

Nostrum Oil & Gas PLC

Interim condensed consolidated financial statements (unaudited)

For the nine months ended 30 September 2019

Interim condensed consolidated financial statements

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Interim consolidated statement of financial position

<i>In thousands of US dollars</i>	Notes	30 September 2019 (unaudited)	31 December 2018 (audited)
NON-CURRENT ASSETS			
Exploration and evaluation assets	4	49,879	50,241
Property, plant and equipment	5	1,963,328	1,919,662
Right-of-use assets	6	13,332	–
Restricted cash	10	7,355	7,021
Advances for non-current assets	7	4,189	15,466
Total Non-current assets		2,038,083	1,992,390
CURRENT ASSETS			
Inventories		32,609	29,583
Trade receivables	8	32,388	35,732
Prepayments and other current assets	9	10,949	20,014
Income tax prepayment		2,903	–
Cash and cash equivalents	10	91,281	121,753
Total Current assets		170,130	207,082
TOTAL ASSETS		2,208,213	2,199,472
SHARE CAPITAL AND RESERVES			
	11		
Share capital		3,203	3,203
Treasury capital		(1,660)	(1,660)
Retained earnings and reserves		560,088	555,456
Total Share capital and reserves		561,631	556,999
NON-CURRENT LIABILITIES			
Long-term borrowings	13	1,098,832	1,093,967
Lease liabilities, long-term	14	1,836	–
Abandonment and site restoration provision		22,701	21,894
Due to Government of Kazakhstan		5,070	5,280
Deferred tax liability	24	431,448	400,981
Total Non-current liabilities		1,559,887	1,522,122
CURRENT LIABILITIES			
Current portion of long-term borrowings	13	14,133	35,633
Lease liabilities, current portion	14	12,095	–
Employee share option plan liability	23	3	55
Trade payables	15	30,359	52,876
Advances received		112	394
Income tax payable		–	679
Current portion of due to Government of Kazakhstan		1,031	1,031
Other current liabilities	16	28,962	29,683
Total Current liabilities		86,695	120,351
TOTAL EQUITY AND LIABILITIES		2,208,213	2,199,472

The interim condensed consolidated financial statements of Nostrum Oil & Gas PLC, registered number 8717287, were approved by the Board of Directors. Signed on behalf of the Board:

Kai-Uwe Kessel

Chief Executive Officer

Tom Richardson

Chief Financial Officer

The accounting policies and explanatory notes on pages 7 through 24 are an integral part of these consolidated financial statements

Interim condensed consolidated financial statements

Interim consolidated statement of comprehensive income

<i>In thousands of US dollars</i>	Notes	Three months ended 30 September		Nine months ended 30 September	
		2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Revenue					
Revenue from export sales		45,506	96,566	167,463	241,437
Revenue from domestic sales		30,644	23,348	82,875	69,971
	17	76,150	119,914	250,338	311,408
Cost of sales	18	(35,728)	(43,020)	(115,498)	(125,786)
Gross profit		40,422	76,894	134,840	185,622
General and administrative expenses	19	(4,907)	(5,202)	(14,639)	(18,739)
Selling and transportation expenses	20	(10,777)	(13,505)	(34,729)	(39,184)
Taxes other than income tax	21	(5,583)	(8,730)	(17,602)	(23,113)
Finance costs	22	(7,211)	(8,733)	(29,292)	(37,939)
Employee share options - fair value adjustment	23	(146)	(403)	(443)	1,281
Foreign exchange gain/(loss), net		(21)	(600)	588	(731)
Loss on derivative financial instruments	25	-	(1,164)	-	(13,126)
Interest income		(170)	58	(131)	198
Other income		1,387	912	2,657	2,331
Other expenses		(4,648)	969	(5,852)	(4,185)
Profit before income tax		8,346	40,496	35,397	52,415
Current income tax (expense) / benefit		(320)	(194)	(1,421)	21
Deferred income tax expense		(10,641)	(25,950)	(30,481)	(39,991)
Income tax expense	24	(10,961)	(26,144)	(31,902)	(39,970)
(Loss)/profit for the period		(2,615)	14,352	3,495	12,445
Other comprehensive income that could be reclassified to the income statement in subsequent periods					
Currency translation difference		1,069	(678)	642	(669)
Other comprehensive income/(loss)		1,069	(678)	642	(669)
Total comprehensive (loss)/income for the period		(1,546)	13,674	4,137	11,776
Profit for the period attributable to the shareholders (in thousands of US dollars)				3,495	12,445
Weighted average number of shares				185,234,079	185,234,079
Basic and diluted earnings per share (in US dollars)				0.02	0.07

All items in the above statement are derived from continuous operations.

The accounting policies and explanatory notes on pages 7 through 24 are an integral part of these consolidated financial statements

Interim consolidated statement of cash flows

<i>In thousands of US dollars</i>	Notes	Nine months ended 30 September	
		2019 (unaudited)	2018 (unaudited)
Cash flow from operating activities:			
Profit before income tax		35,397	52,415
<i>Adjustments for:</i>			
Depreciation, depletion and amortisation	18,19,20	94,220	87,235
Finance costs	22	29,292	37,939
Employee share option plan fair value adjustment		443	(1,281)
Interest income		(58)	(198)
Net foreign exchange differences		587	(901)
Loss on disposal of property, plant and equipment		(84)	1,481
Payments under derivative financial instruments	25	(3,741)	(4,095)
Loss on derivative financial instruments	25	–	13,126
Reversal of accruals		(621)	–
Provision for expected credit losses		–	68
Operating profit before working capital changes		155,435	185,789
<i>Changes in working capital:</i>			
Change in inventories		(3,026)	1,910
Change in trade receivables		3,344	(37,919)
Change in prepayments and other current assets		9,065	5,004
Change in trade payables		1,231	(743)
Change in advances received		(282)	(1,016)
Change in due to Government of Kazakhstan		(773)	(773)
Change in other current liabilities		230	580
Cash generated from operations		165,224	152,832
Income tax paid		(5,016)	(1,494)
Net cash flows from operating activities		160,208	151,338
Cash flow from investing activities:			
Interest received		58	198
Purchase of property, plant and equipment		(89,803)	(133,396)
Exploration and evaluation works		(332)	(2,453)
Placement of bank deposits		–	(45,000)
Net cash used in investing activities		(90,077)	(180,651)
Cash flow from financing activities:			
Finance costs paid		(86,000)	(81,111)
Issue of notes		–	397,280
Repayment of notes		–	(353,192)
Fees and premium paid for early repayment and on arrangement of notes		–	(9,496)
Payment of lease liabilities		(14,324)	(110)
Transfer to restricted cash		(333)	(275)
Other finance costs		–	(214)
Net cash used in financing activities		(100,657)	(47,118)
Effects of exchange rate changes on cash and cash equivalents		54	(22)
Net decrease in cash and cash equivalents		(30,472)	(76,453)
Cash and cash equivalents at the beginning of the period	10	121,753	126,951
Cash and cash equivalents at the end of the period	10	91,281	50,498

The accounting policies and explanatory notes on pages 7 through 24 are an integral part of these consolidated financial statements

Interim consolidated statement of changes in equity

<i>In thousands of US dollars</i>	Notes	Share capital	Treasury capital	Other reserves	Retained earnings	Total
As at 1 January 2018 (audited)		3,203	(1,660)	262,417	413,918	677,878
Profit for the period		–	–	–	12,445	12,445
Other comprehensive loss		–	–	(669)	–	(669)
Total comprehensive income for the period		–	–	(669)	12,445	11,776
As at 30 September 2018 (unaudited)		3,203	(1,660)	261,748	426,363	689,654
Loss for the period		–	–	–	(133,140)	(133,140)
Other comprehensive loss		–	–	(226)	–	(226)
Total comprehensive loss for the period		–	–	(226)	(133,140)	(133,366)
Share based payments under LTIP		–	–	711	–	711
As at 31 December 2018 (audited)		3,203	(1,660)	262,233	293,223	556,999
Profit for the period		–	–	–	3,495	3,495
Other comprehensive income		–	–	642	–	642
Total comprehensive income for the period		–	–	642	3,495	4,137
Share based payments under LTIP		–	–	495	–	495
As at 30 September 2019 (unaudited)		3,203	(1,660)	263,370	296,718	561,631

The accounting policies and explanatory notes on pages 7 through 24 are an integral part of these consolidated financial statements

Notes to the interim condensed consolidated financial statements

1. General

Overview

Nostrum Oil & Gas PLC (“the Company” or “the Parent”) is a public limited company incorporated on 3 October 2013 under the Companies Act 2006 and registered in England and Wales with registered number 8717287. The registered address of Nostrum Oil & Gas PLC is: 9th Floor, 20 Eastbourne Terrace, London, W2 6LG, UK.

The Parent became the holding company of the remainder of the Group (via its subsidiary then named Nostrum Oil Coöperatief U.A., now named Nostrum Oil & Gas Coöperatief U.A.) on 18 June 2014 and was listed on the London Stock Exchange (“LSE”) on 20 June 2014. On the same date the former parent of the Group, Nostrum Oil & Gas LP, was delisted from the LSE. In addition to the subsidiaries of Nostrum Oil & Gas LP, Nostrum Oil Coöperatief U.A. acquired substantially all of the assets and liabilities of Nostrum Oil & Gas LP on 18 June 2014. The Parent does not have an ultimate controlling party.

These interim condensed consolidated financial statements include the financial position and the results of the operations of Nostrum Oil & Gas PLC and its following wholly owned subsidiaries:

Company	Registered office	Form of capital	Ownership, %
Nostrum Associated Investments LLP	43/1 Karev street, 090000 Uralsk, Republic of Kazakhstan	Participatory interests	100
Nostrum E&P Services LLC	Liteyniy Prospekt 26 A, 191028 St. Petersburg, Russian Federation	Participatory interests	100
Nostrum Oil & Gas Coöperatief U.A.	Gustav Mahlerplein 23B, 1082MS Amsterdam, The Netherlands	Members' interests	100
Nostrum Oil & Gas BV	Gustav Mahlerplein 23B, 1082MS Amsterdam, The Netherlands	Ordinary shares	100
Nostrum Oil & Gas Finance B.V.	Gustav Mahlerplein 23B, 1082MS Amsterdam, The Netherlands	Ordinary shares	100
Nostrum Oil & Gas UK Ltd.	9 th floor, 20 Eastbourne Terrace, London W2 6LG, United Kingdom	Ordinary shares	100
Nostrum Services Central Asia LLP	Aksai 3a, 75/38, 050031 Almaty, Republic of Kazakhstan	Participatory interests	100
Nostrum Services N.V.	Kunstlaan 56, 1000 Brussels, Belgium	Ordinary shares	100
Zhaikmunai LLP ¹	43/1 Karev street, 090000 Uralsk, Republic of Kazakhstan	Participatory interests	100

¹ On 20 August 2019, another 100% subsidiary of the Group, Atom&Co LLP, was merged into Zhaikmunai LLP. Atom&Co LLP was acquired by the Group on 28 December 2018.

Nostrum Oil & Gas PLC and its wholly-owned subsidiaries are hereinafter referred to as “the Group”. The Group’s operations comprise of a single operating segment with three exploration concessions and are primarily conducted through its oil and gas producing entity Zhaikmunai LLP located in Kazakhstan.

As at 30 September 2019, the Group employed 791 employees (9M 2018: 799).

Subsoil use rights terms

Zhaikmunai LLP carries out its activities in accordance with the Contract for Additional Exploration, Production and Production-Sharing of Crude Hydrocarbons in the Chinarevskoye oil and gas condensate field (the “Contract”) dated 31 October 1997 between the State Committee of Investments of the Republic of Kazakhstan and Zhaikmunai LLP in accordance with the license MG No. 253D for the exploration and production of hydrocarbons in Chinarevskoye oil and gas condensate field.

On 17 August 2012 Zhaikmunai LLP signed Asset Purchase Agreements to acquire 100% of the subsoil use rights related to three oil and gas fields – Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye – all located in the Western Kazakhstan region. On 1 March 2013 Zhaikmunai LLP has acquired the subsoil use rights related to these three oil and gas fields in Kazakhstan following the signing of the respective supplementary agreements related thereto by the authority now known as the Ministry of Energy (the “MOE”) of the Republic of Kazakhstan.

The term of the Chinarevskoye subsoil use rights originally included a 5-year exploration period and a 25-year production period. Subsequently the exploration period for the Bobrishovskiy reservoir was extended to 26 August 2018.

The contract for exploration and production of hydrocarbons from the Rostoshinskoye field dated 8 February 2008 originally included a 3-year exploration period and a 12-year production period. On 16 August 2019, the contract was amended so as to adopt the terms of the current model contract and the exploration period was extended until 16 August 2022.

The contract for exploration and production of hydrocarbons from the Darjinskoye field dated 28 July 2006 originally included a 6-year exploration period and a 19-year production period. Subsequently, the exploration period was extended until 31 December 2021.

The contract for exploration and production of hydrocarbons from the Yuzhno-Gremyachinskoye field dated 28 July 2006 originally included a 5-year exploration period and a 20-year production period. Subsequently, the exploration period was extended until 31 December 2021.

Notes to the interim condensed consolidated financial statements **continued**

Royalty payments

Zhaikmunai LLP is required to make monthly royalty payments throughout the entire production period, at the rates specified in the Contract.

Royalty rates depend on hydrocarbons recovery levels and the phase of production and can vary from 3% to 7% of produced crude oil and from 4% to 9% of produced natural gas. Royalty is accounted on a gross basis.

Government “profit share”

Zhaikmunai LLP makes payments to the Government of its “profit share” as determined in the Contract. The “profit share” depends on hydrocarbon production levels and varies from 10% to 40% of production after deducting royalties and reimbursable expenditures. Reimbursable expenditures include operating expenses, costs of additional exploration and development costs. Government “profit share” is expensed as incurred and paid in cash. Government profit share is accounted on a gross basis.

2. Basis of preparation and consolidation

Basis of preparation

These interim condensed consolidated financial statements for the nine months ended 30 September 2019 have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting as adopted by the European Union. These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018 prepared in accordance with IFRS as adopted by the European Union.

The interim financial information for nine months ended 30 September 2019 and 2018 is neither audited nor reviewed by the auditors and does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. The comparative financial information for the year ended 31 December 2018 has been derived from the statutory financial statements for that year. Statutory accounts for the year ended 31 December 2018 were approved by the Board of directors on 25 March 2019 and filed with the Registrar of Companies. The Independent Auditors’ Report on those accounts was unqualified.

Group reorganisation

The Group has been formed through a reorganisation in which Nostrum Oil & Gas PLC became a new parent entity of the Group. The reorganisation is not a business combination and does not result in any change of economic substance of the Group. Accordingly, the interim condensed consolidated financial statements of Nostrum Oil & Gas PLC are a continuation of the existing group (Nostrum Oil & Gas LP and its subsidiaries).

Going concern

These interim condensed consolidated financial statements have been prepared on a going concern basis. The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the interim condensed consolidated financial statements.

3. Changes in accounting policies and disclosures

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new standards and interpretations effective as of 1 January 2019. None of the amendments that are effective as of 1 January 2019 had significant impact on the Group’s interim condensed consolidated financial statements, except for adoption of IFRS 16 Leases as described below.

Standards issued, but not yet effective, as at 1 January 2019, have not been adopted early by the Group.

IFRS 16 Leases

IFRS 16 supersedes 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 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application, whereby the lease liability and corresponding right-of-use asset are based on future rentals as determined under the standard.

Notes to the interim condensed consolidated financial statements **continued**

The following is a reconciliation of total operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised at 1 January 2019:

In thousands of US dollars

Total operating lease commitments disclosed at 31 December 2018	10,848
Service agreements contracts reassessed as lease agreements under IFRS 16	27,397
Total lease liabilities before discounting	38,245
Discount using incremental borrowing rate	(4,061)
Total lease liability as at 1 January 2019	34,184

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

The effect of adoption IFRS 16 is as follows:

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2019:

In thousands of US dollars

	1 January 2019
Right-of-use assets	34,184
Total non-current assets	34,184
Total assets	34,184
Current portion of long-term liability	17,968
Total current liabilities	17,968
Long-term lease liability	16,217
Total non-current liabilities	16,217
Total equity and liabilities	34,184

Impact on the statement of profit or loss (increase/(decrease)) for the three and nine months ended 30 September 2019:

<i>In thousands of US Dollars</i>	Three months ended 30 September 2019	Nine months ended 30 September 2019
Depreciation expense of right-of-use assets (included in Selling and transportation expenses)	1,088	3,373
Depreciation expense of right-of-use assets (included in Cost of sales)	665	1,989
Depreciation expense of right-of-use assets (included in General and administrative expenses)	395	488
Rent expenses (included in Selling and transportation expenses)	(1,258)	(3,762)
Rent expenses (included in Cost of sales)	(742)	(2,219)
Rent expenses (included in General and administrative expenses)	(56)	(168)
Finance costs	772	2,476
Deferred income tax expense	(259)	(653)
Profit for the period	605	1,524

Impact on the statement of cash flows (increase/(decrease)) for the nine months ended 30 September 2019:

<i>In thousands of US Dollars</i>	Nine months ended 30 September 2019
Net cash flows from operating activities	6,149
Net cash used in investing activities	8,175
Net cash used in financing activities	(14,324)

Notes to the interim condensed consolidated financial statements **continued**

Nature of the effect of adoption of IFRS 16

The Group has contracts including lease components for vehicles, drilling rigs and rail tank cars. Before the adoption of IFRS 16, the Group recognised the expenses classified as lease under IAS 17 at the inception date as either a finance lease or an operating lease.

A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term.

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

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases or service agreements, except for short-term leases and leases of low-value assets. The right-of-use assets were recognised based on the amount equal to the lease liabilities. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application, which was estimated at the rate of 11%.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- The right-of-use assets were recognised based on the amount equal to the lease liabilities which were recognised based on the present value of the remaining lease payments;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

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

Lease liabilities

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below US\$ 5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Notes to the interim condensed consolidated financial statements **continued**

Significant judgements relating to leases

The application of IFRS 16 requires the Group to make judgements that affect the valuation of the lease liabilities and the related right-of-use assets, which include determining the contracts in scope of IFRS 16, and the interest rate used for discounting the future cash flows.

IFRS 16 requires the Group to determine whether a contract is a lease or contains a lease at the inception of the contract. While, the assessment of whether a contract is or contains a lease is usually straightforward. However, judgement is required in applying the definition of a lease to certain arrangements. For example, in contracts for rent of drilling rigs that include significant services determining whether the contract conveys the right to direct the use of an identified asset required significant judgment.

The present value of the lease payment is determined using the discount rate representing the incremental borrowing rate calculated on the basis of the government bond applicable for the same tenor, adjusted by the country risk premium and by the average credit spread of the entities with rating similar to the Group's rating, observed in the period when the lease contract commences or is modified.

More detailed information related to the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period are shown in Note 6 and Note 14, respectively.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those related to transfer pricing. The Group determined, based on its tax compliance studies, that it is probable that its tax treatments will be accepted by the taxation authorities. The interpretation did not have an impact on the interim condensed consolidated financial statements of the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

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

Annual Improvements 2015-2017 Cycle (issued in December 2017)

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group does not expect to pay dividends in the coming reporting period, these amendments had no effect on its interim condensed financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the amendments had no impact on the interim condensed consolidated financial statements.

Notes to the interim condensed consolidated financial statements continued

4. Exploration and evaluation assets

During the nine months ended 30 September 2019 the Group had additions to exploration and evaluation assets of US\$266 thousand which mainly includes capitalised expenditures on geological studies and drilling costs (9M 2018: US\$2,063 thousand). This was offset by derecognition of the capitalised social expenditures of US\$628 thousand in the view of the amendments to the subsoil agreement for Rostoshinskoye field. Interest was not capitalised on exploration and evaluation assets.

<i>In thousands of US dollars</i>	30 September 2019 (unaudited)	31 December 2018 (audited)
Subsoil use rights	15,835	15,835
Expenditures on geological and geophysical studies	34,044	34,406
	49,879	50,241

5. Property, plant and equipment

During the nine months ended 30 September 2019 the Group had additions of property, plant and equipment of US\$137,611 thousand (9M 2018: US\$165,819 thousand). These additions are mostly associated with drilling costs, construction of a third unit for the gas treatment facility and capitalised interest of US\$43,731 thousand (9M 2018: US\$38,239 thousand).

See Note 27 for capital commitments.

6. Right-of-use assets

<i>In thousands of US Dollars</i>	Machinery & equipment	Vehicles	Total
Balance at 1 January 2019, net of accumulated depreciation	26,825	7,359	34,184
Modification of lease agreements	(339)	(27)	(366)
Termination of lease agreements	(7,736)	–	(7,736)
Depreciation	(10,013)	(2,737)	(12,750)
Balance at 30 September 2019, net of accumulated depreciation (unaudited)	8,737	4,595	13,332
As at 30 September 2019			
Cost	18,750	7,332	26,082
Accumulated depreciation	(10,013)	(2,737)	(12,750)
Balance, net of accumulated depreciation (unaudited)	8,737	4,595	13,332

The right-of-use assets and lease liabilities are recognized for leases of vehicles, drilling rigs and railway cars previously classified as operating leases, service expenses or finance lease under IAS 17. The right-of-use assets were recognised based on the amount equal to the lease liabilities.

See Note 14 for lease liabilities.

7. Advances for non-current assets

Advances for non-current assets mainly comprised prepayments made to suppliers of services and equipment for construction of a third unit for the Group's gas treatment facility.

<i>In thousands of US dollars</i>	30 September 2019 (unaudited)	31 December 2018 (audited)
Advances for other non-current assets	2,760	1,818
Advances for pipes and construction materials	776	520
Advances for construction services	653	13,128
	4,189	15,466

8. Trade receivables

As at 30 September 2019 and 31 December 2018 trade receivables were not interest-bearing and were mainly denominated in US dollars. Their average collection period is 30 days.

As at 30 September 2019 and 31 December 2018 there were neither past due nor impaired trade receivables.

Notes to the interim condensed consolidated financial statements **continued****9. Prepayments and other current assets**

As at 30 September 2019 and 31 December 2018 prepayments and other current assets comprised the following:

<i>In thousands of US dollars</i>	30 September 2019 (unaudited)	31 December 2018 (audited)
Advances paid	5,248	5,057
VAT receivable	3,430	11,043
Other taxes receivable	1,208	2,949
Other	1,063	965
	10,949	20,014

Advances paid consist primarily of prepayments made to service providers.

10. Cash and cash equivalents

<i>In thousands of US dollars</i>	30 September 2019 (unaudited)	31 December 2018 (audited)
Current accounts in US dollars	84,432	118,903
Current accounts in tenge	4,754	1,396
Current accounts in other currencies	2,082	1,445
Petty cash	13	9
	91,281	121,753

In addition to the cash and cash equivalents in the table above, the Group has restricted cash accounts as a liquidation fund deposit for the amount of US\$ 652 thousand with Sberbank in Kazakhstan and US\$ 6,702 thousand with Halyk bank (31 December 2018: US\$658 thousand and US\$6,363 thousand, respectively), which is kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

11. Share capital and reserves

As at 30 September 2019 the ownership interests in the Parent consists of 188,182,958 issued and fully paid ordinary shares, which are listed on the London Stock Exchange and the Kazakhstan Stock Exchange. The ordinary shares have a nominal value of GBE 0.01.

<i>Number of shares</i>	In circulation	Treasury capital	Total
As at 1 January 2018 (audited)	185,234,079	2,948,879	188,182,958
Share options exercised	–	–	–
As at 31 December 2018 (audited)	185,234,079	2,948,879	188,182,958
Share options exercised	–	–	–
As at 30 September 2019 (unaudited)	185,234,079	2,948,879	188,182,958

Treasury shares were issued to support the Group's obligations to employees under the Employee Share Option Plan ("ESOP") and the Long Term Incentive Plan ("LTIP") and are held by Intertrust Employee Benefit Trustee Limited as trustee for the Nostrum Oil & Gas Benefit Trust. In the case of the ESOP, upon request from employees to exercise options, the trustee would sell shares on the market and settle respective obligations under the ESOP, and in the case of share settled LTIP awards, the trustee would transfer shares to the relevant LTIP award holder (although no LTIP awards are currently exercisable). The Nostrum Oil & Gas Benefit Trust constitutes a special purpose entity under IFRS and therefore, the shares held in the trust are recorded as treasury capital of the Company.

Other reserves of the Group include foreign currency translation reserves accumulated before 2009, when the functional currency of Zhaikmunai LLP was Kazakhstani Tenge and the difference between the partnership capital, treasury capital and additional paid-in capital of Nostrum Oil & Gas LP and the share capital of Nostrum Oil & Gas PLC amounting to US\$255,459, that arose during the reorganisation of the Group (Note 2).

Notes to the interim condensed consolidated financial statements continued

Distributions

During the nine months ended 30 September 2019 and 2018 there were no distributions made.

Kazakhstan stock exchange disclosure requirement

The Kazakhstan Stock Exchange has enacted on 11 October 2010 (as amended on 18 April 2014) a requirement for disclosure of “the book value per share” (total assets less intangible assets, total liabilities and preferred stock divided by the number of outstanding shares as at the reporting date).

As at 30 September 2019 the book value per share amounted to US\$2.98 (31 December 2018: US\$2.96).

12. Earnings per share

Basic EPS amounts are calculated by dividing the profit for the period by the weighted average number of shares outstanding during the period.

The basic and diluted EPS are the same as there are no instruments that have a dilutive effect on earnings.

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

	Nine months ended 30 September	
	2019 (unaudited)	2018 (unaudited)
Profit/(loss) for the period attributable to the shareholders (in thousands of US dollars)	3,495	12,445
Weighted average number of shares	185,234,079	185,234,079
Basic and diluted earnings per share (in US dollars)	0.02	0.07

13. Borrowings

Borrowings are comprised of the following as at 30 September 2019 and 31 December 2018:

<i>In thousands of US dollars</i>	30 September 2019 (unaudited)	31 December 2018 (audited)
Notes issued in 2017 and maturing in 2022	717,026	727,447
Notes issued in 2018 and maturing in 2025	395,939	402,153
	1,112,965	1,129,600
Less amounts due within 12 months	(14,133)	(35,633)
Amounts due after 12 months	1,098,832	1,093,967

2012 Notes

On 13 November 2012, Zhaikmunai International B.V. (the “2012 Initial Issuer”) issued US\$560,000 thousand notes (the “2012 Notes”) maturing in 2019. On 24 April 2013 Zhaikmunai LLP (the “2012 Issuer”) replaced the 2012 Initial Issuer of the 2012 Notes, whereupon it assumed all of the obligations of the 2012 Initial Issuer under the 2012 Notes. The 2012 Notes paid interest at a rate of 7.125% per year. Interest on the 2012 Notes was payable on 14 May and 13 November of each year, beginning on 14 May 2013. The 2012 Notes were fully repurchased by the Group through issue of the 2017 Notes and the 2018 Notes as described below.

2014 Notes

On 14 February 2014, Nostrum Oil & Gas Finance B.V. (the “2014 Initial Issuer”) issued US\$400,000 thousand notes (the “2014 Notes”) maturing in 2019. On 6 May 2014, Zhaikmunai LLP (the “2014 Issuer”) replaced Nostrum Oil & Gas Finance B.V. as issuer of the 2014 Notes, whereupon it assumed all of the obligations of the 2014 Initial Issuer under the 2014 Notes. The 2014 Notes paid interest at a rate of 6.375% per annum. Interest on the 2014 Notes was payable on 14 February and 14 August of each year, beginning on 14 August 2014. The 2014 Notes were fully repurchased by the Group through issue of the 2017 Notes and the 2018 Notes as described below.

Notes to the interim condensed consolidated financial statements **continued****2017 Notes**

On 25 July 2017, a newly incorporated entity, Nostrum Oil & Gas Finance B.V. (the "2017 Issuer") issued US\$725,000 thousand notes (the "2017 Notes").

The 2017 Notes bear interest at a rate of 8.00% per year, payable on 25 January and 25 July of each year.

On and after 25 July 2019, the 2017 Issuer shall be entitled at its option to redeem all or a portion of the 2017 Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2017 Notes), plus accrued and unpaid interest on the 2017 Notes, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period commencing on 25 July of the years set forth below:

Period	Redemption Price
2019	106.0%
2020	104.0%
2021 and thereafter	100.0%

The 2017 Notes are jointly and severally guaranteed (the "2017 Guarantees") on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V. (the "2017 Guarantors"). The 2017 Notes are the 2017 Issuer's and the 2017 Guarantors' senior obligations and rank equally with all of the 2017 Issuer's and the 2017 Guarantors' other senior indebtedness.

The issue of the 2017 Notes was used primarily to fund the Tender Offer and Consent Solicitation, as described below.

Tender Offer and Consent Solicitation for the 2012 Notes and the 2014 Notes

On 29 June 2017, Nostrum Oil & Gas Finance B.V., a subsidiary of Nostrum Oil & Gas PLC, announced a tender offer and consent solicitation in respect of the 2012 Notes and the 2014 Notes (the "Tender and Consent"). The Tender and Consent closed at 11:59 NY time on 27 July 2017, and was settled on 31 July 2017.

As a result of the Tender and Consent, on 31 July 2017, Nostrum Oil & Gas Finance B.V. purchased from bondholders US\$390,884 thousand in principal amount of the outstanding 2012 Notes and US\$215,924 thousand in principal amount of the outstanding 2014 Notes. Total tender consideration was US\$102.60 per US\$100 for the outstanding 2012 Notes and US\$100.60 per US\$100 for the outstanding 2014 Notes validly tendered during the Early Bird window. In addition, a consent payment of US\$40c per US\$100 was paid for all 2012 Notes and 2014 Notes validly tendered during the Early Bird window or if a Consent Only Instruction was received during the Early Bird window. Both consent solicitations were approved by bondholders such that the covenants contained in the 2012 Notes and the 2014 Notes have been aligned with the 2017 Notes.

Transaction costs

Fees and expenses directly attributable to the 2017 Notes and the Tender and Consent Solicitation amounted to US\$12,256 thousand.

For the purposes of the accounting treatment Nostrum considers part of the purchased 2012 Notes and 2014 Notes to be modified and the remainder is treated as extinguished. In 2017 consolidated financial statements unamortised costs, portion of the premium and fees and expenses related to the extinguished debt, were expensed, and fees and expenses directly attributable to the modified portion of the debt were capitalised under the long-term borrowings. However, with application of IFRS 9 effective from 1 January 2018 the Group has restated the balances of the Notes as of 1 January 2018, whereby for the modified part of the borrowings the Group recognized loss on modification through retained earnings and reserves, while the premium paid on early redemption and the transaction costs and fees were capitalized under the long-term borrowings.

2018 Notes

On 16 February 2018, Nostrum Oil & Gas Finance B.V. (the "2018 Issuer") issued US\$400,000 thousand notes (the "2018 Notes"). The 2018 Notes bear interest at a rate of 7.00% per year, payable on 16 August and 16 February of each year.

On and after 16 February 2021, the 2018 Issuer shall be entitled at its option to redeem all or a portion of the 2018 Notes upon not less than 10 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount of the 2018 Notes), plus accrued and unpaid interest on the 2018 Notes, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period commencing on 16 February of the years set forth below:

Period	Redemption Price
2021	105.25%
2022	103.50%
2023	101.75%
2024 and thereafter	100.00%

The 2018 Notes are jointly and severally guaranteed (the "2018 Guarantees") on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V. (the "2018 Guarantors"). The 2018 Notes are the 2018 Issuer's and the 2018 Guarantors' senior obligations and rank equally with all of the 2018 Issuer's and the 2018 Guarantors' other senior indebtedness.

The issue of the 2018 Notes was used primarily to fund the Call of the 2012 Notes and the 2014 Notes, as described below.

Notes to the interim condensed consolidated financial statements **continued**

Call of the 2012 Notes and the 2014 Notes

On 18 January 2018, Nostrum issued conditional call notices for all outstanding 2012 Notes and 2014 Notes held by persons other than Nostrum Oil & Gas PLC and its subsidiaries. The 2012 Notes were called at a price of 101.78125% plus accrued interest and the 2014 Notes were called at a price of 100.00% plus accrued interest.

On 16 February 2018, Nostrum announced that the conditions to the call notices had been satisfied by the issue of the 2018 Notes by Nostrum Oil & Gas Finance B.V. (see above). Therefore, with effect on 17 February 2018 (the "Call Date"), US\$169,116 thousand in principal amount of the outstanding 2012 Notes and US\$184,076 thousand in principal amount of the outstanding 2014 Notes held by persons other than Nostrum Oil & Gas PLC and its subsidiaries were purchased from the bondholders by Nostrum Oil & Gas Finance B.V.

Transaction costs and discounts

For the purpose of the accounting treatment the purchased 2012 Notes and 2014 Notes were treated as extinguished and new liabilities were recognised for issue of the 2018 Notes, since the transaction does not fall under modification guidance under IFRS 9. The unamortised transaction costs and premiums paid on early redemption related to the 2012 Notes and the 2014 Notes amounting to of US\$3,636 thousand and US\$3,012 thousand, respectively, were expensed in profit and loss (Note 22). Fees and expenses of US\$6,484 thousand directly attributable to the issue of 2018 Notes and discount on issue of the notes amounting to US\$2,720 thousand were capitalized under the long-term borrowings.

Covenants contained in the 2017 Notes and 2018 Notes

The 2017 and the 2018 Notes contain consistent covenants that, among other things, restrict, subject to certain exceptions, the ability of the 2017 Issuer, the 2018 Issuer, the 2017 Guarantors, the 2018 Guarantors and certain other members of the Group to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to the Parent or any of its restricted subsidiaries;
- sell, lease or transfer certain assets including shares of restricted subsidiaries;
- engage in certain transactions with affiliates;
- enter into unrelated businesses; and
- consolidate or merge with other entities.

Each of these covenants is subject to certain exceptions and qualifications.

In addition, the indentures impose certain requirements as to future subsidiary guarantors, and certain customary information covenants and events of default.

14. Lease liabilities

<i>In thousands of US Dollars</i>	2019 (unaudited)
Lease liability as at 1 January	34,184
Additions	804
Modification of lease agreements	(366)
Termination of lease agreements	(8,843)
Finance charges	2,476
Paid during the period	(14,324)
Lease liability as of 30 September	13,931
Less: current portion of Long-term lease liability	(12,095)
Long-term lease liability as at 30 September	1,836

The lease liabilities are recognized for leases of vehicles, drilling rigs, and railway cars previously classified as operating leases, service expenses or finance lease under IAS 17. The finance lease was recognized based on the future rentals as determined under IFRS 16.

See Note 6 for right-of-use assets.

Notes to the interim condensed consolidated financial statements **continued****15. Trade payables**

Trade payables comprise the following as at 30 September 2019 and 31 December 2018:

<i>In thousands of US dollars</i>	30 September 2019 (unaudited)	31 December 2018 (audited)
Tenge denominated trade payables	15,174	20,684
US dollar denominated trade payables	11,131	26,951
Euro denominated trade payables	3,535	3,702
Russian rouble denominated trade payables	327	1,051
Trade payables denominated in other currencies	192	488
	30,359	52,876

16. Other current liabilities

Other current liabilities comprise the following as at 30 September 2019 and 31 December 2018:

<i>In thousands of US dollars</i>	30 September 2019 (unaudited)	31 December 2018 (audited)
Training obligations accrual	12,120	11,609
Accruals under the subsoil use agreements	7,788	7,856
Taxes payable, other than corporate income tax	5,041	5,419
Due to employees	2,708	2,181
Other current liabilities	1,305	2,618
	28,962	29,683

Accruals under subsoil use agreements mainly include amounts estimated in respect of the contractual obligations for exploration and production of hydrocarbons from the Rostoshinskoye, Darjinskoye and Yuzhno-Gremyachinskoye fields.

17. Revenue

The pricing for all of the Group's crude oil, condensate and LPG is, directly or indirectly, related to the price of Brent crude oil. The average Brent crude oil price during the nine months ended 30 September 2019 was US\$64.75 per bbl (9M 2018: US\$72.7 per bbl).

During the nine months ended 30 September 2019 the revenue from sales to three major customers amounted to US\$146,315 thousand, US\$76,752 thousand and US\$7,432 thousand respectively (9M 2018: US\$213,734 thousand, US\$59,204 thousand and US\$8,878 thousand respectively). The Group's exports are mainly represented by deliveries to Belarus and the Black Sea ports of Russia.

<i>In thousands of US dollars</i>	Three months ended 30 September		Nine months ended 30 September	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Oil and gas condensate	41,421	86,538	150,787	221,202
Gas and LPG	34,724	33,376	99,546	90,206
Sulphur	5	–	5	–
	76,150	119,914	250,338	311,408

Notes to the interim condensed consolidated financial statements **continued**

18. Cost of sales

<i>In thousands of US dollars</i>	Three months ended 30 September		Nine months ended 30 September	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Depreciation, depletion and amortisation	27,216	28,742	89,250	85,799
Payroll and related taxes	4,301	4,440	13,002	14,644
Repair, maintenance and other services	3,254	3,525	9,468	11,617
Materials and supplies	1,108	1,374	3,223	3,680
Other transportation services	483	1,343	1,537	4,826
Well workover costs	662	948	1,345	2,025
Environmental levies	54	73	123	309
Change in stock	(1,221)	2,156	(2,447)	2,002
Other	(129)	419	(3)	884
	35,728	43,020	115,498	125,786

19. General and administrative expenses

<i>In thousands of US dollars</i>	Three months ended 30 September		Nine months ended 30 September	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Payroll and related taxes	2,150	2,490	6,887	9,322
Professional services	1,206	1,258	3,464	4,872
Depreciation and amortisation	658	458	1,583	1,436
Insurance fees	378	436	973	1,089
Lease payments	137	194	497	643
Business travel	97	153	361	512
Communication	69	74	219	272
Materials and supplies	53	28	120	101
Bank charges	30	19	92	113
Other	129	92	443	379
	4,907	5,202	14,639	18,739

20. Selling and transportation expenses

<i>In thousands of US dollars</i>	Three months ended 30 September		Nine months ended 30 September	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Transportation costs	2,790	4,351	9,417	12,203
Loading and storage costs	3,263	5,180	9,117	14,715
Marketing services	2,449	2,816	8,218	8,574
Depreciation	1,102	–	3,387	–
Payroll and related taxes	604	579	1,752	1,771
Other	569	579	2,838	1,921
	10,777	13,505	34,729	39,184

Depreciation expense is related to the right-of-use assets recognized under IFRS 16 in respect of the rented rail-tank cars effective from 1 January 2019, the corresponding lease expenses were previously included in transportation costs for the nine months ended 30 September 2018.

Notes to the interim condensed consolidated financial statements **continued****21. Taxes other than income tax**

<i>In thousands of US dollars</i>	Three months ended 30 September		Nine months ended 30 September	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Royalties	3,074	4,796	9,762	11,953
Export customs duty	1,810	2,918	5,608	8,477
Government profit share	678	1,033	2,170	2,620
Other taxes	21	(17)	62	63
	5,583	8,730	17,602	23,113

Export customs duty is comprised of customs duties for export of crude oil and customs fees for services such as processing of declarations, temporary warehousing etc.

22. Finance costs

<i>In thousands of US dollars</i>	Three months ended 30 September		Nine months ended 30 September	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Interest expense on borrowings	6,013	8,270	25,632	30,203
Transaction costs	-	(8)	-	6,751
Unwinding of discount on lease liabilities	704	34	2,476	101
Unwinding of discount on amounts due to Government of Kazakhstan	257	258	563	587
Unwinding of discount on abandonment and site restoration provision	104	67	320	186
Other finance costs	133	112	301	111
	7,211	8,733	29,292	37,939

For more information on the transaction costs please see Note 13.

23. Employee share option and long-term incentive plans

The Group's Phantom Option Plan was adopted by the board of directors of the Company on 20 June 2014 to allow for the continuation of the option plan previously maintained by Nostrum Oil & Gas LP. The rights and obligations in relation to this option plan were transferred to Nostrum Oil & Gas PLC from Nostrum Oil & Gas LP following the reorganisation (Note 2).

To date, options relating to 1,225,000 shares remain outstanding (the "Subsisting Options"), 100,000 options with a Base Value of US\$4.00 and 1,125,000 options with a Base Value of US\$10.00.

Each Subsisting Option is a right for its holder to receive on exercise a cash amount equal to the difference between the aggregate Base Value of the shares to which the Subsisting Option relates; and their aggregate market value on exercise. Until the liability is settled it is remeasured at each reporting date with changes in fair value recognised in profit or loss as part of the employee benefit expenses arising from cash-settled share-based payment transactions.

The Hull-White trinomial lattice valuation model was used to value the share options. The following table lists the inputs to the model used for the plan:

	2019	2018
Price at the reporting date (US\$)	0.15	1.0
Distribution yield (%)	0%	0%
Expected volatility (%)	46.2%	44%
Average risk-free interest rate (%)	0.3%	0.8%
Average expected life (years)	3.5	10
Option turnover (%)	10%	10%
Exercise multiple	2.0	2.0

Notes to the interim condensed consolidated financial statements continued

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. Option turnover rate represents the rate of employees expected to leave the Company during the vesting period, which is based on historical data and is may not necessarily be the actual outcome. The model considers that when share price reaches the level of exercise price multiplied by the price trigger the employees are expected to exercise their options.

Long-term incentive plan

In 2017 the Group started operating a Long-term incentive plan ("the LTIP"), that was approved by the shareholders of the Company on 26 June 2017 and adopted by the board of directors of the Company on 24 August 2017. The LTIP is a discretionary benefit offered by the Company for the benefit of selected employees. Its main purpose is to increase the interest of the employees in the Company's long-term business goals and performance through share ownership. The LTIP is an incentive for the employees' future performance and commitment to the goals of the Company. The remuneration committee of the board of the Company has the right to decide, in its sole discretion, whether or not further awards will be granted in the future and to which employees those awards will be granted.

The cost of cash-settled equity-based employee compensation is measured initially at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of comprehensive income. The cost of equity-settled transactions are measured at fair value at the grant date using a trinomial lattice valuation model. This fair value is expensed over the period until vesting with the recognition of a corresponding equity element of "shares to be issued under LTIP", which is not remeasured subsequently until the settlement date.

As of 30 September 2019, there are 1,101,342 share options outstanding with a grant date of 10 October 2017, for which on 23 March 2018 the remuneration committee of the board of the Company determined the level of performance conditions that were met for the performance conditions set upon issue of the share options granted in 2017. In accordance with the management's best estimate 498,667 share options are capable of vesting as of 30 September 2019.

On 28 November 2018 the Company granted a further 1,163,040 share options, however due to the performance conditions not being met none of these share options are capable of vesting.

The fair value of the equity-settled share options at the valuation date of 23 March 2018 amounted to US\$3.88. The Hull-White trinomial lattice valuation model was used to value the share options. The following table lists the inputs to the model used for valuation of the share options at the date, on which performance conditions were assessed by the Remuneration Committee:

	23 March 2018
Price at the valuation date	2.8
Distribution yield (%)	0%
Expected volatility (%)	40.4%
Risk-free interest rate (%)	1.45%
Expected life (years)	10
Option turnover (%)	10%
Exercise multiple	2.0

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. Option turnover rate represents the rate of employees expected to leave the Company during the vesting period, which is based on historical data and is may not necessarily be the actual outcome. The model considers that when share price reaches the level of exercise price multiplied by the price trigger the employees are expected to exercise their options.

Notes to the interim condensed consolidated financial statements **continued****24. Income tax expense**

<i>In thousands of US dollars</i>	Three months ended 30 September		Nine months ended 30 September	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Corporate income tax	98	12	722	408
Withholding tax	222	182	651	423
Deferred income tax (benefit) / expense	10,641	25,950	30,481	39,990
Adjustment in respect of the current income tax for the prior periods	–	–	48	(851)
Total income tax expense	10,961	26,144	31,902	39,970

Corporate income tax is recognised based on the estimated annual effective income tax rate applied to the income before tax for the nine months ended 30 September 2019. Differences between the recognition criteria in IFRS and under the statutory taxation regulations give rise to a temporary difference between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the change in temporary differences is recorded at the applicable statutory rates, including the prevailing Kazakhstani tax rate of 30% applicable to income derived from the Chinarevskoye subsoil use license.

The major part of the Group's tax bases of non-monetary assets and liabilities is determined in tenge. Therefore, any change in the US dollar/tenge exchange rates results in a change in the temporary difference between the tax bases of non-current assets and their carrying amounts in the financial statements.

25. Derivative financial instruments

The movement in the fair value of derivative financial instruments was presented as follows:

<i>In thousands of US dollars</i>	Derivative financial instruments	
As at 1 January 2018 (audited)	current	–
	non-current	–
Loss on derivative financial instruments		(13,126)
Payments under derivative financial instruments		4,095
As at 30 September 2018 (unaudited)	current	(9,031)
	non-current	–
Loss on derivative financial instruments		739
Payments under derivative financial instruments		4,554
Reclassification to trade payables upon expiry of the contract		3,738
As at 31 December 2018 (audited)	current	–
	non-current	–
As at 30 September 2019 (unaudited)	current	–
	non-current	–

On 4 January 2018, the Group entered into a hedging contract equating to production of 9,000 barrels of oil per day. The hedging contract was a zero-cost capped collar with a floor price of US\$60.0/bbl. The Group had covered the cost of the floor price by selling a number of call options with different strike prices for each quarter: Q1:US\$67.5/bbl, Q2:US\$64.1/bbl, Q3:US\$64.1/bbl, Q4:US\$64.1/bbl. The amount of upside given away had been capped through the purchase of a number of call options with different strike prices: Q1:US\$71.5/bbl, Q2:US\$69.1/bbl, Q3:US\$69.6/bbl, Q4:US\$69.6/bbl. There were no upfront costs to the Group for the hedging contract. The hedging contract matured on 31 December 2018 and was settled in cash on a quarterly basis.

Gains and losses on the derivative financial instruments, which do not qualify for hedge accounting, are taken directly to profit or loss.

Notes to the interim condensed consolidated financial statements **continued**

26. Related party transactions

For the purpose of these interim condensed consolidated financial statements transactions with related parties mainly comprise transactions between subsidiaries of the Company and the shareholders and/or their subsidiaries or associated companies.

Accounts receivable from and advances paid to related parties represented by entities controlled by shareholders with significant influence over the Group as at 30 September 2019 and 31 December 2018 consisted of the following:

<i>In thousands of US dollars</i>	30 September 2019 (unaudited)	31 December 2018 (audited)
Trade receivables and advances paid		
JSC OGCC KazStroyService	–	11,408

Accounts payable to related parties represented by entities controlled by shareholders with significant influence over the Group as at 30 September 2019 and 31 December 2018 consisted of the following:

<i>In thousands of US dollars</i>	30 September 2019 (unaudited)	31 December 2018 (audited)
Trade payables		
JSC OGCC KazStroyService	2,036	11,420

During the nine months ended 30 September 2019 and 2018 the Group had the following transactions with related parties represented by entities controlled by shareholders with significant influence over the Group:

<i>In thousands of US dollars</i>	Three months ended 30 September		Nine months ended 30 September	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Purchases				
JSC OGCC KazStroyService	694	4,049	6,984	12,183

On 28 July 2014 the Group entered into a contract with JSC “OGCC KazStroyService” (the “Contractor”) for the construction of the third unit of the Group’s gas treatment facility (as amended by twelve supplemental agreements since 28 July 2014, the “Construction Contract”).

The Contractor is an affiliate of Mayfair Investments B.V., which as at 30 September 2019 owned approximately 25.7% of the ordinary shares of Nostrum Oil & Gas PLC.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US\$3,259 thousand for the nine months ended 30 September 2019 (9M 2018: US\$2,713 thousand). There were not payments to key management personnel under ESOP for the nine months ended 30 September 2019 (9M 2018: nil).

27. Contingent liabilities and commitments

Taxation

Kazakhstan’s tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan’s tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan’s tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expended to date and accrued at 30 September 2019. As at 30 September 2019 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group’s tax position will be sustained.

Notes to the interim condensed consolidated financial statements **continued**

Abandonment and site restoration (decommissioning)

As Kazakh laws and regulations concerning site restoration and clean-up evolve, the Group may incur future costs, the amount of which is currently indeterminable. Such costs, when known, will be provided for as new information, legislation and estimates evolve.

Environmental obligations

The Group may also be subject to loss contingencies relating to regional environmental claims that may arise from the past operations of the related fields in which it operates. Kazakhstan's environmental legislation and regulations are subject to ongoing changes and varying interpretations. As Kazakh laws and regulations evolve concerning environmental assessments and site restoration, the Group may incur future costs, the amount of which is currently indeterminable due to such factors as the ultimate determination of responsible parties associated with these costs and the Government's assessment of respective parties' ability to pay for the costs related to environmental reclamation.

However, depending on any unfavourable court decisions with respect to any claims or penalties assessed by the Kazakh regulatory agencies, it is possible that the Group's future results of operations or cash flow could be materially affected in a particular period.

Capital commitments

As at 30 September 2019 the Group had contractual capital commitments in the amount of US\$90,897 thousand (31 December 2018: US\$131,373 thousand) mainly in respect to the Group's oil field exploration and development activities.

Social and education commitments

As required by the Contract (after its amendment on 2 September 2019), the Group is obliged to:

- spend US\$ 300 thousand per annum to finance social infrastructure;
- make an accrual of one percent per annum of the actual investments for the Chinarevskoye field for the purposes of educating Kazakh citizens; and
- adhere to a spending schedule on education which lasts until (and including) 2020.

The contracts for exploration and production of hydrocarbons from Rostoshinskoye, Darjinskoye and Yuzhno Gremyachinskoye fields require fulfilment of several social and other obligations.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Rostoshinskoye field (as amended on 16 August 2019) require the subsurface user to:

- invest at least US\$ 11,096 thousand for exploration of the field during the exploration period;
- create fund liquidation to cover the Company's asset retirement obligations.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Darjinskoye field (after its amendment on 31 October 2018) require the subsurface user to:

- invest at least US\$ 19,692 thousand for exploration of the field during the exploration period;
- spend US\$ 201 thousand for education of personnel engaged to work under the contract during the exploration stage;
- spend US\$ 148 thousand to finance social infrastructure;
- fund liquidation expenses equal to US\$ 178 thousand.

The outstanding obligations under the contract for exploration and production of hydrocarbons from Yuzhno-Gremyachinskoye field (after its amendment on 10 October 2018) require the subsurface user to:

- invest at least US\$ 20,256 thousand for exploration of the field during the exploration period;
- spend US\$ 176 thousand for education of personnel engaged to work under the contract during the exploration stage;
- spend US\$ 148 thousand to finance social infrastructure;
- fund liquidation expenses equal to US\$ 202 thousand.

Domestic oil sales

In accordance with Supplement # 7 to the Contract, Zhaikmunai LLP is required to deliver at least 15% of produced oil to the domestic market on a monthly basis for which prices are materially lower than export prices.

Notes to the interim condensed consolidated financial statements **continued**

28. Fair values of financial instruments

Set out below, is a comparison by class of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts reasonably approximating their fair values:

	Carrying amount			Fair value
	30 September 2019 (unaudited)	31 December 2018 (audited)	30 September 2019 (unaudited)	31 December 2018 (audited)
<i>In thousands of US dollars</i>				
Financial liabilities measured at amortised cost				
Interest bearing borrowings	1,112,965	1,129,600	584,460	722,377
Total	1,112,965	1,129,600	584,460	722,377

The management assessed that cash and cash equivalents, short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

29. Events after the reporting period

There were no significant events between the reporting date and the date of publication.