Nostrum Oil & Gas PLC

Interim condensed consolidated financial statements

For the three months ended 31 March 2023

Contents

Consolidated statement of financial position

In thousands of US Dollars	**Notes**	**31 March 2023 (unaudited)**	31 December 2022 (audited)
Assets			
Non-current assets			
Property, plant and equipment	4	**269,898**	276,023
Advances for non-current assets	5	**1,634**	2,114
Restricted cash	9	**22,576**	31,022
		294,108	309,159
Current assets			
Inventories	6	**32,880**	30,196
Prepayments and other current assets	7	**9,063**	4,688
Income tax prepayment		**1,557**	95
Trade receivables	8	**8,074**	12,395
Cash and cash equivalents	9	**191,764**	233,584
		243,338	280,958
TOTAL ASSETS		**537,446**	590,117
Equity and liabilities			
Share capital and reserves	10		
Share capital		**2,152**	3,203
Treasury capital		**(166)**	(1,660)
Retained deficit and reserves		**(7,269)**	(941,769)
		(5,283)	(940,226)
Non-current liabilities			
Notes payable and accumulated interest	11	**427,699**	–
Abandonment and site restoration provision		**20,138**	20,073
Due to Government of Kazakhstan		**3,908**	4,002
Deferred tax liability		**46,329**	49,899
		498,074	73,974
Current liabilities			
Current portion of notes payable and accumulated interest	12	**2,304**	1,396,517
Trade payables	13	**10,106**	9,929
Advances received		**272**	52
Current portion of due to Government of Kazakhstan		**1,031**	1,031
Other current liabilities	14	**30,942**	48,840
		44,655	1,456,369
TOTAL EQUITY AND LIABILITIES		**537,446**	590,117

The interim condensed consolidated financial statements of Nostrum Oil & Gas PLC, registered number 8717287, were authorised for issue by the Board of Directors on 29 June 2023.

Signed on behalf of the Board:

Arfan Khan
Chief Executive Officer
29 June 2023

The accounting policies and explanatory notes on pages 7 through 16 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 31 March **2023 (unaudited)**	 2022 (unaudited)
Revenue			
Revenue from export sales		**11,454**	54,955
Revenue from domestic sales		**5,884**	5,241
	15	**17,338**	60,196
Cost of sales	16	**(16,386)**	(21,094)
Gross profit		**952**	39,102
General and administrative expenses	17	**(3,082)**	(2,774)
Selling and transportation expenses	18	**(2,332)**	(4,699)
Taxes other than income tax	19	**(1,179)**	(5,212)
Finance costs	20	**(33,738)**	(31,329)
Gain on debt-to-equity exchange	10	**770,021**	–
Fair value adjustment on recognition of debt instruments	10	**160,024**	–
Foreign exchange loss, net		**(724)**	(261)
Interest income		**68**	70
Other income		**293**	1,302
Other expenses	21	**(2,775)**	(723)
Income / (loss) before income tax		**887,528**	(4,524)
Current income tax expense		**(233)**	(149)
Deferred income tax benefit / (expense)		**3,570**	(8,753)
Income tax benefit / (expense)	22	**3,337**	(8,902)
Income/(loss) for the period		**890,865**	(13,426)
Other comprehensive income that could be reclassified to the income statement in subsequent periods			
Currency translation difference		**118**	79
Other comprehensive income		**118**	79
Total comprehensive income / (loss) for the period		**890,983**	(13,347)
Income / (loss) for the period attributable to the ordinary shareholders (in thousands of US dollars)		**890,865**	(13,426)
Weighted average number of ordinary shares[1]		**169,381,600**	169,381,600
Basic and diluted earnings per ordinary share (in US dollars)	10	**5.26**	(0.08)

[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 7 through 16 are an integral part of these interim condensed consolidated financial statements.

Consolidated statement of cash flows

In thousands of US Dollars	Notes	For the three months ended 31 March 2023 (unaudited)	2022 (unaudited)
Cash flow from operating activities:			
Income / (loss) before income tax		**887,528**	(4,524)
Adjustments for:			
Depreciation, depletion and amortisation	16,17,18	**10,212**	14,043
Finance costs	20	**33,738**	31,329
Interest income		**(68)**	(70)
Foreign exchange loss on investing and financing activities		**44**	(99)
Fair value adjustment on recognition of debt instruments		**(160,025)**	–
Gain on debt-to-equity exchange		**(770,021)**	–
Operating profit before working capital changes		**1,408**	40,679
Changes in working capital:			
Change in inventories		**(2,684)**	(351)
Change in trade receivables		**4,320**	(16,469)
Change in prepayments and other current assets		**(4,375)**	(1,874)
Change in trade payables		**178**	2,441
Change in advances received		**221**	17
Change in due to Government of Kazakhstan		**(258)**	(258)
Change in other current liabilities		**(5,391)**	(1,144)
Cash used in operations		**(6,581)**	23,041
Income tax paid		**(14,203)**	(274)
Net cash flows (used in) / from operating activities		**(20,784)**	22,767
Cash flow from investing activities:			
Interest received		**68**	70
Purchase of property, plant and equipment		**(3,644)**	(2,636)
Advances for non-current assets		**480**	(1,417)
Transfer to restricted cash		**8,446**	–
Net cash from / (used in) investing activities		**5,350**	(3,983)
Cash flow from financing activities:			
Finance costs paid		**(17,510)**	(9)
Other finance costs		**(8,952)**	(3,376)
Net cash used in financing activities		**(26,462)**	(3,385)
Effects of exchange rate changes on cash and cash equivalents		**76**	177
Net decrease in cash and cash equivalents		**(41,820)**	15,576
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	**191,764**	180,822

"Other finance costs" represent lock-up fees of US$3,828 thousand (2022: nil) and advisor fees of US$5,124 thousand (2022: US$ 3,376 thousand) paid by the Group in relation to the forbearance agreements, lock-up agreements and ongoing process of restructuring of the Group's outstanding bonds. For more details see Note 1.

The accounting policies and explanatory notes on pages 7 through 16 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		**3,203**	**(1,660)**	**262,385**	**(1,087,181)**	**(823,253)**
Loss for the period		–	–	–	(13,426)	(13,426)
Other comprehensive income		–	–	79	–	79
Total comprehensive loss for the period		**–**	**–**	**79**	**(13,426)**	**(13,347)**
As at 31 March 2022		**3,203**	**(1,660)**	**262,464**	**(1,100,607)**	**(836,600)**
Loss for the period		–	–	–	(103,019)	(103,019)
Other comprehensive loss		–	–	(569)	–	(569)
Total comprehensive loss for the period		**–**	**–**	**(569)**	**(103,019)**	**(103,588)**
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		–	–	–	890,865	890,865
Other comprehensive income		–	–	118	–	118
Total comprehensive income for the period		**–**	**–**	**118**	**890,865**	**890,983**
Share issue and consolidation (Note 10)		(1,052)	1,494	43,518	–	43,960
As at 31 March 2023 (unaudited)		**2,151**	**(166)**	**305,493**	**(312,761)**	**(5,283)**

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

The accounting policies and explanatory notes on pages 7 through 16 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	Ownership, %
Nostrum Associated Investments LLP	43B Karev street, 090000 Uralsk, Republic of Kazakhstan	Participatory interests	100
Nostrum Oil & Gas Coöperatief U.A.	Bloemendaalseweg 139, 2061 CH Bloemendaal, The Netherlands	Members' interests	100
Nostrum Oil & Gas B.V.	Bloemendaalseweg 139, 2061 CH Bloemendaal, The Netherlands	Ordinary shares	100
Nostrum Oil & Gas Finance B.V.	Bloemendaalseweg 139, 2061 CH Bloemendaal, The Netherlands	Ordinary shares	100
Nostrum Oil & Gas UK Ltd.	20 Eastbourne Terrace, London, W2 6LA, United Kingdom	Ordinary shares	100
Nostrum Oil & Gas Holding Ltd.	20 Eastbourne Terrace, London, W2 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 31 March 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

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

As part of the signing of the FBAs, the Company agreed to pay consent fees to existing noteholders as well as agreeing to deposit a portion of the missed initial coupon payments into a Restricted Account. A total of US$6,701,973 has been paid in consent fees during the signing and various extensions of the FBAs, of which US$1,116,990 was paid in 2021. A total of US$22,658,980 has been deposited into the Restricted Account under the terms of the FBAs (including US$9,758.980 transferred in 2021), with Nostrum having access to the funds under certain circumstances, such as liquidity falling below an agreed threshold).

Lock-up Agreements

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

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

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

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

Key implementation milestones completed

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

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

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

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

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

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

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

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

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

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

Notes to the interim condensed consolidated financial statements (continued)

2. Basis of preparation and consolidation

Basis of preparation

These interim condensed consolidated financial statements for the three months ended 31 March 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 three months ended 31 March 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 31 March 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.

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 cost.

The Directors' going concern assessment is supported by future cash flow forecasts for the going concern period to 30 June 2024. The Group had unrestricted cash balances of over US$191 million as at 31 March 2023 and over $14 million in escrow. 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 as described on pages 6 – 7 of the Group's 2022 Annual Report. Under the base case going concern assessment to the period to 30 June 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 as described on pages 45 – 46. Considering such sensitivity analysis conclusion was made 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 June 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 June 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 Viability Statement on pages 45 – 46 of the Group's 2022 Annual Report which highlights a possible necessity in the future for partial refinancing or restructuring of the Group's debt.

Notes to the interim condensed consolidated financial statements (continued)

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.

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.

Notes to the interim condensed consolidated financial statements (continued)

4. Property, plant and equipment

During the three months ended 31 March 2023 the Group had additions of property, plant and equipment of US$ 4,167 thousand (three months ended 31 March 2022: US$ 2,388 thousand). These additions are mostly associated with commencement of well workover campaign as well as capital repairs of equipment and capitalized interest US$ 443 thousand (three months ended 31 March 2022: US$ 149 thousand). See Note 24 for capital commitments.

5. Advances for non-current assets

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

In thousands of US Dollars	**31 March 2023 (unaudited)**	31 December 2022 (audited)
Advances for construction materials	**677**	1,090
Advances for construction services	**514**	582
Advances for other non-current assets	**443**	442
	1,634	2,114

6. Inventories

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

In thousands of US Dollars	**31 March 2023 (unaudited)**	31 December 2022 (audited)
Spare parts and other inventories	**26,761**	26,720
Gas condensate	**1,851**	1,905
Crude oil	**3,297**	1,182
LPG	**917**	335
Dry gas	**42**	46
Sulphur	**12**	8
	32,880	30,196

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

7. Prepayments and other current assets

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

In thousands of US Dollars	**31 March 2023 (unaudited)**	31 December 2022 (audited)
Advances paid	**3,234**	2,959
VAT receivable	**3,342**	744
Other taxes receivable	**2,276**	761
Other	**211**	224
	9,063	4,688

Advances paid consist primarily of prepayments made to service providers. As at 31 March 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 three months ended 31 March 2023 and 2022.

8. Trade receivables

As at 31 March 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 31 March 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 31 March 2023 and 31 December 2022.

9. Cash and cash equivalents

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

In thousands of US Dollars	**31 March 2023 (unaudited)**	31 December 2022 (audited)
Current accounts in US Dollars	**190,124**	217,026
Current accounts in Tenge	**649**	13,827
Current accounts in other currencies	**589**	901
Current accounts in Euro	**394**	1,824
Petty cash	**8**	6
	191,764	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$8,222 thousand with Halyk bank (31 December 2022: US$ 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.

As at 31 March 2023, the Group has transferred US$14,355 thousand to debt service retention account (DSRA) opened for the benefit of the holders of the Group's Notes (31 December 2022: US$22,802 thousand in the escrow account opened under the terms of the FBAs).

10. Share capital and reserves

As at 31 March 2023 the ordinary share capital of the Parent consists of 169,381,561 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 three months ended 31 March 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 31 March 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

Notes to the interim condensed consolidated financial statements (continued)

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$770,021 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 (LTIP)	–		(38)	(38)
As at 31 December 2022	**255,459**	**2,612**	**3,786**	**261,857**
Currency translation difference	–	(118)	–	118
Share issue and consolidation	43,518	–	–	43,518
As at 31 March 2023	**298,977**	**2,730**	**3,786**	**305,493**

Group reorganisation reserve in the amount of US$255,459 thousand as of 31 March 2023 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 three months ended 31 March 2023 and 2022.

11. Earnings per ordinary share

As at 31 March 2023 the ordinary share capital of the Parent consists of 169,381,561 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 three months ended 31 March 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 three months ended 31 March	
	2023 (unaudited)	2022 (unaudited)
Loss for the period attributable to the ordinary shareholders (in thousands of US dollars)	**890,865**	(13,426)
Weighted average number of ordinary shares	**169,381,600**	169,381,600
Basic and diluted earnings per ordinary share (in US dollars)	**5.26**	(0.08)

12. Notes payable and accumulated interest

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

In thousands of US Dollars	**31 March 2023 (unaudited)**	31 December 2022 (audited)
Senior Secured Notes (SSNs)	**227,902**	–
Senior Unsecured Notes (SUNs)	**199,797**	–
Notes issued in 2017 and maturing in 2022	–	725,000
Notes issued in 2018 and maturing in 2025	–	396,320
Accrued interest	**2,304**	275,197
	430,003	1,396,517
Less amounts due within 12 months	**(2,304)**	(1,396,517)
Notes payable and accumulated interest	**427,699**	–

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

Notes to the interim condensed consolidated financial statements (continued)

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 31 March 2023 and 31 December 2022:

In thousands of US Dollars	**31 March 2023 (unaudited)**	31 December 2022 (audited)
Tenge denominated trade payables	**6,555**	6,942
US Dollar denominated trade payables	**2,693**	1,543
Euro denominated trade payables	**541**	1,160
Russian Rouble denominated trade payables	**40**	141
Trade payables denominated in other currencies	**277**	143
	10,106	9,929

14. Other current liabilities

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

In thousands of US Dollars	**31 March 2023 (unaudited)**	31 December 2022 (audited)
Other accruals	**18,096**	23,481
Training obligations accrual	**6,682**	6,441
Due to employees	**3,522**	2,724
Taxes payable, including corporate income tax	**1,813**	15,437
Other current liabilities	**829**	757
	30,942	**48,840**

Notes to the interim condensed consolidated financial statements (continued)

15. Revenue

In thousands of US Dollars	For the three months ended 31 March **2023 (unaudited)**	2022 (unaudited)
Revenue from oil and gas condensate sales	**13,129**	49,209
Revenue from gas and LPG sales	**4,208**	10,987
Revenue from sulphur sales	**1**	–
	17,338	60,196

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 three months ended 31 March 2023 was US$ 82.1/bbl (three months ended 31 March 2022: US$97.9/bbl).

During the three months ended 31 March 2023 the revenue from sales to three major customers amounted to US$9,422 thousand, US$3,707 thousand and US$2,023 thousand respectively (three months ended 31 March 2022: US$47,490 thousand, US$3,119 thousand and US$2,927 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

In thousands of US Dollars	For the three months ended 31 March **2023 (unaudited)**	2022 (unaudited)
Depreciation, depletion and amortisation	**10,166**	14,006
Payroll and related taxes	**4,244**	3,612
Repair, maintenance and other services	**1,772**	1,497
Materials and supplies	**1,089**	857
Well repair and maintenance costs	**1,016**	938
Transportation services	**572**	605
Environmental levies	**27**	35
Change in stock	**(2,643)**	(578)
Other	**143**	122
	16,386	21,094

17. General and administrative expenses

In thousands of US Dollars	For the three months ended 31 March **2023 (unaudited)**	2022 (unaudited)
Payroll and related taxes	**1,707**	1,565
Professional services	**979**	730
Insurance fees	**108**	146
Business travel	**70**	40
Short-term leases	**22**	64
Communication	**41**	45
Depreciation and amortisation	**46**	37
Materials and supplies	**21**	36
Bank charges	**7**	18
Other	**81**	93
	3,082	2,774

18. Selling and transportation expenses

In thousands of US Dollars	For the three months ended 31 March **2023 (unaudited)**	2022 (unaudited)
Loading and storage costs	**804**	1,929
Transportation costs	**775**	2,051
Payroll and related taxes	**373**	355
Other	**380**	364
	2,332	**4,699**

19. Taxes other than income tax

In thousands of US Dollars	For the three months ended 31 March **2023 (unaudited)**	2022 (unaudited)
Royalties	**919**	2,314
Government profit share	**256**	480
Export customs duty	**–**	2,416
Other taxes	**4**	2
	1,179	**5,212**

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

In thousands of US Dollars	For the three months ended 31 March **2023 (unaudited)**	2022 (unaudited)
Interest expense on borrowings	**28,385**	26,722
Other finance costs	**5,123**	4,356
Unwinding of discount on amounts due to Government of Kazakhstan	**164**	182
Unwinding of discount on abandonment and site restoration provision	**66**	69
	33,738	31,329

Other finance costs represent advisor fees in the amount of US$5,123 thousand (the three months ended 31 March 2022: US$4,356 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 three months ended 31 March 2023 and 2022 other expenses comprise the following:

	For the three months ended 31 March	
In thousands of US Dollars	**2023 (unaudited)**	2022 (unaudited)
Other taxes and penalties	**1,330**	–
Training accruals	**267**	313
Currency conversion	**90**	86
Social program	**78**	78
Sponsorship	**10**	–
Other	**1,000**	246
	2,775	**723**

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 31 March	
In thousands of US Dollars	**2023 (unaudited)**	2022 (unaudited)
Deferred income tax expense	**(3,546)**	8,753
Withholding tax	**136**	140
Corporate income tax expense	**73**	–
Adjustment in respect of the current income tax for the prior periods	**–**	9
	(3,337)	8,902

Corporate income tax is recognised based on the estimated annual effective income tax rate applied to the income before tax for the three months ended 31 March 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$1,140 thousand for the three months ended 31 March 2023 (the three months ended 31 March 2022: US$959 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 31 March 2023. As at 31 March 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 31 March 2023, the Group had contractual capital commitments in the amount of US$5,336 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 31 March 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	**31 March 2023 (unaudited)**	31 December 2022 (audited)	**31 March 2023 (unaudited)**	31 December 2022 (audited)
Interest bearing borrowings	430,003	1,396,517	321,240	272,500
Total	**430,003**	**1,396,517**	**321,240**	**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 31 March 2023 and 31 March 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 forbearance of making interest payments during 2020 and 2021 and successful restructuring enabled the Group to grow its unrestricted cash balances to the level of US$191,764 thousand as at 31 March 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

Subsequent to the reporting date, the Group recognised revenues of approximately US$15 million from sales of oil inventory, which was accumulated on the balance sheet as of 31 March 2023.