# Nostrum Oil & Gas PLC

## Interim financial report (unaudited, unreviewed)

*For the six months ended 30 June 2023*

# Contents


| | |
|---|---|
| **Interim management report (unaudited, unreviewed)** | **3** |
| Business review | 4 |
| Overview | 4 |
| Business strategy | 5 |
| Operational performance | 6 |
| Group debt restructuring | 7 |
| Material events | 8 |
| Financial review | 9 |
| Results of operations for the six months ended 30 June 2023 and 2022 | 9 |
| Liquidity and capital resources | 11 |
| Alternative performance measures | 12 |
| Related parties and related party transactions | 13 |
| Principal risks and uncertainties | 14 |
| Going concern | 19 |
| Responsibility statement | 20 |
| **Interim condensed consolidated financial statements (unaudited, unreviewed)** | **21** |
| Consolidated statement of financial position | 23 |
| Consolidated statement of comprehensive income | 24 |
| Consolidated statement of cash flows | 25 |
| Consolidated statement of changes in equity | 26 |
| Notes to the interim condensed financial statements | 27 |
| 1. General | 27 |
| 2. Basis of preparation and consolidation | 28 |
| 3. Changes in accounting policies and disclosures | 29 |
| 4. Property, plant and equipment | 30 |
| 5. Advances for non-current assets | 30 |
| 6. Inventories | 30 |
| 7. Prepayments and other current assets | 30 |
| 8. Trade receivables | 30 |
| 9. Cash and cash equivalents | 30 |
| 10. Share capital and reserves | 31 |
| 11. Earnings per ordinary share | 31 |
| 12. Notes payable and accumulated interest | 32 |
| 13. Trade payables | 32 |
| 14. Other current liabilities | 33 |
| 15. Revenue | 33 |
| 16. Cost of sales | 33 |
| 17. General and administrative expenses | 33 |
| 18. Selling and transportation expenses | 33 |
| 19. Taxes other than income tax | 33 |
| 20. Finance costs | 33 |
| 21. Other expenses | 34 |
| 22. Income tax | 34 |
| 23. Related party transactions | 34 |
| 24. Contingent liabilities and commitments | 34 |
| 25. Financial risk management objectives and policies | 35 |
| 26. Events after the reporting period | 35 |

# Nostrum Oil & Gas PLC

## Interim management report (unaudited, unreviewed)

*For the six months ended 30 June 2023*

# Business review

*Some of the statements in this Interim Financial Report are forward-looking. Forward-looking statements include statements regarding the intent, belief and current expectations of the Group or its officers with respect to various matters. When used in this document, the words "expects," "believes," "anticipates," "plans," "may," "will," "should" and similar expressions, and the negatives thereof, are intended to identify forward-looking statements. Such statements are not promises or guarantees, and are subject to risks and uncertainties that could cause actual outcomes to differ materially from those suggested by any such statements.*

## Overview

Nostrum Oil & Gas PLC (the "Company" and together with its subsidiaries the "Group" or "Nostrum") is an independent oil and gas company engaged in the exploration and production of oil and gas products in North-Western Kazakhstan. Nostrum, through its indirectly wholly-owned subsidiary Zhaikmunai LLP, is currently the owner and operator of the Chinarevskoye field in Kazakhstan.

***Chinarevskoye Field and reserves***

The Group's primary field and licence area, which has been the Group's sole source of production to date, is the Chinarevskoye Field located in the northern part of the oil-rich Pre-Caspian Basin. The Chinarevskoye Field, approximately 274 square kilometres in size, is located in the West-Kazakhstan Oblast, near the border between Kazakhstan and Russia, and close to the main international railway lines in and out of Kazakhstan as well as to several major oil and gas pipelines. The Group conducts its operations in the Chinarevskoye Field pursuant to a subsoil use licence (the "Licence") and an associated production sharing agreement ("PSA"). Based on the Ryder Scott Report dated 1 January 2022, the estimated gross proved plus probable hydrocarbon reserves at the Chinarevskoye Field were 34.3 million barrels of oil equivalent ('boe'), of which 14.6 million barrels was crude oil and condensate, 4.0 million barrels was LPG and 15.8 million boe was sales gas.

***Infrastructure***

Over the last 17 years we have built a world-class infrastructure processing hub that is currently underutilised but that can support the production and sale of billions of cubic meters of gas in north-western Kazakhstan for years to come. Nostrum's key operational facilities in the Chinarevskoye Field consist of:

- The gas treatment facility (GTF) which includes three gas treatment units (GTU1,2 & 3) with a total capacity to treat 4.2 billion cubic metres of raw gas per annum into condensate, LPG and dry gas with a by-product of granulated sulphur;
- The oil treatment facility (OTF) with a maximum throughput capacity of 400,000 tonnes of crude oil per annum;
- Gas Lift system (GL) enhancing well production with current installed capacity of 23,000 standard cubic metres per hour, further increased to 38,000 standard cubic metres per hour from Q3 2023;
- Low-pressure system (LPS) to facilitate the reduction of the GTF inlet pressure from 42 to 10 bar, so as to prolong the run-life of 19 wells with total capacity of gas compression of 48,000 standard cubic metres per hour;
- The gas-fired power generation plant linked to the GTF with an output of 26 megawatts electrical power, which is sufficient to meet the existing and maximum need in the future if the plant is run at its maximum capacity;
- Storage capacity for 35,000 cubic metres of liquids at its field site and rail loading terminal;
- 17km dry gas pipeline which is linked to the Orenburg-Novopskov gas pipeline, which is sufficient to export the entire GTF maximum production capacity dry gas volumes;
- 120km liquids pipeline that runs from the field to the Company's rail loading terminal near Uralsk with a maximum annual throughput capacity of over three million tonnes;
- Automated rail loading terminal at Beles, located near the city of Uralsk, that receives all produced crude oil and condensate and has a capacity of approximately four million tonnes of liquid hydrocarbons per annum;
- Secondary crude oil pipeline enabling export sales from rail loading terminal via the Atyrau-Samara export pipeline operated by KazTransOil (KTO). The connection to the KTO pipeline has enhanced the Company's ability to maximise crude oil netbacks through the commodity cycle;
- Other facilities including multiple oil gathering and transportation lines, warehouse and storage facilities, an employee field camp, etc.

***Products and sales***

Having its assets located in the Pre-Caspian Basin close to the Russian border and in close proximity to some of the most significant hydrocarbon resources in the FSU, means an advantageous position for Nostrum to access multiple export markets for its products, as well as labour and specialist equipment providers.

Historically, the Company efficiently exported its condensate via railcar to destinations including the Russian port of Kaliningrad. Our LPG exports were routed to various locations such as the Russian Black Sea ports, Ukraine, and Tajikistan. As per PSA guidelines, we ensured that a minimum of 15% of our crude oil was sold domestically, with the majority transported via the KTO pipeline. Our gas exports were directed entirely to JSC National Company QazaqGas, facilitated through a dedicated 17km pipeline connected to the Intergas Central Asia network.

Given the geographical position of the Group's operations, 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 been levelled at it, the country is connected to Russia through infrastructure, banking, and other business links. Furthermore, the Company contracts with a limited number of Russian service companies.

During 2022 the price of Urals traded with a higher discount relative to Brent due to sanctions, which affected the Company's export prices for oil and condensate. 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.

Despite the market challenges, the Group maintained its operational and financial resilience. Anticipating future market dynamics, by January 2023, we diversified our supply routes.

## Business review (continued)

***Strategic initiatives***

The core strategy for Nostrum to create value for its stakeholders, to commercialise the investment made in its infrastructure, the focus being on filling the spare capacity with third-party hydrocarbons. The first step towards achieving this was made in in 2018, when Nostrum entered into binding agreements to process third-party hydrocarbons starting in 2023 to be delivered by Ural Oil & Gas LLP ("Ural OG") from the Rozhkovskoye field, which is situated less than 20km from the Chinarevskoye field. Ural OG will fund the connection of existing wells at the Rozhkovskoye field to Nostrum's licence area after which Nostrum will process all of the hydrocarbons coming into the field. To tie the production into our facility, Nostrum plans to spend US$5.0m with an expected completion date in October 2023. Ural OG is a company owned by KazMunaiGas (KMG) (50%), Sinopec (27.5%) and MOL Group (MOL) (22.5%). In 2022 Ural OG has signed a turnkey contract for complex construction works with a contractor in relation to Rozhkovskoye Field Development Project. Construction of the tie-in pipeline is in progress with a total expected capex of around US$5m, of which US$1m was spent in 2022. The first delivery of third-party hydrocarbons for processing is expected in 4Q 2023.

In addition, on 17 July 2023, the Company completed the acquisition of an 80% interest in Positive Invest LLP for US$20 million. Positiv Invest LLP holds the rights to the Stepnoy Leopard Fields located in the West Kazakhstan region. Management estimates that the Stepnoy Leopard fields contain between 50 mmboe and 150 mmboe of recoverable contingent resources. Historical drilling during the Soviet era confirmed hydrocarbon presence, but the fields have been undeveloped, mainly due to infrastructure challenges. Nostrum aims to initiate an appraisal program to potentially re-classify some of these contingent resources into reserves. The acquisition enhances Nostrum's ability to connect additional resources to their gas treatment facilities. The Stepnoy Leopard fields are in proximity to Nostrum's existing operations and have a contract, originally dated 3 March 1995, and now valid until December 2044.

Further opportunities for third-party hydrocarbons are being evaluated. Nostrum's advanced gas processing facility, positioned about 100 km north of the Karachaganak field and equipped with ample available capacity, stands as a strategic asset for both the Republic of Kazakhstan and KPO. This is particularly relevant when assessing alternatives to expanding supplies to or from Russia. With the increasing demand for commercial gas paired with the growth in field-gas production, our established infrastructure is poised to deliver a rapid and economically efficient solution. We have embarked on in-depth engineering and conceptual studies to chart the optimal strategy for channelling raw gas from the Karachaganak field to our Chinarevskoye location, ensuring the seamless delivery of fully processed dry gas into the Intergas Central Asia (ICA) line through our existing 17-km connection.

### Business strategy

Following the completion of the Restructuring Nostrum has set a New Mixed-Asset Energy Strategy: to capitalise on the advantaged position of our existing infrastructure and attract third party volumes. We will evaluate and continue to invest in both upstream and midstream opportunities where we see the right risk/reward opportunities. This could be either by processing third party hydrocarbons in our world-class infrastructure and/or by scaling up our own production.

Following the completion of the Restructuring the Company will focus on unlocking the full potential and value of its existing world-class gas processing by:

***Setting the foundation for future growth***

Setting the foundation for future growth involves strengthening our corporate governance through the introduction of a new and highly experienced Board. The completion of a significant bond restructuring has unlocked new opportunities, paving the way for the next chapter of our growth. Additionally, there is a pronounced focus on robust ESG performance, which is pivotal in contributing to energy security and facilitating the transition to cleaner energy sources.

***Managing our liquidity***

Managing our liquidity is a central focus for our business. We are taking structural measures to address our cost base, fostering a cost-conscious culture. This approach not only supports our growth ambitions but also aims to enhance our balance sheet and counteract inflationary pressures. Our ultimate goal is to configure our business to consistently deliver operating leverage. Furthermore, we are committed to bolstering our cash flow by maintaining discipline in both capital and cost management.

The key priorities for 2023:

- Continue to challenge costs whilst pivoting towards growth and transitioning into a multi-asset energy company.
- Evaluate all sales routes for sustainability and profitability.

***Launching our strategy is pivotal to our vision***

We continue to have strong confidence in our long-term growth approach, and we're expanding our horizons by investing in best-in-class facilities that signify future growth. We're also relentlessly refining our industry portfolio. To make the most of our top-tier gas processing facilities, we've devised a multitude of strategies to commercialise the unused capacity. With these strategic moves, we are positioning ourselves to emerge as a leading third-party gas processor.
In 2023, our objectives are to:

- Utilise workover rig and rigless activities as well as other technologies such as gas lift system expansion to slow existing production decline.
- Complete subsurface studies to allow resumption of low-risk drilling campaign.
- Complete field development feasibility studies of newly acquired upstream assets.

## Operational performance

### *Production and field development*

During the first half of 2023, Nostrum reported average daily production volumes of 10,048 boepd, which is a 29% decrease from the production in the first six months of 2022 (14,167 boepd). This was consistent with projections due to the maturing primary reservoirs. Following significant subsurface failures, drilling was halted in 2019. These primary reservoirs experienced premature water breakthroughs, rapidly rising water cuts, and pressure depletion. The majority of the producing wells require gas lift to sustain production and to reduce abandonment pressures at highest possible water cut. Moreover, some of the gas wells are being placed on gas lift to help remediate bottomhole waterlogging issues. Due to such escalating demand for gas lift, Nostrum funded additional compression to raise the capacity to 900 thousand m3/day for circa US$8 million. In July 2023, the Group successfully expanded its gas lift system by adding a new compressor, which doubled its capacity, benefiting the Chinarevskoye field's production. Initial results surpassed expectations, and further updates will be shared based on Q3 2023 results.

During H1 2023 Nostrum continued focussing on managing financial liquidity by lowering overall costs by concentrating on production maintenance, workovers and rigless activities. Presently, our on-field initiatives centre around well surveillance and maintenance, with a focus on addressing corrosion and ensuring well integrity. For swift response to potential well failures, we have a workover rig and a coil tubing unit on standby. Despite these challenges, we remain steadfast in our commitment to mitigating production decline while maintaining cost efficiency.

The rig workover campaign in 2023 consisted of five interventions on a range of horizons for oil and gas-condensate wells. Rigless recompletions, additional perforations and acid stimulations were also carried out on a number of oil, gas-condensate and water-injection wells.

As previously communicated, the Company stopped drilling activities in 2019, however, it continued evaluating further exploration and production opportunities through the subsurface studies, updating its geologic and reservoir models. Completion of this work and re-processing of the 3D seismic allowed the Company to formulate a limited-scale two-well drilling programme to be executed over 2023-2024, which is in line with the commitments of the Company's subsidiary Zhaikmunai LLP under its production sharing agreement. The programme will leverage existing wellbores to reduce costs and carries a level of uncertainties and risks as the planned subsurface targets contain multiple exploration, appraisal, and development objectives. The total cost of the programme is estimated at around US$26million.

Following repair of the turboexpander module completed at the end of 2021, in 2022 Nostrum started activities on turboexpander re-installation and modification of GTU-3 facility with a target to enable its operation with a lower turndown feedstock volume and explore possibility to utilise additional LPG yield generated by turboexpander operation. The completion of these activities is planned in Q3 2023.

We also took proactive steps, renegotiating the gas sales price and finalising new offtake agreements for crude and condensate.

### *Sustainability*

Sustainability has been a primary focus of Nostrum since inception but has gained even more prominence with the evolution of stakeholder expectations. By focussing on Health and Safety, Our People, Social Responsibility and the Environment, we are able to progress our sustainability agenda. Within each focus area we establish actionable activities and projects which are monitored by all levels of management and the board. Some of the achievements in H1 2023 in relation to sustainability were:

- Zero fatalities during operations to employees and contractors;
- Zero Lost Time Injury ("LTI");
- One Total Recordable Incidents ("TRI");
- 81 % of staff vaccinated against COVID-19 as at 30 June 2023.
- 2,277 tonnes of air emissions emitted in H1 2023 against 6,309 tonnes permitted for 2023 under the Kazakhstan Environmental Code.

The senior management and the Board continue to closely monitor COVID-19 throughout the Group's operations and assess the impact of the pandemic on all stakeholders. Extensive measures remain in place to protect the safety of employees and contractors and mitigate the impact on operations arising from COVID-19.

## Group debt restructuring

Over the past three years completing the Restructuring has been a major milestone that has now enabled the Company to pivot towards growth and maximise stakeholder returns.

**Background and engagement with stakeholders**

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.

The Company was 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 was also 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***

Following discussions with the AHG's advisers the Company entered into two forbearance agreements ("FBAs") on 23 October 2020 and 19 May 2021. These agreements, which had mostly similar terms, prevented the AHG from invoking certain rights and remedies under the Existing Notes. The FBAs aimed to offer a temporary solution for the Group's liquidity problems and to facilitate restructuring talks with the noteholders.

**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. 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.

**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 approved 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.
- 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 to equity:**

- Conversion of the remainder of the Existing Notes and accrued interest into equity by way of a UK scheme of arrangement:
- Existing noteholders own 88.89% of the expanded ordinary share capital of the Company on closing of the restructuring. Existing noteholders 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.
- Transfer the Company's listing to the Standard Listing segment of the London Stock Exchange.

**Key milestones**

Following the execution of the Lock-up Agreement, the Company progressed with its restructuring efforts. On 4 February 2022, consents were obtained from noteholders to approve amendments to the Existing Notes indentures, most notably changing the jurisdiction to England and Wales and making Nostrum Oil & Gas plc a co-issuer. On 29 April 2022, the shareholders (99.99% of voting) 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. 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 the issue of new shares and warrants (in partial repayment of the Existing Notes) and the waiver of the State of Kazakhstan's priority right to acquire such new shares and warrants. On 26 August 2022, The Scheme Sanction Hearing took place, whereby the Court made an order sanctioning the Scheme. On 14 October 2022, a prospectus was released regarding the proposed admission of up to 1,505,633,046 new ordinary shares on the London Stock Exchange. In January 2023, they received the required licence from the UK's Office of Financial Sanctions Implementation (OFSI).

**Restructuring completion**

On 9 February 2023, the Restructuring was implemented on the key terms as agreed under Lockup Agreement, and pursuant to the terms of the Scheme sanctioned by the Court on 26 August 2022. This led to the sub-division and consolidation of the Company's share capital, which resulted in a reduction of shares from approximately 1,693.8 million to 169.4 million following a 10:1 consolidation. By 10 February 2023, 150,563,304 new shares were listed on the London Stock Exchange (ticker symbol NOG.L), and by 13 February, also on the Astana International Exchange. The new notes and warrants were listed on The International Stock Exchange from 9 February 2023, while no new securities were listed on Euronext Dublin. On 14 March 2023, the Company's ordinary shares were delisted from the official list of the Kazakhstan Stock Exchange (KASE).

# Material events

### Bond Restructuring Completion

On 9 February 2023, the Group completed its Restructuring on key terms as agreed under Lockup Agreement and pursuant to the terms sanctioned by the Court on 26 August 2022. This involved a subdivision and share consolidation, reducing the number of Ordinary Shares from about 1,693.8 million to roughly 169.4 million based on a 10:1 consolidation. On 10 February, 150,563,304 new Ordinary Shares were listed on the London Stock Exchange and the Astana International Exchange on 13 February. However, the new warrants weren't listed on the AIX but were listed on The International Stock Exchange (TISE) from 9 February. No new securities were listed on the Euronext Dublin. On 14 March 2023, the Company's ordinary shares were delisted from the official list of the Kazakhstan Stock Exchange (KASE).

The restructuring led to an exchange of a part of the Group's Notes for US$250 million of SSNs and US$345 million of SUNs. The remaining notes, along with the interest, were converted into new shares, giving the Noteholders 88.89% of the company's Enlarged Share Capital. New governance and cashflow arrangements were also established. Interest on the SSNs and SUNs accrued from 1 January 2022, and US$17.5 million was paid to the Noteholders on 9 February. The next interest payment was made on 30 June 2023. As the Restructuring completed, funds in the escrow account were released, with provisions made for future payments through the debt service retention account (DSRA).

### Board changes

Following the completion of the Restructuring the Group announced the following changes to the Board effective from today, 14 February 2023:

- Atul Gupta has stepped down as Executive Chair and from the Board;
- Sir Christopher Codrington, Bt, Martin Cocker and Kaat van Hecke have each stepped down from the Board;
- Stephen Whyte has been appointed as Independent Chair and a Non-Executive Director;
- Martin Gudgeon has been nominated by the trustee of the warrants issued in connection with the Restructuring as the Warrant Director and has been appointed as a Non-Executive Director;
- Chris Cox, Christopher Hopkinson and Fiona Paulus have each been appointed as Independent Non-Executive Directors.

### Acquisition of Stepnoy Leopard

On 17 July 2023, Nostrum completed acquisition of an 80% interest in Positive Invest LLP for US$20 million (less a modest amount of debt owed to Nostrum Oil & Gas Coöperatief U.A.). Positive Invest holds the rights to the Stepnoy Leopard fields located in the West Kazakhstan region. Management estimates that the Stepnoy Leopard fields hold between 50 mmboe and 150 mmboe of recoverable volumes which are considered contingent resources, with over 20% estimated to be liquids. Historical drilling during the Soviet era confirmed hydrocarbon presence, but the fields have been undeveloped, mainly due to infrastructure challenges. The acquisition enhances Nostrum's ability to connect additional resources to their gas treatment facilities. The Stepnoy Leopard Fields are in proximity to Nostrum's existing operations and have a contract valid until December 2044.

Following acquisition, Nostrum initiated the appraisal programme which would allow re-classification of certain of the contingent resources to proven reserves and help determine the commercially viable development schemes. The scope of work consists of re-entering two wells in the Teplovskoye reservoir, taking representative samples, and conducting extended production well testing in both wells. Rig operations are expected to start mid-September 2023. The estimated cost of the appraisal programme is expected to be around US$6 million.

### Gas lift system expansion

On 24 July 2023, the Group announced successful start-up of the new compressor doubling its Gas lift capacity, which helps slowing down production decline from maturing Chinarevskoye field.

As the demand for gas lift has been growing due to the majority of the producing wells requiring it to sustain production, in early 2022 Nostrum funded the addition of further compression to raise the capacity of the system from 500 to 900 thousand m3/ day for circa US$8 million. Notwithstanding the significant delays in delivery of the new compressor due to the sanctions on Russia, the Company managed to successfully complete and commence the project in line with budget and without any major HSE incidents. The initial production gains exceed management's expectations and further updates on production guidance will be provided as part of Q3 2023 operational update.

### Approval of drilling program

As it was previously communicated, the Company stopped drilling activities in 2019, however, it continued evaluating further exploration and production opportunities through the subsurface studies, updating its geologic and reservoir models.

Completion of this work and re-processing of the 3D seismic allowed the Company to formulate a limited-scale two-well drilling programme to be executed over 2023-2024, which is in line with the commitments of the Company's subsidiary Zhaikmunai LLP under the Analysis of the Field Development Plan and obligations under the production sharing agreement. The programme will leverage existing wellbores to reduce costs and carries a level of uncertainties and risks as the planned subsurface targets contain multiple exploration, appraisal, and development objectives. The total cost of the programme is estimated at around US$26million.

# Financial review

## Results of operations for the six months ended 30 June 2023 and 2022

The table below sets forth the line items of the Group's interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2023 and 2022 in US Dollars and as a percentage of revenue.

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| *In thousands of US Dollars* | **2023** | % of revenue | **2022** | % of revenue |
| **Revenue** | **52,835** | 100.0% | *107,832* | *100.0%* |
| Cost of sales | **(39,324)** | 74.4% | *(41,146)* | *38.2%* |
| **Gross profit** | **13,511** | 25.6% | *66,686* | *61.8%* |
| General and administrative expenses | **(6,059)** | 11.5% | *(5,957)* | *5.5%* |
| Selling and transportation expenses | **(5,907)** | 11.2% | *(9,534)* | *8.8%* |
| Taxes other than income tax | **(6,359)** | 12.0% | *(9,654)* | *9.0%* |
| Finance costs | **(67,063)** | 126.9% | *(64,068)* | *59.4%* |
| Gain on debt-to-equity exchange | **769,611** | 1456.6% | – | *0%* |
| Fair value adjustment on recognition of debt instruments | **163,506** | 309.5% | – | *0%* |
| Foreign exchange loss/(gain), net | **(803)** | 1.5% | *98* | *0.1%* |
| Interest income | **899** | 1.7% | *97* | *0.1%* |
| Other income | **1,145** | 2.2% | *2,381* | *2.2%* |
| Other expenses | **(4,237)** | 8.0% | *(2,190)* | *2.0%* |
| **Income/(loss) before income tax** | **858,244** | 1624.4% | *(22,141)* | *20.5%* |
| Income tax expense | **(360)** | 0.7% | *(12,636)* | *11.7%* |
| **Income/(loss) for the period** | **857,884** | 1623.7% | *(34,777)* | *32.3%* |
| Currency translation difference | **(5)** | 0.0% | *(82)* | *0.1%* |
| **Total comprehensive income/(loss) for the period** | **857,879** | 1623.7% | *(34,859)* | *32.3%* |

**General note**

For the six months ended 30 June 2023 (the "reporting period"), the total comprehensive income increased to US$857.9 million, compared to a loss of US$34.9 million for H1 2022. This significant change is driven from the gain from the debt-to-equity exchange and fair value adjustment on recognition of debt instruments, both of which were resulting from completion of the Restructuring as described in more detail on page 8.

Such one-off gains during the period were partially offset by decrease in revenue caused by lower sales volumes and lower average Brent prices. The management expects that in the near term the Company will continue to observe declining revenues primarily due to declining production from Chinarevskoye field, unless the commodity prices rebound substantially. Hence, the Company may need to utilise some of its existing cash reserves for investing in prospective new projects and activities such as Stepnoy Leopard acquisition and appraisal/development or drilling programme on Chinarevskoye field, while any benefits from such investments would not be seen until mid 2024, at the earliest. Respectively, the Company will continue focussing on cost optimisation as a high priority to maintain its cash reserves as much as possible.

Further detailed analysis of current period financial performance is provided below.

## Revenue

The Group's revenue decreased by US$55.0 million to US$52.8 million for the reporting period, compared to US$107.8 million in H1 2022. This change was largely due to both lower sales volumes and lower product prices.

The decrease in sales volumes from 2.4 mm boe in H1 2022 to 1.6 mm boe in H1 2023 is directly linked to the decrease in production caused by maturing primary reservoirs of the Chinarevskoye field.

The pricing for all of the Group's products is, directly or indirectly, related to the price of Brent crude oil. The average Brent crude oil price for H1 2023 was US$79.9/bbl declining from the US$104.94/bbl observed during H1 2022.

During 2022 the price of Urals traded with a higher discount relative to Brent due to sanctions, which affected the Company's export prices for oil and condensate. During the spring and summer of 2022, the discount reached $40 per barrel and then declined to $18-20 per barrel.

In 2023 Nostrum has considered and analysed alternative export routes where export prices are not linked to Urals quotation for oil and gas condensate supplies and has made all necessary efforts to address the widening Urals spread. These measures helped mitigating potential losses of revenues in the range of US$5-15/boe and partially offset the decrease in revenues due to lower volumes and average market prices.

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| *In thousands of US Dollar* | **2023** | 2022 | **Variance** | Variance, % |
| Revenue from oil and gas condensate sales | **44,095** | 85,583 | *(41,488)* | *(48.5%)* |
| Revenue from gas and LPG sales | **8,739** | 22,219 | *(13,480)* | *(60.7%)* |
| Revenue from sulphur sales | **1** | 30 | *(29)* | *100.0%* |
| **Total revenue** | **52,835** | 107,832 | *(54,997)* | *(51.0%)* |
| Average Brent crude oil price (US$/bbl) | **79.9** | 104.9 | *(25.0)* | *(23.9%)* |

The following table shows the Group's revenue breakdown by export/domestic sales:

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| *In thousands of US Dollar* | **2023** | 2022 | **Variance** | Variance, % |
| Revenue from export sales | **43,770** | 97,558 | (53,788) | *(55.1%)* |
| Revenue from domestic sales | **9,065** | 10,274 | (1,209) | *(11.8%)* |
| **Total revenue** | **52,835** | 107,832 | (54,997) | *(51.0%)* |

The Group's sales volumes by products and production volumes is presented below:

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| *In boe* | **2023** | 2022 | **Variance** | Variance, % |
| Oil and gas condensate sales volumes | **854,137** | 1,522,848 | *(668,712)* | *(43.9%)* |
| Gas and LPG sales volumes | **778,536** | 848,684 | *(70,149)* | *(8.3%)* |
| **Total sales volumes** | **1,632,672** | 2,371,533 | *(738,860)* | *(31.2%)* |
| **Production volumes** | **1,818,727** | 2,564,266 | *(745,539)* | *(29.1%)* |

# *Financial review (continued)*

## Cost of sales

The Group's cost of sales are presented as follows:

| In thousands of US Dollars | For the six months ended 30 June<br>**2023** | 2022 | **Variance** | Variance, % |
|---|---|---|---|---|
| Depreciation, depletion and amortisation | **20,224** | 27,208 | *(6,984)* | *(25.7%)* |
| Payroll and related taxes | **8,259** | 7,201 | *1,058* | *14.7%* |
| Repair, maintenance and other services | **3,359** | 2,954 | *405* | *13.7%* |
| Materials and supplies | **2,379** | 1,893 | *486* | *25.7%* |
| Transportation services | **1,173** | 1,159 | *14* | *1.2%* |
| Well repair and maintenance costs | **2,956** | 1,554 | *1,402* | *90.2%* |
| Environmental levies | **56** | 45 | *11* | *24.4%* |
| Change in stock | **604** | (1,089) | *1,693* | *(155.5%)* |
| Other | **314** | 221 | *93* | *42.1%* |
| **Total** | **39,324** | 41,146 | *(1,822)* | *(4.4%)* |

*Cost of sales* decreased by US$1.8 million to US$39.3 million for the reporting period (H1 2022: US$41.1 million). On a barrel of oil equivalent (boe) basis, the cost of sales increased by US$6.7/bbl from US$17.3/bbl in H1 2022 to US$24.1/bbl for H1 2023. Excluding depreciation, the cost of sales per boe saw a rise of US$5.8/bbl to reach US$11.7/bbl in H1 2023 (H1 2022: US$5.9/bbl). Such increase in opearting costs on a boe basis is in line with expectations and mainly resulting from 29% decline in production from a maturing field as described above, while major portion of the costs are of a fixed nature being related to operation and maintenance of surface facilities.

The main components of the decrease in cost of sales are:

*Depreciation, depletion and amortisation* decreased by US$7 million to US$20.2 million for the reporting period (H1 2022: US$27.2 million). Depreciation is calculated using the units of production method. The decrease in depreciation in H1 2023, compared to H1 2022, is due to lower production levels, resulting in a reduced depletion rate.

The abovementioned decrease in costs was partially offset mainly by:

- an increase in *well repair and maintenance costs* by US$1.4 million to US$3.0 million for the reporting period (H1 2022: US$1.6 million). The increase in these costs is attributed to timing of the expenditures on the efforts to slow the production decline.
- *change in stock* for the year primarily represents the movement in oil and condensate inventories. The positive adjustment of US$604 thousand in the reporting period is associated with variations in inventory levels.
- higher *payroll and related taxes* driven by annual wage indexation contributing to US$1.1 million increase in these costs.

## General and administrative expenses

The Group's general and administrative expenses are presented as follows:

| In thousands of US Dollars | For the six months ended 30 June<br>**2023** | 2022 | **Variance** | Variance, % |
|---|---|---|---|---|
| Payroll and related taxes | **3,200** | 3,026 | *174* | *5.8%* |
| Professional services | **2,019** | 2,012 | *7* | *0.3%* |
| Insurance fees | **217** | 294 | *(77)* | *(26.2%)* |
| Business travel | **213** | 122 | *91* | *74.6%* |
| Short-term leases | **42** | 101 | *(59)* | *(58.4%)* |
| Communication | **78** | 90 | *(12)* | *(13.3%)* |
| Depreciation and amortisation | **91** | 73 | *18* | *24.7%* |
| Materials and supplies | **57** | 62 | *(5)* | *(8.1%)* |
| Bank charges | **14** | 29 | *(15)* | *(51.7%)* |
| Other | **128** | 148 | *(20)* | *(13.5%)* |
| **Total** | **6,059** | 5,957 | *102* | *1.7%* |

*General and administrative* expenses remained relatively consistent, increasing only by US$0.1 million to US$6.1 million for the reporting period (H1 2022: US$6.0 million). The primary changes within general and administrative expenses were driven by increase in payroll and related taxes.

Payroll and related taxes saw an increase of US$0.2 million or 5.8% to US$3.2 million (H1 2022: US$3.0 million) resulting from annual salary indexation, which was partially offset by changes in foreign exchange rates.

Although G&A expenses remain on the same level, the Company continues on its cost optimisation journey, which is now reflected in curtailing any cost increases required to developing new projects such as Stepnoy Leopard and Ural O&G through reallocation and leveraging use of own resources for such needs.

## Selling and transportation expenses

The Group's selling and transportation expenses are presented as follows:

| In thousands of US Dollars | For the six months ended 30 June<br>**2023** | 2022 | **Variance** | Variance, % |
|---|---|---|---|---|
| Transportation costs | **2,390** | 4,046 | *(1,656)* | *(40.9%)* |
| Loading and storage costs | **1,967** | 4,081 | *(2,114)* | *(51.8%)* |
| Payroll and related taxes | **733** | 664 | *69* | *10.4%* |
| Other | **817** | 743 | *74* | *10.0%* |
| **Total** | **5,907** | 9,534 | *(3,627)* | *(38.0%)* |

*Selling and transportation* expenses decreased by US$3.6 million to US$5.9 million for the reporting period (H1 2022: US$9.5 million). This reduction corresponds to 31% decrease in sales volumes, as described above, and consisted of:

- A decrease in transportation costs by US$1.7 million, which stood at US$2.4 million for the reporting period (H1 2022: US$4.0 million).
- A reduction in loading and storage costs by US$2.1 million, amounting to US$2.0 million during H1 2023 (H1 2022: US$4.1 million).

### Taxes other than income tax

The Group's taxes other than income tax are presented as follows:

| *In thousands of US Dollars* | For the six months ended 30 June 2023 | 2022 | Variance | Variance, % |
|---|---|---|---|---|
| Export customs duty | **3,872** | 4,250 | *(378)* | *(8.9%)* |
| Royalties | **1,982** | 4,422 | *(2,440)* | *(55.2%)* |
| Government profit share | **493** | 979 | *(486)* | *(49.6%)* |
| Other taxes | **12** | 3 | *9* | *300.0%* |
| **Total** | **2,487** | 5,404 | *(2,917)* | *(54.0%)* |

*Royalties,* which are calculated based on production volumes and market prices for the different products, decreased by 55.2% to US$2.0 million for the reporting period (H1 2022: US$4.4 million), reflecting the decrease in hydrocarbon prices and production volumes.

*Export customs duty* on crude oil decreased by US$0.4 million or 8.9% to US$3.9 million for the reporting period (H1 2022: US$4.3 million). Such reduction is mainly driven by lower sales volumes but offset due to the timing differences in the application of the export custom duties rates.

### Finance costs

The Group's finance costs are presented as follows:

| *In thousands of US Dollars* | For the six months ended 30 June 2023 | 2022 | Variance | Variance, % |
|---|---|---|---|---|
| Interest expense on borrowings | **60,502** | 53,349 | *7,153* | *13.4%* |
| Other finance costs | **5,262** | 10,217 | *(4,955)* | *(48.5%)* |
| Unwinding of discount on amounts due to Government of Kazakhstan | **327** | 364 | *(37)* | *(10.2%)* |
| Unwinding of discount on abandonment and site restoration provision | **972** | 138 | *834* | *604.3%* |
| **Total** | **67,063** | 64,068 | *2,995* | *4.7%* |

Finance costs increased by US$3.0 million to US$67.1 million for the reporting period (H1 2022: US$64.1 million). The increase is primarily attributed to the interest expense on borrowings, which rose by 13.4% to US$60.5 million (H1 2022: US$53.3 million).

Increase in *interest expense on borrowings* is mainly due to the interest accrued on the Senior Secured Notes and the Senior Unsecured Notes due to the restructuring of Notes 2022 and Notes 2025 completed on 8 February 2023. The SSNs bear a cash interest of 5.0% per annum, while the SUNs carry a cash interest of 1.0% and Payment-in-Kind (PIK) of 13.0% annually. However, since the SSNs and SUNs were accounted at their fair value in accordance with IFRS 9 requirements, the relevant interest cost recognised in the income statement reflects their effective interest rates of 9.2% for SSNs and 35.2% for SUNs.

*Other finance costs*, which amount to US$5.3 million, decreased by 48.5% compared to H1 2022's figure of US$10.2 million. These finance costs include advisory fees the Group incurred in connection with the restructuring of the Group's outstanding bonds.

*Unwinding of discount on abandonment and site restoration provision* rose by US$0.8 million to US$1.0 million in H1 2023 (H1 2022: US$0.1 million). This increase is primarily attributed to an adjustment in the discount rate from 0.92% at 31 December 2021 to 4.87% by 31 December 2022. This heightened rate significantly amplified the unwinding of discount expenses for the provision.

### Gain on debt-to-equity exchange

The gain of US$769,611 in H1 2023 arises from the conversion of Group's 2022 Notes and 2025 Notes into equity (see more details on page 8).

### Other expenses

Other expenses increased to US$4.2 million in H1 2023 (2022 H1: US$2.2 million). This rise was primarily due to recognition of additional taxes and penalties of US$1.7 million which are related to the previous periods (2022 H1: US$0.3 million).

### Income tax

Income tax expense decreased by US$12.3 million to US$0.4 million for the reporting period (2022 H1: US$12.6 million). This is primarily due to a significant reduction in deferred income tax expense of US$15.0 million, resulting from lower profitability in H1 2023, as explained in the revenue change discussion.

### Liquidity and capital resources

During the period under review, Nostrum primarily relied on operational cash flows and existing cash reserves. Following completion of the Restructuring, the Group started implementing its new mixed-asset energy strategy which is based on evaluation and continuing to invest in both upstream and midstream opportunities where Nostrum sees the right risk/reward opportunities, which could be either by processing third party hydrocarbons in the Company's world-class infrastructure and/or by scaling up its own production.

## *Financial review (continued)*

### Cash Flows

The following table sets forth the Group's consolidated cash flow statement data for the reporting period and 2022 H1:

| | For the six months ended 30 June | |
|---|---|---|
| *In thousands of US Dollars* | **2023** | 2022 |
| **Cash and cash equivalents at the beginning of the period** | **233,584** | 165,246 |
| Net cash flows from operating activities | **(18,978)** | 58,791 |
| Net cash from / (used in) investing activities | **10,233** | (6,805) |
| Net cash used in financing activities | **(32,893)** | (7,941) |
| Effects of exchange rate changes on cash and cash equivalents | **60** | (626) |
| **Cash and cash equivalents at the end of the period** | **192,006** | 208,665 |

**Net cash flows from operating activities:**

Net cash flow used in operating activities was US$18.9 million for the reporting period (2022: Net cash flow from operating activities of US$58.8 million) and was primarily attributable to:

- Income before income tax for the reporting period of US$858.2 million (H1 2022: loss of US$22.1 million), adjusted by a non-cash charge for depreciation, depletion and amortisation of US$20.3 million (H1 2022: US$27.3 million), and finance costs of US$67.1 million (H1 2022: US$64.1 million);
- Increase in working capital of US$16.8 million (H1 2022: US$10.3 million) mainly due to a US$12.6 million decrease in other current liabilities (H1 2022: US$2.5 million), linked to the payment of additional taxes from the previous year after the tax inspection. The working capital was also affected by a US$2.1 million decrease in trade payables (H1 2022: US$2.5 million increase) and a US$2.01 million increase in prepayments and other current assets (H1 2022: US$4.2 million).

***Net cash from / (used in) investing activities***

Net cash used from investing activities for the reporting period was US$10.2 million (H1 2022: cash inflow of US$6.8 million). Net cash inflow during H1 2023 resulted mainly net transfer of US$14.7 million from the escrow account upon completion of the Restructuring, which was partially offset by cash used for purchases of the purchase of property, plant, and equipment in amount of US$5.6 million (H1 2022: US$6.8 million) the significant part of which included the payments related to gas lift well infrastructure development of around US$2.0 million (H1 2022: 3.6 million).

***Net cash used in financing activities***

Net cash used in financing activities during the reporting period was US$32.9 million (H1 2022: US$7.9 million), attributable to the payment of lock-up fees of US$ 3.8 million, interest on SUNs and SSNs of US$ 23.8 million and advisor fees of US$5.3 million related to restructuring negotiations on the Group's Notes (H1 2022: US$7.9 million).

### Capital commitments

As at 30 June 2023, the Group had contractual capital commitments in the amount of US$6,595 thousand (31 December 2022: US$2,845 thousand), mainly in respect to the Group's oil field development activities.

### Dividend policy

The Group currently pays no dividend and has not done so for several years, as the Board determined it was not in the Company's best interests to do so. This will be reviewed annually by the Board.

### Alternative performance measures

In the discussion of the Group's reported operating results, alternative performance measures (APMs) are presented to provide readers with additional financial information that is regularly reviewed by management to assess the financial performance or financial health of the Group or is useful to investors and stakeholders to assess the Group's performance and position.

However, this additional information presented is not uniformly defined by all companies including those in the Group's industry. Accordingly, it may not be comparable with similarly titled measures and disclosures by other companies. Certain information presented is derived from amounts calculated in accordance with IFRS but is not itself an expressly permitted IFRS measure. Such measures should not be viewed in isolation or as an alternative to the equivalent IFRS measure.

### EBITDA

EBITDA is defined as the results of operating activities before depreciation and amortisation, share-based compensation, fair value gains and losses on derivative instruments, foreign exchange losses, finance costs, finance income, non-core income or expenses and taxes, and includes any cash proceeds received or paid out from hedging activity. This metric is relevant as it allows management to assess the operating performance of the Group in absence of exceptional and non-cash items.

The following table shows the reconciliation between the income/(loss) before income tax (as reported under IFRS) and EBITDA (as defined here):

| | For the six months ended 30 June | |
|---|---|---|
| *In thousands of US Dollars* | **2023** | 2022 |
| **EBITDA Reconciliation** | | |
| Income/(loss) before income tax | **858,244** | (22,141) |
| **Add back:** | | |
| Finance costs | **67,063** | 64,068 |
| Foreign exchange loss / (gain), net | **803** | (98) |
| Gain on debt-to-equity exchange | **(769,611)** | – |
| Fair value adjustment on recognition of debt instruments | **(163,506)** | – |
| Interest income | **(899)** | (97) |
| Other income | **(1,145)** | (2,381) |
| Other expenses | **4,237** | 2,190 |
| Depreciation, depletion and amortisation | **20,224** | 27,208 |
| Depreciation and amortisation | **91** | 73 |
| **EBITDA** | **15,501** | 68,822 |

### Operating costs

Operating costs are the cost of sales less depreciation and change in stock. This metric is relevant as it allows management to see the cost base of the Company on a cash basis.

## Related parties and related party transactions

The following is a description of the material transactions with related parties to which the Company or its subsidiaries are a party. The Company believes that it has executed all transactions with related parties on terms no less favourable to the Group than those it could have obtained from unaffiliated third parties.

Save as disclosed in the Note 23 to the interim condensed consolidated financial statements, there were no related party transactions entered into during the reporting period.

# Principal risks and uncertainties

Key risks are reviewed by the Audit Committee and the Board of Nostrum on a regular basis and where appropriate, actions are taken to mitigate the key risks that are identified.

The key risks and uncertainties are unchanged from those disclosed in the Group's 2022 Annual Report. The Group believes that its principal risks and uncertainties for the remaining six months are:

| Description of risk | Risk management |
|---|---|
| STRATEGIC RISKS | |
| **Geopolitical factors** | |
| The Group's operations are exposed to risks associated with the political and business environment in Kazakhstan, being the Group's sole country of commercial operations, as well as its neighbouring countries.<br>In January 2022, following a rise in fuel prices, certain mass demonstrations and gatherings occurred in various cities across Kazakhstan. Such political and civil unrest and the occurrence of any such factors could result in new regulatory requirements that can be onerous and expensive, and other related changes that could have a material and adverse effect on the Group's business, results of operations, financial condition and prospects.<br>On the one hand, Nostrum has historically benefited from its geo-strategic position in the heart of an export corridor between Russia and markets to the west of the Caspian, but on the other hand, the Group has been respectively exposed to the risks associated with the economic and political situation in Russia, being reliant on its transport routes and ports. Severe sanctions and trade restrictions imposed by, among others, the US, UK and EU on Russia in March 2022 as a response to Russia's actions in Ukraine, have increased the economic and political uncertainty and may have a material adverse impact on the Group's business, results of operations, financial condition and prospects. | Nostrum's Senior Management Team is pro-actively engaged with key stakeholders among state authorities to address and resolve any potential issues at early stages. In addition, the Group endeavours to identify legislative changes at early stages before their introduction and to the extent possible participate in the relevant working groups engaged in the development of such changes.<br>To mitigate geopolitical, regional and customer risks, the Group continues to strengthen customer relationships through establishing long-term off-take agreements whilst also looking at possibilities to geographically diversify its customer portfolio.<br>The Group continuously analyses the impact of sanctions imposed on Russia on its transportation of crude oil, condensate and LPG via rail or pipeline, and also assesses alternative routes and destinations as a potential mitigating action, if needed.<br>Due to the US, UK and EU sanctions, the senior management and the Board have also decided that it would be in the best interest of the Group to terminate its relationships with the Sberbank subsidiary in Kazakhstan. In addition, the Group is also evaluating and implementing control processes and procedures around compliance with the sanctions imposed on Russia and Belarus as well as institutions and individuals specifically identified in those sanctions. These include the evaluation of counterparties and their banks, contract procedures, and liaising with external legal advisers.<br>Such actions also include collating and regularly updating lists of all persons/entities sanctioned in order to ensure Nostrum does not enter into transactions with any of the persons/entities on these lists. |
| **Product price volatilities** | |
| The Group's operations and financial performance are exposed to changes in the market prices for its products driven by external business and political factors, which are outside the Group's control.<br>Oil and gas prices are subject to volatility due to a variety of factors beyond the Group's control. Factors affecting crude oil prices include supply and demand fundamentals, economic outlooks, production quotas set by OPEC and political events. In recent years, as a result of factors including weaker outlook for global demand growth combined with excess supply, oil and gas prices worldwide have been subject to significant volatility and there can be no assurance that the recent recovery in oil prices or the recent high gas prices relative to historical averages will continue for extended periods of time.<br>Since the selling price of dry gas is directly dependent on the price of crude oil and the price of oil is volatile, the Company could also face volatility in the price of dry gas, which was over 43% in 2022. Also, the Group could be compelled by governmental authorities, purportedly acting based on RoK legislation, to sell its oil, condensate, LPG and gas domestically at prices determined by the RoK Government, which could be significantly lower than prices which the Group could otherwise achieve.<br>Lower oil and gas prices may reduce the economic viability of the Group's operations and proposed operations and materially adversely affect its business, results of operations, financial condition and prospects. In particular, the Group's ability to produce economically from the Chinarevskoye field or any prospective fields will be determined, in large part, by the difference between the revenue received for its products and the operating costs, taxation costs, royalties and costs incurred in transporting and selling those products.<br>The Group's strategy and business model are not directly influenced by any significant risk resulting from Brexit. | The Group quarterly revisits the product price assumptions used in its short-term, medium-term and long-term financial models, and performs stress testing of such forecasts to fluctuations in product prices and these are monitored by senior management and the Board.<br>In early 2020, given the uncertainties caused by a low oil price environment, the Group took prudent, mitigating actions to protect liquidity. These included cancelling uncommitted capital expenditures and identifying reductions in operating costs, general and administrative, and selling and transportation costs that could be implemented without having a negative impact on production or operations in the going concern period.<br>The Group continued these optimisation initiatives throughout 2022 and H1 2023 and as a result is now able to withstand a period of prolonged low oil prices. Also, senior management constantly monitors the Group's exposure to foreign currency exchange rate changes and makes plans for necessary measures.<br>In previous years, the Group has entered into hedging instruments to mitigate the volatility of commodity prices. The last such instrument expired in 2018. In 2022 the Group has produced a draft hedging policy and updated its relationships with multiple financial institutions which would allow for hedges to be placed. In light of the favourable commodity pricing environment, backwardation of the forward oil price curve, cash resources available to meet its operational and capital requirements for the next fiscal year and other factors the Board has not taken the decision to enter into any hedges in H1 2023. |

## *Principal risks and uncertainties (continued)*

| Description of risk | Risk management |
| --- | --- |
| **Filling the spare gas processing capacity** | |
| The activities in the Chinarevskoye oil and gas condensate field are currently the Group's sole source of revenue. The field is a mature declining asset with a proved and probable reserves base at a level that will produce volumes of hydrocarbons including raw gas sufficient to utilise less than 15 percent of capacity available at the Group's gas treatment facilities, which have a combined 4.2 billion cubic meters capacity per annum.<br>The Company is therefore reliant on acquiring and developing nearby assets with significant resource potential and/or processing third party gas through its processing facilities to continue to produce free cash flows and build sufficient cash reserves to repay future indebtedness. The ability to negotiate and secure these strategic acquisitions is highly uncertain and the ability to fund the development of such projects, the costs of which may be substantial and require external funding, may not materialise.<br>Oil and gas exploration and production activities are capital intensive and subject to financing limitations and inherent uncertainty in their outcome. Further, significant expenditure is required to establish the extent of oil and gas reserves through seismic re-processing and mapping, and other surveys as well as drilling. Therefore, there is an uncertainty whether further commercial quantities of oil and gas will be discovered at Chinarevskoye or Stepnoy Leopard fields to enable the Group to utilise the spare capacity in its treatment facilities. | From the end of 2019, the Board came to the conclusion that diversification of its sources of feedstock to the processing facilities would provide the Group with an opportunity to gain from expanding the use of available capacities, technological resources and human capital, and ultimately benefit from its underutilised infrastructure.<br>The Group signed agreements with Ural O&G in 2018 for the purchase of gas and processing of condensate from the Rozhkovskoye field for a period of four years with first deliveries planned for Q4 2023.<br>The Group decided to prepare fully the GTU3 plant for receiving future gas and a special project team was assigned. Completion of this scope, including upgrade of the Sulphur Recovery Unit allowing treatment of different concentrations of $H_2S$, will be ready before first hydrocarbons of UOG will enter the Chinarevskoye facilities.<br>Q3 2023, Nostrum acquired 80% of Positive Invest LLP, which holds the subsoil use right to the "Stepnoy Leopard Fields" in the West Kazakhstan region for US$20 million. Management estimates that the Stepnoy Leopard fields hold between 50 mmboe and 150 mmboe of recoverable volumes which are considered contingent resources, with over 20% estimated to be liquids. Nostrum launched an appraisal programme in the second half of 2023, with the intention of preparing a technical expert's report which could allow re-classification of certain of the hydrocarbon resources into reserves.<br>The Group continues to actively engage in discussions with other third parties interested in supplying raw gas to completely fill its spare processing capacity. |
| OPERATIONAL RISKS | |
| **Oil and gas reserves and production** | |
| Estimating the value and quantity of economically recoverable oil and natural gas reserves and resources, and consequently the rates of production, depend on a number of variables and assumptions, such as ultimate reserves recovery, interpretation of geological and geophysical data, marketability of oil and gas, future product prices, operating costs, development and production costs, and workover and remedial costs, all of which may vary from actual results, which would affect the Group's financial performance and achievement of strategic objectives. The reclassifications of significant amounts of reserves from 2P to contingent resources in 2020-2021 were the result of crystallising of such risks.<br>Even if the Group can discover or acquire commercial quantities of oil and gas in the future, there can be no absolute assurance that these will be commercially developed. Appraisal and development activities involving the drilling of wells across a field may be unpredictable and may not result in the outcome planned, targeted or predicted, as only by extensive testing can the properties of an entire field be more fully understood.<br>Completion of the Group's development plans does not ensure a profit on the investment or recovery of drilling, completion and operating costs, as various field operating conditions may adversely affect production from successful wells including delays in obtaining governmental approvals, shut-ins of connected wells, other unusual or unexpected geological, oceanographic and mechanical conditions.<br>Finally, given that the Chinarevskoye reservoir is a mature and declining asset, the Group has been actively performing well workover and interventions to reduce the rate of decline of the reservoirs. Such activities, as well as construction, operation and maintenance of surface facilities, are subject to various risks, including the availability of adequate services, technologies and expertise, which may adversely affect the fulfilment of the Group's strategic objectives. | The Group has a department of geologists and reservoir engineers who perform periodic assessments of its oil and gas reserves in accordance with international standards on reserve estimations and prepare production forecasting using advanced exploration risk and resource assessment systems. The results of the assessments are audited by the Group's independent reserves consultant, Ryder Scott.<br>For well workover activities, the Group engages skilled personnel and leading service suppliers, as well as employing internationally accredited operations and cost monitoring systems, based on which management oversees the work progress. The Group continued its well workover and intervention programme in H1 2023 to minimise production decline and this will be continued as the field gets older and equipment requires more regular maintenance.<br>In addition, in 2023, the Group expanded its gas lift system by adding a new compressor, which doubled its capacity, benefiting the Chinarevskoye field's production, with the initial results surpassing expectations.<br>Maintenance of wells and surface facilities is scheduled in advance, in accordance with technical requirements, and all necessary preparations are performed in a timely manner ensuring a high quality of work. In addition, the Group has emergency response and disaster recovery plans in place and periodically conducts necessary training and testing procedures.<br>Finally, in 2023 the Group initiated a limited-scale two-well drilling programme to be executed over 2023-2024, which is in line with the commitments of the Company's subsidiary Zhaikmunai LLP under its production sharing agreement. In order to formulate such drilling programme comprehensive subsurface studies were carried out, updating geologic and reservoir models, and re-processing of the 3D seismic. In addition, the Group plans to leverage existing wellbores to reduce costs. |
| **Cybersecurity risks** | |
| Nostrum may be vulnerable to the unauthorised or inappropriate access to data, or the unlawful use, disclosure, disruption, deletion, corruption, modification, inspection, recording, or devaluation of information. Such cybersecurity failures may significantly adversely affect the Group's operations and financial results through disruptions, shutdowns and delays in production and other activities. | The Group uses a number of dashboards such as MS Secure and MS Compliance, which monitor security and compliance, and also help to identify areas where security might be enhanced. At the start of employment each new employee is briefed on the Group's Information Security Policy and signs a confidentiality agreement. All mailboxes and data are placed on Microsoft servers with appropriate levels of protection. Passwords have complexity requirement and double authorisation has been introduced for most users. All data traffic, servers and computers are subject to scanning and protection by anti-virus software. Physical access to data storages is restricted to authorised personnel. |

## *Principal risks and uncertainties (continued)*

| Description of risk | Risk management |
|---|---|
| ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISKS | |
| **Risks of incidents, including risk of explosion** | |
| The Group's operations are subject to hazards and risks common in its industry, including encountering unusual or unexpected rock formations or geological pressures, fires, explosions or power shortages, equipment failures or accidents, premature declines in reservoirs, blowouts, uncontrollable flows of oil, gas or well fluids, or water cut levels, pollution and other environmental risks.<br>Failure to prevent or adequately mitigate these hazards can have a broad range of results, including, but not limited to, injury of employees or local residents, a partial or total shutdown of operations, significant damage to equipment, suspension or withdrawal of licences and relevant sanctions. Any of the above could materially and adversely affect the Group's business, results of operations, financial condition and prospects.<br>It should also be noted that the legal framework for operational safety is not yet fully developed in Kazakhstan and given the changing nature of environmental regulations, there is a risk that the Group will not be in full compliance with all such regulations at all times. | The Group's QHSE policies are periodically revised to ensure compliance with changes and new requirements in this area. Periodic training on the requirements of policies and regulations is held for employees. Nostrum's operations are based on the five QHSE pillars: HSE leadership; rigorous incident investigation; process safety-critical elements identified and maintained; contractor HSE management; and environment and climate change. Monthly QHSE reports are issued to communicate HSE performance.<br>Management KPIs include lost time injury frequency, road traffic accident frequency, total recordable injury frequency and numbers of Hazard Observation Cards submitted as well as managing reduction of GHG emissions from our operations.<br>Through the system of Hazard Observation Cards, employees and contractors report any unsafe conditions observed in the workplace, which helps to ensure their awareness of safe working conditions at all times. All incidents are investigated, their causes identified, and corrective action plans developed.<br>There is a classification of equipment as critical or non-critical. Safety critical elements are devices, equipment or systems that are required to ensure process conditions are maintained within safe operating limits, or the purpose of which is to prevent malfunctioning. For example, devices are installed at well-sites to automatically close the wells in the case of shutdown, preventing blowdown by flaring.<br>Contractor HSE performance is managed by identifying and mitigating risks, setting HSE performance criteria, monitoring, auditing and reporting HSE performance, and subsequently using this information for continuous development and feedback into the process of contractor selection. |
| **Governance risks** | |
| By virtue of being a dual-listed entity, Nostrum must adhere to both UK and Republic of Kazakhstan corporate governance and reporting requirements. Governance risk factors are usually related to board composition and structure, executive remuneration, internal controls and risk management framework, corporate policies and procedures, risks of corruption and bribery, and others.<br>Lack of adequate controls and policies, or a failure of those to operate effectively, could lead to loss of company resources, non-compliance with regulations, and respective significant fines, penalties, as well as reputational damage. | The Group has established a robust governance framework which covers all aspects of the Group's activities through respective Board committees and functional teams under senior management. Although the composition of the Board and its committees was not ideal during the reporting period due to the transition period, compensating controls and procedures were put in place such as additional scrutiny over the Board decisions and more frequent Board meetings.<br>The corporate governance framework is supported by an extensive range of policies and procedures covering division of responsibilities, bribery, corruption and whistleblowing, anti-facilitation of tax evasion and various other policies and practices related to social and environmental matters described across other section of the report. Such policies and procedures are designed and implemented to ensure that all required compliance obligations are met. |
| **Environmental risks** | |
| The Group's operations are subject to environmental risks inherent in oil and gas exploration and production industries. Examples of environmental risks include risks stemming from more intense extreme weather events, rising energy intensity in the oil and gas industry, the changing regulatory landscape, the risk of fugitive emissions and climate change policies driving down demand.<br>Compliance with environmental regulations may make it necessary for the Group, at substantial cost, to undertake measures in connection with the storage, handling, transportation, treatment or disposal of hazardous materials and waste and the remediation of contamination.<br>In addition, the legal framework for environmental protection and operational safety is not yet fully developed in Kazakhstan. Stricter environmental requirements may be adopted in the near future, and the environmental authorities may move towards a stricter interpretation of existing legislation. The costs associated with compliance with such regulations could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. | The Group actively plans and manages projects designed to mitigate certain environment-related risks. Limiting GHG emissions is a management KPI.<br>The Group's operations continuously put effort and commitment into improving energy efficiency, reducing flaring, venting and leaks, and monitoring and effectively managing emissions and waste. Also, the Group has recently started recycling utilised water at the campsite.<br>The Senior Management Team actively evaluates opportunities to further adapt and implement cost-effective mitigation measures.<br>The ESG Committee currently has responsibility for ESG related matters. |

## *Principal risks and uncertainties (continued)*

| Description of risk | Risk management |
|---|---|
| **CLIMATE CHANGE RISKS** | |
| **Climate change** | |
| Continued attention to climate change issues by governments, investors, and customers, along with relevant developments in laws and regulations and investor and customer preferences, may have a significant adverse impact on the Group's business.<br><br>New requirements, laws, policies, and regulations may result in substantial additional expenditures on capital construction, compliance, operations, and maintenance. The level of expenditure required to comply with these laws and regulations is uncertain.<br><br>In addition, any perceived weakness in environment-related policies, procedures, and efforts, sub-optimal assessment by an ESG rating agency, and comparison to peers might adversely impact the Group's access to capital markets, reduce the ability to raise additional financing, increase financing costs, and negatively affect the Group's business plans and financial performance. | The Group is actively planning and managing projects designed to mitigate certain climate change related risks. For instance:<br>• To decrease its exposure to rising fuel prices, drilling rigs have been retooled to derive more power from electricity rather than diesel;<br>• In operations, there is a permanent effort and commitment to improve energy efficiency and to reduce flaring, venting, and leaks; and<br>• At campsite, most of the water the Group utilises now is recycled.<br><br>Climate change is on the Board's agenda. The Senior Management Team actively evaluates opportunities to further adapt and implement cost-effective mitigation measures. |
| **COMPLIANCE RISKS** | |
| **Subsoil use agreements** | |
| As the Group performs exploration, development and production activities in accordance with related licences for the oil and gas fields, there are related risks that the Group might not be able to obtain extensions or agree amendments to the field development plan, when necessary, risks of non-compliance with the licence requirements owing to ambiguities, risks of alteration of the licence terms by the authorities and others. These risks may result in the Group's inability to fulfil scheduled activities; fines, penalties, suspension or termination of licences by authorities; and, respectively, significant and adverse impact on the Group's business, financial performance and prospects. | The Group has procedures and processes in place for the timely application for extension of licence periods or for amendments to the field development plan, when it is considered appropriate however, uncertainty remains in relation to timing and results of decisions of authorities. The Group maintains an open dialogue with Kazakh governmental authorities regarding its subsoil use agreement. In the event of non-compliance with a provision of the agreement, the Group endeavours to have such terms modified and pays any penalties and fines that may apply. |
| **Compliance with laws and regulations** | |
| The Group carries out its activities in a number of jurisdictions and, therefore, must comply with a range of laws and regulations, which exposes the Group to the respective risks of non-compliance. In addition, the Group must comply with the Listing Rules, the Disclosure Guidance and Transparency Rules, FRC guidance and requirements, as well as requirements in connection with its restructured debt, in light of its publicly traded shares and notes. Hence, there are non-compliance risks, including reputational, litigation and government sanction risks, to which the Group is exposed.<br><br>The impact of these risks may vary in magnitude and include regulatory actions, fines and penalties by authorities, diversion of management time, and may have an overall adverse effect on the Group's performance and activities towards achieving its strategic objectives. | For the purpose of effective corporate governance and compliance with laws, regulations, and rules, the Group has adopted a number of policies and procedures, as mentioned above. The Group also performs periodic updates based on the changes in regulatory requirements and carries out related communications and training for employees.<br><br>Necessary communication lines are established with authorities to ensure timely and adequate inbound and outbound flow of information. Management and the Board monitor significant matters related to legal and compliance matters in order to act promptly in response to any actions. In addition, management maintains an open dialogue with its sponsors in relation to any matter related to non-compliance with Listing Rules and other regulatory requirements. |

## *Principal risks and uncertainties (continued)*

| Description of risk | Risk management |
|---|---|
| FINANCIAL RISKS | |
| **Liquidity risks** | |
| Forecasting to maintain an adequate liquidity position is subject to the risk that inaccurate information or assumptions are used for forecasts, and to risks of counterparty delay or a counterparty's failure to meet their contractual obligations owing to severe market conditions.<br>Moreover, the Group's current and planned expenditures are subject to unexpected problems, costs and delays, and the economic results and actual costs may differ significantly from the Group's current estimates. Prices for the materials and services the Group depends on to conduct and expand its business may increase to levels that no longer enable the Group to operate profitably.<br>All the above factors in combination with a significant negative movement in world energy prices could result in the Group's liquidity position becoming more strained than the severe but plausible downside scenario in the going concern assessment. | Management and the Board constantly monitor the Group's actual and forecast liquidity position to ensure that sufficient funds are available to meet any commitments as they arise.<br>In addition, management and the Board assess key financial ratios, sensitivity tests of its liquidity position for changes in crude oil price, production volumes and timing of completion of various ongoing projects, to understand the resilience of the business and to be prepared for taking necessary remedies.<br>Further efforts are made on cost optimisation to reduce capital expenditures, operating costs and general and administration costs. |
| **Refinancing risks** | |
| In February 2023, the Group completed the implementation of the restructuring after obtaining all required licenses and approvals. As a result, the Group debt principal outstanding was reduced from US$1.125 billion to US$550 million maturing in June 2026. The remaining portion of existing notes converted into the Company's equity and the existing ordinary shareholders were diluted to 11.11%, subject to further dilution if the warrants held by existing noteholders are exercised.<br>The Board notes that uncertainty remains related to the Group's ability to repay/meet its liabilities, including the repayment of its Notes due in 2026 and the risk that the Group may require refinancing in 2026. | When preparing its 2022 Annual Report, the Group performed viability assessment over a three-year period to 30 June 2026. Based on these assessments and other matters considered by the Board, the Directors came to conclusion 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 30 June 2026, subject to possible necessity for partial refinancing or restructuring of its debt.<br>Further details of these considerations are described on pages 45-46 of the Group's 2022 Annual Report. |
| **Tax risks and uncertainties** | |
| The uncertainty of application, including retroactive application, of tax laws and the evolution of tax laws in Kazakhstan create risks related to additional tax liabilities from assessments and risks related to the recoverability of tax assets.<br>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. 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. Tax risks and uncertainties may adversely affect the Group's profitability, liquidity and planned growth. | The Group has policies and procedures related to various tax assessments and positions, as well as other control activities to ensure the timely assessment and filing of tax returns, payment of tax obligations and recovery of tax assets.<br>The Group regularly challenges, either with the Kazakh tax authorities or through the Kazakh courts, tax assessments that it believes are inapplicable to it, pursuant to the terms of either its subsoil use agreements or applicable law. |
| OTHER RISKS | |
| **Other significant risks, including emerging risks** | |
| Other risks are those that are not specifically identified within any of the principal risks and uncertainties but may be related to several such areas or be organisation-wide. These include risks related to:<br>• Fraudulent activities;<br>• The Group's supply chains;<br>• Accounting and reporting management systems; or<br>• The availability of human resources.<br>They may also significantly impact the Group's financial performance, reputation and achievement of its strategic objectives. | The Group has an Anti-Bribery and Corruption Policy, and provisions relating to the same are included in the Group's Code of Conduct. Related training and updates are periodically provided for employees in relation to their obligations in this area.<br>The Group has a wide range of internal controls over its supply chains and accounting and reporting processes, including policies, procedures, segregation of duties for authorisation of matters, and periodic training for employees. The Contracts Board was established to meet weekly to review and approve the placement of all contracts or expenditures with a potential value in excess of $10,000.<br>Senior management and the Board stay alert to emerging challenges related to various management systems and related governance matters and, when necessary, initiate change initiatives to ensure enhancement and integration of certain management systems. |

The risks listed above do not comprise all those associated with the Group's business and are not set out in any order of priority. Additional risks and uncertainties not presently known to management, or currently deemed to be less material, may also have an adverse effect on the Group's business. The risks listed above are continuously monitored by the management team and assessed when making business decisions.

## Going concern

The Group monitors on an ongoing basis its liquidity position, near-term forecasts, and key financial ratios to ensure that sufficient funds are available to meet its commitments as they arise and liabilities as they fall due. The Group reforecasts its rolling 24-month cashflows on a quarterly basis and stress tests its future liquidity position for changes in product prices, production volumes, costs and other significant events. Whilst looking for new opportunities to fill the spare capacity of the Group's infrastructure, the Directors are also focused on a range of actions aimed at improving the liquidity outlook in the near-term. These include the ongoing efforts on further cost optimisation to reduce capital expenditures, operating costs and general and administration costs.

The Directors' going concern assessment is supported by future cash flow forecasts for the going concern period to 30 September 2024. The Group had unrestricted cash balances of over US$192 million as at 30 June 2023 and over $8 million in DSRA. The base case going concern assessment reflects production forecasts consistent with the Board approved plans and published guidance and assumes a Brent oil price of $75/bbl. Under the base case going concern assessment to the period to 30 September 2024, the Group is forecast to have total cash reserves of over U$$180 million. The base case scenario has also been tested for sensitivity against the key assumptions including 10% reduction in product prices, 10% reduction in forecast production and sales volumes, 10% increase in capital expenditures and operating cost over the period of assessment and unexpected fines and penalties for various non-compliance issues, consistent with the sensitivities applied for viability assessment. Considering such sensitivity analysis the conclusion was reached that the Group is not exposed to downside volatility of these key assumptions individually or in aggregate.

After careful consideration, the Directors have a reasonable expectation that the Group and Company have sufficient resources to continue in operation for the going concern period to 30 September 2024. For these reasons, in accordance with provision 30 of the UK Corporate Governance Code 2018, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the interim condensed consolidated financial statements. Accordingly, the interim condensed consolidated financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group were unable to continue as a going concern.

Notwithstanding that the going concern period has been defined as the period to 30 September 2024, the Directors have considered events and conditions beyond the period of assessment which may cast doubt on the Group's ability to continue as a going concern. The Directors draw attention to the possible necessity in the future for partial refinancing or restructuring of the Group's debt.

# Responsibility statement

To the best of our knowledge:

a) the interim condensed set of financial statements, which has been prepared in accordance with the International Accounting Standard 34, "Interim Financial Reporting", as adopted in the UK, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4 R;

b) the interim management report includes a fair review of the information required by DTR 4.2.7 R; and

c) the interim management report includes a fair review of the information required by DTR 4.2.8 R.

The interim management report and the interim condensed consolidated financial statements for the six months ended 30 June 2023 have not been audited nor reviewed by the Group's external auditor.

Signed on behalf of the Board:

**Arfan Khan**
Chief Executive Officer

21 August 2023

# Nostrum Oil & Gas PLC

## Interim condensed consolidated financial statements (unaudited, unreviewed)

*For the six months ended 30 June 2023*

## Contents


| | | |
|---|---|---|
| Consolidated statement of financial position | | 23 |
| Consolidated statement of comprehensive income | | 24 |
| Consolidated statement of cash flows | | 25 |
| Consolidated statement of changes in equity | | 26 |
| Notes to the interim condensed financial statements | | 27 |
| 1. | General | 27 |
| 2. | Basis of preparation and consolidation | 28 |
| 3. | Changes in accounting policies and disclosures | 29 |
| 4. | Property, plant and equipment | 30 |
| 5. | Advances for non-current assets | 30 |
| 6. | Inventories | 30 |
| 7. | Prepayments and other current assets | 30 |
| 8. | Trade receivables | 30 |
| 9. | Cash and cash equivalents | 30 |
| 10. | Share capital and reserves | 31 |
| 11. | Earnings per share | 31 |
| 12. | Notes payable and accumulated interest | 32 |
| 13. | Trade payables | 32 |
| 14. | Other current liabilities | 33 |
| 15. | Revenue | 33 |
| 16. | Cost of sales | 33 |
| 17. | General and administrative expenses | 33 |
| 18. | Selling and transportation expenses | 33 |
| 19. | Taxes other than income tax | 33 |
| 20. | Finance costs | 33 |
| 21. | Other expenses | 34 |
| 22. | Income tax | 34 |
| 23. | Related party transactions | 34 |
| 24. | Contingent liabilities and commitments | 34 |
| 25. | Financial risk management objectives and policies | 35 |
| 26. | Events after the reporting period | 35 |

# Consolidated statement of financial position

| *In thousands of US Dollars* | Notes | **30 June 2023 (unaudited)** | 31 December 2022 (audited) |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 4 | **262,581** | 276,023 |
| Advances for non-current assets | 5 | **1,948** | 2,114 |
| Restricted cash | 9 | **16,287** | 31,022 |
| | | **280,816** | 309,159 |
| **Current assets** | | | |
| Inventories | 6 | **29,817** | 30,196 |
| Prepayments and other current assets | 7 | **6,698** | 4,688 |
| Income tax prepayment | | **86** | 95 |
| Trade receivables | 8 | **12,407** | 12,395 |
| Cash and cash equivalents | 9 | **192,006** | 233,584 |
| | | **241,014** | 280,958 |
| **TOTAL ASSETS** | | **521,830** | 590,117 |
| **Equity and liabilities** | | | |
| **Share capital and reserves** | 10 | | |
| Share capital | | **2,151** | 3,203 |
| Treasury capital | | **(166)** | (1,660) |
| Retained deficit and reserves | | **(41,907)** | (941,769) |
| | | **(39,922)** | (940,226) |
| **Non-current liabilities** | | | |
| Borrowings, net at amortised cost, including: | 11 | **454,855** | – |
| *Principal amount* | | *595,078* | – |
| *Accrued interest* | | *17,695* | – |
| *Fair value adjustments and arrangement fees** | | *(157,918)* | – |
| Abandonment and site restoration provision | | **21,045** | 20,073 |
| Due to Government of Kazakhstan | | **3,813** | 4,002 |
| Deferred tax liability | | **47,226** | 49,899 |
| | | **526,939** | 73,974 |
| **Current liabilities** | | | |
| Current portion of notes payable and accumulated interest | 12 | **–** | 1,396,517 |
| *Principal amount* | | – | *1,125,000* |
| *Accrued interest* | | – | *275,197* |
| *Fair value adjustments and arrangement fees* | | – | *(3,680)* |
| Trade payables | 13 | 9,929 | 9,929 |
| Advances received | | **50** | 52 |
| Current portion of due to Government of Kazakhstan | | **1,031** | 1,031 |
| Other current liabilities | 14 | **24,838** | 48,840 |
| | | **34,813** | 1,456,369 |
| **TOTAL EQUITY AND LIABILITIES** | | **521,830** | 590,117 |

** In accordance with IFRS 9 requirements, the borrowings are recognised at fair value calculated through discounting future cashflows at applicable effective interest rates on the date of recognition with applicable adjustments for the arrangement fees.*

The interim condensed consolidated financial statements of Nostrum Oil & Gas PLC, registered number 8717287, were authorised for issue by the Board of Directors on 17 August 2023.

Signed on behalf of the Board:

**Arfan Khan**

Chief Executive Officer

21 August 2023

The accounting policies and explanatory notes on pages 27 through 35 are an integral part of these interim condensed consolidated financial statements.

# Consolidated statement of comprehensive income

| *In thousands of US Dollars* | Notes | For the three months ended 30 June<br>**2023 (unaudited)** | 2022 (unaudited) | For the six months ended 30 June<br>**2023 (unaudited)** | 2022 (unaudited) |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Revenue from export sales | | **32,316** | 42,603 | **43,770** | 97,558 |
| Revenue from domestic sales | | **3,181** | 5,033 | **9,065** | 10,274 |
| | 15 | **35,497** | 47,636 | **52,835** | 107,832 |
| Cost of sales | 16 | **(22,938)** | (20,052) | **(39,324)** | (41,146) |
| **Gross profit** | | **12,559** | 27,584 | **13,511** | 66,686 |
| General and administrative expenses | 17 | **(2,977)** | (3,183) | **(6,059)** | (5,957) |
| Selling and transportation expenses | 18 | **(3,575)** | (4,835) | **(5,907)** | (9,534) |
| Taxes other than income tax | 19 | **(5,180)** | (4,442) | **(6,359)** | (9,654) |
| Finance costs | 20 | **(31,857)** | (32,739) | **(67,063)** | (64,068) |
| Gain on debt-to-equity exchange | 10 | **–** | – | **769,611** | – |
| Fair value adjustment on recognition of debt instruments | 10 | **–** | – | **163,506** | – |
| Foreign exchange loss, net | | **(79)** | 359 | **(803)** | 98 |
| Interest income | | **831** | 27 | **899** | 97 |
| Other income | | **852** | 1,079 | **1,145** | 2,381 |
| Other expenses | 21 | **(1,462)** | (1,467) | **(4,237)** | (2,190) |
| **(Loss)/income before income tax** | | **(30,888)** | (17,617) | **858,244** | (22,141) |
| Current income tax expense | | **(2,800)** | (132) | **(3,033)** | (281) |
| Deferred income tax (expense) / benefit | | **(897)** | (3,602) | **2,673** | (12,355) |
| **Income tax expense** | 22 | **(3,697)** | (3,734) | **(360)** | (12,636) |
| **(Loss)/income for the period** | | **(34,585)** | (21,351) | **857,884** | (34,777) |
| **Other comprehensive income that could be reclassified to the income statement in subsequent periods** | | | | | |
| Currency translation difference | | **(123)** | (161) | **(5)** | (82) |
| **Other comprehensive loss** | | **(123)** | (161) | **(5)** | (82) |
| **Total comprehensive (loss)/income for the period** | | **(34,708)** | (21,512) | **857,879** | (34,859) |
| Income/(loss) for the period attributable to the shareholders (in thousands of US dollars) | | | | **857,884** | (34,777) |
| Weighted average number of shares[1] | | | | **169,381,600** | 169,381,600 |
| Basic and diluted earnings per share (in US dollars) | 10 | | | **5.06** | (0.21) |

*[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.

The accounting policies and explanatory notes on pages 27 through 35 are an integral part of these interim condensed consolidated financial statements.

# Consolidated statement of cash flows

| *In thousands of US Dollars* | Notes | For the six months ended 30 June<br>**2023 (unaudited)** | <br>2022 (unaudited) |
|---|---|---|---|
| **Cash flow from operating activities:** | | | |
| Income/(loss) before income tax | | **858,244** | (22,141) |
| *Adjustments for:* | | | |
| Depreciation, depletion and amortisation | 16,17,18 | **20,315** | 27,281 |
| Finance costs | 20 | **67,063** | 64,068 |
| Interest income | | **(899)** | (97) |
| Foreign exchange loss on investing and financing activities | | **4** | 544 |
| Loss on disposal of property, plant and equipment | | **685** | – |
| Fair value adjustment on recognition of debt instruments | | **(163,506)** | – |
| Gain on debt-to-equity exchange | | **(769,611)** | – |
| **Operating profit before working capital changes** | | **12,295** | 69,655 |
| *Changes in working capital:* | | | |
| Change in inventories | | **380** | (1,497) |
| Change in trade receivables | | **(13)** | (4,250) |
| Change in prepayments and other current assets | | **(2,010)** | (4,150) |
| Change in trade payables | | **(2,087)** | 2,505 |
| Change in advances received | | **(1)** | 82 |
| Change in due to Government of Kazakhstan | | **(515)** | (515) |
| Change in other current liabilities | | **(12,561)** | (2,484) |
| **Cash used in operations** | | **(4,512)** | 59,346 |
| Income tax paid | | **(14,466)** | (555) |
| **Net cash flows used in operating activities** | | **(18,978)** | 58,791 |
| **Cash flow from investing activities:** | | | |
| Interest received | | **899** | 97 |
| Purchase of property, plant and equipment | | **(5,568)** | (5,460) |
| Advances for non-current assets | | **167** | (1,442) |
| Transfer from restricted cash | | **14,735** | – |
| **Net cash from / (used in) investing activities** | | **10,233** | (6,805) |
| **Cash flow from financing activities:** | | | |
| Finance costs paid | | **(27,631)** | – |
| Other finance costs | | **(5,262)** | (7,941) |
| **Net cash used in financing activities** | | **(32,893)** | (7,941) |
| Effects of exchange rate changes on cash and cash equivalents | | **60** | (626) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(41,578)** | 43,419 |
| **Cash and cash equivalents at the beginning of the period** | 9 | **233,584** | 165,246 |
| **Cash and cash equivalents at the end of the period** | 9 | **192,006** | 208,665 |

"Other finance costs" included advisor fees of US$5,124 thousand (six months ended 30 June 2022: US$ 7,886 thousand) paid by the Group in relation to the forbearance agreements and ongoing process of restructuring of the Group's outstanding bonds. For more details see Note 1.

The accounting policies and explanatory notes on pages 27 through 35 are an integral part of these interim condensed consolidated financial statements.

# Consolidated statement of changes in equity

| *In thousands of US Dollars* | Notes | Share capital | Treasury capital | Other reserves | Retained deficit | Total |
|---|---|---|---|---|---|---|
| **As at 1 January 2022 (audited)** | | **3,203** | **(1,660)** | **262,385** | **(1,087,181)** | **(823,253)** |
| Loss for the period | | – | – | – | (34,777) | (34,777) |
| Other comprehensive income | | – | – | (82) | – | (82) |
| **Total comprehensive loss for the period** | | **–** | **–** | **(82)** | **(34,777)** | **(34,859)** |
| **As at 30 June 2022 (unaudited)** | | **3,203** | **(1,660)** | **262,303** | **(1,121,958)** | **(858,112)** |
| Loss for the period | | – | – | – | (81,668) | (81,668) |
| Other comprehensive loss | | – | – | (408) | – | (408) |
| **Total comprehensive loss for the period** | | **–** | **–** | **(408)** | **(81,668)** | **(82,076)** |
| Share based payments under LTIP* | | – | – | (38) | – | (38) |
| **As at 31 December 2022 (audited)** | | **3,203** | **(1,660)** | **261,857** | **(1,203,626)** | **(940,226)** |
| Income for the period | | – | – | – | 857,884 | 857,884 |
| Other comprehensive loss | | – | – | (5) | – | (5) |
| **Total comprehensive income for the period** | | **–** | **–** | **(5)** | **857,884** | **857,879** |
| Share issue and consolidation | | (1,052) | 1,494 | 41,684 | – | 42,126 |
| Issue of warrants | | – | – | 299 | – | 299 |
| **As at 30 June 2023 (unaudited)** | | **2,151** | **(166)** | **303,835** | **(345,742)** | **(39,922)** |

** Long-Term Incentive Plan ("LTIP")*

The accounting policies and explanatory notes on pages 27 through 35 are an integral part of these interim condensed consolidated financial statements.

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

| Company | Registered office | Form of capital | Owner-ship, % |
|---|---|---|---|
| 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 6LA, United Kingdom | Ordinary shares | 100 |
| Nostrum Services Central Asia LLP | Aksai 3a, 75/38, 050031 Almaty, Republic of Kazakhstan | Participatory interests | 100 |
| Nostrum Services N.V. | 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 14 October 2022, a new company Nostrum Oil & Gas Holding Limited was incorporated with a registered address of 20 Eastbourne Terrace, London, W2 6LG, UK. The entity is a wholly owned subsidiary of the Parent.

As at 30 June 2023 the Group employed 563 employees (31 December 2022: 566).

### 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*

Following the discussions with AHG's advisers the Group entered into two Forbearance Agreements (FBAs) on 23 October 2020 and 19 May 2021. These agreements, which had mostly similar terms, prevented AHG from invoking certain rights due to the default. The FBAs aimed to offer a temporary solution for the Group's liquidity problems and to facilitate restructuring talks with the noteholders. Following the signing of these FBAs, the Company consented to pay fees to the noteholders and to deposit some of the unpaid coupon payments into a Restricted Account. In total, US$6,701,973 was paid as consent fees during these agreements, with US$1,116,990 paid in 2021 alone. Additionally, US$22,658,980 was deposited into the Restricted Account as per the FBAs' terms.

#### *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 interim condensed 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;
- 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 to equity:**

- Conversion of the remainder of the Existing Notes and accrued interest into equity by way of a UK scheme of arrangement:
- Existing noteholders own 88.89% of the expanded ordinary share capital of the Company on closing of the restructuring. Existing noteholders 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 milestones**

Following the execution of the Lock-up Agreement, the Company progressed with its restructuring efforts. On 4 February 2022, consents were obtained from noteholders to approve amendments to the Existing Notes indentures, most notably changing the jurisdiction to England and Wales and making Nostrum Oil & Gas plc a co-issuer. On 29 April 2022, the shareholders (99.99% of voting) 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. 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 the issue of new shares and warrants (in partial repayment of the Existing Notes) and the waiver of the State of Kazakhstan's priority right to acquire such new shares and warrants. On 26 August 2022, The Scheme Sanction Hearing took place, whereby the Court made an order sanctioning the Scheme. On 14 October 2022, a prospectus was released regarding the proposed admission of up to 1,505,633,046 new ordinary shares on the London Stock Exchange. In January 2023, they received the required licence from the UK's Office of Financial Sanctions Implementation (OFSI).

**Restructuring completion**

On 9 February 2023, the Restructuring was implemented on the key terms as agreed under Lockup Agreement, and pursuant to the terms of the Scheme sanctioned by the Court on 26 August 2022. This led to the sub-division and consolidation of the Company's share capital, which resulted in a reduction of shares from approximately 1,693.8 million to 169.4 million following a 10:1 consolidation. By 10 February 2023, 150,563,304 new shares were listed on the London Stock Exchange (ticker symbol NOG.L), and by 13 February, also on the Astana International Exchange. The new notes and warrants were listed on The International Stock Exchange from 9 February 2023, while no new securities were listed on Euronext Dublin. On 14 March 2023, the Company's ordinary shares were delisted from the official list of the Kazakhstan Stock Exchange (KASE).

## 2. Basis of preparation and consolidation

### Basis of preparation

These interim condensed consolidated financial statements for the six months ended 30 June 2023 have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting as adopted in the UK. These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2022 prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with the UK adopted International Accounting Standards.

The interim condensed consolidated financial information for six months ended 30 June 2023 and 2022 is neither audited nor reviewed by the auditors and does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. The comparative financial information as at 31 December 2022 has been derived from the statutory financial statements for that year. Statutory accounts for the year ended 31 December 2022 were approved by the Board of directors on 30 May 2023 and have been filed with the Registrar of Companies.

### Basis of consolidation

The interim condensed consolidated financial statements comprise the financial statements of the Parent and its subsidiaries as at 30 June 2023. 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 interim condensed consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

# Notes to the interim condensed consolidated financial statements (continued)

### Going concern

The Group monitors on an ongoing basis its liquidity position, near-term forecasts, and key financial ratios to ensure that sufficient funds are available to meet its commitments as they arise and liabilities as they fall due. The Group reforecasts its rolling 24-month cashflows on a quarterly basis and stress tests its future liquidity position for changes in product prices, production volumes, costs and other significant events. Whilst looking for new opportunities to fill the spare capacity of the Group's infrastructure, the Directors are also focused on a range of actions aimed at improving the liquidity outlook in the near-term. These include the ongoing efforts on further cost optimisation to reduce capital expenditures, operating costs and general and administration costs.

The Directors' going concern assessment is supported by future cash flow forecasts for the going concern period to 30 September 2024. The Group had unrestricted cash balances of over US$192 million as at 30 June 2023 and over $8 million in DSRA. The base case going concern assessment reflects production forecasts consistent with the Board approved plans and published guidance and assumes a Brent oil price of $75/bbl. Also, the forecast financing cashflows take into account completion of restructuring in February 2023. Under the base case going concern assessment to the period to 30 September 2024, the Group is forecast to have total cash reserves of over U$$180 million. The base case scenario has also been tested for sensitivity against the key assumptions including 10% reduction in product prices, 10% reduction in forecast production and sales volumes, 10% increase in capital expenditures and operating cost over the period of assessment and unexpected fines and penalties for various non-compliance issues, consistent with the sensitivities applied for viability assessment. Considering such sensitivity analysis the conclusion was reached that the Group is not exposed to downside volatility of these key assumptions individually or in aggregate.

After careful consideration, the Directors have a reasonable expectation that the Group and Company have sufficient resources to continue in operation for the going concern period to 30 September 2024. For these reasons, in accordance with provision 30 of the UK Corporate Governance Code 2018, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the interim condensed consolidated financial statements. Accordingly, the interim condensed consolidated financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group were unable to continue as a going concern.

Notwithstanding that the going concern period has been defined as the period to 30 September 2024, the Directors have considered events and conditions beyond the period of assessment which may cast doubt on the Group's ability to continue as a going concern. The Directors draw attention to the possible necessity in the future for partial refinancing or restructuring of the Group's debt.

## 3. Changes in accounting policies and disclosures

### New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022, except for the adoption of new standards effective as of 1 January 2023. 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 2023, but do not have an impact on the interim condensed consolidated financial statements of the Group.

**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 2023 and must be applied retrospectively. The amendments have not had a material impact on the Group's financial statements.

**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 have not had a material impact on the Group's 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.

# Notes to the interim condensed consolidated financial statements (continued)

The amendments have not had a material impact on the Group's financial statements.

**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 have not had a material impact on the Group's financial statements.

## 4. Property, plant and equipment

During the six months ended 30 June 2023 the Group had additions of property, plant and equipment of US$ 7,673 thousand (six months ended 30 June 2022: US$ 6,018 thousand). These additions are mostly associated with commencement of well workover campaign as well as capital repairs of equipment and capitalised interest US$ 938 thousand (six months ended 30 June 2022: US$ 685 thousand). See Note 24 for capital commitments.

## 5. Advances for non-current assets

As at 30 June 2023 and 31 December 2022 advances for non-current assets comprised the following:

| *In thousands of US Dollars* | **30 June 2023 (unaudited)** | 31 December 2022 (audited) |
|---|---|---|
| Advances for construction materials | **85** | 1,090 |
| Advances for construction services | **1,288** | 582 |
| Advances for other non-current assets | **575** | 442 |
| | **1,948** | 2,114 |

## 6. Inventories

As at 30 June 2023 and 31 December 2022 inventories comprised the following:

| *In thousands of US Dollars* | **30 June 2023 (unaudited)** | 31 December 2022 (audited) |
|---|---|---|
| Spare parts and other inventories | **26,945** | 26,720 |
| Gas condensate | **1,014** | 1,905 |
| Crude oil | **1,503** | 1,182 |
| LPG | **289** | 335 |
| Dry gas | **59** | 46 |
| Sulphur | **7** | 8 |
| | **29,817** | 30,196 |

As at 30 June 2023 and 31 December 2022 inventories are carried at cost.

## 7. Prepayments and other current assets

As at 30 June 2023 and 31 December 2022 prepayments and other current assets comprised the following:

| *In thousands of US Dollars* | **30 June 2023 (unaudited)** | 31 December 2022 (audited) |
|---|---|---|
| Advances paid | **1,824** | 2,959 |
| VAT receivable | **3,722** | 744 |
| Other taxes receivable | **843** | 761 |
| Other | **309** | 224 |
| | **6,698** | 4,688 |

Advances paid consist primarily of prepayments made to service providers. As at 30 June 2023 the impaired VAT receivable amounted to US$575 thousand and the impaired advances paid amounted to US$169 thousand (31 December 2022: US$5,596 thousand and US$169 thousand, respectively).

There were no other movements in the provision for impairment of advances paid during the six months ended 30 June 2023 and 2022.

## 8. Trade receivables

As at 30 June 2023 and 31 December 2022 trade receivables were not interest-bearing and were mainly denominated in US dollars and Tenge. Their average collection period is not more than 90 days.

As at 30 June 2023 and 31 December 2022 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 30 June 2023 and 31 December 2022.

## 9. Cash and cash equivalents

As at 30 June 2023 and 31 December 2022 cash and cash equivalents comprised the following:

| *In thousands of US Dollars* | **30 June 2023 (unaudited)** | 31 December 2022 (audited) |
|---|---|---|
| Current accounts in US Dollars | **190,545** | 217,026 |
| Current accounts in Tenge | **656** | 13,827 |
| Current accounts in other currencies | **659** | 901 |
| Current accounts in Euro | **138** | 1,824 |
| Petty cash | **8** | 6 |
| | **192,006** | 233,584 |

In addition to the cash and cash equivalents in the table above, the Group has restricted cash accounts as liquidation fund deposits of US$8,225 thousand with Halyk bank (31 December 2022: US$ 8,220 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 set up a debt service retention account (DSRA) to ensure funding for the forthcoming two interest instalments on SUNs and SSNs. As of 30 June 2023, the DSRA contained US$8,062 thousand, (31 December 2022: US$22,802 thousand on in the escrow account established per the FBA terms).

# Notes to the interim condensed consolidated financial statements (continued)

## 10. Share capital and reserves

As at 30 June 2023 the ordinary share capital of the Parent consists of 169,381,600 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. The table below represents movements in the number of ordinary shares during the six months ended 30 June 2023. There were no movements in the number of shares during the year ended 31 December 2022.

| *Number of shares* | In circulation | Treasury capital | TOTAL |
|---|---|---|---|
| **As at 31 December 2022** | **185,234,079** | **2,948,879** | **188,182,958** |
| Shares issued | 1,505,633,046 | – | 1,505,633,046 |
| Share consolidation | (1,521,780,413) | (2,653,991) | (1,524,434,404) |
| **As at 30 June 2023** | **169,086,712** | **294,888** | **169,381,600** |

As part of the Restructuring, on 9 February 2023 the Company issued 1,505,633,046 new shares in connection with the repayment of the remaining face value of the Existing Notes following the issue of the New Notes (see Note 12 below), together with accrued but unpaid interest (the "Debt for Equity Swap"). Given the number of new shares issued, at the close of business on 9 February 2023 the Company also performed a share consolidation, so as to achieve an appropriate share price following closing of the Restructuring (Note 1). As a result, the number of ordinary shares in issue was reduced from 1,693,816,004 (following the issue of the new shares) to 169,381,600 ordinary shares, on the basis of a 10:1 consolidation (the "Share Consolidation"). In order to give effect to the Share Consolidation, the Company initially reduced the nominal value of the ordinary shares (the "Sub-Division") after the issue of the new shares, through sub-division of each ordinary share at a ratio of 1:10 into one ordinary share of nominal value of £0.001 each together with nine deferred shares of nominal value £0.001 each (the "Deferred Shares"). The Deferred Shares (in practice) have no economic or voting rights in the capital of the Company and it is expected that they will be cancelled following the implementation of the Restructuring. The nominal value of the ordinary shares following the Share Consolidation was £0.01 each. Fractions of new ordinary shares were not issued in connection with the Share Consolidation and any fractional entitlements were rounded down to the nearest whole ordinary share.

Debt for Equity swap was recorded by the Company in accordance with the requirements of IFRS 9 Financial Instruments and IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, i.e.:

- Derecognition of the outstanding amount of Existing Notes (after issue of the New Notes), including principal amounts of US$336,976 thousand of 2022 Notes and US$192,946 thousand of 2025 Notes together with accrued but unpaid interest of US$195,216 thousand and US$91,056 thousand, respectively;
- Recognition of the shares issued at their fair value at the time of issue of US$45,347 thousand, which was estimated at the trading share price of £0.2375 and converted into US dollars using the prevailing exchange rate of 1.2169 GBP/USD. Relevant adjustments were made in the nominal amount of the share capital in accordance with the share issue, subdivision and consolidation described above, which resulted in net decrease of share capital by US$1,051 thousand along with reduction in the value of treasury capital in the amount of US$1,494 thousand, and the corresponding difference with the fair value of the shares issued was recorded in the "other reserves" category of the equity;
- The difference of US$769,611 thousand between the carrying amount of the Existing Notes together with accrued but unpaid interest and the fair value of the shares issued, was recognised as a separate item in the income statement.

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.

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

| *In thousands of US Dollars* | Group reorgani-sation reserve | Foreign currency translation reserves | Share-option reserves | Total |
|---|---|---|---|---|
| **As at 1 January 2022** | **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** |
| Currency translation difference | – | (5) | – | (5) |
| Share issue and consolidation | 41,684 | – | – | 41,684 |
| **As at 30 June 2023** | **297,143** | **2,607** | **3,786** | **303,536** |

Group reorganisation reserve in the amount of US$255,459 thousand as of 31 December 2022 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 six months ended 30 June 2023 and 2022.

## 11. Earnings per ordinary share

As at 30 June 2023 the ordinary share capital of the Parent consists of 169,381,600 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 for the six months ended 30 June 2022 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 10).

| | For the six months ended 30 June | |
|---|---|---|
| | **2023 (unaudited)** | 2022 (unaudited) |
| Loss for the period attributable to the shareholders (in thousands of US dollars) | **857,884** | (34,777) |
| Weighted average number of shares | **169,381,600** | 169,381,600 |
| Basic and diluted earnings per share (in US dollars) | **5.06** | (0.21) |

# Notes to the interim condensed consolidated financial statements (continued)

## 12. Notes payable and accumulated interest

Notes payable and accumulated interest are comprised of the following as at 30 June 2023 and 31 December 2022:

| *In thousands of US Dollars* | **30 June 2023 (unaudited)** | 31 December 2022 (audited) |
|---|---|---|
| Senior Secured Notes (SSNs) | **250,000** | – |
| FV adjustments and arrangement fees (SSNs) | **(26,872)** | – |
| Senior Unsecured Notes (SUNs) | **345,078** | – |
| FV adjustments and arrangement fees (SUNs) | **(131,046)** | – |
| Notes issued in 2017 and maturing in 2022 | **–** | 725,000 |
| Notes issued in 2018 and maturing in 2025 | **–** | 396,320 |
| Accrued interest | **17,695** | 275,197 |
| | **454,855** | 1,396,517 |
| Less amounts due within 12 months | **–** | (1,396,517) |
| | **454,855** | – |

### Senior Secured Notes (SSNs)

Following the Restructuring of the 2025 and 2022 Notes, Nostrum Oil & Gas Finance BV, issued US$250,000,000 senior secured notes due 30 June 2026. The SSNs bear cash-pay interest at a rate of 5.0% per year, payable semi-annually. Pursuant to the Lock-up Agreement, the Group has agreed that the 5.0% cash interest will accrue from 1 January 2022 and such accrued amount was paid in cash after the issue of the SSNs. For more information, please refer to Note 1.

### Senior Unsecured Notes (SUNs)

Following the Restructuring of the 2025 and 2022 Notes, Nostrum Oil & Gas Finance BV issued US$300,000,000 senior notes due 30 June 2026. The SUNs bear interest at a rate of 1.0% cash-pay and 13.0% payment-in-kind (PIK) per year, payable semi-annually. Pursuant to the Lock-up Agreement, the Company agreed that the 1.0% cash interest and 13.0% PIK interest would accrue from 1 January 2022. Accordingly, Nostrum Oil & Gas Finance issued a principal amount of US$45,078,172 additional SUNs representing the PIK interest which has been agreed to be payable with effect from 1 January 2022 until 9 February 2022 upon the issue of the SUNs. For more information, please refer to Note 1.

### 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 bore interest at a rate of 8.00% per year, payable on 25 January and 25 July of each year.

The 2022 Notes were 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 were the 2022 Issuer's and the 2022 Guarantors' senior obligations and ranked 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 bore interest at a rate of 7.00% per year, payable on 16 August and 16 February of each year.

The 2025 Notes were 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 were the 2025 Issuer's and the 2025 Guarantors' senior obligations and ranked 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.

### Exchange of debt instruments

Taking into account significant differences in the terms of the Existing Notes and the terms of SSNs and SUNs issued in exchange, the Group accounted for the exchange transaction in accordance with the requirements of IFRS 9 Financial Instruments for a substantial modification, i.e. extinguishment of the Existing Notes and recognition of the New Notes at their fair value.

Such fair values have been determined by discounting future cashflows at the relevant implied yields of the instruments on issue date (9.2% for SSNs and 35.2% for SUNs). The resulting gains on initial recognition of SSNs and SUNs in the amount of $14,807 thousand and $148,699 thousand, respectively, were recorded in the income statements under separate line item. These adjustments will be amortised over the life of the instruments and reflected as part of finance costs in the income statement.

### 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 and until the restructuring has been presenting them as the current portion of long-term borrowings in the statement of financial position.

More detailed information for restructuring 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 imposed certain requirements as to future subsidiary guarantors, and certain customary information covenants and events of default.

## 13. Trade payables

Trade payables comprise the following as at 30 June 2023 and 31 December 2022:

| *In thousands of US Dollars* | **30 June 2023 (unaudited)** | 31 December 2022 (audited) |
|---|---|---|
| Tenge denominated trade payables | **6,959** | 6,942 |
| US Dollar denominated trade payables | **1,222** | 1,543 |
| Euro denominated trade payables | **621** | 1,160 |
| Russian Rouble denominated trade payables | **19** | 141 |
| Trade payables denominated in other currencies | **73** | 143 |
| | **8,894** | 9,929 |

# Notes to the interim condensed consolidated financial statements (continued)

## 14. Other current liabilities

Other current liabilities comprise the following as at 30 June 2023 and 31 December 2022:

| *In thousands of US Dollars* | **30 June 2023 (unaudited)** | 31 December 2022 (audited) |
|---|---|---|
| Other accruals | **11,378** | 23,481 |
| Training obligations accrual | **6,853** | 6,441 |
| Due to employees | **3,010** | 2,724 |
| Taxes payable, including corporate income tax | **2,861** | 15,437 |
| Other current liabilities | **736** | 757 |
| | **24,838** | **48,840** |

## 15. Revenue

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---|---|---|---|
| *In thousands of US Dollars* | **2023 (unaudited)** | 2022 (unaudited) | **2023 (unaudited)** | 2022 (unaudited) |
| Revenue from oil and gas condensate sales | **30,966** | 36,374 | **44,095** | 85,583 |
| Revenue from gas and LPG sales | **4,531** | 11,232 | **8,739** | 22,219 |
| Revenue from sulphur sales | **–** | 30 | **1** | 30 |
| | **35,497** | 47,636 | **52,835** | 107,832 |

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 for the six months ended 30 June 2023 was US$ 79.9/bbl (six months ended 30 June 2022: US$104.9/bbl).

During the six months ended 30 June 2023 the revenue from sales to three major customers amounted to US$19,691 thousand, US$19,305 thousand and US$5,100 thousand respectively (six months ended 30 June 2022: US$82,153 thousand, US$6,814 thousand and US$5,106 thousand, respectively).

The operations of the Group are located in only one geographic location, Kazakhstan. The Group's exports are mainly represented by deliveries to the Baltic ports of Russia and Caspian Sea ports of Kazakhstan.

## 16. Cost of sales

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---|---|---|---|
| *In thousands of US Dollars* | **2023 (unaudited)** | 2022 (unaudited) | **2023 (unaudited)** | 2022 (unaudited) |
| Depreciation, depletion and amortisation | **10,058** | 13,202 | **20,224** | 27,208 |
| Payroll and related taxes | **4,015** | 3,589 | **8,259** | 7,201 |
| Repair, maintenance and other services | **1,587** | 1,457 | **3,359** | 2,954 |
| Materials and supplies | **1,290** | 1,036 | **2,379** | 1,893 |
| Well repair and maintenance costs | **1,940** | 616 | **2,956** | 1,554 |
| Transportation services | **601** | 554 | **1,173** | 1,159 |
| Environmental levies | **29** | 10 | **56** | 45 |
| Change in stock | **3,247** | (511) | **604** | (1,089) |
| Other | **171** | 99 | **314** | 221 |
| | **22,938** | 20,052 | **39,324** | 41,146 |

## 17. General and administrative expenses

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---|---|---|---|
| *In thousands of US Dollars* | **2023 (unaudited)** | 2022 (unaudited) | **2023 (unaudited)** | 2022 (unaudited) |
| Payroll and related taxes | **1,493** | 1,461 | **3,200** | 3,026 |
| Professional services | **1,040** | 1,282 | **2,019** | 2,012 |
| Insurance fees | **109** | 148 | **217** | 294 |
| Business travel | **143** | 82 | **213** | 122 |
| Short-term leases | **20** | 37 | **42** | 101 |
| Communication | **37** | 45 | **78** | 90 |
| Depreciation and amortisation | **45** | 36 | **91** | 73 |
| Materials and supplies | **36** | 26 | **57** | 62 |
| Bank charges | **7** | 11 | **14** | 29 |
| Other | **47** | 55 | **128** | 148 |
| | **2,977** | 3,183 | **6,059** | 5,957 |

## 18. Selling and transportation expenses

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---|---|---|---|
| *In thousands of US Dollars* | **2023 (unaudited)** | 2022 (unaudited) | **2023 (unaudited)** | 2022 (unaudited) |
| Loading and storage costs | **1,163** | 2,152 | **1,967** | 4,081 |
| Transportation costs | **1,615** | 1,995 | **2,390** | 4,046 |
| Payroll and related taxes | **360** | 309 | **733** | 664 |
| Other | **437** | 379 | **817** | 743 |
| | **3,575** | 4,835 | **5,907** | **9,534** |

## 19. Taxes other than income tax

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---|---|---|---|
| *In thousands of US Dollars* | **2023 (unaudited)** | 2022 (unaudited) | **2023 (unaudited)** | 2022 (unaudited) |
| Export customs duty | **3,872** | 1,834 | **3,872** | 4,250 |
| Royalties | **1,063** | 2,108 | **1,982** | 4,422 |
| Government profit share | **237** | 499 | **493** | 979 |
| Other taxes | **8** | 1 | **12** | 3 |
| | **5,180** | **4,442** | **6,359** | **9,654** |

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.

## 20. Finance costs

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---|---|---|---|
| *In thousands of US Dollars* | **2023 (unaudited)** | 2022 (unaudited) | **2023 (unaudited)** | 2022 (unaudited) |
| Interest expense on borrowings | **30,649** | 26,627 | **60,502** | 53,349 |
| Other finance costs | **139** | 5,861 | **5,262** | 10,217 |
| Unwinding of discount on abandonment and site restoration provision | **906** | 69 | **972** | 138 |
| Unwinding of discount on amounts due to Government of Kazakhstan | **163** | 182 | **327** | 364 |
| | **31,857** | 32,739 | **67,063** | 64,068 |

Other finance costs represent advisor fees in the amount of US$5,262 thousand (the six months ended 30 June 2022: US$10,162 thousands) 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 FBAs, Lock-up Agreement and the consent fees see Note 1.

# Notes to the interim condensed consolidated financial statements (continued)

## 21. Other expenses

For the six months ended 30 June 2023 and 2022 other expenses comprise the following:

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---|---|---|---|
| *In thousands of US Dollars* | **2023 (unaudited)** | 2022 (unaudited) | **2023 (unaudited)** | 2022 (unaudited) |
| Other taxes and penalties | **327** | 338 | **1,657** | 338 |
| Loss on disposal of property, plant and equipment | **685** | – | **685** | 1 |
| Training | **298** | 313 | **565** | 626 |
| Social program | **77** | 78 | **155** | 156 |
| Currency conversion | **66** | 272 | **156** | 358 |
| Sponsorship | **9** | 369 | **19** | 369 |
| Other | **–** | 97 | **1,000** | 342 |
| | **1,462** | 1,467 | **4,237** | 2,190 |

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.

## 22. Income tax

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---|---|---|---|
| *In thousands of US Dollars* | **2023 (unaudited)** | 2022 (unaudited) | **2023 (unaudited)** | 2022 (unaudited) |
| Deferred income tax expense / (benefit) | **897** | 3,602 | **(2,673)** | 12,355 |
| Corporate income tax expense | **2,674** | – | **2,747** | 9 |
| Withholding tax | **141** | 140 | **277** | 280 |
| Adjustment in respect of the current income tax for the prior periods | **(15)** | (8) | **9** | (8) |
| | **3,697** | 3,734 | **360** | 12,636 |

Corporate income tax is recognised based on the estimated annual effective income tax rate applied to the income before tax for the six months ended 30 June 2023. Differences between the recognition criteria in IFRS and under the statutory taxation regulations give rise to a temporary difference between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. The tax effect of the change in temporary differences is recorded at the applicable statutory rates, including the prevailing Kazakhstani tax rate of 30% applicable to income derived from the Chinarevskoye subsoil use license.

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

## 23. Related party transactions

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

Remuneration (represented by short-term employee benefits) of key management personnel amounted to US$1,872 thousand for the six months ended 30 June 2023 (the six months ended 30 June 2022: US$1,680 thousand).

## 24. 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 30 June 2023. As at 30 June 2023 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 30 June 2023, the Group had contractual capital commitments in the amount of US$6,595 thousand (31 December 2022: US$2,845 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.

# Notes to the interim condensed consolidated financial statements (continued)

### 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.

## 25. Financial risk management objectives and policies

### 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 30 June 2023 and 31 December 2022.

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

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| *In thousands of US Dollars* | **30 June 2023 (unaudited)** | 31 December 2022 (audited) | **30 June 2023 (unaudited)** | 31 December 2022 (audited) |
| Interest bearing borrowings | 454,855 | 1,396,517 | 330,262 | 272,500 |
| Total | **454,855** | **1,396,517** | **330,262** | **272,500** |

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 periods ended 30 June 2023 and 30 June 2022 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 successful restructuring enabled the Group to grow its unrestricted cash balances to the level of US$192,006 thousand as at 30 June 2023. After successful implementation of the restructuring, the Group is in the process of revising its capital management policy in line with new requirements and shareholder expectations.

## 26. Events after the reporting period

### Acquisition of Stepnoy Leopard

On 17 July 2023 in London, Nostrum Oil & Gas PLC completed acquisition of an 80% interest in Positive Invest LLP for US$20 million. Positive Invest holds the rights to the Stepnoy Leopard Fields located in the West Kazakhstan region. Management estimates that the Stepnoy Leopard fields contain between 50 mmboe and 150 mmboe of recoverable contingent resources. Historical drilling during the Soviet era confirmed hydrocarbon presence, but the fields have been undeveloped, mainly due to infrastructure challenges. Nostrum aims to initiate an appraisal program to potentially re-classify some of these contingent resources into reserves. The acquisition enhances Nostrum's ability to connect additional resources to their gas treatment facilities. The Stepnoy Leopard fields are in proximity to Nostrum's existing operations and have a contract, originally dated 3 March 1995, and now valid until December 2044.

Following acquisition, Nostrum initiated the appraisal programme which would allow re-classification of certain of the contingent resources to proven reserves and help determine the commercially viable development schemes. The scope of work consists of re-entering two wells in the Teplovskoye reservoir, taking representative samples, and conducting extended production well testing in both wells. Rig operations are expected to start mid-September 2023. The estimated cost of the appraisal programme is expected to be around US$6 million.

### Gas lift system expansion

On 24 July 2023, the Group announced successful start-up of the new compressor doubling its Gas lift capacity, which helps slowing down production decline from maturing Chinarevskoye field.

As the demand for gas lift has been growing due to the majority of the producing wells requiring it to sustain production, in early 2022 Nostrum funded the addition of further compression to raise the capacity of the system from 500 to 900 thousand m3/ day for circa US$8 million. Notwithstanding the significant delays in delivery of the new compressor due to the sanctions on Russia, the Company managed to successfully complete and commence the project in line with budget and without any major HSE incidents. The initial production gains exceed management's expectations and further updates on production guidance will be provided as part of Q3 2023 operational update.

### Approval of drilling program

As it was previously communicated, the Company stopped drilling activities as it entered into the financial restructuring early 2020, however, it continued evaluating further exploration and production opportunities through the subsurface studies, updating its geologic and reservoir models.

Completion of this work and re-processing of the 3D seismic allowed the Company to formulate a limited-scale two-well drilling programme to be executed over 2023-2024, which is in line with the commitments of the Company's subsidiary Zhaikmunai LLP under its production sharing agreement. The programme will leverage existing wellbores to reduce costs and carries a level of uncertainties and risks as the planned subsurface targets contain multiple exploration, appraisal, and development objectives. The total cost of the programme is estimated at around US$26million.