Sozak Oil and Gas JSC

Financial statements

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

CONTENTS

Independent auditor's report

Financial statements

Statement of financial position....1
Statement of comprehensive loss....2
Statement of changes in equity....3
Statement of cash flows....4
Notes to the financial statements....5-30

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Independent auditor's report

To the Shareholders, Board of Directors and Management of Sozak Oil and Gas JSC

Opinion

We have audited the financial statements of Sozak Oil and Gas JSC (hereinafter, the "Company") which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive loss, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with International Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2 to the financial statements, which indicates that the Company incurred a net loss of 1,370,863 thousand tenge during the year ended 31 December 2020 and, as of that date, the Company's current liabilities exceeded its current assets by 42,795,743 thousand tenge. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. In addition to the matter described in the Material uncertainty related to going concern section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	**How our audit addressed the key audit matter**
Valuation of asset retirement obligation	
We consider this matter to be one of most significance in our audit since the calculation of asset retirement obligation requires significant judgment due to the inherent complexity in estimating future costs and due to significance of this liability. Most of these obligations are expected to be settled in a long-term perspective. The Company involved specialists to assess the asset retirement obligation. Management's assumptions used in the calculation include expected approach to decommissioning and discount rates, along with the effects of changes in inflation rates. Assessment of legal and constructive obligations of the Company related to the liquidation of each asset according to the contractual agreements and relevant local legislation requires management's judgement and evaluation and implies variability. Information on the asset retirement obligations is disclosed in Note 11 to the financial statements.	Our procedures included assessment of legal and constructive obligations related to the liquidation of each asset on the basis of contractual agreements and relevant local legislation. We considered the competence and objectivity of the specialists involved by the Company, who produced the cost estimates as a basis for asset retirement obligations. We compared the discount and inflation rates used to available external data. We checked mathematical accuracy of the calculations. We analyzed disclosures in respect of asset retirement obligations.
Impairment of exploration and evaluation assets	
We considered this matter to be one of most significance to our audit due to the significance of exploration and evaluation assets as at 31 December 2020, and subjectivity of judgements and estimates made by management in respect of assumptions underlying impairment indications analysis.	We have examined the analysis of the presence of indications of impairment made by management. Among others, we: • assessed the period for which the Company has the right to explore the contract territory, • we analysed license agreements and supplemental agreements to them

In 2020 the Company performed an analysis of impairment indications of its exploration and evaluation assets and concluded that there are no indications of potential impairment. Information on exploration and evaluation assets is disclosed in Note 3 to the financial statements.	• we analysed and assessed communication with relevant government bodies, provided by management; • we inquired management about the intention to carry out exploration and evaluation activity in the contract territory and compared the budget for 2021 with working program of the Company, approved by governmental bodies. • We assessed the relevant disclosures made in the financial statements.

Other information included in the Company's 2020 Annual Report

Other information consists of the information included in the Company's 2020 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2020 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Board of Directors for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors of Sozak Oil and Gas JSC 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.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Kairat Medetbayev.

Ernst & Young LLP

Kairat Medetbayev
Auditor

Auditor qualification certificate
№МФ-0000137 dated 8 February 2013

Rustamzhan Sattarov
General Director
Ernst and Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

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15 April 2021

STATEMENT OF FINANCIAL POSITION

At 31 December 2020

In thousands of tenge	Notes	31 December 2020	31 December 2019
Assets			
Non-current assets			
Exploration and evaluation assets	5	**39,665,720**	38,417,726
Property, plant and equipment		**16,665**	27,776
Long-term VAT recoverable	6	**2,517,655**	2,494,776
Restricted cash	7	**193,109**	193,109
Advances paid for non-current assets		**–**	66,173
Total non-current assets		**42,393,149**	41,199,560
Current assets			
Loan issued	8	**997,491**	1,146,356
Other current assets		**4,980**	42,107
Cash and cash equivalents	9	**427**	16,023
Total current assets		**1,002,898**	1,204,486
Total assets		**43,396,047**	42,404,046
Equity and liabilities			
Equity			
Charter capital	10	**283,780**	283,780
Additional paid-in capital		**–**	–
Accumulated loss		**(1,284,657)**	86,206
Total equity		**(1,000,877)**	369,986
Non-current liabilities			
Abandonment and site restoration provision	11	**96,233**	147,308
Long-term loans	12	**502,050**	9,710,454
Total non-current liabilities		**598,283**	9,857,762
Current liabilities			
Accounts payable and other debts	13	**4,214,002**	4,581,120
Loans	12	**36,454,952**	24,476,995
Contract liabilities	14	**2,672,250**	2,672,250
Other current liabilities	15	**457,437**	445,933
Total current liabilities		**43,798,641**	32,176,298
Total equity and liabilities		**43,396,047**	42,404,046

Acting General Director

Bulekbayev O.Z.

Chief Accountant

Koshekbayeva A.

The accounting policies and explanatory notes on pages 5 to 30 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE LOSS

For the year ended 31 December 2020

In thousands of tenge	Notes	2020	2019
General and administrative expenses	16	**(407,838)**	(287,645)
Other income		**458**	551
Operating loss		**(407,380)**	(287,094)
Finance income	17	**113,498**	182,729
Finance costs	17	**(10,280)**	(20,767)
Net foreign exchange differences		**(1,047,059)**	84,364
Loss before taxes		**(1,351,221)**	(40,768)
Income tax expense	18	**(19,642)**	–
Net loss for the year		**(1,370,863)**	(40,768)
Total comprehensive loss for the year, net of tax		**(1,370,863)**	(40,768)

Acting General Director ____________ Bulekbayev O.Z.

Chief Accountant ____________ Koshekbayeva A.

The accounting policies and explanatory notes on pages 5 to 30 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

In thousands of tenge	Notes	Charter capital	Additional paid-in capital	Accumulated loss	Total
As at 1 January 2019		87	34,957,358	(34,546,691)	410,754
Net loss for the year		–	–	(40,768)	(40,768)
Total comprehensive loss for the year		–	–	(40,768)	(40,768)
Transfer of additional paid-in capital to the charter capital	10	283,693	(34,957,358)	34,673,665	–
As at 31 December 2019		283,780	–	86,206	369,986
Net loss for the year		–	–	**(1,370,863)**	**(1,370,863)**
Total comprehensive loss for the year		–	–	**(1,370,863)**	**(1,370,863)**
As at 31 December 2020		**283,780**	–	**(1,284,657)**	**(1,000,877)**

Acting General Director Bulekbayev O.Z.

Chief Accountant Koshekbayeva A.

The accounting policies and explanatory notes on pages 5 to 30 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

In thousands of tenge	Notes	2020	2019
Operating activities			
Loss before taxes		**(1,351,221)**	(40,768)
Adjustments to reconcile profit before tax to net cash flows			
Depreciation and amortisation	16	**11,111**	16,146
Finance income	17	**(113,498)**	(182,729)
Finance costs	17	**10,280**	20,767
Net foreign exchange difference		**1,047,059**	(84,364)
(Recovery)/accrual of unused vacation allowance	16	**(3,076)**	754
Accrual of ECL	8	**242,706**	–
Working capital adjustments			
Change in other current assets		**45,555**	(5,847)
Change in VAT recoverable		**(22,879)**	(17,395)
Change in trade and other payables		**89,619**	96,290
Change in other current liabilities		**(5,062)**	(134,587)
		(49,406)	(331,733)
Income tax paid		**–**	–
Interest received		**17,235**	25,663
Net cash flows used in operating activities		**(32,171)**	(306,070)
Investing activities			
Purchase of exploration and evaluation assets		**(470,743)**	(1,817,582)
Repayment of loans issued	8	**–**	284,698
Purchase of property, plant and equipment		**–**	(15)
Net cash flows used in investing activities		**(470,743)**	(1,532,899)
Financing activities			
Proceeds from loans	12	**486,983**	1,851,166
Net cash flows from financing activities		**486,983**	1,851,166
Net (decrease)/increase in cash and cash equivalents		**(15,931)**	12,197
Net foreign exchange difference		**335**	2,889
Cash and cash equivalents as at 1 January		**16,023**	937
Cash and cash equivalents as at 31 December	9	**427**	16,023

SIGNIFICANT NON-CASH AND OTHER TRANSACTIONS: ADDITIONAL DISCLOSURE

The following non-cash transactions have been excluded from the statement of cash flows:

Purchase of exploration and evaluation assets

Additions to exploration and evaluation assets include capitalisation of borrowing costs of 1,229,170 thousand tenge (2019: 1,042,999 thousand tenge).

Acting General Director ____________ Bulekbayev O.Z.

Chief Accountant ____________ Koshekbayeva A.

The accounting policies and explanatory notes on pages 5 to 30 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Corporate information

Sozak Oil and Gas JSC (the "Company") is a joint stock company established under the laws of the Republic of Kazakhstan, as a result of reorganization of limited liability partnership on 4 September 2019. Date of the initial registration was on 16 July 2001.

On 30 December 2020, Maten Petroleum JSC acquired 10% stake in the Company from Sino-Science Netherlands Energy Group B.V.

As at 31 December 2020, the Company is owned by Sino-Science Netherlands Petroleum B.V. (90%) and Maten Petroleum JSC (10%) (the "Shareholders") (31 December 2019: Sino-Science Netherlands Petroleum B.V. (90%) and Sino-Science Netherlands Energy Group B.V. (10%)). Hui Ling is the ultimate controlling party.

These financial statements were approved by the management of the Company on 15 April 2021.

Registered address

The Head office of the Company is registered at the following address: 12 Zheltoksan Street, Kyzylorda, 120014, Republic of Kazakhstan.

Principal activities

The Company conducts oil and gas exploration activities in Turkestan and Kyzylorda regions of the Republic of Kazakhstan. The Company is at the exploration stage, is currently preparing for the preliminary development stage and has not yet commenced commercial production of hydrocarbons.

The Company performs its activities in accordance with the contract for the exploration of hydrocarbons No. 2433 (the "Contract") signed with the Ministry of Energy of the Republic of Kazakhstan dated 27 July 2007 (valid for five years with four-year extension right) and Act of state registration of the Contract for the subsoil use operations dated 27 July 2007. On 5 January 2020, the exploration contract was extended to 31 December 2022. Upon commercial discovery, the Company has the exclusive right to enter the development stage by negotiating and signing a contract on production.

Exploratory drilling

In December 2008, the Company completed exploratory drilling of a well Kenderlyk-5. As result of this exploratory drilling, the Company decided to close this well due to the fact that it was dry. In 2010-2011 the Company drilled 2 wells. The wells have gas inflow, and by the management decision, further operations were suspended.

In 2013, the Company completed drilling operations on Buguldzhinskaya-1 well. In 2014, the Company completed drilling operations on Assa-1, Assa-2, Yuzhnoe-Pridorozhnoe-18 wells, and had 4 wells on its balance as at 31 December 2014. In 2015, the Company completed drilling operations on wells Tamgalytar-6, Tamgalytar-8, Kendyrlyk-6 and Kendyrlyk-7, and as at 31 December 2015 has 6 wells on its balance. The wells have gas inflow, and by the management decision, further testing works on the specified wells will be performed. In 2016, the Company started drilling 2 wells, i.e. SK-1012 (drilling was completed in 2017) and SK-1017 (drilling was completed in 2017).

In 2017, the Company drilled another exploration well, SK-1018. In 2017, testing was carried out in 5 intervals in exploratory wells built on the contractual area. During 2018, SK-1018 well testing works were completed, as well as analysis of core boring for further drilling operations.

On 11 December 2019, the Company filed an application to the Ministry of Ecology, Geology and Natural Resources of the Republic of Kazakhstan for confirmation of discovery at the Asa and Pridorozhnaya Yuzhnaya wells.

On 25 December 2019, the Ministry of Ecology, Geology and Natural Resources of the Republic of Kazakhstan confirmed availability of hydrocarbons at the Asa and Pridorozhnaya Yuzhnaya wells. As at 31 December 2020, the wells have gas inflow, and by the management decision, further testing works on the specified wells will be performed.

On 29 April 2020, the Company sent a request to the Ministry of Geology to confirm the detection of gases at the Kenderlik and Tamgalytar fields; on 15 May 2020, confirmation was received.

The company sent a request to the Ministry of Geology to confirm the detection of gases at the Ortalyk and Appak fields, on 15 May 2020, confirmation was received.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES (continued)

Exploratory drilling (continue)

On 14 October 2020, an operational report received on the approval of the reserves at Pridorozhnaya field.

On 8 December 2020, an operational report received on the approval of the reserves at Asa field.

Impact of the Covid-19 (coronavirus) pandemic and the current economic situation

In April-December 2020, the Company has a slight decrease in activity. The decrease in activity is due to the Covid-19 pandemic and quarantine measures. The impact of Covid-19 and the current economic situation have been factored into the preparation of the annual financial statements. All significant transactions were reflected in the accounting records and presented in the financial statements; the Covid-19 pandemic did not make any significant changes. These financial statements have been prepared on a going concern basis.

The Company's significant accounting estimates and judgments with respect to assets and liabilities are disclosed in the Notes to the Financial Statements for the year ended 31 December 2020. Based on the results of estimates and judgments, no adjustments to the value of assets and liabilities at 31 December 2020 were required.

In accordance with WHO recommendations, the Company has taken measures to preserve the health of its employees (including contracting, service and outsourcing companies) to prevent infection in its administrative and production facilities. Some of the employees were transferred to a remote method of work, a thorough cleaning of workplaces, the issuance of personal protective equipment, daily measurement of body temperature, testing in case of suspected illness is carried out.

2. BASIS OF PREPARATION AND CHANGES IN THE COMPANY'S ACCOUNTING POLICY

Basis of preparation

The accompanying financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements are prepared under the historical cost basis, except as described in the accounting policies and the notes to the financial statements. All values in these financial statements are rounded to the nearest thousands, except when otherwise indicated.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in *Note 3*. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates.

Going concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The Company incurred a net loss of 1,370,863 thousand during the twelve months ended 31 December 2020 and at the reporting date, the Company's current liabilities exceeded its current assets by 42,795,743 thousand tenge (31 December 2019: by 30,971,821 thousand tenge). These circumstances indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

The ability of the Company to settle its trade payables, repay its borrowings and continue its planned exploration and evaluation activities, as well as to maintain its going concern status depend on the Company raising additional cash in the foreseeable future. At the date of these financial statements, the management is satisfied that there are reasonable grounds to believe that the Company will be able to continue as a going concern by raising additional funds as required. In developing this opinion, the management reviewed the position of the Company and analysed the option of raising additional funds from the parent company. There are a number of inherent uncertainties about the successful completion of the financing option listed above, including but not limited to repayment of financial liabilities by the Ultimate Parent. Should the Company not be able to manage the inherent uncertainties referred to above and to successfully complete a sufficient number of the financing options set out above, there would be significant uncertainty as to whether it would be able to meet its debts when they fall due and therefore continue as a going concern. These financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts nor to the amounts or classifications of liabilities that might be necessary should the Company not be able to continue as a going concern.

2. BASIS OF PREPARATION AND CHANGE IN THE COMPANY'S ACCOUNTING POLICY (continued)

Foreign currency translation

The financial statements are presented in tenge, which is the Company's functional and presentation currency.

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Any exchange gains and losses arising from assets and liabilities denominated in foreign currencies subsequent to the date of the underlying transaction are credited or charged to the statement of comprehensive income (loss).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

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 following foreign exchange rates of tenge to US dollars have been used in the preparation of these financial statements:

	Exchange rate as at	The weighted average interest rate during the year
31 December 2020	**420.91**	**412.95**
31 December 2019	382.59	382.87

New standards, interpretations and amendments thereof

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

Amendments to IFRS 3 Definition of a Business

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

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

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

Amendments to IAS 1 and IAS 8 Definition of Material

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION AND CHANGE IN THE COMPANY'S ACCOUNTING POLICY (continued)

New standards, interpretations and amendments thereof (continued)

Conceptual Framework for Financial Reporting issued on 29 March 2018

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

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued *Covid-19 Related Rent Concessions* – amendment to IFRS 16 *Leases*.

The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the financial statements of the Company.

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION AND CHANGE IN THE COMPANY'S ACCOUNTING POLICY (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 1 Classification of Liabilities as Current or Non-current (continued)

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

Reference to the Conceptual Framework – Amendments to IFRS 3

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

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

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the *Framework for the Preparation and Presentation of Financial Statements*. The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

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

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

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

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

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

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

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

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

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

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

2. BASIS OF PREPARATION AND CHANGE IN THE COMPANY'S ACCOUNTING POLICY (continued)

Standards issued but not yet effective (continued)

Amendment to IFRS 9 Financial Instruments – 10% test of comission on derecognition of financial liabilities

As part of the annual improvement process to IFRSs 2018-2020 period, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees an entity considers when assessing whether the terms of a new or modified financial liability are materially different from the terms of the original financial obligation. Such amounts include only those fees paid or received between the specified lender and the borrower, including fees paid or received by the lender or borrower on behalf of the other party. An entity shall apply this amendment to financial liabilities that have been modified or replaced on or after the beginning (or after) the annual reporting period in which the entity first applies the amendment.

This amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The Company will apply this amendment to financial liabilities that have been modified or replaced at or after the start date of the annual reporting period in which it first applies the amendment. This amendment is not expected to have a significant impact on the Company.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ASSUMPTIONS

The Company uses estimates and judgements, which exert an influence on the amounts and carrying value of assets and liabilities stated in the financial statements during the next financial period. Estimates and judgements are subject to constant critical analysis and are based on the past experience of the management and other factors including expectations regarding future events, which, as deemed, are reasonable in the existing circumstances. The management also uses certain judgements, except for those requiring estimates, in the process of application of accounting policies. Judgements, which exert a significant influence on figures stated in the financial statements and estimates, which may lead to a significant adjustment of carrying amount of assets and liabilities during the next financial period include:

Impairment of exploration and evaluation assets

The Company's management reviews the carrying value of exploration and evaluation assets for impairment in accordance with the requirements of IFRS 6. As at 31 December 2020 and 2019, there were no indications of impairment of exploration and evaluation assets. The following factors have been considered by the Company's management:

- The exploration period was prolonged until 31 December 2022;
- Upon commercial discovery, the Company has the exclusive right to enter the development period by executing a development contract;
- Based on the results of interpretation of the recent 2D and 3D seismic studies and drilling activities, the management plans to incur substantive expenditures on further exploration and evaluation on the Company's contractual area;
- The Company plans to continue financing its work program costs.

Historical costs

Historical costs relate to the geological information and other costs incurred by the Republic of Kazakhstan for the exploration of the contract area prior to transferring subsurface rights to the Company. In accordance with the Contract, the Company will reimburse these costs to the State budget upon commencement of commercial production in equal quarterly instalments over 10 (ten) years. The management believes that the commercial discovery and the commitment for development of production facilities will be an obligating event to trigger the recognition of the liability for historical costs. The exploration activities were in progress and no commercial discoveries were made at the Company's gas field at the reporting date, and thus no liability for historical costs was recognised in these financial statements. These costs must be paid by the Company only if the production agreement is signed.

Social and training commitments

In accordance with the addendum to the Contract, the Company has neither social obligations, nor the obligations for costs of professional training of attracted Kazakh specialists during the exploration period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ASSUMPTIONS (continued)

Provisions for asset retirement obligations

The Company estimates the future asset retirement obligations 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 practices.

Provisions are made, based on net present values, for site restoration and rehabilitation costs as soon as the obligation arises from past activities. The provision for asset retirement obligation is estimated based on the management's interpretation of the current environmental legislation of the Republic of Kazakhstan and the Company's related program for liquidation of consequences of subsurface use on the contractual area supported by a feasibility study and engineering research in accordance with the existing rehabilitation standards and techniques. Asset retirement obligations are subject to potential changes in environmental regulatory requirements and the interpretation of the legislation.

Significant judgements in making such estimates include estimate of discount rate, amount and timing of cash flows.

The discount rate shall be applied to the nominal amounts the management expects to spend on site restoration in the future. Accordingly, management's estimates, which are in current prices, are inflated using expected long-term rate of inflation, and discounted using discount rate that reflects current market assessments of the time value of money and those risks specific to the liability.

Recognition of deferred tax asset

The Company creates a provision for deferred tax assets because the Company's management at the reporting date does not have a reasonable assurance about when future taxable profit will be received, against which the deferred tax assets for losses of previous years can be used in the periods authorised for transfer, according to current tax legislation, since the Company is at the stage of exploration and has not yet started commercial oil production.

Exploration and evaluation costs

Exploration and evaluation costs are recorded at original cost on an area of interest basis. Expenditure on an area of interest is capitalised and carried forward where rights to tenure of the area of interest are current and:

(1) It is expected that such expenditures will be reimbursed in the course of successful development and exploitation of the area of interest or, otherwise, by its sale; or

(2) Exploration and evaluation activities are continuing in an area of interest but at the reporting date have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

Accumulated costs in respect of areas of interest which are abandoned, are written off in full against profit in the period in which the decision to abandon the area is made. Costs of site restoration are provided from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the exploration permits.

Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly, the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

Projects are advanced to development stage when it is expected that further expenditure can be recovered through sale or successful development and exploitation of the area of interest.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. Before adopting IFRS, according to the Kazakhstan Accounting Standards, the Company capitalised borrowing costs in full as it was at the stage of exploration and purpose of the loan was the exploration and evaluation of oil and gas reserves. After the adoption of IFRS, the Company has maintained the approach of borrowing cost capitalisation due to the fact that it is still at the exploration stage. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Exploration and evaluation assets

Exploration license costs are capitalized within intangible assets and amortized on a straight-line basis over the estimated period of exploration. Each property is reviewed on an annual basis to confirm that drilling activity is planned. If no future activity is planned, the remaining balance of the license cost is written off. Upon determination of economically recoverable reserves (“proved reserves” or “commercial reserves”), amortisation ceases and the remaining costs are aggregated with exploration expenditure and held on a field-by-field basis as proved properties awaiting approval within other intangible assets. When development is approved internally, and all licenses and approvals are obtained from the appropriate regulatory bodies, the relevant expenditure is transferred to property, plant and equipment (oil and natural gas properties).

(i) Recognition and subsequent measurement

Exploration and evaluation assets are measured at cost less any provision for impairment, where necessary.

Exploration and evaluation assets include capitalised expenditures on acquisition of exploration rights, geological and geophysical studies, drilling of both successful and unsuccessful exploratory wells, support equipment and facilities, borrowing costs as well as administrative and other general overhead costs that are directly attributable to the exploration and evaluation activities.

Acquisition costs include the cost of subscription bonus and other costs incurred to acquire subsurface rights.

Administrative and other general overhead costs, capitalised into the exploration and evaluation assets, include the costs incurred to finance social projects and professional training of Kazakhstani employees, administrative expenses of the site offices (office rent, office cars, administrative personnel) and other overhead costs that are directly attributable to the exploration and evaluation activities. The Company includes these expenditures into the cost of exploration and evaluation assets as incurred.

General and administrative expenses that can not be attributed directly to a particular exploration project are charged to the statement of comprehensive loss during the financial period as they are incurred.

Expenditures related to the development of hydrocarbon resources are not recognised as exploration and evaluation assets. Development costs include the cost of development wells to produce proved reserves, the cost of production facilities (such as flow lines, separators, treaters, heaters, storage tanks, improved recovery systems and gas processing facilities) and other overhead costs related to the development of hydrocarbon resources.

The Company classifies exploration and evaluation assets as tangible and intangible assets according to the nature of the assets acquired. Intangible exploration and evaluation assets include subscription bonus, social and training costs. All other exploration and evaluation assets are classified as tangible assets.

Exploration and evaluation assets are no longer classified as such when the technical feasibility and commercial viability of extracting a hydrocarbon resource is demonstrable. Once commercial reserves are found, exploration and evaluation assets are transferred to development assets and amortised using the unit-of-production method based on proved developed reserves.

Activities preceding the acquisition of oil and gas properties are defined as pre-exploration (or pre-license). All pre-exploration expenditures are recognised as an expense in the statement of comprehensive income when incurred and include project feasibility studies, surface mapping and appraisal activities, as well as other overhead costs related to pre-exploration activities.

(ii) Impairment of exploration and evaluation assets

Exploration and evaluation assets are tested by the Company for impairment when reclassified to development assets or whenever facts and circumstances indicate impairment of assets. An impairment loss is recognised for the amount by which exploration and evaluation assets’ carrying amount exceeds their recoverable amount. The recoverable amount is determined as the greater of: the exploration and evaluation assets’ fair value less costs to sell and their value in use.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and evaluation assets (continued)

(ii) Impairment of exploration and evaluation assets (continued)

One or more of the following facts and circumstances indicate that the Company should test exploration and evaluation assets for impairment (the list is not exhaustive):

- The period for which the Company entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on the further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercial viable quantities of hydrocarbon resources and the Company has decided to discontinue such activities in the specific area;
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Current versus non-current classification

The Company presents assets and liabilities based on their current and non-current classification in the statement of financial position. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as current and non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Property, plant and equipment

(i) Recognition and subsequent measurement

Property, plant and equipment include vehicles, office and other equipment. Property, plant and equipment are stated at cost, less accumulated amortisation and provision for impairment, if required. Such cost comprises acquisition value, including import fees and non-reimbursable taxes on acquisitions, less trade discounts and rebates, and any costs directly related to bringing the asset to the place of its use and condition required for its proper use.

The cost of PPE items that are produced or constructed internally includes the cost of materials used, performed production work and an appropriate portion of direct construction overheads.

Subsequent expenditures are included in the carrying amount of this asset or reflected as a separate asset providing only that there is probability that the Company will have economic benefits from the usage of this asset, and its cost can be reliably measured. The carrying value of the replaced portion is recognised in profit or loss. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

(i) Recognition and subsequent measurement (continued)

Subsequent expenditures are included in the carrying amount of this asset or reflected as a separate asset providing only that there is probability that the Company will have economic benefits from the usage of this asset, and its cost can be reliably measured. The carrying amount of the replaced part is excluded from accounts. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred.

Gain or loss on disposal of property, plant and equipment in the amount of difference between consideration received and their carrying amount is recorded in profit or loss.

(ii) Depreciation

Land is not depreciated. Depreciation of other PPE items is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Useful lives in years
Buildings and constructions	15
Vehicles	5
Other	4-5

The asset residual value represents the estimation of amount that the Company could currently from disposal of the asset, less cost to sell, on the assumption that the asset age and its technical condition already correspond to the expected at the end of its useful life. The asset residual value equals to zero when the Company expects to use the asset until the end of its physical life. Assets residual value and their useful life are reviewed and, if necessary, adjusted at each reporting date.

(iii) Impairment

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying value is reduced to its recoverable amount; impairment loss is recorded in the statement of comprehensive income. An impairment loss recognised for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's value in use or its fair value less cost to sell.

If an estimate of the recoverable value for an individual asset is not possible, the Company determines the recoverable value of a cash generating unit to which an asset belongs.

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 for which the future cash flow estimates have not been adjusted.

Financial instruments

Initial recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Initial recognition and measurement (continued)

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Financial assets of the Company include cash and loans issued.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows.

<u>Financial assets at amortised cost (debt instruments)</u>

This is the category most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company includes trade receivables, as well as a loan issued to an associated to the category of financial assets measured at amortised cost.

<u>Financial assets at fair value through profit or loss</u>

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

The Company did not have any held-to-maturity investments during the reporting periods ended 31 December 2020 and 2019.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

As the Company is at the exploration stage, the Company has no trade receivables during the reporting periods ended 31 December 2020 and 2019.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, less directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are only offset and reported at the net amount in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Company intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded at an active market, the fair value is determined by using appropriate valuation techniques. Such techniques may include using recent arm’s length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are restated in the financial statements on a periodic basis, the Company determines if it is necessary to transfer them between levels of the fair value hierarchy by re-analysing their classification (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosure, the Company classified assets and liabilities based on their nature, characteristics and risks related to them and applicable level of fair value hierarchy, as specified above *(Note 19)*.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and bank deposits on demand. Cash balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in other non-current assets. Cash balances restricted for being exchanged or used to settle a liability are not included in cash and cash equivalents for the purposes of cash flow statement.

Value added tax

Tax legislation allows to offset VAT on a net basis.

VAT payable

VAT is payable to tax authorities upon collection of receivables from customers. Export sales are zero rated. VAT on purchases, which have been settled at the reporting date, is deducted from the amount payable.

In addition, VAT related to sales which have not been collected at the balance sheet date is also included in the balance of VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT liability is maintained until the debtor is written off for tax purposes.

VAT recoverable

VAT recoverable relates to purchases, which have not been settled at the balance sheet date. VAT recoverable is reclaimable against VAT related to sales upon payment for the purchases or reimbursed by tax authorities by cash or by offset with other taxes payable. Reimbursable VAT is classified as a long-term, if it is not expected to be repaid during one year from the reporting date.

Charter capital

Assets vested into the charter capital are recognized at fair value at the time of contribution. Any excess of the fair value of contributed assets over the nominal value of contribution upon its legal registration into the charter capital is credited directly to equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Charter capital (continued)

Additional paid-in capital

Additional paid-in capital of the Company is represented by a loan (principal debt and partially accrued interest) from the shareholder, converted as at 31 December 2018 at the exchange rate of tenge to the US dollar (the original currency of the loan was the US dollar). After conversion, the Company has no contractual obligations to repay the principal amount of the loan; repayment is at the Company's discretion and no interest is accrued on the principal amount, and neither the master agreement nor its addendum contains any conditional settlement provisions that are beyond the Company's control and that may result in the Company's obligation to pay cash in respect of the principal amount of the loan or otherwise result in a liability under IAS 32. Thus, this conversion was accounted for as a capital transaction. As at 31 December 2019, additional paid-in capital was transferred to the share capital and accumulated loss of the joint stock company *(Note 10)*.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provisions for asset retirement obligations

The Company estimates provision for future asset retirement obligations with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement/closure and the extent of site restoration required in accordance with current legislation and industry practices. Estimated asset retirement obligations are provided for in the period in which the obligation arises if a reasonable estimate of fair value can be made. The corresponding asset retirement obligations are capitalised as part of the carrying amount of the exploration and evaluation assets, based on the net present value of estimated future costs. Provisions do not include any additional obligations which are expected to arise from future disturbance. The cost estimates are calculated annually during the life of the operation to reflect known developments.

The amortisation of the discount applied in establishing the net present value of provisions is charged to statement of comprehensive income in each accounting period and is recognised as finance costs.

Movements in the provisions for future dismantlement and site restoration costs, resulting from new disturbance as a result of new wells drilling, updated cost estimates, changes to the estimated lives of operations and revisions to discount rates are capitalised within exploration and evaluation assets.

Payroll expenses and payroll related deductions

Payroll expenses, pension contributions, contributions to the social insurance fund, paid annual vacations and sick leaves, bonuses and non-cash benefits are charged upon completion of certain types of works by employees of the Company. The Company pays pension and retirement benefits stipulated by the legislative requirements of the Republic of Kazakhstan on behalf of its employees. Upon retirement of employees, financial liabilities of the Company are derecognised and all subsequent payments to retired employees are made by the state savings pension fund.

Corporate income tax

In these financial statements, corporate income tax is recorded in accordance with the tax legislation of the Republic of Kazakhstan, enacted or substantively enacted at the reporting date. Income tax expenses comprise current and deferred taxes and are recorded in the statement of comprehensive loss, except for the taxes related to transactions recorded in one or different periods in other comprehensive income or directly within equity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Corporate income tax (continued)

Current income tax represents the amount expected to be recovered from or paid to the tax authorities with respect to taxable profit or loss for the current and prior periods. Taxable profit or loss are based on estimated figures, in the event that the financial statements are submitted prior to filing of tax returns. Other taxes, apart from corporate income tax, are recorded within operating expenses.

Deferred income tax is provided using the liability method on tax losses carry-forward and temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial reporting.

The deferred tax is calculated according to tax rates enacted or substantively enacted at the reporting date, which are expected to be applied in the period of restoration of temporary differences or utilisation of tax losses carried forward. Deferred income tax assets with respect to non-deductible temporary differences and tax losses carried forward are recognised only to the extent that it is probable that taxable profit will be available in future that could be reduced to the amount of such deductions.

Uncertain tax positions

The Company's uncertain tax positions are reassessed by the management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

5. EXPLORATION AND EVALUATION ASSETS

In thousands of tenge	**Tangible assets**	**Intangible assets**	**Total**
As at 1 January 2019	36,597,885	732,864	37,330,749
Additions	1,287,387	–	1,287,387
Changes in estimates *(Note 11)*	(200,410)	–	(200,410)
As at 31 December 2019	37,684,862	732,864	38,417,726
Additions	**1,309,349**	**–**	**1,309,349**
Changes in estimates *(Note 11)*	**(61,355)**	**–**	**(61,355)**
As at 31 December 2020	**38,932,856**	**732,864**	**39,665,720**

As at 31 December 2020, exploration and evaluation assets include capitalised inventories in the amount of 292,494 thousand tenge (as at 31 December 2019: 292,561 thousand tenge). Capitalised inventory represents the cost of casing pipes, drilling bits and other drilling materials. During 2020, the Company capitalised 51,924 thousand tenge of directly attributable geological and geophysical expenses (2019: 69,547 thousand tenge). During 2020, the Company capitalised 1,229,170 thousand tenge of finance expenses (2019: 1,042,999 thousand tenge).

6. LONG-TERM VAT RECOVERABLE

In thousands of tenge	**2020**	2019
At 1 January	**2,494,776**	2,477,381
Additions	**23,282**	33,167
Write-off	**(403)**	(15,772)
At 31 December	**2,517,655**	2,494,776

7. RESTRICTED CASH

Cash that is restricted in use, in terms of creating an appropriate liquidation fund, represents cash in tenge in a bank account to fulfil obligations for the future restoration of the site, in accordance with the Subsoil Use Contract, the Company is obliged to accumulate cash in a special bank account for the relevant purposes. The management of the Company does not intend to use this cash with a restriction on withdrawal until the moment of liquidation of the wells. In 2020, for accounts restricted in use, interest was accrued at a rate of 10.5% per annum (2019: 10.5%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. LOAN ISSUED

In thousands of tenge	**Interest rate**	**Date of repayment**	**31 December 2020**	31 December 2019
North Caspian Petroleum JSC	9%	On demand	**997,491**	1,146,356
			997,491	1,146,356

In 2018, the Company provided loans to North Caspian Petroleum JSC, in the amount of 1,684,231 thousand tenge at the rate of 9% per annum. Under the supplementary agreement dated 31 December 2019, repayment of the loan and payment of interest on each loan shall be paid by the borrower within 30 days after receiving an official written request for repayment from the Company.

The movement in the loan issued for the years ended 31 December 2020 and 2019 was as follows:

In thousands of tenge	1 January 2020	**Interest accrued for the year *(Note 17)***	**Accrual of ECL expense *(Note 16)***	**31 December 2020**
Short-term loans	1,146,356	**93,841**	**(242,706)**	**997,491**
Long-term loans	–	**–**	**–**	**–**
	1,146,356	**93,841**	**(242,706)**	**997,491**

In thousands of tenge	1 January 2019	Interest accrued for the year *(Note 17)*	Interest paid for the year	Other	Amortisation of discount	Net of principal repaid	31 December 2019
Short-term loans	1,278,593	101,434	(8,493)	(1,497)	61,017	(284,698)	1,146,356
Long-term loans	–	–	–	–	–	–	–
	1,278,593	101,434	(8,493)	(1,497)	61,017	(284,698)	1,146,356

9. CASH AND CASH EQUIVALENTS

As at 31 December 2020 and 2019 cash and cash equivalents comprised the following:

In thousands of tenge	**31 December 2020**	31 December 2019
Bank accounts in US dollars	**–**	15,179
Bank accounts in tenge	**427**	844
Total	**427**	1,023

Current accounts with banks are non-interest bearing. The table below shows the analysis of credit ratings of banking institutions where the Company has cash balances as at the reporting date:

In thousands of tenge	**Standard & Poor's and Fitch**	**31 December 2020**	31 December 2019
Bank CenterCredit JSC	B/Positive	**427**	16,023
Total		**427**	16,023

10. EQUITY

As at 31 December 2020, the Company's shareholders comprised of Sino-Science Netherlands Petroleum B.V. (90%) and Maten Pertroleum JSC (10%) (as at 31 December 2019, the Company's participants comprised of Sino-Science Netherlands Petroleum B.V. (90%) and Sino-Science Energy Group B.V. (10%)).

As at 31 December 2020 and 2019, the charter capital of the Company amounted to thousand tenge and 283,780 thousand tenge, respectively, and was fully formed and paid. On 4 September 2019, the Company was reorganised from a limited liability partnership into a joint-stock company. In reorganisation, additional paid-in capital in the amount of 34,957,358 thousand tenge was transferred to the share capital and accumulated loss of the joint-stock company.

During the 2019, authorised share capital was increased by 283,780 thousand tenge through issue of 1,000,000 ordinary shares with nominal value 283.78 tenge each.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. ABANDONMENT AND SITE RESTORATION PROVISION

In thousands of tenge	**2020**	2019
At 1 January	**147,308**	326,951
Change in estimate *(Note 5)*	**(61,355)**	(200,410)
Unwinding of discount *(Note 17)*	**10,280**	20,767
At 31 December	**96,233**	147,308
Current portion	**–**	–
Non-current portion	**96,233**	147,308

Assets retirement obligations consist of provisions for future site restoration and relate to liabilities under the Contract for the recovery of a hydrocarbon field to its initial condition. Mainly, these expenditures will be incurred by the end of the useful life of wells. The volume and cost of future recovery programs will be difficult to estimate. They depend on the estimated useful life of wells, volume of possible contamination, timeline and volume of rehabilitation measures.

In 2019, changes in the estimates of the abandonment and restoration provision of deposits were revised due to obtaining of the permission to extend the exploration period until 31 December 2022. The Company also engaged Optimum Design Institute LLP to determine the residual value of the entire field.

In 2020, in calculation of site restoration and abandonment provision, inflation of 5.82% and discount rate of 5.93% were used (in 2019: the inflation rate of 5.42% and the discount rate of 6.98%).

12. LONG-TERM LOANS

In thousands of tenge	**Interest rate**	**Maturity**	**31 December 2020**	31 December 2019
Short-term loans				
Sino-Science Netherlands Petroleum B.V.	0%	On demand	**20,738,492**	20,738,492
Hong Kong Sino-Science International Oil & Gas, Ltd	8%	31 December 2021	**9,275,952**	–
Kozhan JSC	18%	16 June 2021	**3,569,867**	3,167,840
Sino-Science Netherlands Petroleum B.V.	8%	31 December 2021	**2,244,743**	–
Sino-Science Netherlands Energy Group B.V.	0%	On demand	**570,663**	570,663
Financial assistance from employees	0%	8 December 2021	**55,235**	–
Total short-term loans			**36,454,952**	24,476,995
Long-term loans				
Hong Kong Sino-Science International Oil & Gas, Ltd	8%	31 December 2021	**–**	7,823,402
Sino-Science Netherlands Petroleum B.V.	8%	31 December 2021	**–**	1,887,052
Hong Kong Sino-Science International Oil & Gas, Ltd	8%	31 December 2023	**502,050**	–
Total long-term loans			**502,050**	9,710,454
Total loans			**36,957,002**	34,187,449

The movement in loans for the years ended 31 December 2020 and 2019 was as follows:

In thousands of tenge	1 January 2020	**Loans received during the year**	**Interest accrued for the year**	**Reclas-sification**	**Change in foreign currencies**	**31 December 2020**
Short-term loans	24,476,995	**55,234**	**1,197,402**	**9,710,454**	**1,014,867**	**36,454,952**
Long-term loans	9,710,454	**431,749**	**31,768**	**(9,710,454)**	**38,533**	**502,050**
	34,187,449	**486,983**	**1,229,170**	**–**	**1,053,400**	**36,957,002**

In thousands of tenge	1 January 2019	Loans received during the year	Interest accrued for the year	Change in foreign currencies	31 December 2019
Short-term loans	24,076,066	–	400,929	–	24,476,995
Long-term loans	7,299,800	1,851,166	642,070	(82,582)	9,710,454
	31,375,866	1,851,166	1,042,999	(82,582)	34,187,449

12. LONG-TERM LOANS (continued)

Sino-Science Netherlands Petroleum B.V.

The loans were received from Sino-Science Netherlands Petroleum B.V., the Parent company, under the loan agreement dated 11 October 2011 and loan agreement dated 22 April 2013 with the fixed interest rate of 8% in the amount of 142,070 thousand US dollars (equivalent to 54,154,243 thousand tenge as at 31 December 2019) and 6,645 thousand US dollars, respectively (equivalent to 2,532,941 thousand tenge as at 31 December 2019).

In October 2014, additional agreement was concluded to the Master Agreement with Sino-Science Netherlands Petroleum B.V. for increase of the credit line amount on 85,000 thousand US dollars (equivalent to 32,400,300 thousand tenge as at 31 December 2017). Initial maturity date was 31 December 2017, which has been extended on 10 November 2017 until 31 December 2021.

On 31 December 2018, an assignment agreement was concluded for transfer of the rights to recover the principal amount of the loan from Sino-Science Netherlands Petroleum B. V. to Hong Kong Sino-Science International Oil & Gas Investment Group Company in the amount of 19,000 thousand US dollars (equivalent to 7,242,420 thousand tenge as at 31 December 2019).

On 31 December 2018, a supplementary agreement was concluded to the loan agreement dated 11 October 2011 and the loan agreement dated 22 April 2013. The following changes have been made:

- The term of the principal amount of the loan is defined as unlimited, the Company has right to repay the loan in one or several tranches at any time that is convenient to the Company by notifying the Sino-Science Netherlands Petroleum B.V. in writing in advance, one banking day before the date of repayment of the loan;
- The loan under the loan agreement is provided to the Company free of charge, and no interest for using the loan by Sino-Science Netherlands Petroleum B.V. is charged from 31 December 2018;
- Change of currency of the loan agreement from US dollars to the national currency of the Republic of Kazakhstan, i.e. tenge;
- Accumulated interest is payable upon the lender's request.

Upon signing supplementary agreements, the principal debt to the parent company was reclassified to the Company's equity as additional paid-in capital.

As at 31 December 2020, the loan amounted to 20,738,492 thousand tenge (2019: 20,738,492 thousand tenge), the fair value of the loan approximates its carrying value.

On 31 May 2019, the Company concluded non-revolving credit line agreement with Sino-Science Netherlands Petroleum B.V. in order to attract 4,800,000 thousand US dollars (equivalent to 2,019,408 thousand tenge as at 31 December 2020) with maturity on 31 December 2021.

According to the loan agreement with Sino-Science Netherlands Petroleum B.V., the Company has non-financial covenants. As at 31 December 2020 and 2019, the Company has no outstanding covenants.

Sino-Science Netherlands Energy Group B.V.

On 18 December 2015 the Company concluded non-revolving credit line agreement with Sino-Science Netherlands Energy Group B.V. in order to attract 50,000 thousand US dollars (equivalent to 21,035,500 thousand tenge as per exchange rate on 31 December 2020) with the fixed interest rate of 8% and maturity date on 31 December 2021. The borrowings are denominated in US dollars.

In 2018, the Company received an additional amount of 463 thousand US dollars (equivalent to 176,486 thousand tenge as per exchange rate on 31 December 2019).

12. LONG-TERM LOANS (continued)

Sino-Science Netherlands Energy Group B.V. (continued)

On 31 December 2018, a supplementary agreement was concluded to the loan agreement dated 18 December 2015. The following changes have been made:

- The term of the principal amount of the loan is defined as unlimited, the Company has right to repay the loan in one or several tranches at any time that is convenient to the Company by notifying the Sino-Science Netherlands Energy Group B.V. in writing in advance, one banking day before the date of repayment of the loan;
- The loan under the loan agreement is provided to the Company free of charge, and no interest for using the loan by Sino-Science Netherlands Energy Group B.V. is charged from 31 December 2018;
- Change of currency of the loan agreement from US dollars to the national currency of the Republic of Kazakhstan, i.e. tenge;
- Accumulated interest is payable upon the lender’s request.

Upon signing supplementary agreements, the principal debt to the parent company was reclassified to the Company’s equity as additional paid-in capital.

According to the loan agreement with Sino-Science Netherlands Energy Group B.V., the Company has non-financial covenants. As at 31 December 2020 and 2019, the Company has no outstanding covenants.

As at 31 December 2020, the loan amounted to 570,663 thousand tenge (2019: 570,663 thousand tenge), the fair value of the loan approximates its carrying value.

Kozhan JSC

On 9 March 2017, the Company concluded a short-term non-revolver credit line agreement with Kozhan JSC for the total amount of 5,000,000 thousand tenge with maturity date until 9 March 2018. The loan bears a fixed interest rate of 18% per annum. In 2018, the Company entered into an additional contract to extend the repayment period until 9 March 2019. In 2020, the Company entered into an additional contract to extend the repayment period until 16 June 2020.

In 2020, the Company entered into an additional contract to extend the repayment period until 16 June 2021. As at 31 December 2020, the amount of the loan was 3,569,867 thousand tenge (2019: 3,167,840 thousand tenge).

«Hong Kong Sino-Science International Oil & Gas, Ltd»

On 31 December 2018, an assignment agreement was concluded on the transfer of the rights to claim the principal amount of the loan from Sino Science Netherlands Petroleum B.V. to Hong Kong Sino-Science International Oil & Gas Investment Group Company in the amount of 19,000 thousand US dollars (equivalent to 7,993,490 thousand tenge as of 31 December 2020).

On 10 January 2020, the Company entered into a loan agreement with Hong Kong Sino-Science International Oil & Gas, Ltd in order to obtain borrowed funds in the amount of 2,000 thousand US dollars. In 2020, the Company received under a loan agreement in the amount of USD 1,118 thousand (equivalent to KZT 502,050 thousand at the tenge exchange rate as of 31 December 2020) with a fixed interest rate of 8% and maturity until 31 December 2023. Loans are denominated in US dollars.

13. ACCOUNTS PAYABLE AND OTHER DEBTS

Trade and other payables primarily represent drilling services provided by third parties. Interest on unsettled balance of accounts payable and other due amounts was not accrued. As at 31 December 2020 and 2019, payables and other debts were denominated in tenge.

14. CONTRACT LIABILITIES

As at 31 December 2020 and 2019, advances received represent an advance payment for the supply of inventories from Anton Oilfield International Company Limited Branch in the amount of 2,672,250 thousand tenge (2019: 2,672,250 thousand tenge).

9 November 2018, the mentioned contracts were ceased by the counterparties and as at 31 December 2020 and 2019, represented amounts due.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. OTHER CURRENT LIABILITIES

In thousands of tenge	**31 December 2020**	31 December 2019
Provision for fines and penalties	**240,683**	241,928
Contract performance bond paid by suppliers	**193,489**	193,235
Provision for unused vacations	**7,632**	10,708
Other	**15,633**	62
Total	**457,437**	445,933

The provision for fines and penalties is mainly a provision for non-fulfilment of contractual obligations to Anton Oilfield International Company Limited Branch in the amount of 223,286 thousand tenge (2019: 222,463 thousand tenge). Contract performance bond paid by suppliers represents prepayments in the amount of 3% of the contract amount made by participants during the service rendering period. Upon completion of the works, the contract performance bond is then returned.

16. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of tenge	**2020**	2019
Accrual of expected credit losses	**242,706**	–
Payroll and related taxes	**78,328**	147,869
Low-value and short-term lease expenses	**30,591**	32,423
Transportation expenses	**27,215**	69,163
Depreciation and amortisation	**11,111**	16,146
Consulting services	**5,872**	18,736
Tax payments and charges	**2,357**	4,166
Business trip expenses	**2,053**	7,052
Telecommunication services	**1,912**	2,217
Lodging of employees	**1,443**	4,296
Office expenses	**1,384**	924
Insurance	**742**	720
Bank charges	**437**	654
Introductory listing fee	**–**	14,580
Reversal of provision for fines and penalties	**–**	(57,022)
(Recovery)/accrual of unused vacation allowance	**(3,076)**	754
Other	**4,763**	24,967
Total	**407,838**	287,645

17. FINANCE INCOME/COSTS

In thousands of tenge	**2020**	2019
Interest income on loans issued *(Note 8)*	**93,841**	101,434
Unwinding of discount on loans issued	**–**	61,017
Interest income on restricted cash	**19,657**	20,278
Finance income	**113,498**	182,729

In thousands of tenge	**2020**	2019
Unwinding of discount on the provision for abandonment and restoration of deposits *(Note 11)*	**(10,280)**	(20,767)
Finance costs	**(10,280)**	(20,767)

18. INCOME TAX EXPENSE

The Company is subject to income tax of 20% on taxable profit as determined under the laws of the Republic of Kazakhstan. Income tax expense for the years ended 31 December 2020 and 2019 are as follows:

In thousands of tenge	**2020**	2019
Current income tax expense	**19,642**	–
Deferred income tax expense	**–**	–
Income tax expense	**19,642**	–

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. INCOME TAX EXPENSE (continued)

A reconciliation of income tax expense applicable to profit/loss before tax at the statutory income tax rate to current income tax expense was as follows for the years ended 31 December 2020 and 2019:

In thousands of tenge	**2020**	2019
Loss before taxes	**(1,351,221)**	(40,768)
Statutory tax rate	**20%**	20%
Theoretical income tax benefit at the statutory tax rate	**(270,244)**	(8,154)
Change in unrecognised deferred tax asset	**299,610**	29,840
Other non-deductible differences	**17,517**	7,540
Other non-taxable differences	**(27,241)**	(29,226)
	19,642	–

Deferred tax balances are calculated by applying the income tax rates in effect at the respective balance sheet dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. Tax losses carried forward as at 31 December 2020 per tax legislation of the Republic of Kazakhstan applied by the Company expire for tax purposes 10 (ten) years from the date they are incurred.

In thousands of tenge	**31 December 2020**	**Charged to statement of comprehen-sive income**	31 December 2019	Charged to statement of comprehen-sive income	31 December 2018
Deferred tax assets					
Tax loss carry forward	**7,164,778**	**261,900**	6,902,878	77,821	6,825,057
Assets retirement obligations	**19,247**	**(10,215)**	29,462	(35,928)	65,390
Provision for unused vacations	**1,526**	**(616)**	2,142	151	1,991
Loans issued	**48,541**	**48,541**	–	(12,204)	12,204
Deferred tax assets	**7,234,343**	**299,610**	6,934,482	29,840	6,904,642
Deferred tax asset provisions	**(7,234,343)**	**(299,610)**	(6,934,482)	(29,840)	(6,904,642)
Deferred tax assets, net	**–**	**–**	–	–	–

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk management is an important element of the Company's activities. The Company's operations are associated with risks, including liquidity risk, interest rate risk, currency risk and operational risk. The risk management policies of the Company are described as follows:

The main categories of financial instruments

The Company's principal financial liabilities comprise borrowings, accounts payable and other debts. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company also has various financial assets such as accounts receivable, cash and cash equivalents.

In thousands of tenge	**31 December 2020**	31 December 2019
Financial assets		
Loan issued *(Note 8)*	**997,491**	1,146,356
Restricted cash *(Note 7)*	**193,109**	193,109
Cash and cash equivalents *(Note 9)*	**427**	16,023
Total	**1,191,027**	1,355,488
Financial liabilities		
Loans *(Note 12)*	**36,957,002**	34,187,449
Accounts payable and other debts *(Note 13)*	**4,214,002**	4,581,120
Total	**41,171,004**	38,768,569

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value of financial instruments

The carrying amount of all financial assets and liabilities are estimated to be approximately equal to their fair value as at 31 December 2020 and 2019. As at 31 December 2020 and 2019, the Company did not have any financial instruments classified as financial instruments of 1 or 2 levels. For the years ended 31 December 2020 and 2019 there were no transfers between Levels 1, 2 and 3 of the financial instruments' fair value.

Set out below is a comparison by class of the carrying amounts and fair values of the Company's financial assets and liabilities that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and liabilities.

In thousands of tenge	**Carrying value, 2020**	**Fair value, 2020**	Carrying value, 2019	Fair value, 2019
Assets				
Loan issued	**997,491**	**997,491**	1,146,356	1,146,356
Restricted cash	**193,109**	**193,109**	193,109	193,109
Cash and cash equivalents	**427**	**427**	16,023	16,023
Total	**1,191,027**	**1,191,027**	1,355,488	1,355,488
Liabilities				
Loans	**36,957,002**	**36,963,484**	34,187,449	34,213,508
Accounts payable and other debts	**4,214,002**	**4,214,002**	4,581,120	4,581,120
Total	**41,171,004**	**41,177,486**	38,768,569	38,794,628
Net	**(39,979,977)**	**(39,986,459)**	(37,413,081)	(37,439,140)

Credit risk

Credit risk is the risk that one party with financial instrument will not be able to fulfil an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk from its operating activities and certain investing activities. The Company places cash with Kazakh banks (Notes 7 and 9). The Company's management reviews credit ratings of this bank periodically to eliminate extraordinary credit risk exposure. The Company's management believes that the recent international credit crisis and subsequent changes in credit rating of local banks does not justify extraordinary credit risk.

Interest rate risk

The interest rate on loans is fixed. Therefore, as at 31 December 2019, income and cash flows from the principal activities of the Company are not exposed to changes in market interest rate. The Company's policy is to capitalise all borrowing costs, eligible for capitalisation.

Currency risk

The Company is exposed to foreign currency risk with respect to loans denominated in currency other than tenge. US dollar is the main currency that causes such risk. The Company does not hedge the currency risk exposure, at the same time the management attempts to reduce this risk through management of monetary assets and liabilities in foreign currency at the same (more or less stable) level.

Below is the carrying amount of monetary assets and liabilities of the Company denominated in foreign currency as at the reporting date:

In thousands of tenge	**31 December 2020**	31 December 2019
Assets		
Cash and cash equivalents *(Note 9)*	**–**	15,179
Total	**–**	15,179
Liabilities		
Loans *(Note 12)*	**12,022,745**	9,710,454
Total	**12,022,745**	9,710,454
Net	**12,022,745**	9,695,275

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Currency risk (continued)

The sensitivity analysis with respect to foreign currency

The Company exposed mainly to US dollar / tenge exchange rate risk. The following table details the sensitivity to a 14% and (11%) increase or decrease in US dollar against tenge for 2020 (2019: 12% and (9%)). The sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes assets and liabilities expressed in foreign currency at the end of the reporting date.

	For the year ended 31 December 2020		For the year ended 31 December 2019	
	KZT/USD +14%	**KZT/USD -11%**	KZT/USD +12%	KZT/USD -9%
Effect on net (loss)/profit	**(1,683,184)**	**1,322,502**	(1,167,076)	875,307

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its obligations when due. The Company's liquidity position is carefully managed and controlled. The Company has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

Operational risk

Operational risk is the risk to sustain financial losses as the result of business interruption and possible damage for the Company's property as the result of natural disasters and technological emergencies.

As at 31 December 2020, the Company's management believes that the Company has sufficient number of insurance policies with respect to civil liability.

Maturity of financial liabilities

The table below analyses the Company's financial liabilities which will be settled on a gross basis into relevant maturity groups based on the remaining period at the reporting date to the contractual maturity date.

In thousands of tenge	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
As at 31 December 2020				
Loans	**21,309,155**	**6,173,276**	**10,018,028**	**37,500,459**
Accounts payable and other debts	**4,214,002**	**–**	**–**	**4,214,002**
Total	**25,523,157**	**6,173,276**	**10,018,028**	**41,714,461**
As at 31 December 2019				
Loans	21,309,155	5,386,015	8,449,274	35,144,444
Accounts payable and other debts	4,581,120	–	–	4,581,120
Total	25,890,275	5,386,015	8,449,274	39,725,564

20. RELATED PARTY BALANCES AND TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party, is jointly controlled or may exercise significant influence over or jointly control the other party in making operational and financial decisions. In considering each possible related party relationship, attention is directed to the nature of the relationship, and not merely the legal form. The ultimate controlling party of the Company is disclosed in *Note 1*.

The nature of the related party relationships for those related parties with whom the Company entered into significant transactions or had significant balances outstanding at 31 December 2020 and 2019 are detailed below.

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

As at 31 December 2020, balances of transactions with related parties are presented below:

In thousands of tenge	**Notes**	**Entities under common control**	**Parent**
Loans obtained	12	**3,625,101**	**33,331,901**

As at 31 December 2019, balances of transactions with related parties are presented below:

In thousands of tenge	Notes	Entities under common control	Parent
Loan issued	8	1,146,356	–
Loans obtained	12	3,167,840	31,019,609

Transactions with related parties as at 31 December 2020:

In thousands of tenge	**Notes**	**Entities under common control**	**Parent**
Interest payable accrued	12	**1,068,758**	**160,412**

Transactions with related parties as at 31 December 2019:

In thousands of tenge	Notes	Entities under common control	Parent
Interest payable accrued	12	984,904	58,095
Interest receivable accrued	8	120,772	–

Compensation to the key management personnel

Salaries and related taxes of the core management in 2020 and 2019 amounted to 54,719 thousand tenge and 113,312 thousand tenge, respectively. As at 31 December 2020, key management personnel consist of two directors (31 December 2019: four directors).

21. CONTINGENT AND CONTRACTUAL COMMITMENTS

Tax legislation

Kazakhstan's tax legislation s is subject to ongoing changes and varying interpretations. The management's interpretation of laws applicable to business operations of the Company may be challenged by respective regional official authorities, which are enabled by law to impose severe fines, penalties. Recent events in the Republic of Kazakhstan suggest that tax authorities are taking a more assertive position in interpretation of the legislation and taxation and as a result, it is possible that transactions that have not been challenged in the past may be challenged. 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. Although the Company believes that adequately provided for all tax liabilities based on its understanding of the tax legislation, the above factors may crease additional financial risks for the Company.

Legal actions and claim

The Company was subject to legal proceedings and complaints, none of which, individually or collectively, had a significant adverse effect on the Company. Management believes that resolution of all these matters will not have a material impact on the Company's financial position or results of operations.

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. CONTINGENT AND CONTRACTUAL COMMITMENTS (continued)

Environmental matters

The Company conducts relevant evaluation in order to comply with the existing environmental legislation and regulations of the Republic of Kazakhstan. However, recently environmental laws and relevant regulatory acts were adopted, which are interpreted and applied at the discretion of local environmental and other supervisory authorities. Failure to comply with legislation and regulations of the Republic of Kazakhstan could result in considerable fines and penalties.

As at the date of these financial statements the Company did not receive any claims from state authorities.

Potential liabilities that might arise as a result of changes to the existing regulatory enactments or as a part of legislation cannot be estimated but can be significant. Nevertheless, according to the current interpretation of existing legislation, management believes that the Company has no any significant liabilities that could have significant adverse effect to the Company's performance or financial position, in addition to amounts charged and recorded in these financial statements.

Contractual liabilities

As at 31 December 2020, the Company had capital commitments in the amount of 30,000 thousand tenge, including VAT, under the contracts on acquisition of property, plant and equipment and construction services (2019: 609,554 thousand tenge, including VAT).

Work program

In accordance with the subsurface use contract, the Company is required to carry out a minimum exploration work program specifying the scope of exploration works and their estimated cost that should be completed at minimum during the exploration stage. Exploration work program is included in the annual budget approved by the Company. The amount of the approved work program for exploration activities of the Company for the period from 1 January 2019 to 31 December 2022 is 10,249,000 thousand tenge, as at 31 December 2019, the Company has fulfilled its obligations under the work program in the amount of 665,760 thousand tenge.

Social project commitments and historical costs

In accordance with the addendum to the Contract, the Company has neither social obligations, nor the obligations for costs of professional training of attracted Kazakh specialists during the exploration period.

The Company may be required to reimburse the Government for such costs in the amount of 3,558,878 US dollars if commercial production begins and at the end of the exploration period, presumably after 31 December 2022.