

Nostrum Oil & Gas PLC

Consolidated financial statements

For the year ended 31 December 2022

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Consolidated statement of financial position

| <i>In thousands of US Dollars</i> | Notes | 31 December 2022 | 31 December 2021 |
|--|--------------|-----------------------------|-----------------------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 5 | 276,023 | 320,125 |
| Advances for non-current assets | 6 | 2,114 | 1,418 |
| Restricted cash | 10 | 31,022 | 30,438 |
| | | 309,159 | 351,981 |
| Current assets | | | |
| Inventories | 7 | 30,196 | 31,387 |
| Prepayments and other current assets | 8 | 4,688 | 9,735 |
| Income tax prepayment | | 95 | 300 |
| Trade receivables | 9 | 12,395 | 6,659 |
| Cash and cash equivalents | 10 | 233,584 | 165,246 |
| | | 280,958 | 213,327 |
| TOTAL ASSETS | | 590,117 | 565,308 |
| Equity and liabilities | | | |
| Share capital and reserves | 11 | | |
| Share capital | | 3,203 | 3,203 |
| Treasury capital | | (1,660) | (1,660) |
| Retained deficit and reserves | | (941,769) | (824,796) |
| | | (940,226) | (823,253) |
| Non-current liabilities | | | |
| Abandonment and site restoration provision | 14 | 20,073 | 29,008 |
| Due to Government of Kazakhstan | 15 | 4,002 | 4,563 |
| Deferred tax liability | 28 | 49,899 | 34,072 |
| | | 73,974 | 67,643 |
| Current liabilities | | | |
| Notes payable and accumulated interest | 13 | 1,396,517 | 1,289,603 |
| Trade payables | 16 | 9,929 | 8,399 |
| Advances received | | 52 | 9 |
| Current portion of due to Government of Kazakhstan | | 1,031 | 1,031 |
| Other current liabilities | 17 | 48,840 | 21,876 |
| | | 1,456,369 | 1,320,918 |
| TOTAL EQUITY AND LIABILITIES | | 590,117 | 565,308 |

The consolidated financial statements of Nostrum Oil & Gas PLC, registered number 8717287, were authorised for issue by the Board of Directors on 30 May 2023.

Signed on behalf of the Board:

Arfan Khan

Chief Executive Officer

30 May 2023

Consolidated statement of comprehensive income

| In thousands of US Dollars | Notes | For the year ended 31 December | |
|--|-------|--------------------------------|-------------|
| | | 2022 | 2021 |
| Revenue | | | |
| Revenue from export sales | | 177,173 | 169,825 |
| Revenue from domestic sales | | 22,544 | 25,460 |
| | 18 | 199,717 | 195,285 |
| Cost of sales | 19 | (84,053) | (87,849) |
| Gross profit | | 115,664 | 107,436 |
| General and administrative expenses | 20 | (12,076) | (12,124) |
| Selling and transportation expenses | 21 | (19,950) | (23,066) |
| Taxes other than income tax | 22 | (19,830) | (17,083) |
| Finance costs | 23 | (123,138) | (116,696) |
| Employee share options reversals | | 38 | 247 |
| Reversal of impairment on property, plant and equipment | 4 | – | 74,186 |
| Foreign exchange gain / (loss), net | | 254 | (285) |
| Interest income | | 272 | 319 |
| Other income | 25 | 6,806 | 5,886 |
| Other expenses | 25 | (29,821) | (13,218) |
| Loss before income tax | | (81,781) | 5,602 |
| Current income tax expense | | (18,837) | (1,441) |
| Deferred income tax expense | | (15,827) | (30,279) |
| Income tax expense | 26 | (34,664) | (31,720) |
| Loss for the year | | (116,445) | (26,118) |
| Other comprehensive income that could be reclassified to the income statement in subsequent periods | | | |
| Currency translation difference | | (490) | (203) |
| Other comprehensive loss | | (490) | (203) |
| Total comprehensive loss for the year | | (116,935) | (26,321) |
| Loss for the year attributable to the shareholders (in thousands of US dollars) | | (116,445) | (26,118) |
| Weighted average number of shares ¹ | | 169,086,713 | 169,086,713 |
| Basic and diluted earnings per share (in US dollars) | 12 | (0.69) | (0.15) |

¹ The number of shares has been adjusted as required under IAS 33.64 for the effect of the sub-division and consolidation of the ordinary share capital occurred after close of business on 9 February 2023 (Note 31).

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

Consolidated statement of cash flows

| In thousands of US Dollars | Notes | For the year ended 31 December | |
|---|----------|--------------------------------|-----------------|
| | | 2022 | 2021 |
| Cash flow from operating activities: | | | |
| Loss before income tax | | (81,781) | 5,602 |
| <i>Adjustments for:</i> | | | |
| Depreciation, depletion and amortisation | 19,20,21 | 51,835 | 57,295 |
| Impairment reversal | 4 | – | (74,186) |
| Finance costs | 23 | 123,138 | 116,696 |
| Employee share options reversals | | (38) | (247) |
| Interest income | | (272) | (319) |
| Foreign exchange loss on investing and financing activities | | 115 | (94) |
| Gain on disposal of exploration and evaluation assets | | – | (749) |
| Write-off and impairment of new development costs | 6 | – | 9,056 |
| Operating profit before working capital changes | | 92,997 | 113,054 |
| <i>Changes in working capital:</i> | | | |
| Change in inventories | | 1,458 | 2,451 |
| Change in trade receivables | | (5,736) | 6,881 |
| Change in prepayments and other current assets | | 5,047 | 741 |
| Change in trade payables | | 1,094 | (1,686) |
| Change in advances received | | 43 | (177) |
| Change in due to Government of Kazakhstan | | (1,031) | (1,031) |
| Change in other current liabilities | | 14,578 | (147) |
| Cash generated from operations | | 108,450 | 120,086 |
| Income tax paid | | (6,246) | (2,671) |
| Net cash flows from operating activities | | 102,204 | 117,415 |
| Cash flow from investing activities: | | | |
| Interest received | | 272 | 319 |
| Purchase of property, plant and equipment | | (14,770) | (8,611) |
| Exploration and evaluation works | | – | (226) |
| Advances for non-current assets | | (696) | (1,440) |
| Transfer to restricted cash | | (587) | (9,820) |
| Net cash used in investing activities | | (15,781) | (19,778) |
| Cash flow from financing activities: | | | |
| Other finance costs | | (17,481) | (9,130) |
| Payment of principal portion of lease liabilities | | – | (1,575) |
| Finance charges on lease liabilities | | – | (157) |
| Net cash used in financing activities | | (17,481) | (10,862) |
| Effects of exchange rate changes on cash and cash equivalents | | (604) | (112) |
| Net increase in cash and cash equivalents | | 68,338 | 86,663 |
| Cash and cash equivalents at the beginning of the year | 10 | 165,246 | 78,583 |
| Cash and cash equivalents at the end of the year | 10 | 233,584 | 165,246 |

“Other finance costs” represent advisor fees of US\$17,481 thousand (2021: US\$ 4,331 thousand) paid by the Group in relation to the forbearance agreements, lock-up agreements and ongoing process of restructuring of the Group’s outstanding bonds. In 2021 these included also bondholder consent fees in the amount of US\$1,117 thousand. For more details see Note 1.

The accounting policies and explanatory notes on pages 7 through 27 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

| <i>In thousands of US Dollars</i> | Notes | Share capital | Treasury capital | Other reserves | Retained deficit | Total |
|--|-------|---------------|------------------|----------------|--------------------|------------------|
| As at 1 January 2021 | | 3,203 | (1,660) | 262,835 | (1,061,063) | (796,685) |
| Loss for the year | | – | – | – | (26,118) | (26,118) |
| Other comprehensive loss | | – | – | (203) | – | (203) |
| Total comprehensive loss for the year | | – | – | (203) | (26,118) | (26,321) |
| Share based payments under LTIP* | | – | – | (247) | – | (247) |
| As at 31 December 2021 | | 3,203 | (1,660) | 262,385 | (1,087,181) | (823,253) |
| Loss for the year | | – | – | – | (116,445) | (116,445) |
| Other comprehensive income | | – | – | (490) | – | (490) |
| Total comprehensive loss for the year | | – | – | (490) | (116,445) | (116,935) |
| Share based payments under LTIP* | | – | – | (38) | – | (38) |
| As at 31 December 2022 | | 3,203 | (1,660) | 261,857 | (1,203,626) | (940,226) |

* Long-Term Incentive Plan ("LTIP")

Notes to the consolidated financial statements

1. General

Overview

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

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

| Company | Registered office | Form of capital | Ownership, % |
|------------------------------------|--|-------------------------|--------------|
| Nostrum Associated Investments LLP | 43B Karev street, 090000 Uralsk, Republic of Kazakhstan | Participatory interests | 100 |
| Nostrum Oil & Gas Coöperatief U.A. | Bloemendaalseweg 139, 2061 CH Bloemendaal, The Netherlands | Members' interests | 100 |
| Nostrum Oil & Gas B.V. | Bloemendaalseweg 139, 2061 CH Bloemendaal, The Netherlands | Ordinary shares | 100 |
| Nostrum Oil & Gas Finance B.V. | Bloemendaalseweg 139, 2061 CH Bloemendaal, The Netherlands | Ordinary shares | 100 |
| Nostrum Oil & Gas UK Ltd. | 20 Eastbourne Terrace, London, W2 6LA, United Kingdom | Ordinary shares | 100 |
| Nostrum Oil & Gas Holding Ltd | 20 Eastbourne Terrace, London, W2 6LG, UK | Ordinary shares | 100 |
| Nostrum Services Central Asia LLP | Aksai 3a, 75/38, 050031 Almaty, Republic of Kazakhstan | Participatory interests | 100 |
| Nostrum Services N.V. | Chaussee de Wavre 20, 1360 Perwez, Belgium | Ordinary shares | 100 |
| Zhaikmunai LLP | 43/1 Karev street, 090000 Uralsk, Republic of Kazakhstan | Participatory interests | 100 |

Nostrum Oil & Gas PLC and its wholly owned subsidiaries are hereinafter referred to as "the Group". The Group's operations comprise of a single operating segment including all Group's assets related to its Chinarevskoye field, as well as surface facilities, and are primarily conducted through its oil and gas producing entity Zhaikmunai LLP located in Kazakhstan.

On 30 April 2021, the Group disposed of its entire holding in the equity of Nostrum E&P Services LLP.

As at 31 December 2022 the Group employed 566 employees (31 December 2021: 559).

Subsoil use rights terms

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

The term of the Chinarevskoye subsoil use rights included a 5-year exploration period followed by a 25-year production period with the Contract being valid until the end of 2031.

Royalty payments

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

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

Government "profit share"

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

Group debt restructuring

On 31 March 2020, the Group announced that it would seek to engage with its bondholders regarding a possible restructuring of the Group's US\$725 million 8.0% Senior Notes due July 2022 ("2022 Notes") and its US\$400 million 7.0% Senior Notes due February 2025 ("2025 Notes") (together, the "Existing Notes").

In May 2020, the Group engaged Rothschild & Co ("Rothschild") as financial advisers and White & Case LLP ("White & Case") as legal advisers to assist in the restructuring of the Existing Notes. Since then, the Company has been in restructuring discussions with an informal ad hoc group of noteholders (the "Ad Hoc Group" or "AHG"), who are advised by PJT Partners (financial) and Akin Gump LLP (legal). The Company has also been in discussions with its largest shareholder ICU Holdings Limited ("ICU"), also a holder of the Existing Notes, and their legal advisors Dechert LLP from 2021.

Forbearance Agreements

The Group has not made coupon payments due under the Existing Notes since July 2020, which was an event of default under the terms of the indentures governing 2022 Notes and 2025 Notes. However, the Company continued active discussions with the financial and legal advisers to the AHG and signed the First Forbearance Agreement ("First FBA") with the AHG on 23 October 2020 and a new Forbearance Agreement ("Second FBA") on 19 May 2021 (together the "FBAs"). The First FBA and the Second FBA were on substantially the same terms and prohibited the AHG from exercising certain rights and remedies under the Existing Note indentures. The FBAs were intended to provide the Group with a short-term solution to its liquidity issues and a platform to engage in discussions with the noteholders in relation to a potential restructuring.

As part of the signing of the FBAs, the Company agreed to pay consent fees to existing noteholders as well as agreeing to deposit a portion of the missed initial coupon payments into a Restricted Account. A total of US\$6,701,973 has been paid in consent fees during the signing and various extensions of the FBAs, of which US\$1,116,990 was paid in 2021. A total of US\$22,658,980 has been deposited into the Restricted Account under the terms of the FBAs (including US\$9,758,980 transferred in 2021), with Nostrum having access to the funds under certain circumstances, such as liquidity falling below an agreed threshold).

Lock-up Agreements

On 23 December 2021, the Group entered into a lock-up agreement (the "First LUA") and agreed terms of a restructuring with noteholders. Holders of 77.73% of the total aggregate principal amount of the Notes signed or acceded to the First LUA including a majority of holders of aggregate principal amount of both Senior Notes and an affiliate of ICU in its capacity as a shareholder and holder of the Notes. A fee of 50 bps (the "Lock-up Fee") was payable to each Participating Noteholder who was originally party to the First LUA or acceded to the First LUA within 22 days of its execution (i.e. by 14 January 2022).

The First LUA expired on 17 August 2022, on which day the Company entered into the Second Lock-Up Agreement with the AHG and ICU (the "Second LUA"). The parties to the Second LUA gave similar undertakings to those given in the First LUA, and terms of the Restructuring remained the same. No consent or "early bird" fee was payable in relation to the Second LUA.

Upon signing of the First LUA and the Second LUA (together the "LUAs"), the Second FBA was extended in parallel. The terms and conditions continued to remain in effect during the restructuring until the successful closing of the restructuring.

Notes to the consolidated financial statements (continued)

Terms of the Restructuring

The below outlines the key terms of the restructuring as agreed between the Group, acceded noteholders and ICU in the LUAs and also voted in favour of by Nostrum shareholders:

- Partial reinstatement of debt in the form of US\$250 million Senior Secured Notes (SSNs) maturing on 30 June 2026 and bearing interest at a rate of 5.00% per year payable in cash. The SSNs are not convertible;
- Partial reinstatement of debt in the form of US\$300 million Senior Unsecured Notes (SUNs) maturing on 30 June 2026 and bearing interest at a rate of 1.00% per year payable in cash and 13.00% per year payable in kind. If not repaid in cash at maturity, the SUNs are repayable in specie through the issuance of equity in the Company based on the value of the SUNs outstanding on the issuance date as a percentage of the fair market value of the Company (up to a maximum of 99.99% of the Company's fully diluted equity);
- Conversion of the remainder of the Existing Notes and accrued interest into equity by way of a UK scheme of arrangement:
 - Existing noteholders will own 88.89% of the expanded ordinary share capital of the Company on closing of the restructuring. Existing noteholders will also own warrants (to be held by trustee) allowing them to subscribe for an additional 1.11% of the ordinary share capital of the Company upon exercise – increasing noteholder ownership of the Company to 90.00%;
 - The existing ordinary shareholders will hold 11.11% upon closing of the restructuring. The existing ordinary shareholders will be diluted to 10.00% if the warrants held by existing noteholders are exercised;
- New corporate governance arrangements in respect of the Group and certain arrangements regarding future utilization of the Group's cashflows. This includes a cash sweep mechanism requiring that cash above US\$30 million is swept into a debt service retention account (to fund the next two cash interest payments due) and a restricted cash account which the Company can access with approval of the majority of Independent Non-Executive Directors of the Company; and
- Transfer the Company's listing to the Standard Listing segment of the London Stock Exchange.

Key implementation milestones completed

Following execution of the Lock-up Agreement, the Company commenced implementation of the Restructuring.

On 4 February 2022, the Company received the required consents from noteholders after a solicitation process to approve the amendments to the Existing Notes indentures. The approved amendments (i) changed the governing law and jurisdiction of both Existing Notes indentures from the State of New York to the laws of England and Wales; (ii) made Nostrum Oil & Gas plc a co-issuer of the Existing Notes and (iii) other smaller amendments to facilitate the implementation of the restructuring. Holders of 87.081% in aggregate principal amount of the 2022 Notes and Holders of 91.222% in aggregate principal amount of the 2025 Notes provided consents. No consent solicitation payments were made to vote in favour.

On 29 April 2022, 99.99% of voting shareholders voted for the implementation of the restructuring which meant that the restructuring continues under a UK scheme of arrangement under Part 26 of the Companies Act 2006. Further, 99.89% of voting shareholders voted in favour of the RPT Resolution, allowing a related party to receive the issuance of new securities under the scheme.

On 20 June 2022, the High Court of Justice of England and Wales has made an order granting the Company permission to convene a meeting for the Scheme creditors to approve the Restructuring.

On 1 July 2022, the Company received the required consents from the Kazakhstan Ministry of Energy («MOE») with respect to (i) the issue of new shares and warrants (in partial repayment of the Existing Notes) and (ii) the waiver of the State of Kazakhstan's priority right to acquire such new shares and warrants.

On 1 August 2022, after receiving a key regulatory authorisation from the US Office of Foreign Assets Control, the Company issued a notice inviting Scheme creditors to a Scheme meeting on 21 August 2022. At the Scheme meeting with participation and voting (by proxy) of 148 Scheme Creditors, the Scheme proposed by the Company in connection with the Restructuring was approved by the requisite majority of Scheme Creditors (being a majority in number, representing at least 75 percent in value of the Scheme Creditors present and voting).

On 26 August 2022, the Scheme Sanction Hearing took place, whereby the Court made an order sanctioning the Scheme, following which on 31 August 2022 the Scheme Sanction Order was lodged with Companies House and the Scheme thereby took effect and binds (amongst other parties) all Scheme Creditors and the Company by its terms.

On 14 October 2022, a prospectus was approved by the FCA and published by the Company (the 'Prospectus'). The Prospectus relates to the proposed admission of up to 1,505,633,046 new ordinary shares to the standard listing segment of the Official List of the FCA and to trading on the main market for listed securities of London Stock Exchange plc.

In January 2023, the Group received the licence from Office of Financial Sanctions Implementation (the UK) approving the Scheme and the issue of the Prospectus, and confirmations that such licences are not required from the Ministry of Finance (the Netherlands) and Policy & Resources Committee (the UK, States of Guernsey).

On 9 February the Group notified that the Restructuring was implemented pursuant to the terms of the Scheme sanctioned by the Court on 26 August 2022. The terms of the Restructuring included the sub-division and consolidation of the ordinary share capital of the Company following the issue of the New Shares on 9 February 2023. This sub-division and share consolidation occurred after close of business on 9 February 2023 and resulted in the number of Ordinary Shares on issue being reduced from approximately 1,693.8 million Ordinary Shares (following the issue of the New Shares yesterday) to approximately 169.4 million Ordinary Shares on the basis of a 10:1 consolidation of ordinary shares. Accordingly, on 10 February 2023, 150,563,304 new Ordinary Shares have been admitted to the standard listing segment of the Official List of the Financial Conduct Authority and to trading on the London Stock Exchange under the ticker symbol "NOG.L". The Company's ordinary shares (including the New Shares) were also admitted to listing and trading on the Astana International Exchange (AIX) on 13 February 2023. The New Warrants will not be admitted to listing and trading on the AIX. The New Notes and the New Warrants were also admitted to listing and trading on The International Stock Exchange (TISE) with effect from 9 February 2023. No securities will be listed on the Euronext Dublin.

Notes to the consolidated financial statements (continued)

2. Basis of preparation and consolidation

Basis of preparation

These consolidated financial statements for the year ended 31 December 2022 have been prepared in accordance with the UK adopted International Accounting Standards. The consolidated financial statements have been prepared based on a historical cost basis (Note 4). The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand, except when otherwise indicated. The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires from management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4. The Group recognises that there may be potential financial implications in the future from changes in legislation and regulation implemented to address climate change risk. Over time these changes may have an impact across a number of areas of accounting including asset impairment, increased costs, provisions, onerous contracts and contingent liabilities. However, as at the reporting sheet date, the Group believes there is no material impact on the balance sheet carrying values of assets or liabilities. This is not considered a significant estimate.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent and its subsidiaries as at 31 December 2022. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances

indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Going concern

These consolidated financial statements have been prepared on a going concern basis. For more information on the going concern assessment of the Group please see page 52 of the Annual Report.

The directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report.

Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

Subsidiaries

Nostrum Oil & Gas UK Ltd. registered and incorporated in the United Kingdom under Companies Number 08071559 is exempt from the requirements of the UK Companies Act 2006 relating to the audit of the individual accounts by virtue of the section 479A of the Act.

3. Changes in accounting policies and disclosures

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2022, except for the adoption of new standards effective as of 1 January 2022. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2022, but do not have an impact on the consolidated financial statements of the Group.

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

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). 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 Group applies these amendments to contracts for which it has not yet fulfilled all its obligations at 1 January 2022. These amendments had no impact on the consolidated financial statements of the Group.

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations 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 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

Notes to the consolidated financial statements (continued)

These amendments had no impact on the consolidated financial statements of the Group as there were no contingent assets, liabilities and contingent liabilities within the scope of these amendments arisen during the period.

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

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of 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.

These amendments had no impact on the consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

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

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

These amendments had no impact on the consolidated financial statements of the Group as there were no modifications of the Group's financial instruments during the period.

Standards issued but not yet effective

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

IAS 8.30 IAS 8.31(d) IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4)

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

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

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

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

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

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

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies

and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently revisiting their accounting policy information disclosures to ensure consistency with the amended requirements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. The Group is currently assessing the impact of the amendments.

Notes to the consolidated financial statements (continued)

4. Summary of significant accounting policies

Property, plant and equipment

Oil and gas properties

Expenditure on the construction, installation or completion of infrastructure facilities such as treatment facilities, pipelines and the drilling of development wells, is capitalised within property, plant and equipment as oil and gas properties. The initial cost of an asset comprises of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligations, if any.

The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. When a development project moves into the production stage, the capitalisation of certain construction/development costs ceases, and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to oil and gas property asset additions, improvements or new developments.

All capitalised costs of oil and gas properties are depleted using the unit-of-production method based on estimated proved developed reserves of the field, except the Group depreciates its oil pipeline and oil loading terminal on a straight-line basis over the life of the relevant subsoil use rights. In the case of assets that have a useful life shorter than the lifetime of the field the straight-line method is applied.

Other properties

All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the year in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

| | Years |
|-----------------------------|-------|
| Buildings and constructions | 7-15 |
| Vehicles | 8 |
| Machinery and equipment | 3-13 |
| Other | 3-10 |

Land is a non-depreciable asset and therefore is not subject to depreciation. It is the company's policy to maintain the original cost of land on the balance sheet. However, the land's value may be reviewed periodically to determine if there is any impairment in value.

For more detailed information in relation to property plant and equipment, please refer to Note 5.

Significant accounting judgment: oil and gas reserves

Oil and gas reserves are a material factor in the Group's computation of depreciation, depletion and amortisation (the "DD&A"). Management used significant accounting judgement in selecting proved developed hydrocarbon reserves for calculating the unit-of-production depletion rate, as it reflects the expected pattern of consumption of future economic benefits by the Group.

Significant estimates and assumptions: oil and gas reserves

The Group uses internal estimates to assess the oil and gas reserves of its fields. The reserves estimates are made in accordance with the methodology of the Society of Petroleum Engineers (the "SPE") and are confirmed or audited by independent reserve engineers. All reserve estimates involve some degree of uncertainty, which depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data, as well as long-term hydrocarbon pricing, which may affect classification of reserves.

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability.

Reserves estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data; availability of new data; or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy.

Management's estimates of the Chinarevskoye 2P (Proved plus Probable) volume as at 31 December 2022 was 28.3 mmbore requiring 17 capital interventions (2021: 34.3 mmbore requiring 12 interventions). The reduction was primarily due to 2022 production of 4.9 mmbore and downwards revision in the Biyski NE gas due to 2022 performance which was partially offset by the smaller positive revisions in oil/condensate.

Downward revision of the proved developed reserves estimates by 5% would lead to additional DD&A expense of \$582 thousand in 2022.

Estimates of economically recoverable oil and gas reserves and related future net cash flows also impact the impairment assessment of the Group (see Impairment related significant judgements, estimates and assumptions for further details).

Details on carrying values of oil and gas properties and related depreciation, depletion and amortization are shown in Note 4.

In addition, provisions for decommissioning may require revision — where changes to reserves estimates affect expectations about when such activities will occur and the associated cost of these activities (see Decommissioning related significant judgements, estimates and assumptions for further details).

Notes to the consolidated financial statements (continued)

Impairment of property, plant and equipment, exploration and evaluation assets

The Group assesses assets or groups of assets, called cash-generating units (CGUs), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable; for example, changes in the Group's business plans, significant decreases in the market commodity prices, low plant utilisation, evidence of physical damage or, for oil and gas assets, significant downward revisions of estimated reserves or increases in estimated future development expenditure or decommissioning costs. If any such indication of impairment exists, the Group makes an estimate of the asset's recoverable amount.

Individual assets are grouped into a CGU for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. A CGU's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired, and an impairment loss is recognised for the excess of carrying amount over recoverable amount.

The business cash flow internal model, which is approved on an annual basis by senior management, is the primary source of information

for the determination of the recoverable amount. It contains forecasts for oil and gas production, sales volumes for various types of products, revenues, costs and capital expenditure. As an initial step in the preparation of this model, various assumptions are set by senior management. These assumptions take account of commodity prices, global supply-demand equilibrium for oil and natural gas, other macroeconomic factors and historical trends and variability. In assessing the recoverable amount, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a discount rate.

Significant accounting judgment: identification of cash-generating unit

Judgement is required to identify cash-generating units for the purpose of testing the assets for impairment. Management has determined a single cash-generating unit within the Group's non-current assets consisting of all Group's assets related to its Chinarevskoye field and facilities. This is mainly based on the fact that hydrocarbons extracted from the Chinarevskoye field are processed and passed through a combination of various facilities.

Significant estimates and assumptions: impairment of property, plant and equipment, exploration and evaluation assets

Determination as to whether, and by how much, the CGU is impaired involves management's best estimates on highly uncertain matters such as future commodity prices, operating expenses and capital expenditures estimates, discount rate, fiscal regimes, proved and probable reserves, contingent resources and respective future production profiles.

Based on the management assessment the recoverable amount was determined by the fair value less costs of disposal (FVLCD) of the CGU, which was higher than its value-in-use. FVLCD was based on the discounted cash flow model as no recent third-party transactions existed on which a reliable market-based fair value could be established.

The discounted cash flow model takes into consideration cash flows, which are expected to arise until 2032, i.e. during the licence term of the Chinarevskoye field, and is considered a level 3 valuation under the fair value hierarchy. The period exceeding five years is believed to be appropriate based on the proved and probable reserves audited by independent engineers. The model also takes into account risk-adjusted cash flows from contingent resources on the basis a market participant would place value on these resources.

The key assumptions used in the Group's discounted cash flow model reflecting past experience and taking into account external factors are subject to periodic review. These assumptions are:

- Oil prices (in real terms): US\$75/bbl for 2023, US\$73/bbl for 2024 and US\$65/bbl throughout 2025-2032 (2021: US\$72.3/bbl for 2022, US\$67.6/bbl for 2023, US\$67.3/bbl for 2024, US\$67.2/bbl for 2025, and US\$65/bbl throughout 2026-2032);
- Proved and probable hydrocarbon reserves confirmed by independent reserve engineers;
- Contingent resources as confirmed by independent reserve engineers split into risk categories for valuation purposes;
- Production profiles based on Group's internal estimates confirmed by independent reserve engineers;
- All cash flows are projected on the basis of stable prices, i.e. inflation/growth rates are ignored;
- Cost profiles for the development of the fields and subsequent operating costs consistent with reserves estimates and production profiles; and
- Gas treatment unit (GTU) spare capacity utilization – risk-weighted option value from processing under the contract with Ural Oil & Gas LLP;

- Post-tax discount rate of 11.6%, estimated to be equivalent to pre-tax discount rate of 16.5% (2021: 8.5% and 12.5%, respectively).

The impairment testing carried out by the Group as of 31 December 2022 has resulted in the recoverable amount approximating the carrying amount of the Group's property, plant and equipment as of 31 December 2022. Hence no impairment charge or reversal was recognised.

The impairment testing carried out by the Group as of 31 December 2021 has resulted in the recoverable amount exceeding the carrying amount of the Group's property, plant and equipment as of 31 December 2021. This has primarily resulted from the upward revision of the product price assumptions, as described above. Hence, the Group recognised a reversal of the previously recognised impairment in the amount of US\$74,186 thousand in 2021.

The impairment reversal as at 31 December 2021 and charge as at 31 December 2021 has been allocated as follows:

| <i>In thousands of US Dollars</i> | 31 December 2021 |
|---|---------------------|
| Working oil and gas assets | 63,118 |
| Construction in progress | 9,420 |
| Other property, plant and equipment | 1,648 |
| Total impairment reversal / (charge) | 74,186 |

As at 31 December 2022 the recoverable amount of property, plant and equipment was approximate to its carrying value (31 December 2021: US\$320,125 thousand).

More detailed information on carrying values of oil and gas properties and related depreciation, depletion, amortisation and impairment are shown in Note 4.

The following table summarizes sensitivity of the recoverable amount and respective potential impairment charges that would result from changes in the key assumptions:

| <i>Key assumption</i> | <i>Change</i> | <i>Sensitivity (US\$)</i> |
|------------------------------------|---------------|---------------------------|
| Oil price decrease by | \$10/bbl | 39,037 |
| Reserves downgrade by | 10.0% | 50,418 |
| Post-tax discount rate increase by | 4.0% | 41,926 |
| Operating costs increase by | 10.0% | 21,280 |

On the other hand, certain positive development like successful mitigation of reservoir risks in the future and respective changes in the drilling plans and results, with the relevant increase in 2P reserves, or increase in utilisation of the Group's processing facilities, could have the effect of reversing the impairment. Any reversal would be limited so that the carrying amount of the CGU does not exceed the lower of its recoverable amount, or the carrying amount that would have been determined, net of depreciation, had no impairment charge been recognised for the CGU in prior years.

Notes to the consolidated financial statements (continued)

Leases

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

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

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts

expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

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

Separation of lease and non-lease components

When contracts for a lease (such as like lease of drilling rigs and rail-tank cars) include various additional services like personnel cost, maintenance, drilling related activities, and other items, the Group splits such non-lease components and recognises them separately. Where the additional services are not separately priced, the

consideration paid is allocated based on the relative stand-alone prices of the lease and non-lease components.

Distinguishing fixed and variable lease payment elements

Certain lease contracts include fixed rates for when the asset is in operation, and various alternative rates (like “cold-stack rates” for leases of drilling rigs) for periods where the asset is engaged in specified activities or idle, but still under contract. In general, variability in lease payments under these contracts has its basis in different use and activity levels, and the variable elements have been determined to relate to non-lease components only. Consequently, the lease components of these contractual payments are considered fixed for the purposes of IFRS 16.

Short-term leases and leases of low-value assets

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest (“NCI”) in the acquiree. For each business combination, the Group elects whether to measure NCI in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. Those acquired petroleum reserves and resources that can be reliably measured are recognised separately in the

assessment of fair values on acquisition. Other potential reserves, resources and rights, for which fair values cannot be reliably measured, are not recognised separately, but instead are included in goodwill.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for NCI over the fair value of the identifiable net assets acquired and liabilities assumed. If the fair value of the identifiable net assets acquired is in excess of the aggregate consideration transferred (bargain purchase), before recognising a gain, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is

recognised in the statement of profit or loss and other comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a Cash Generating Unit (“CGU”) and part of the operation in that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Notes to the consolidated financial statements (continued)

Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax bases of income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Group and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income. The tax rates and tax laws used to compute the amount are those that apply to the relevant taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax

returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and

the deferred taxes relate to the same taxable entity and the same taxation authority.

For more detailed information in current and deferred income tax disclosure as at 31 December 2022 and 2021, please see Note 26.

Significant accounting judgment: taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2022.

The Group is subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the tax authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for taxes for which it is considered probable will be payable, based on professional advice and consideration of the nature of current discussions with the tax authority.

As at 31 December 2022 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained. To the extent that actual outcomes differ from management's estimates, income tax charges or credits, and changes in current and deferred tax assets or liabilities, may arise in future periods. For more information, see Note 26.

Foreign currency translation

The functional currency is the currency of the primary economic environment in which an entity operates and is normally the currency in which the entity primarily generates and expends cash.

The functional currency of the Company is the United States dollar (the "US dollar" or "US\$"). The functional currencies of the Group's subsidiaries are as follows:

| Company | Functional currency |
|------------------------------------|---------------------|
| Nostrum Associated Investments LLP | Tenge |
| Nostrum Oil & Gas Coöperatief U.A. | US dollar |
| Nostrum Oil & Gas BV | US dollar |
| Nostrum Oil & Gas Finance BV | US dollar |
| Nostrum Oil & Gas Holding Ltd | US dollar |
| Nostrum Oil & Gas UK Ltd. | British Pound |
| Nostrum Services Central Asia LLP | Tenge |
| Nostrum Services N.V. | Euro |
| Zhaikmunai LLP | US dollar |

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

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. All differences are taken to the profit or 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.

In the consolidated financial statements, the assets and liabilities of non-US dollar functional currency subsidiaries are translated into US dollars at the spot exchange rate on the balance sheet date. The results and cash flows of non-US dollar functional currency subsidiaries are translated into US dollars using average rates of exchange, and resulting exchange differences are accumulated foreign currency translation reserve within equity, and are reclassified to the profit or loss on the disposal of the subsidiary. In the consolidated financial statements, exchange adjustments arising when the opening net assets and the profits for the year retained by non-US dollar functional currency subsidiaries are translated into US dollars are reported in the other comprehensive income.

Notes to the consolidated financial statements (continued)

Borrowing costs

The Group capitalises borrowing costs on qualifying assets. Assets qualifying for borrowing costs capitalisation include all assets under construction that are not being depreciated, depleted, or amortised, provided that work is in progress at that time. Qualifying assets mostly include wells and other operations field infrastructure under construction. Capitalised borrowing costs are calculated by applying the capitalisation rate to the expenditures on qualifying assets. The capitalisation rate is the weighted average of the borrowing costs applicable to the Group's borrowings that are outstanding during the period. All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

For more detailed information in relation to capitalisation of borrowing costs, please refer to Note 4.

Advances for non-current assets

Advances paid for capital investments/acquisition of non-current assets are qualified as advances for non-current assets regardless of the period of supplies of relevant assets or the supply of work or services to close advances. Advances paid for the purchase of non-current assets are recognised by the Group as non-current assets and are not discounted.

For more detailed information in relation to advances for non-current assets, please refer to Note 6.

Inventories

Inventories are stated at the lower of cost or net realisable value ("NRV"). Cost of oil, gas condensate and liquefied petroleum gas ("LPG") is determined on the weighted-average method based on the production cost including the relevant expenses on depreciation, depletion and impairment and

overhead costs based on production volume. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

For more information in relation to the breakdown of inventories as at 31 December 2022 and 2021, please see Note 7.

Other current liabilities

The Group makes accruals for liabilities related to the underperformance and/or adjustments of work programs under subsoil use agreements (SUA) on a regular basis. When evaluating the adequacy of an accrual, management bases its estimates on the latest work program included in the SUA, and relevant signed supplements and potential future changes in payment terms (including the currency in which these liabilities are to be settled).

Future changes in the work programs may require adjustments to the accrual recorded in the consolidated financial statements.

Provisions and contingencies

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed by the Group at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

The Group classifies as contingent liabilities those possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the

control of the enterprise and the present obligations that arise from past events but are not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Group does not recognise contingent liabilities but discloses contingent liabilities in Note 29, unless the possibility of an outflow of resources embodying economic benefits is remote.

Significant accounting judgment: provisions and contingencies

Provisions and liabilities are recognized in the period when it becomes probable that there will be a future outflow of funds resulting from past

operations or events and the amount of cash outflow can be reliably estimated. The timing of recognition and quantification of the liability require the application of judgment to existing facts and circumstances, which can be subject to change. The carrying amounts of provisions and liabilities are reviewed regularly and adjusted to take account of changing facts and circumstances.

Significant management judgment is required to evaluate any claims and actions to determine whether a provision relating to a specific litigation should be recognized or revised, or a contingent liability is required to be disclosed, since the outcome of litigation is difficult to predict.

For more detail on provisions and contingencies, please refer to Note 29.

Decommissioning

Provision for decommissioning is recognised in full, when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that provision can be made.

The Group estimates future dismantlement and site restoration costs for oil and gas properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement and the extent of site restoration required in accordance with current legislation and industry practice. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the obligation at current year prices discounted at pre-tax rate that reflects current market assessment of the time value of money and the risks specific to liability.

The unwinding of the discount related to the obligation is recorded in finance costs. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related oil and gas properties. This asset is subsequently depreciated as part of the capital costs of the oil and gas properties on a unit-of-production basis.

The Group reviews site restoration provisions at each financial reporting date and adjusts them to reflect current best estimates in accordance with IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities.

Changes in the measurement of an existing decommissioning liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or changes to the discount rate:

- are added to, or deducted from, the cost of the related asset in the current period. If deducted from the cost of the asset the amount deducted shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognised immediately in the profit or loss; and
- if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss in accordance with IAS 36.

Movements in the abandonment and site restoration provision are disclosed in Note 14.

Notes to the consolidated financial statements (continued)

Significant estimates and assumptions: provisions and contingencies

The Group holds provision for the future decommissioning of oil and gas properties and site restoration. The estimation of the future dismantlement and site restoration costs involves use of significant estimates and assumptions by management, specifically for determining the timing of the future cash outflows and discount rate.

Management made its estimates based on the assumption that cash flow will take place at the

expected end of the subsoil use rights. Therefore, most decommissioning events are many years in the future and the precise date of wells abandonment and site restoration may change with the relative impact on the cash outflows.

Management of the Group believes that the long-term US Treasury real yield curve rates adjusted for country risk premium of Kazakhstan provides the best estimates of applicable real discount rate.

Any changes in the expected future costs are reflected in both the provision and the asset.

Moreover, actual decommissioning costs can differ from estimates because of constantly changing decommissioning technologies as well as changes in environmental laws and regulations and public expectations.

As a result, there could be significant adjustments to the provisions established which would affect future financial results. For more details on abandonment and site restoration provision please refer to Note 14.

Financial assets**Initial recognition and measurement**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss. The Group determines the classification of its financial assets at initial recognition.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price 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 Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition;
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group 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 Group's financial assets at amortised cost include cash, long-term and short-term deposits, trade and other receivables.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has

neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Impairment of financial assets

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

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

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

Notes to the consolidated financial statements (continued)

Financial liabilities

Initial recognition, measurement and derecognition

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, long-term 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 long-term borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, long-term borrowings, and derivative financial instruments.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative

financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

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

Financial liabilities at amortised cost (loans and borrowings)

This is the category most relevant to the Group. After initial recognition, interest-bearing 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 borrowings. For more information, refer to Note 13.

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 profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedging

The Group from time to time uses hedging contracts for oil export sales to cover part of its risks associated with oil price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less at inception.

Restricted cash and cash equivalent balances are those which meet the definition of cash and cash equivalents but are not available for use by the Group and therefore is not considered highly liquid – for example, cash set aside to cover decommissioning obligations or as required by the forbearance agreement.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank overdrafts.

For more detailed information in relation to cash and cash equivalents as at 31 December 2022 and 2021, please see Note 10.

Revenue recognition

The Group sells crude oil, gas condensate and LPG under agreements priced by reference to Platt's and/or Argus' index quotations and adjusted for freight, insurance and quality differentials where

applicable. The Group sells gas under agreements at fixed prices.

Revenue from contracts with customers is recognised when control of the goods is transferred to the customer. For sales of crude oil, gas condensate and LPG, this generally occurs when the product is physically transferred into a vessel, pipe, railcar, trucks or other delivery mechanism; for sales of gas, it is when the product is physically transferred into a pipe. The Group's LPG are sales are mostly on advance payment basis, while payment terms for gas, oil and condensate are normally 15-45 days after delivery.

The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods before transferring them to the customer.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the share premium. Voting rights related to treasury shares are nullified for the

Group and no distributions are accepted in relation to them. Share options exercised during the reporting period can be satisfied with treasury shares.

Share-based payments

The cost of equity-settled transactions is measured at fair value at the grant date. This fair value is expensed over the period until vesting with the recognition of a corresponding equity element, which is not remeasured subsequently until the settlement date.

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and distribution yield and making assumptions about them.

Notes to the consolidated financial statements (continued)

5. Property, plant and equipment

As at 31 December 2022 and 31 December 2021 property, plant and equipment comprised the following:

| <i>In thousands of US Dollars</i> | 31 December 2022 | 31 December 2021 |
|-------------------------------------|------------------|------------------|
| Oil and gas properties | 268,990 | 313,009 |
| Other property, plant and equipment | 7,033 | 7,116 |
| | 276,023 | 320,125 |

Oil and gas properties

The category "Oil and gas properties" represents mainly wells, oil and gas treatment facilities, oil transportation and other related assets. The movement of oil and gas properties for the years ended 31 December 2022 and 2021 was as follows:

| <i>In thousands of US Dollars</i> | Working assets | Construction in progress | Total |
|--|----------------|--------------------------|----------------|
| Balance at 1 January 2021, net* | 259,974 | 31,415 | 291,389 |
| Additions | 992 | 7,840 | 8,832 |
| Transfers | 7,664 | (6,882) | 782 |
| Disposals | (556) | (5,049) | (5,605) |
| Disposals depreciation | 526 | – | 526 |
| Depreciation and depletion charge | (55,453) | – | (55,453) |
| Accumulated impairment transfers | (4,221) | 4,221 | – |
| Impairment charge | 63,118 | 9,420 | 72,538 |
| Balance at 31 December 2021, net* | 272,044 | 40,965 | 313,009 |
| Additions | 8 | 16,544 | 16,552 |
| Transfers | 28,217 | (28,515) | (298) |
| Disposals | (9,220) | (742) | (9,962) |
| Disposals depreciation | 16 | – | 16 |
| Depreciation and depletion charge | (51,213) | – | (51,213) |
| Impairment transfer | (24,308) | 25,194 | 886 |
| Balance at 31 December 2022, net* | 215,544 | 53,446 | 268,990 |

As at 31 December 2020

| | | | |
|----------------------------|----------------|---------------|----------------|
| Cost | 2,943,678 | 116,823 | 3,060,501 |
| Accumulated depreciation** | (2,683,704) | (85,408) | (2,769,112) |
| Balance* | 259,974 | 31,415 | 291,389 |

As at 31 December 2021

| | | | |
|--------------------------|----------------|---------------|----------------|
| Cost | 2,951,778 | 112,732 | 3,064,510 |
| Accumulated depreciation | (2,679,734) | (71,767) | (2,751,501) |
| Balance | 272,044 | 40,965 | 313,009 |

As at 31 December 2022

| | | | |
|----------------------------|----------------|---------------|----------------|
| Cost | 2,970,783 | 100,019 | 3,070,802 |
| Accumulated depreciation** | (2,755,239) | (46,573) | (2,801,812) |
| Balance* | 215,544 | 53,446 | 268,990 |

* Balances, net of accumulated depreciation, depletion and impairment

** Accumulated depreciation, depletion and impairment

The category "Construction in progress" is represented by employee remuneration, materials and fuel used, rig costs, payments made to contractors, and asset retirement obligation fees directly associated with development of wells until the drilling of the well is complete and results have been evaluated.

The depletion rate for oil and gas working assets was 21.73% and 24.71% in 2022 and 2021, respectively. The Group engaged independent petroleum engineers to perform a reserves audit as at 31 December 2022. Depletion has been calculated using the unit of production method based on these reserves estimates.

The change in the discount rate used to determine the abandonment and site restoration provision (Note 14) in the year ended 31 December 2022 resulted in the decrease of the oil and gas properties by US\$ 9,206 thousand (31 December 2021: an increase of US\$112 thousand).

The Group incurred borrowing costs including amortisation of arrangement fees. Capitalisation rate and capitalised borrowing costs were as follows as at 31 December 2022 and 31 December 2021:

| <i>In thousands of US Dollars</i> | 31 December 2022 | 31 December 2021 |
|---|------------------|------------------|
| Borrowing costs including amortisation of arrangement fee | 106,915 | 103,334 |
| Capitalisation rate | 8.44% | 8.44% |
| Capitalised borrowing costs | 1,504 | 219 |

Other property, plant and equipment

| <i>In thousands of US Dollars</i> | Buildings | Machinery & equipment | Vehicles | Others | Total |
|------------------------------------|--------------|-----------------------|-----------|--------------|--------------|
| Balance at 1 January 2021 | 1,057 | 1,888 | 40 | 3,386 | 6,371 |
| Additions | – | – | – | 457 | 457 |
| Transfers | 21 | 297 | – | (1,100) | (782) |
| Disposals | (10) | (211) | – | (495) | (716) |
| Disposals depreciation | 8 | 166 | – | 208 | 382 |
| Depreciation | (66) | (49) | (3) | (126) | (244) |
| Impairment reversal | 1,648 | – | – | – | 1,648 |
| Balance at 31 December 2021 | 2,658 | 2,091 | 37 | 2,330 | 7,116 |
| Additions | – | 313 | – | 773 | 1,086 |
| Transfers | 265 | 436 | – | (403) | 298 |
| Disposals | (25) | (188) | (86) | (152) | (451) |
| Disposals depreciation | 26 | 188 | 85 | 132 | 431 |
| Depreciation | (257) | (129) | (3) | (233) | (622) |
| Impairment transfer | (738) | (105) | – | 18 | (825) |
| Balance at 31 December 2022 | 1,929 | 2,606 | 33 | 2,465 | 7,033 |

As at 31 December 2020

| | | | | | |
|----------------------------|--------------|--------------|-----------|--------------|--------------|
| Cost | 49,247 | 21,670 | 1,591 | 18,930 | 91,438 |
| Accumulated depreciation** | (48,190) | 19,782 | (1,551) | (15,544) | (85,067) |
| Balance* | 1,057 | 1,888 | 40 | 3,386 | 6,371 |

As at 31 December 2021

| | | | | | |
|----------------------------|--------------|--------------|-----------|--------------|--------------|
| Cost | 49,258 | 21,756 | 1,591 | 17,792 | 90,397 |
| Accumulated depreciation** | (46,763) | (19,611) | (1,544) | (15,363) | (83,281) |
| Balance* | 2,495 | 2,145 | 47 | 2,429 | 7,116 |

As at 31 December 2022

| | | | | | |
|----------------------------|--------------|--------------|-----------|--------------|--------------|
| Cost | 49,498 | 22,317 | 1,505 | 18,010 | 91,330 |
| Accumulated depreciation** | (47,569) | (19,711) | (1,472) | (15,545) | (84,297) |
| Balance* | 1,929 | 2,606 | 33 | 2,465 | 7,033 |

* Balances, net of accumulated depreciation, amortisation and impairment

** Accumulated depreciation, amortisation and impairment

Notes to the consolidated financial statements (continued)

6. Advances for non-current assets

As at 31 December 2022 and 31 December 2021 advances for non-current assets comprised the following:

| <i>In thousands of US Dollars</i> | 31 December 2022 | 31 December 2021 |
|---------------------------------------|-----------------------------|---------------------|
| Advances for construction materials | 1,090 | 1,059 |
| Advances for construction services | 582 | 359 |
| Advances for other non-current assets | 442 | – |
| | 2,114 | 1,418 |

7. Inventories

As at 31 December 2022 and 31 December 2021 inventories comprised the following:

| <i>In thousands of US Dollars</i> | 31 December 2022 | 31 December 2021 |
|-----------------------------------|-----------------------------|---------------------|
| Spare parts and other inventories | 26,720 | 26,720 |
| Gas condensate | 1,905 | 4,265 |
| Crude oil | 1,182 | 306 |
| LPG | 335 | 57 |
| Dry gas | 46 | 32 |
| Sulphur | 8 | 7 |
| | 30,196 | 31,387 |

As at 31 December 2022 and 31 December 2021 inventories are carried at cost.

8. Prepayments and other current assets

As at 31 December 2022 and 31 December 2021 prepayments and other current assets comprised the following:

| <i>In thousands of US Dollars</i> | 31 December 2022 | 31 December 2021 |
|-----------------------------------|-----------------------------|---------------------|
| Advances paid | 2,959 | 2,370 |
| Other taxes receivable | 761 | 1,668 |
| VAT receivable | 744 | 4,882 |
| Other | 224 | 815 |
| | 4,688 | 9,735 |

Advances paid consist primarily of prepayments made to service providers. As at 31 December 2022 the impaired VAT receivable amounted to US\$5,596 thousand and the impaired advances paid amounted to US\$169 thousand (31 December 2021: impaired advances paid: US\$41 thousand).

There were no other movements in the provision for impairment of advances paid during the year ended 31 December 2022 and the year ended 31 December 2021.

9. Trade receivables

As at 31 December 2022 and 31 December 2021 trade receivables were not interest-bearing and were mainly denominated in US dollars and Tenge. Their average collection period is not more than 45 days.

As at 31 December 2022 and 31 December 2021 there were past due but not impaired trade receivables. Based on the assessments made, the Group concluded that no provision for expected credit losses should be recognized as at 31 December 2022 and 31 December 2021.

10. Cash and cash equivalents

As at 31 December 2022 and 31 December 2021 cash and cash equivalents comprised the following:

| <i>In thousands of US Dollars</i> | 31 December 2022 | 31 December 2021 |
|--------------------------------------|-----------------------------|---------------------|
| Current accounts in US Dollars | 217,026 | 157,981 |
| Current accounts in Tenge | 13,827 | 5,736 |
| Current accounts in Euro | 1,824 | 1,020 |
| Current accounts in other currencies | 901 | 500 |
| Petty cash | 6 | 9 |
| | 233,584 | 165,246 |

In addition to the cash and cash equivalents in the table above, as at 31 December 2022 the Group had restricted cash accounts as a liquidation fund deposit of US\$8,220 thousand with Halyk bank (31 December 2021: US\$47 thousand with Sberbank in Kazakhstan and US\$7,719 thousand with Halyk bank), which are kept as required by the subsoil use rights for abandonment and site restoration liabilities of the Group.

The Group transferred funds to a secured cash account opened for the benefit of the holders of the Group's Notes under the terms of the FBAs (Note 1). As at 31 December 2022 the balance of the secured cash account was US\$22,802 thousand (31 December 2021: US\$22,672 thousand). The Company has the ability to make certain withdrawals from the account if its liquidity falls below an agreed level.

11. Share capital and reserves

As at 31 December 2022 the ownership interests in the Parent consists of 188,182,958 issued and fully paid ordinary shares, which are listed on the London Stock Exchange. The ordinary shares have a nominal value of GBP 0.01. There were no movements in the number of shares during the year ended 31 December 2022 and year ended 31 December 2021 and comprised of the following:

| | Number of shares |
|------------------|-------------------------|
| In circulation | 185,234,079 |
| Treasury capital | 2,948,879 |
| | 188,182,958 |

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

Notes to the consolidated financial statements (continued)

The movements in the Group's other reserves is presented as follows:

| <i>In thousands of US Dollars</i> | Group reorganisation reserve | Foreign currency translation reserves | Share-option reserves | Total |
|-----------------------------------|------------------------------|---------------------------------------|-----------------------|----------------|
| As at 1 January 2021 | 255,459 | 3,305 | 4,071 | 262,835 |
| Currency translation difference | — | (203) | — | (203) |
| Share based payments under LTIP | — | — | (247) | (247) |
| As at 31 December 2021 | 255,459 | 3,102 | 3,824 | 262,385 |
| Currency translation difference | — | (490) | — | (490) |
| Share based payments under LTIP | — | — | (38) | (38) |
| As at 31 December 2022 | 255,459 | 2,612 | 3,786 | 261,857 |

Group reorganisation reserve in the amount of US\$255,459 thousand represents the difference between the partnership capital, treasury capital and additional paid-in capital of Nostrum Oil & Gas LP and the share capital of Nostrum Oil & Gas PLC, that arose during the reorganisation of the Group in 2014. Share-option reserves include amounts related to sale of treasury shares under ESOP as well as share-based payments under LTIP.

Distributions

There were no distributions made during the year ended 31 December 2022 and year ended 31 December 2021.

Kazakhstan stock exchange disclosure requirement

18 April 2014) a requirement for disclosure of "the book value per share" (total assets less intangible assets, total liabilities and preferred stock divided by the number of outstanding shares as at the reporting date). As at 31 December 2022 the book value per share amounted to US\$4.76 negative (31 December 2021: US\$4.44 negative).

12. Earnings per share

As at 31 December 2022 the ownership interests in the Parent consists of 188,182,958 issued and fully paid ordinary shares, which are listed on the London Stock Exchange. The ordinary shares have a nominal value of GB£0.01. For the purpose of calculations of earnings per share the number of shares has been adjusted as required under IAS 33.64 for the effect of the sub-division and consolidation of the ordinary share capital occurred after close of business on 9 February 2023 (Note 31).

| | For the year ended 31 December | |
|---|--------------------------------|-------------|
| | 2022 | 2021 |
| Loss for the period attributable to the shareholders (in thousands of US dollars) | (116,445) | (26,118) |
| Weighted average number of shares | 169,086,713 | 169,086,713 |
| Basic and diluted earnings per share (in US dollars) | (0.69) | (0.15) |

13. Notes payable and accumulated interest

Notes payable and accumulated interest are comprised of the following as at 31 December 2022 and 31 December 2021:

| <i>In thousands of US Dollars</i> | 31 December 2022 | 31 December 2021 |
|---|------------------|------------------|
| Notes issued in 2017 and maturing in 2022 | 725,000 | 720,655 |
| Notes issued in 2018 and maturing in 2025 | 396,320 | 395,022 |
| Accrued interest | 275,197 | 173,926 |
| | 1,396,517 | 1,289,603 |
| Less amounts due within 12 months | (1,396,517) | (1,289,603) |
| | — | — |

2022 Notes

On 25 July 2017, a newly incorporated entity, Nostrum Oil & Gas Finance B.V. (the "2022 Issuer") issued US\$725,000 thousand notes with maturity on 25 July 2022. The 2022 Notes bear interest at a rate of 8.00% per year, payable on 25 January and 25 July of each year.

The 2022 Notes are jointly and severally guaranteed (the "2022 Guarantees") on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V. (the "2022 Guarantors"). The 2022 Notes are the 2022 Issuer's and the 2022 Guarantors' senior obligations and rank equally with all of the 2022 Issuer's and the 2022 Guarantors' other senior indebtedness.

The issue of the 2022 Notes was used primarily to fund the refinancing of part of the Group's Notes issued in 2012 and 2014.

2025 Notes

On 16 February 2018, Nostrum Oil & Gas Finance B.V. (the "2025 Issuer") issued US\$400,000 thousand notes with maturity on 16 February 2025. The 2025 Notes bear interest at a rate of 7.00% per year, payable on 16 August and 16 February of each year.

The 2025 Notes are jointly and severally guaranteed (the "2025 Guarantees") on a senior basis by Nostrum Oil & Gas PLC, Nostrum Oil & Gas Coöperatief U.A., Zhaikmunai LLP and Nostrum Oil & Gas B.V. (the "2025 Guarantors"). The 2025 Notes are the 2025 Issuer's and the 2025 Guarantors' senior obligations and rank equally with all of the 2025 Issuer's and the 2025 Guarantors' other senior indebtedness.

The issue of the 2025 Notes was used primarily to fund the refinancing of the remaining Group's Notes issued in 2012 and 2014.

Reclassification to current liabilities

The Group has not made coupon payments due under the Existing Notes since July 2020, which was an event of default under the terms of the indentures governing 2022 Notes and 2025 Notes. Considering these facts and circumstances, starting from Q3 2020 the Group reclassified the carrying amounts of the 2022 Notes and 2025 Notes into current liabilities and since then has been presenting them as the current portion of long-term borrowings in the statement of financial position.

The Company continued active discussions with the financial and legal advisers to the AHG and signed the FBAs, which prohibited the AHG from exercising certain rights and remedies under the Existing Note indentures. In December 2021 the Group entered into the First LUA and agreed terms of a restructuring with noteholders. More detailed information related to the restructuring scheme is disclosed in the Note 1.

Covenants contained in the 2022 Notes and 2025 Notes

The 2022 and the 2025 Notes contain consistent covenants that, among other things, restrict, subject to certain exceptions and qualifications, the ability of the 2022 Issuer, the 2025 Issuer, the 2022 Guarantors, the 2025 Guarantors and certain other members of the Group to:

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

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

Notes to the consolidated financial statements (continued)

Changes in liabilities arising from financing activities

| <i>In thousands of US Dollars</i> | 1 January | Cash outflows | Borrowing costs including amortisation of arrangement fees | Finance charges under leases | Modification and termination of leases | Reclassification on from non-current to current | 31 December |
|--|------------------|---------------|--|------------------------------|--|---|------------------|
| 2022 | | | | | | | |
| Notes payable and accumulated interest | 1,289,603 | – | 106,914 | – | – | – | 1,396,517 |
| 2021 | | | | | | | |
| Notes payable and accumulated interest | 1,186,269 | – | 103,334 | – | – | – | 1,289,603 |
| Long-term lease liabilities | 35 | – | – | – | – | (35) | – |
| Current portion of lease liability | 2,790 | (1,732) | – | 157 | (1,250) | 35 | – |

14. Abandonment and site restoration provision

The summary of changes in abandonment and site restoration provision during years ended 31 December 2022 and 2021 is as follows:

| <i>In thousands of US Dollars</i> | 2022 | 2021 |
|------------------------------------|---------------|---------------|
| Provision as at 1 January | 29,008 | 28,936 |
| Unwinding of discount | 271 | 276 |
| Additional provision | – | 85 |
| Provision disposed | – | (401) |
| Change in estimates | (9,206) | 112 |
| Provision as at 31 December | 20,073 | 29,008 |

Management made its estimate based on the assumption that cash flow will take place at the expected end of the subsoil use rights in 2032. There are uncertainties in estimation of future costs as Kazakh laws and regulations concerning site restoration evolve.

The real discount rate used to determine the abandonment and site restoration provision at 31 December 2022 was 4.87% (31 December 2021: 0.92%).

The change in the discount rate during the year ended 31 December 2022 resulted in the decrease of the abandonment and site restoration provision by US\$9,206 thousand (31 December 2021: US\$112 thousand).

15. Due to Government of Kazakhstan

The amount due to Government of the Republic of Kazakhstan has been recorded to reflect the present value of a liability in relation to the expenditures made by the Government in the time period prior to signing the Contract that were related to exploration of the Contract territory and the construction of surface facilities in fields discovered therein and that are reimbursable by the Group to the Government during the production period. The total amount of liability due to Government as stipulated by the Contract is US\$ 25,000 thousand.

Repayment of this liability commenced in 2008 with the first payment of US\$1,030 thousand in March 2008 and with further payments by equal quarterly instalments of US\$258 thousand until 26 May 2031. The liability was discounted at 13%.

The summary of the changes in the amounts due to Government of Kazakhstan during the years ended 31 December 2022 and 31 December 2021 is as follows:

| <i>In thousands of US Dollars</i> | 2022 | 2021 |
|-----------------------------------|----------------|----------------|
| Balance as at 1 January | 5,594 | 5,863 |
| Unwinding of discount | 470 | 762 |
| Paid during the year | (1,031) | (1,031) |
| Balance as at 31 December | 5,033 | 5,594 |
| Less: current portion | (1,031) | (1,031) |
| Non-current portion | 4,002 | 4,563 |

16. Trade payables

Trade payables comprise the following as at 31 December 2022 and 31 December 2021:

| <i>In thousands of US Dollars</i> | 31 December 2022 | 31 December 2021 |
|--|------------------|------------------|
| Tenge denominated trade payables | 6,942 | 5,433 |
| US Dollar denominated trade payables | 1,543 | 1,397 |
| Euro denominated trade payables | 1,160 | 464 |
| Russian Rouble denominated trade payables | 141 | 122 |
| Trade payables denominated in other currencies | 143 | 983 |
| | 9,929 | 8,399 |

17. Other current liabilities

Other current liabilities comprise the following as at 31 December 2022 and 31 December 2021:

| <i>In thousands of US Dollars</i> | 31 December 2022 | 31 December 2021 |
|---|------------------|------------------|
| Other accruals | 23,481 | 3,318 |
| Taxes payable, including corporate income tax | 15,437 | 6,709 |
| Training obligations accrual | 6,441 | 8,684 |
| Due to employees | 2,724 | 2,479 |
| Other current liabilities | 757 | 686 |
| | 48,840 | 21,876 |

Notes to the consolidated financial statements (continued)

18. Revenue

| | For the year ended 31 December | |
|---|--------------------------------|---------|
| <i>In thousands of US Dollars</i> | 2022 | 2021 |
| Revenue from oil and gas condensate sales | 158,107 | 150,290 |
| Revenue from gas and LPG sales | 41,578 | 44,978 |
| Revenue from sulphur sales | 32 | 17 |
| | 199,717 | 195,285 |

The pricing for all of the Group's crude oil, condensate and LPG is, directly or indirectly, related to the price of Brent crude oil. The average Brent crude oil price the year ended 31 December 2022 was US\$99.0/bbl (year ended 31 December 2021: US\$71.0/bbl).

The operations of the Group are located in only one geographic location, Kazakhstan.

During the year ended 31 December 2022 the revenue from sales to three major customers amounted to US\$151,302 thousand, US\$15,707 thousand and US\$6,805 thousand respectively (year ended 31 December 2021: US\$143,054 thousand, US\$18,207 thousand and US\$8,704 thousand respectively). The Group's exports were mainly represented by deliveries to the Baltic ports of Russia.

19. Cost of sales

| | For the year ended 31 December | |
|--|--------------------------------|--------|
| <i>In thousands of US Dollars</i> | 2022 | 2021 |
| Depreciation, depletion and amortisation | 51,682 | 55,569 |
| Payroll and related taxes | 14,179 | 14,603 |
| Repair, maintenance and other services | 6,662 | 6,610 |
| Materials and supplies | 4,333 | 4,561 |
| Well repair and maintenance costs | 3,122 | 2,726 |
| Transportation services | 2,285 | 2,559 |
| Change in stock | 1,191 | 403 |
| Environmental levies | 79 | 201 |
| Other | 520 | 617 |
| | 84,053 | 87,849 |

20. General and administrative expenses

| | For the year ended 31 December | |
|-----------------------------------|--------------------------------|--------|
| <i>In thousands of US Dollars</i> | 2022 | 2021 |
| Payroll and related taxes | 6,634 | 6,123 |
| Professional services | 3,556 | 4,113 |
| Insurance fees | 577 | 601 |
| Business travel | 282 | 204 |
| Materials and supplies | 182 | 144 |
| Communication | 180 | 182 |
| Short-term leases | 172 | 290 |
| Depreciation and amortisation | 153 | 170 |
| Bank charges | 47 | 71 |
| Other | 293 | 226 |
| | 12,076 | 12,124 |

21. Selling and transportation expenses

| | For the year ended 31 December | |
|-------------------------------------|--------------------------------|--------|
| <i>In thousands of US Dollars</i> | 2022 | 2021 |
| Transportation costs | 8,473 | 9,545 |
| Loading and storage costs | 8,094 | 6,869 |
| Marketing services | – | 2,167 |
| Depreciation of right-of-use assets | – | 1,556 |
| Payroll and related taxes | 1,375 | 1,520 |
| Other | 2,008 | 1,409 |
| | 19,950 | 23,066 |

22. Taxes other than income tax

| | For the year ended 31 December | |
|-----------------------------------|--------------------------------|--------|
| <i>In thousands of US Dollars</i> | 2022 | 2021 |
| Export customs duty | 10,014 | 7,655 |
| Royalties | 8,116 | 7,786 |
| Government profit share | 1,692 | 1,628 |
| Other taxes | 8 | 14 |
| | 19,830 | 17,083 |

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

23. Finance costs

| | For the year ended 31 December | |
|---|--------------------------------|---------|
| <i>In thousands of US Dollars</i> | 2022 | 2021 |
| Interest expense on borrowings | 105,411 | 103,115 |
| Other finance costs | 16,986 | 12,386 |
| Unwinding of discount on amounts due to Government of Kazakhstan | 470 | 762 |
| Unwinding of discount on lease liability | – | 157 |
| Unwinding of discount on abandonment and site restoration provision | 271 | 276 |
| | 123,138 | 116,696 |

Other finance costs mainly represent advisor fees in the amount of US\$16,875 thousand (year ended 31 December 2021: US\$2,941 thousands of bondholder consent fees and US\$5,875 thousand advisor fees) incurred by the Group in relation to the FBAs, Lock-up Agreement and process of restructuring of the Group's outstanding bonds. For more details on the restructuring see Note 1.

Until the Existing Notes are successfully restructured, the Group will continue to accrue interest on the Existing Notes.

Notes to the consolidated financial statements (continued)

24. Employees' remuneration

The average monthly number of employees (including Executive Directors) employed was as follows:

| In thousands of US Dollars | For the year ended 31 December | |
|-------------------------------|--------------------------------|------|
| | 2022 | 2021 |
| Management and administrative | 137 | 136 |
| Technical and operational | 417 | 405 |
| | 554 | 541 |

Their aggregate remuneration comprised:

| In thousands of US Dollars | For the year ended 31 December | |
|----------------------------|--------------------------------|--------|
| | 2022 | 2021 |
| Wages and salaries | 19,057 | 18,740 |
| Social security costs | 3,393 | 3,563 |
| Share-based payments | (38) | (247) |
| | 22,412 | 22,056 |

The amount ultimately remaining in the income statement was US\$22,150 thousand (2021: US\$21,199 thousand).

Key management personnel remuneration

| In thousands of US Dollars | For the year ended 31 December | |
|------------------------------|--------------------------------|-------|
| | 2022 | 2021 |
| Short-term employee benefits | 4,033 | 4,042 |
| Share-based payments | – | – |
| | 4,033 | 4,042 |

Directors' remuneration

| In thousands of US Dollars | For the year ended 31 December | |
|------------------------------|--------------------------------|-------|
| | 2022 | 2021 |
| Short-term employee benefits | 1,960 | 1,877 |
| Share-based payments | – | – |
| | 1,960 | 1,877 |

As at 31 December 2022 the amount payable to key management personnel was US\$611 thousand (31 December 2021: US\$307 thousand).

Employee share option plan (ESOP)

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

Employees (including senior executives and executive directors) of members of the Group received remuneration in the form of equity-based payment transactions, whereby employees render services as consideration for share appreciation rights, which can only be settled in cash ("cash-settled transactions").

2017 Long-term incentive plan

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

Employees (including senior executives and executive directors) of members of the Group may receive an award, which is a "nominal cost option" over a specified number of ordinary shares in the capital of the Company. The option has an exercise price of 1p per share (but the Company has the discretion to waive this prior to exercise). In addition, under the Rules of the LTIP the Company has discretion to settle awards other than by transfer of shares such as by way of cash settlement. Generally, the awards are classified as equity-settled transactions. The share options are treated as equity-settled since there are no legal limitations expected on issue of shares for these upon vesting, the Group has a choice of settlement and the intention is to settle them in equity. However, in certain jurisdictions due to regulatory requirements the Company may not be able to settle the awards other than by transfer of cash, in which case the awards are classified as cash-settled transactions, and accounted for similar to SARs.

25. Other income and other expenses

For the year ended 31 December 2022 and 2021 other income comprise the following:

| In thousands of US Dollars | For the year ended 31 December | |
|--------------------------------|--------------------------------|-------|
| | 2022 | 2021 |
| Reversals of training accruals | 2,214 | 1,490 |
| Reversals of other accruals | 3,561 | 1,244 |
| Currency conversion | 360 | 78 |
| Catering and accommodation | 212 | – |
| Compensation for damages | – | 1,549 |
| Disposal of exploration assets | – | 749 |
| Insurance compensation | – | 162 |
| Other | 459 | 614 |
| | 6,806 | 5,886 |

For the year ended 31 December 2022 and 2021 other expenses comprise the following:

| In thousands of US Dollars | For the year ended 31 December | |
|------------------------------------|--------------------------------|--------|
| | 2022 | 2021 |
| Other taxes and penalties | 27,149 | 2,613 |
| Sponsorship | 903 | 26 |
| Currency conversion | 581 | 135 |
| Training accruals | 428 | 505 |
| Social program | 311 | 312 |
| Write-off of new development costs | – | 9,055 |
| Other | 449 | 572 |
| | 29,821 | 13,218 |

Other taxes and penalties mainly include additional taxes and penalties assessed in relation to prior periods considering new information, which was not available at the time of preparation of respective financial information, and relevant interpretations by the management.

Notes to the consolidated financial statements (continued)

26. Income tax

| In thousands of US Dollars | For the year ended 31 December | |
|---|--------------------------------|--------|
| | 2022 | 2021 |
| Deferred income tax expense | 15,827 | 30,279 |
| Withholding tax | 560 | 58 |
| Corporate income tax expense | 5,777 | 751 |
| Adjustment in respect of the current income tax for the prior periods | 12,500 | 632 |
| | 34,664 | 31,720 |

The Group's profits are assessed for income taxes mainly in the Republic of Kazakhstan. A reconciliation between tax expense and the product of accounting profit multiplied by the Kazakhstani tax rate applicable to the Chinarevskoye subsoil use rights is as follows:

| In thousands of US Dollars | For the year ended 31 December | |
|--|--------------------------------|---------|
| | 2022 | 2021 |
| Loss before income tax | (81,781) | 5,602 |
| Tax rate applicable to the subsoil use rights | 30% | 30% |
| Expected tax provision | (24,534) | 1,681 |
| Non-deductible interest expense on borrowings and other financial expenses | 32,488 | 24,782 |
| Non-deductible taxes and penalties | 7,842 | 784 |
| Effect of exchange rate on the tax base | 4,581 | 2,630 |
| Adjustments in respect of current income tax of previous years | 12,500 | 632 |
| Effect of loss / (income) taxed at different rate ¹ | – | 1,529 |
| Recognition of previously unrecognised deferred tax | – | (1,312) |
| Net foreign exchange gain | (76) | 95 |
| Reversal of training provisions | (536) | (296) |
| Non-deductible loss on disposal of PPE | – | (225) |
| Non-deductible marketing expenses | – | 651 |
| Non-deductible unwinding of discount | 222 | 311 |
| Other non-deductible expenses | 2,177 | 458 |
| Income tax expense | 34,664 | 31,720 |

¹ Jurisdictions which contribute significantly to this item are Republic of Kazakhstan with an applicable statutory tax rate of 20% (for activities not related to the Contract), and the Netherlands with an applicable statutory tax rate of 25%.

Certain revisions to previous period tax assessments were made considering new information, which was not available at the time of preparation of respective financial information, and relevant interpretations by the management. During 2022 the tax authorities in Kazakhstan carried out a comprehensive tax audit of Zhaikmunai LLP for the financial years 2016-2021, as a result of which additional corporate income tax in a principal amount equivalent to US\$12,500 thousand has been assessed for the periods covered.

In management's view, as at 31 December 2022 there were no other significant uncertain tax positions requiring disclosure in accordance with IFRIC 23 – Uncertainty over Income Tax Treatments.

The Group's effective tax rate for the year ended 31 December 2022 is negative 42.4% (2021: 566.2%). The Group's effective tax rate, excluding effect of movements in exchange rates and non-deductible interest expense on borrowings, for the year ended 31 December 2021 is 2.9% (2021: 76.9%).

As at 31 December 2022 the Group has tax losses of US\$122,111 thousand (2021: US\$113,371 thousand) that are available to offset against future taxable profits in the companies in which the losses arose within 9 years after generation and will expire in the period 2023-2029. On 21 May 2021, a Royal Decree was issued in the Netherlands, which dictates that the tax losses can now be carried forward indefinitely from 1 January 2022, subject to annual limit on carry back loss utilization. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group.

Deferred tax liability is calculated by applying the Kazakhstani statutory tax rate applicable to the Chinarevskoye subsoil use rights to the temporary differences between the tax amounts and the amounts reported in the consolidated financial statements and are comprised of the following:

| In thousands of US Dollars | 31 December 2022 | 31 December 2021 |
|-----------------------------------|------------------|------------------|
| | | |
| Deferred tax asset | | |
| Accounts payable and provisions | 2,877 | 4,189 |
| Deferred tax liability | | |
| Property, plant and equipment | (49,763) | (33,630) |
| Inventories | (3,131) | (3,183) |
| Long-term borrowings | 118 | (1,448) |
| Net deferred tax liability | (49,899) | (34,072) |

The movements in the deferred tax liability were as follows:

| In thousands of US Dollars | 2022 | 2021 |
|--|---------------|---------------|
| | | |
| Balance as at 1 January | 34,072 | 3,793 |
| Current period charge to statement of comprehensive income | 15,827 | 30,279 |
| Balance as at 31 December | 49,899 | 34,072 |

27. Related party transactions

For the purpose of these consolidated financial statements transactions with related parties mainly comprise transactions between subsidiaries of the Company and the key management.

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US\$2,665 thousand for the year ended 31 December 2022 (year ended 31 December 2021: US\$2,875 thousand).

28. Audit and non-audit fees

During the years ended 31 December 2022 and 2021 audit and non-audit fees comprise the following:

| In thousands of US Dollars | For the year ended 31 December | |
|---|--------------------------------|--------------|
| | 2022 | 2021 |
| Audit services: | | |
| Ernst & Young | 561 | 1,009 |
| MHA & Baker Tilly International | 627 | – |
| Total audit services | 1,188 | 1,009 |
| Services relating to corporate finance transactions: | | |
| Ernst & Young | 161 | 239 |
| Total non-audit services | 161 | 239 |
| | 1,349 | 1,248 |

The audit fees for the year ended 31 December 2022 in the table above include the audit fees of US\$10 thousand in relation to the Parent (2021: US\$10 thousand).

The audit fees for the year ended 31 December 2022 include fees related to the audit of the 2021 financial statements in the amount of US\$300 thousand, which mostly represent audit overruns in the amount of US\$ 186 thousand and the fees for the forensic scope of US\$ 108 thousand (2021: US\$92 thousand related to audit of 2020 financial statements).

Notes to the consolidated financial statements (continued)

29. Contingent liabilities and commitments

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe and where the tax authorities disagree with the positions taken by the Group the financial outcomes could be material. Administrative fines are generally 80% of the taxes additionally assessed and interest penalty is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2022. As at 31 December 2022 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax position will be sustained.

Abandonment and site restoration (decommissioning)

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

Environmental obligations

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

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

Capital commitments

As at 31 December 2022, the Group had contractual capital commitments in the amount of US\$ 2,845 thousand (31 December 2021: US\$10,029 thousand), mainly in respect to the Group's oil field development activities.

Social and education commitments

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

- spend US\$ 300 thousand per annum to finance social infrastructure;
- make an accrual of one percent per annum of the actual investments for the Chinarevskoye field for the purposes of educating Kazakh citizens.

Domestic oil sales

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

Impact of sanctions on Russia

The recent Russia-Ukraine conflict has led to widespread sanctions being imposed on various Russian institutions and individuals. Bodies and nations

imposing sanctions today include the US, UK and EU and these sanctions have been sequentially expanding. Given the geographical position of the Group's main operating company, it is very close to the evolving situation in Ukraine. Whilst Kazakhstan is not directly involved in the ongoing conflict, nor have any Western sanctions impacted upon on it, the country is connected to Russia through infrastructure, banking, and other business links. The Group contracts with a limited number of Russian service companies. For example, during 2022 the price of Urals traded with a higher discount relative to Brent due to sanctions. During the spring and summer of 2022, the discount reached \$40 per barrel and then declined to \$18-20 per barrel as compared to \$3 per barrel average in 2021. In addition, certain operational matters have been impacted by sanctions, such as the work underway on GTU3 and the extension of the Company's gas lift facilities. Nostrum has considered and analysed alternative export routes where export prices are not linked to Urals quotation for oil and gas condensate supplies and is making all necessary efforts to address the widening Urals spread.

30. Financial risk management objectives and policies

The Group's principal financial liabilities comprise borrowings, payables to the Government of Kazakhstan, trade payables and other current liabilities. The main purpose of these financial liabilities is to finance the Group's operations. The Group's financial assets consist of trade and other receivables and cash and cash equivalents that derive directly from its operations.

The Group is exposed to commodity price risk, foreign currency risk, liquidity risk and credit risk. The Group's senior management oversees the management of these risks. The Group's senior management ensures that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Climate change

Management has considered how the Group's identified climate risks and climate related goals (as discussed in Climate Change and GHG Emissions in the Group's 2022 Annual Report) may impact the estimation of the recoverable value of cash-generating unit tested for impairment. The anticipated extent and nature of the future impact of climate on the Group's operations and future investment depends on the development of new technologies and production processes employed and the level of emissions, energy efficiency and use of renewable energy. The sensitivity of the Group's impairment assessment to these factors is also impacted by the extent that estimated recoverable value exceeds the carrying value of an individual cash-generating unit – where this is lower there is an increased risk of a future impact. The Group is in the process of identifying a range of actions and initiatives to progress towards the Group's goals, including reduction of greenhouse gas emissions, wastewater discharges and increase of waste utilisation. In certain cases, the costs of such actions have been quantified and are included in the Group's forecasts which are used to estimate recoverable value for the Group's cash-generating unit. Other actions and initiatives continue to be explored by the Group but are not sufficiently certain to be reflected in the Group's forecasts of estimated recoverable value.

Commodity price risk

The Group is exposed to the effect of fluctuations in price of crude oil, which is quoted in US dollar on the international markets. The Group prepares annual budgets and periodic forecasts including sensitivity analyses in respect of various levels of crude oil prices in the future.

Interest rate risk

The Group is not exposed to interest rate risk in 2022 and 2021 as the Group had no financial instruments with floating rates as at years ended 31 December 2022 and 2021.

Notes to the consolidated financial statements (continued)

Foreign currency risk

As a significant portion of the Group's operation is Tenge denominated, the Group's statement of financial position can be affected by movements in the US dollar / Tenge exchange rates. The Group mitigates the effect of its structural currency exposure by borrowing in US dollars and denominating sales in US dollars.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant. A devaluation of Tenge against US dollar by 21% would lead to decrease in the net Tenge liability position by US\$8,355 thousand as of 31 December 2022 and respective reduction of the loss before income tax for the year ended 31 December 2022. The impact on equity is the same as the impact on profit before tax.

| | Change in Tenge to US dollar exchange rate | Effect on profit before tax (In thousands of US Dollars) |
|-------------|--|--|
| 2022 | 21% | 5,455 |
| | (21%) | (8,355) |
| 2021 | 13% | 1,085 |
| | (10%) | (1,048) |

The Group's foreign currency denominated monetary assets and liabilities were as follows:

| In thousands of US Dollars | Tenge | Russian Roubles | Euro | Other | Total |
|-------------------------------|-----------------|-----------------|--------------|--------------|-----------------|
| <i>As at 31 December 2022</i> | | | | | |
| Cash and cash equivalents | 13,827 | – | 1,824 | 907 | 16,558 |
| Trade receivables | 1,997 | – | – | – | 1,997 |
| Trade payables | (6,942) | (141) | (1,160) | (143) | (8,386) |
| Other current liabilities | (40,312) | – | (1,476) | (63) | (41,851) |
| | (31,430) | (141) | (812) | 701 | (31,682) |
| <i>As at 31 December 2021</i> | | | | | |
| Cash and cash equivalents | 5,745 | – | 1,020 | 500 | 7,265 |
| Trade receivables | 1,531 | – | – | – | 1,531 |
| Trade payables | (5,433) | (122) | (464) | (983) | (7,002) |
| Other current liabilities | (11,273) | – | (299) | (105) | (11,677) |
| | (9,430) | (122) | 257 | (588) | (9,883) |

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. The Group monitors its risk to a shortage of funds using a liquidity planning tool. The tool allows selecting severe stress test scenarios. To ensure an adequate level of liquidity a minimum cash balance has been defined as a cushion of liquid assets. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of notes, export financing and leases.

The Group's total outstanding debt consists of two notes: US\$725 million issued in 2017 and maturing in 2022 and US\$400 million issued in 2018 and maturing in 2025. Based on the successful restructuring of the Notes, the Directors confirm that they have a reasonable expectation that the Group will continue in operation and meet its restructured liabilities as they fall due through the three-year viability assessment period ending 31 December 2025. For more information on analysis of the Group's ability to meet its liabilities on repayment of the Notes please see "Viability statement" section on the Annual report on pages 45-46.

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2022 and 31 December 2021 based on contractual undiscounted payments:

| In thousands of US Dollars | On demand | Less than 3 months | 3-12 months | 1-5 years | More than 5 years | Total |
|---------------------------------|------------------|--------------------|---------------|--------------|-------------------|------------------|
| <i>As at 31 December 2022</i> | | | | | | |
| Borrowings | 1,400,197 | 43,000 | 43,000 | – | – | 1,486,197 |
| Trade payables | 9,525 | – | 404 | – | – | 9,929 |
| Other current liabilities | 10,824 | – | – | – | – | 10,824 |
| Due to Government of Kazakhstan | – | 258 | 773 | 4,124 | 3,350 | 8,505 |
| | 1,420,546 | 43,258 | 44,177 | 4,124 | 3,350 | 1,515,455 |
| <i>As at 31 December 2021</i> | | | | | | |
| Borrowings | 1,298,926 | 43,000 | 43,000 | – | – | 1,384,926 |
| Trade payables | 7,853 | – | 546 | – | – | 8,399 |
| Other current liabilities | 14,636 | – | – | – | – | 14,636 |
| Due to Government of Kazakhstan | – | 258 | 773 | 4,124 | 4,381 | 9,536 |
| | 1,321,415 | 43,258 | 44,319 | 4,124 | 4,381 | 1,417,497 |

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions and foreign exchange transactions.

The Group places its cash and deposits primarily with Citibank, N.A., and Halyk bank JSC with most recent credit ratings from Moody's rating agency of Aa3 (Stable), and Baa2 (Stable), respectively.

The Group sells its products and makes advance payments only to recognised, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts and recoverability of prepayments made is not significant and thus risk of credit default is low. Also, the Group's policy is to mitigate the payment risk on its off-takers by requiring all purchases to be prepaid or secured by a letter of credit from an international bank.

The Group considers a financial asset in default when contractual payments are 90 days past due, however certain exceptions can be made depending on the particular circumstances and discussions with the counterparty. Also, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

An impairment analysis is performed at each reporting date on an individual basis for major clients. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Notes to the consolidated financial statements (continued)

Fair values of financial instruments

Management assessed that the fair value of cash and cash equivalents, trade receivables, trade payables and other current liabilities approximate their carrying amounts at 31 December 2022 and 31 December 2021.

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

| In thousands of US Dollars | Carrying amount | | Fair value | |
|-----------------------------|------------------|------------------|------------------|------------------|
| | 31 December 2022 | 31 December 2021 | 31 December 2022 | 31 December 2021 |
| Interest bearing borrowings | 1,396,517 | 1,289,603 | 272,500 | 303,375 |
| Total | 1,396,517 | 1,289,603 | 272,500 | 303,375 |

The fair value of the financial assets and liabilities represents the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value of the quoted notes is based on price quotations at the reporting date and respectively categorised as Level 1 within the fair value hierarchy.

During the year ended 31 December 2022 and year ended 31 December 2021 there were no transfers between the levels of fair value hierarchy of the Group's financial instruments.

Capital management

For the purpose of the Group's capital management, capital includes issued capital, additional paid-in capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

Since the engagement with the AHG in discussions on potential restructuring of the Notes and signing of the FBAs in 2020 (see Note 1), the Group's focus was on maintaining short-term liquidity and preserving cash. Successful cost optimisation programme, favourable hydrocarbon pricing and forbearance of making interest payments during 2020 and 2021 enabled the Group to grow its unrestricted cash balances to the level of US\$234,251 thousand as at 31 December 2022. After successful implementation of the restructuring, the Group intends to revise and evolve its capital management policy in line with new requirements and shareholder expectations.

31. Events after the reporting period

Completion of the Restructuring

On 9 February 2023 the Group notified that the Restructuring was implemented pursuant to the terms of the Scheme sanctioned by the Court on 26 August 2022.

The terms of the Restructuring included the sub-division and consolidation of the ordinary share capital of the Company following the issue of the new shares on 9 February 2023. This sub-division and share consolidation occurred after close of business on 9 February 2023 and resulted in the number of Ordinary Shares on issue being reduced from approximately 1,693.8 million Ordinary Shares (following the issue of the new shares) to approximately 169.4 million Ordinary Shares on the basis of a 10:1 consolidation of ordinary shares. Accordingly, on 10 February 2023, 150,563,304 new Ordinary Shares have been admitted to the standard listing segment of the Official List of the Financial Conduct Authority and to trading on the London Stock Exchange under the ticker symbol "NOG.L". The Company's ordinary shares (including the New Shares) were also admitted to listing and trading on the Astana International Exchange (AIX) on 13 February 2023. The new warrants were not admitted to listing and trading on the AIX. The New Notes and the New Warrants were also admitted to listing and trading on The International Stock Exchange (TISE) with effect from 9 February 2023. No new securities were listed on the Euronext Dublin.

As a result of implementation of the restructuring a portion of the Group's Notes were exchanged for US\$250 million of SSNs and US\$345 million of SUNs, while remainder of the Existing Notes together with accrued but unpaid interest were converted into fully paid ordinary shares (the "New Shares"), resulting in the Noteholders holding 88.89% of the Enlarged Share Capital of the Company. In addition, the New Warrants were issued to be held by the Warrant Trustee on behalf of the holders of the SUNs from time to time, exercisable in full by a majority of such holders upon the occurrence of certain events to increase their holding of the Company's Enlarged Share Capital to 90.00%, and certain new governance and cashflow arrangements, as described in more detail in the Annual Report and other publications of the Company.

Pursuant to the terms of the Restructuring the interest accrued on the SSNs and the SUNs from 1 January 2022. Accordingly, cash interest accrued to 9 February 2023 in the amount of US\$17.5 million was paid to the Noteholders upon the issuance of the SSNs and the SUNs. The next semi-annual cash interest payment is scheduled for 30 June 2023. Also, as part of the Restructuring completion the amounts held in escrow account as required under FBA, were released and at the same time amounts required for next two cash coupon payments were transferred to Debt Service Retention Account (DSRA).

Acquisition of Stepnoy Leopard Fields

On 10 March 2023, the Company announced that it has agreed, subject to certain conditions, to acquire 80% of Positive Invest LLC ("Positive Invest"), which holds the subsoil use right to the contract No. 25 for estimation, development and production of hydrocarbons for the area "Kamenskoe" and the development area "Kamensko-Teplovsko-Tokarevskoe" (the "Stepnoy Leopard Fields") in the West Kazakhstan region of the Republic of Kazakhstan dated 3 March 1995 for US\$20 million (less a modest amount of debt owed to Nostrum Oil & Gas Coöperatief U.A.).

The Proposed Acquisition will enable Nostrum to tie-in further resources in the region that can be processed at the Company's gas treatment facilities. An affiliate of the Company shall be appointed as the operator of the Positive Invest Contract.