-	-	-	-

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.

In 2015 the Group has created a provision for impairment that represents management estimate of losses in respect of irrecoverable loans for the full amount of loans issued and interest accrued on those loans. As at 31 December 2017 and 2016, management performed subsequent analysis of financial performance of the borrowers and found no indicators the loans issued to related parties become recoverable.

26 Related party transactions

(c) Other related parties transactions, continued

(iii) Financial guarantee issued

During 2014 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.

In 2017 Ken-Sary LLP repaid loans to banks in full. During the reporting period no cash outflows took place. During the reporting period no cash outflows took place and no guarantee prolongation was made. For the year ended 31 December 2017 the amortisation of guarantee liability, disclosed as a part of finance income in Note 10, amounted to KZT 40,541 thousand (2016: KZT 61,061 thousand).

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 was become 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 covered the amount of USD 10,000 thousand (equivalent to KZT 3,332,900 thousand). The entities under common control have not used the bank facilities and the credit line agreement and a guaranteed expired on 30 May 2017. During the reporting period no cash outflows took place and no guarantee prolongation was made.

27 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.

(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.

27 Significant accounting policies, continued

(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.

(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.

27 Significant accounting policies, continued

(d) Foreign currency, continued

(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.

(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.

27 Significant accounting policies, continued

(f) Income tax, continued

(ii) Deferred tax, continued

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.

(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.

27 Significant accounting policies, continued

(h) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent expenditure

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

(iii) Depreciation

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

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

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

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 the Besbolek, Karataykiz and Alimbai oilfields and Caspian Energy Research LLC for the Akzhar oilfield as at 1 January 2018.

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

27 Significant accounting policies, continued

(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 27(h)(iii).

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

(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.

27 Significant accounting policies, continued

(j) Financial instruments, continued

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

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 16, other long-term and short-term investments as presented in Note 17, cash and cash equivalents as presented in Note 18 and loans issued to related parties as presented in Note 26.

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.

(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.

27 Significant accounting policies, continued

(k) Impairment, continued

(i) Non-derivative financial assets, continued

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.

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.

27 Significant accounting policies, continued

(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*.

(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.

27 Significant accounting policies, continued

(m) Leases, continued

(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.

28 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 2017 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) IFRS 9 Financial Instruments

IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

(i) Classification - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables that are managed on a fair value basis.

(ii) Impairment - Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

28 New standards and interpretations not yet adopted, continued

(a) IFRS 9 Financial Instruments, continued

(ii) Impairment - Financial assets and contract assets, continued

Under IFRS 9, loss allowances will be measured on either of the following bases:

- *12-month ECLs*. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs*. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; the Group has chosen to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group estimated that application of IFRS 9's impairment requirements at 1 January 2018 does not have a significant effect over the impairment recognised under IAS 39.

(iii) Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

(iv) Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. The Group's assessment included an analysis to identify data gaps against current processes and the Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

(v) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

28 New standards and interpretations not yet adopted, continued

(a) IFRS 9 Financial Instruments, continued

(v) Transition, continued

- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(b) 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 Programmes*.

(i) Sales of goods

For the sale of crude oil, revenue is currently recognised when crude oil is delivered to the customers' premises specified in the agreement, which is taken to be the point in time at which the customer accepts crude oil and the related risks and rewards of ownership transfer. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with crude oil sold.

Under IFRS 15, based on the Group's assessments all current contracts for sale of crude oil have one performance obligation for sales of crude oil, revenue will be recognised when a customer obtains control of the good. Therefore, the Group does not expect the application of IFRS 15 to result in significant differences in revenue recognition for sales of crude oil.

Under IFRS 15, revenue will be recognised for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

Based on its assessment, the Group also believes that the current contracts do not contain a significant financing component because there is no difference between the transaction price and the price at which crude oil is sold, provided that it is immediately paid in cash, and duration of a period between the time when obligation is performed and payment is made has no significant effect.

(ii) Transition

The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

(c) IFRS 16 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*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

28 New standards and interpretations not yet adopted, continued

(c) IFRS 16 Leases, continued

IFRS 16 introduces a single, on-balance sheet lease 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 recognition 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.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

(d) Other standards

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

- *Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.*
- *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).*
- *Transfers of Investment Property (Amendments to IAS 40).*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration.*
- *IFRIC 23 Uncertainty over Income Tax Treatments.*