

Sozak Oil & Gas JSC

Financial statements

*For the year ended 31 December 2022
with independent auditor's report*

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Independent auditor's report

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

Opinion

We have audited the financial statements of Sozak Oil and Gas JSC (hereinafter, the "Company") which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive loss, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022 and its financial performance and its cash flows for the year then ended in accordance with International Reporting Standards (IFRSs).

Basis for opinion

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

Material uncertainty related to going concern

We draw attention to *Note 2* to the financial statements, which indicates that the Company incurred a net loss of 1,546,436 thousand tenge during the year ended 31 December 2022 and, as of that date, the Company's current liabilities exceeded its current assets by 48,732,239 thousand tenge.

Also, the Company's contract for the exploration of hydrocarbons No. 2433 expires on 15 October 2023 and as of 31 December 2022, the Company is in the process of preparing to file for an extension of the contract period.

As stated in *Note 2*, these events or conditions, along with other matters as set forth in *Note 2*, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

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

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

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment of exploration and evaluation assets</i></p> <p>We considered this matter to be one of most significance to our audit due to the significance of exploration and evaluation assets, and subjectivity of judgements and estimates made by management in its analysis of impairment indicators.</p> <p>Information on exploration and evaluation assets is disclosed in Note 3 to the financial statements in section of significant accounting judgements and assumptions.</p>	<p>For exploration and evaluation assets, we reviewed management's assessment of the circumstances and facts that indicate that the assets may be impaired. We have analyzed whether there are indicators of impairment, including:</p> <ul style="list-style-type: none">• Consideration of the terms of validity of the rights for geological exploration of contract areas received by the Company, including license agreements, signed additional agreements and correspondence with the relevant government authorities;• Discussed with management the intention to conduct exploration and evaluation activities in the contract areas and reconciled with the work program of the Company, approved by the state authorities;• Reviewed relevant disclosures in the financial statements.



Other information included in the Company's 2022 Annual Report

Other information consists of the information included in the Company's 2022 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2022 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors of Sozak Oil and Gas JSC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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



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

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

Ernst & Young LLP



Kairat Medetbayev
Auditor



Rustamzhan Sattarov
General Director
Ernst & Young LLP

Auditor qualification certificate
№ МФ-0000137 dated 8 February 2013

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

050060, Republic of Kazakhstan, Almaty
Al-Farabi ave., 77/7, Esentai Tower

30 May 2023

STATEMENT OF FINANCIAL POSITION

At 31 December 2022

<i>In thousands of tenge</i>	Notes	31 December 2022	31 December 2021
Assets			
Non-current assets			
Exploration and evaluation assets	5	43,750,396	41,767,702
Property, plant and equipment		17,758	16,929
Long-term VAT recoverable	6	2,653,350	2,604,416
Restricted cash	7	193,109	193,109
Total non-current assets		46,614,613	44,582,156
Current assets			
Loan issued	8	230,000	666,891
Other current assets		17,638	16,495
Trade accounts receivable		77,746	-
Cash and cash equivalents	9	11,416	17,908
Total current assets		336,800	701,294
Total assets		46,951,413	45,283,450
Equity and liabilities			
Equity			
Charter capital	10	283,780	283,780
Accumulated loss		(3,649,381)	(2,102,945)
Total equity		(3,365,601)	(1,819,165)
Non-current liabilities			
Abandonment and site restoration provision	11	135,689	114,595
Long-term loans	12	1,112,286	14,127,863
Total non-current liabilities		1,247,975	14,242,458
Current liabilities			
Accounts payable and other debts	13	7,396,317	7,123,079
Loans	12	41,235,628	25,321,808
Other current liabilities	14	437,094	415,270
Total current liabilities		49,069,039	32,860,157
Total equity and liabilities		46,951,413	45,283,450

General Director



Lu Wei

Chief Accountant

Koshekbayeva A.

The accounting policies and explanatory notes on pages 5 to 32 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE LOSS

For the year ended 31 December 2022

<i>In thousands of tenge</i>	Notes	2022	2021
General and administrative expenses	15	(700,604)	(568,460)
Other income		98,650	378
Operating loss		(601,954)	(568,082)
Finance income	16	113,861	113,861
Finance costs	16	(5,834)	(5,709)
Net foreign exchange differences		(1,011,923)	(335,585)
Loss before taxes		(1,505,850)	(795,515)
Income tax expense	17	(40,586)	(22,773)
Net loss for the year		(1,546,436)	(818,288)
Total comprehensive loss for the year, net of tax		(1,546,436)	(818,288)

General Director



 Lu Wei

Chief Accountant


 Koshekbayeva A.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

<i>In thousands of tenge</i>	Notes	Charter capital	Accumulated loss	Total
As at 1 January 2021		283,780	(1,284,657)	(1,000,877)
Net loss for the year		–	(818,288)	(818,288)
As at 31 December 2021		283,780	(2,102,945)	(1,819,165)
Net loss for the year		–	(1,546,436)	(1,546,436)
Total comprehensive loss for the year		–	(1,546,436)	(1,546,436)
As at 31 December 2022		283,780	(3,649,381)	(3,365,601)

General Director



Lu Wei

Chief Accountant

Koshekbayeva A.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

<i>In thousands of tenge</i>	Notes	2022	2021
Operating activities			
Loss before taxes		(1,505,850)	(795,515)
<i>Adjustments to reconcile profit before tax to net cash flows</i>			
Depreciation and amortisation	15	219	1,474
Finance income	16	(113,861)	(113,861)
Finance costs	16	5,834	5,709
Net foreign exchange difference		1,011,923	335,585
(Recovery)/accrual of unused vacation allowance	15	(79)	3,319
Accrual of provision for advances paid	8	530,475	424,184
<i>Working capital adjustments:</i>			
Change in other current assets		(78,889)	(5,193)
Change in VAT recoverable		(48,934)	(86,761)
Change in trade and other accounts payable		-	-
Change in other current liabilities		16,402	(31,305)
		(182,760)	(262,364)
Income tax paid		(19,824)	(14,816)
Interest received		20,276	16,708
Net cash flows used in operating activities		(182,308)	(260,472)
Investing activities			
Purchase of exploration and evaluation assets		(296,662)	(588,949)
Purchases of property, plant and equipment		(1,048)	(1,739)
Net cash flows used in investing activities		(297,710)	(590,688)
Financing activities			
Proceeds from loans	12	494,728	880,812
Repayment of loans	12	(20,000)	(13,377)
Net cash flows from financing activities		474,728	867,435
Net increase/(decrease) in cash and cash equivalents		(5,290)	16,275
Net foreign exchange rate difference		(1,202)	1,206
Cash and cash equivalents as at 1 January		17,908	427
Cash and cash equivalents as at 31 December	9	11,416	17,908

SIGNIFICANT NON-CASH AND OTHER TRANSACTIONS: ADDITIONAL DISCLOSURE

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

Purchase of exploration and evaluation assets

Additions to exploration and evaluation assets include capitalisation of interest on loans received and amount to 1,412,794 thousand tenge (2021:1,288,474 thousand tenge).

General Director



Chief Accountant

Lu Wei

Koshekbayeva A.

The accounting policies and explanatory notes on pages 5 to 32 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

CORPORATE INFORMATION

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

The shareholders of the Company are:

	31 December 2022	31 December 2021
Danq Investment Pte. Ltd.	50.0001%	50.0001%
Singapore Charter Power Pte. Ltd.	17%	7%
Maten Petroleum JSC	10%	10%
Singapore Starlights Energy Investment Pte. Ltd.	5.855%	15.855%
Sino-Science Netherlands Energy Group B.V.	5.659%	5.659%
Luck Gain Internation AI Limited	5.45%	5.45%
Shenzhen Andachang Industrial Co., Ltd.	4.636%	4.636%
Sino-Science Netherlands Petroleum B.V.	1.3999%	1.3999%
	100%	100%

Hui Ling is the ultimate controlling party.

These financial statements were approved by the management of the Company on 30 May 2023.

Registered address

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

Principal activities

The Company conducts oil and gas exploration activities in Turkestan and Kyzylorda regions of the Republic of Kazakhstan. The Company is at the exploration and evaluation stage and has not yet commenced commercial production of hydrocarbons.

The Company performs its activities in accordance with the contract for the exploration of hydrocarbons No. 2433 (the “Contract”) signed with the Ministry of Energy of the Republic of Kazakhstan dated 27 July 2007 (valid for five years with four-year extension right) and Act of state registration of the Contract for the subsoil use operations dated 27 July 2007. On 5 January 2020, the exploration contract was extended to 31 December 2022. On 13 September 2021, the exploration contract was extended to 15 October 2023. Upon commercial discovery, the Company has the exclusive right to enter the development stage by negotiating and signing a contract on production.

Exploratory drilling

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

In 2013, the Company completed drilling operations on Bugulzhinskaya-1 well. In 2014, the Company completed drilling operations on Assa-2, Yuzhnoe-Pridorozhnoe-18 wells. In 2015, the Company completed drilling operations on wells Tamgalytar-6, Tamgalytar-8, Kendyrlyk-6, Kendyrlyk-7, and Tamgalynskaya-1. The wells have gas inflow, and by the management decision, further testing works on the specified wells will be performed. In 2016, the Company started drilling 2 wells SK-1012 (drilling was completed in 2017) and SK-1017 (drilling was completed in 2017).

In 2017, the Company drilled another exploration well SK-1018. In 2017, testing was carried out in 5 intervals in exploratory wells built on the contractual area. During 2018, SK-1018 well testing works were completed, as well as analysis of core boring for further drilling operations. In 2021, the construction of the evaluation well SK-1006 was commenced and completed.

In 2022, the well SK-1006 was tested and two wells SK-1007 and SK-1005 were drilled. Cores from new wells were selected for analysis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. ORGANIZATION AND PRINCIPAL ACTIVITIES (continued)**Exploratory drilling (continued)**

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

On 25 December 2019, the Ministry of Ecology, Geology and Natural Resources of the Republic of Kazakhstan confirmed availability of hydrocarbons at the Assa and Pridorozhnoe Yuzhnoe wells.

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

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

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

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

On 28 June 2021, an operational report received on the approval of the reserves at Ortalyk field.

On 17 November 2021, an operational report received on the approval of the reserves at Kenderlyk field.

On 30 May 2022, an operational report received on the approval of the reserves at Tamgalytar field.

On 17 October 2022, an operational report received on the approval of the reserves at Oppak field.

2. BASIS OF PREPARATION AND CHANGES IN THE COMPANY'S ACCOUNTING POLICY**Basis of preparation**

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

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

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

Going concern

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

The Company incurred a net loss of 1,546,436 thousand tenge during the year ended 31 December 2022, and at the reporting date, the Company's current liabilities exceeded its current assets by 48,732,239 thousand tenge (as at 31 December 2021: by 32,158,863 thousand tenge). This circumstance indicates that there is material uncertainty, which may cast significant doubt on the Company's ability to continue as a going concern. Also, the Company's contract for the exploration of hydrocarbons No. 2433 expires on October 15, 2023 and as of December 31, 2022, the Company is in the process of preparing to file for an extension of the contract period. The Company's management believes that the extension of the contract is highly probable, since during 2022 the Company concluded contracts for the completion of exploration work according to the work program, and also on 10 April 2023, it concluded a loan agreement with Hong Kong Sino-Science International Oil & Gas Investment Group Company, Ltd for the purpose of financing these operations in the amount of 22,000 thousand US dollars (equivalent to 10,178,000 thousand tenge).

NOTES TO THE FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION AND CHANGE IN THE COMPANY'S ACCOUNTING POLICY (continued)****Going concern (continued)**

The ability of the Company to settle its trade payables, repay its borrowings and continue its planned exploration and evaluation activities, as well as to maintain its going concern status depend on the Company raising additional cash in the foreseeable future. At the date of these financial statements, the management is satisfied that there are reasonable grounds to believe that the Company will be able to continue as a going concern by raising additional funds as required. In developing this opinion, the management reviewed the position of the Company and analysed the option of raising additional funds from the company's shareholders. The significant uncertainty about the successful completion of the financing option listed above may cause significant doubts about the Company's ability to repay its debts on time, and, consequently, to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts or classifications of liabilities that might be necessary should the Company not be able to continue as a going concern.

Foreign currency translation

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

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

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

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as official currency exchange rates in the Republic of Kazakhstan.

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

	Exchange rate as at	The weighted average interest rate during the year
31 December 2022	462,65	460,48
31 December 2021	431,80	426,03

New and amended standards and interpretations

The Company applied for the first time certain standards and amendments, which are effective for annual reporting periods beginning on or after 1 January 2022. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

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

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

The amendments clarify when assessing whether a contract is onerous or loss making, an entity should take into account the costs that relate directly to a contract to provide goods or services, which include both incremental costs (for example, direct labour and materials costs) and allocation of costs directly related to the contract activities (for example, depreciation costs of equipment used for the contract execution, as well as the costs of maintenance and control of the contract execution). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

These amendments did not affect the Company's financial statements, as the Company did not have any onerous contracts falling under such amendments during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION AND CHANGE IN THE COMPANY'S ACCOUNTING POLICY (continued)**New and amended standards and interpretations (continued)***Reference to the Conceptual Framework – Amendments to IFRS 3*

The amendments replace a reference to the previous version of the IFRS Conceptual Framework with a reference to the latest version issued in March 2018, without making significant changes to the requirements of the standard.

The Board also added an exception to the recognition principle of IFRS 3 *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, if incurred separately. According to this exception, instead of applying the provisions of the *Conceptual Framework*, entities should apply the criteria of IAS 37 or IFRIC 21 to determine whether there is an obligation at the acquisition date.

The amendments to IFRS 3 add a new paragraph clarifying that recognition of a contingent asset is not allowed at the acquisition date.

These amendments had no impact on the Company's financial statements, as no contingent assets, liabilities and contingent liabilities subject to these amendments arose during the reporting period.

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

These amendments prohibit entities deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments did not have any impact on the Company's financial statements, as the Company did not sell such items produced in the process of bringing property, plant and equipment into a condition that is suitable for use from the beginning of the earliest recorded period.

Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a First-Time Adopter

The amendment allows a subsidiary electing to apply IFRS 1, paragraph D16(a) to measure the cumulative translation differences using the amounts reported in the parent's consolidated financial statements based on the date of transition of the parent to IFRSs if no adjustments were made in connection with the consolidation and business combination as part of which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

This amendment had no impact on the Company's financial statements, as the Company does not apply International Financial Reporting Standards for the first time.

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

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. *The similar amendments to IAS 39 Financial Instruments: Recognition and measurement have not been proposed.*

These amendments did not have any impact on the Company's financial statements, as the Company had no modifications to financial instruments during the reporting period.

Standards and interpretations issued but not yet effective

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION AND CHANGE IN THE COMPANY'S ACCOUNTING POLICY (continued)**Standards and interpretations issued but not yet effective (continued)***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 replaces 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) is mainly for short-duration contracts.

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

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

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

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

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

Amendments to IAS 8: Definition of Accounting Estimates

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the difference between changes in accounting estimates and changes in accounting policies and correction of errors. It also explains how organizations use measurement methods 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 date of that period. Earlier application is permitted as long as this fact is disclosed.

These amendments are not expected to have a significant impact on the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION AND CHANGE IN THE COMPANY'S ACCOUNTING POLICY (continued)**Standards issued but not yet effective continued (continued)***Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies*

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, which contain guidance and examples that help entities apply materiality judgements when disclosing information about accounting policies. 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.

Amendments to IAS 1 are applied 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 Company is currently assessing the impact of these amendments, which they may have on the disclosure of information about the Company's accounting policies.

Amendments to IAS 12 – Deferred Taxation Related to Assets and Liabilities Arising from a Single Transaction

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 Company now evaluates the impact of this amendment.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ASSUMPTIONS

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

Impairment of exploration and evaluation assets

The Company's management reviews the carrying value of exploration and evaluation assets for impairment in accordance with the requirements of IFRS 6. As at 31 December 2022 and 2021, there were no indications of impairment of exploration and evaluation assets. The following factors have been considered by the Company's management:

- The exploration period was prolonged until 15 October 2023.
- Upon commercial discovery, the Company has the exclusive right to enter the development period by executing a development contract.
- Based on the results of interpretation of the recent 2D and 3D seismic studies and drilling activities, the management plans to incur substantive expenditures on further exploration and evaluation on the Company's contractual area.
- As at 31 December 2022, the Company received an operational report on the approval of reserves at the fields of Pridorozhnoe, Assa, Ortalyk and Kenderlyk, Tamgalytar, Oppak.
- The Company plans to continue financing its work program costs.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ASSUMPTIONS (continued)**Historical costs**

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

Social and training commitments

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

Provisions for asset retirement obligations

The Company estimates the future asset retirement obligations with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement and the extent of site restoration required in accordance with current legislation and industry practices.

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

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

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

Recognition of deferred tax asset

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

Exploration and evaluation costs

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

- (1) It is expected that such expenditures will be reimbursed in the course of successful development and exploitation of the area of interest or, otherwise, by its sale; or
- (2) Exploration and evaluation activities are continuing in an area of interest but at the reporting date have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ASSUMPTIONS (continued)**Exploration and evaluation costs (continued)**

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

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

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

Borrowing costs

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Exploration and evaluation assets**

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

(i) Recognition and subsequent measurement

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Exploration and evaluation assets (continued)***(i) Recognition and subsequent measurement (continued)*

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

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

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

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

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

(ii) Impairment of exploration and evaluation assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Current versus non-current classification**

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

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

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

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

Property, plant and equipment*(i) Recognition and subsequent measurement*

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Property, plant and equipment (continued)***(ii) Depreciation*

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

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

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

(iii) Impairment

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

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

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, for which the future cash flow estimates have not been adjusted.

Financial instruments*Initial recognition and measurement*

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

*Financial assets**Initial recognition and measurement*

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15. In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial instruments (continued)***Financial assets (continued)**Initial recognition and measurement (continued)*

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

Financial assets of the Company include cash and loans issued.

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

Financial assets at fair value through profit or loss

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

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

The Company did not have any held-to-maturity investments during the reporting periods ended 31 December 2022 and 2021.

Derecognition

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial instruments***Financial assets (continued)**Derecognition (continued)*

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

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

Impairment of financial assets

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

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

In 2022, the Company provided property storage services in its own warehouses for Loong Sapphire International Operation Group.

Trade accounts receivable at the end of the year amounted to 77,746 thousand tenge.

*Financial liabilities**Initial recognition and measurement*

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

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

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

Subsequent measurement

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

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

Loans and borrowings

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial instruments (continued)***Financial liabilities**Derecognition*

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

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

Fair value measurement

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

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

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

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

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

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

For the purpose of fair value disclosure, the Company classified assets and liabilities based on their nature, characteristics and risks related to them and applicable level of fair value hierarchy, as specified above (*Note 18*).

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Cash and cash equivalents**

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

Value added tax (VAT)

Tax legislation allows to offset VAT on a net basis.

VAT payable

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

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

VAT recoverable

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

Charter capital

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

Provisions

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

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

Provisions for asset retirement obligations

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Provisions for asset retirement obligations (continued)**

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

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

Payroll expenses and payroll related deductions

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

Corporate income tax

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

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

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

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

Uncertain tax positions

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**5. EXPLORATION AND EVALUATION ASSETS**

<i>In thousands of tenge</i>	Tangible assets	Intangible assets	Total
As at 1 January 2021	38,932,856	732,864	39,665,720
Additions	2,097,980	-	2,097,980
Changes in estimates	4,002	-	4,002
As at 31 December 2021	41,034,838	732,864	41,767,702
Additions	1,967,434	-	1,967,434
Changes in estimates	15,260	-	15,260
As at 31 December 2022	43,017,532	732,864	43,750,396

As at 31 December 2022, exploration and evaluation assets include capitalised inventories in the amount of 281,816 thousand tenge (as at 31 December 2021: 286,599 thousand tenge). Capitalised inventory represents the cost of casing pipes, drilling bits and other drilling materials. During 2022, the Company capitalised geological and geophysical expenses directly attributable to exploration and evaluation operations in the amount of 88,476 thousand tenge (2021: 163,316 thousand tenge). During 2022, the Company capitalised expenses on loans in the amount of 1,412,794 thousand tenge (2021: 1,288,474 thousand tenge). During 2022, the Company drilled 2 well (2021: the Company drilled 1 well).

6. LONG-TERM VAT RECOVERABLE

<i>In thousands of tenge</i>	2022	2021
At 1 January	2,604,416	2,517,655
Additions	48,934	86,761
At 31 December	2,653,350	2,604,416

7. RESTRICTED CASH

Restricted cash, in terms of creating an appropriate liquidation fund, represents cash in tenge in a bank account to fulfil obligations for the future site restoration, in accordance with the Subsoil Use Contract, the Company is obliged to accumulate cash in a special bank account for the relevant purposes. The management of the Company does not intend to use this cash with a restriction on withdrawal until liquidation of the wells. In 2022, interest on accounts restricted in use was accrued at a rate of 10.5% per annum (2021: 10.5%).

8. LOAN ISSUED

<i>In thousands of tenge</i>	Interest rate	Date of repayment	31 December 2022	31 December 2021
North Caspian Petroleum JSC	9%	On demand	230,000	666,891
			230,000	666,891

In 2018, the Company provided loans to North Caspian Petroleum JSC in the total amount of 1,684,231 thousand tenge at the rate of 9% per annum. Under the supplementary agreement dated 31 December 2019, repayment of the loan and payment of interest on each loan shall be paid by the borrower within 30 days after receiving an official written request for repayment from the Company. In 2022 the Company accrued additional provision for expected credit losses in the amount of 530,475 thousand tenge (in 2021: 424,184 thousand tenge). Thus, the total provision for expected credit losses amounted to 1,197,366 thousand tenge.

NOTES TO THE FINANCIAL STATEMENTS (continued)**8. LOAN ISSUED (continued)**

The movement in the loans issued for the years ended 31 December 2022 and 2021 was as follows:

<i>In thousands of tenge</i>	1 January 2021	Interest accrued for the year (Note 16)	Accrual of ECL allowance (Note 15)	31 December 2022
Short-term loans	666,891	93,584	(530,475)	230,000
Long-term loans	–	–	–	–
	666,891	93,584	(530,475)	230,000

<i>In thousands of tenge</i>	1 January 2020	Interest accrued for the year (Note 17)	Accrual of ECL allowance (Note 16)	31 December 2021
Short-term loans	997,491	93,584	(424,184)	666,891
Long-term loans	–	–	–	–
	997,491	93,584	(424,184)	666,891

9. CASH AND CASH EQUIVALENTS

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

<i>In thousands of tenge</i>	31 December 2022	31 December 2021
Bank accounts in US dollars	11,293	17,455
Bank accounts in tenge	123	453
Total	11,416	17,908

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

<i>In thousands of tenge</i>	Standard and Poor's and Fitch	31 December 2022	31 December 2021
Bank CenterCredit JSC	B/Stable	11,416	17,908
Total		11,416	17,908

10. EQUITY

As at 31 December 2022 and 2021, the charter capital of the Company amounted to 283,780 thousand tenge and was fully formed and paid. On 4 September 2019, the Company was reorganised from a limited liability partnership into a Joint Stock Company. In reorganisation, additional paid-in capital in the amount of 34,957,358 thousand tenge was transferred to the share capital and accumulated loss of the Joint Stock Company.

During the reporting period authorized share capital was increased by 283,780 thousand tenge through issue of 1,000,000 ordinary shares with nominal value KZT 283,78 each.

11. ABANDONMENT AND SITE RESTORATION PROVISION

<i>In thousands of tenge</i>	2022	2021
At 1 January	114,595	96,233
Additional provision for the year (Note 5)	16,961	8,651
Changes in estimates (Note 5)	(1,701)	4,002
Unwinding of discount (Note 16)	5,834	5,709
At 31 December	135,689	114,595

NOTES TO THE FINANCIAL STATEMENTS (continued)**11. ABANDONMENT AND SITE RESTORATION PROVISION (continued)**

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

In 2019, the Company engaged OPTIMUM Design Institute LLP to determine the residual value of the entire field.

In 2022, in calculation of site restoration and abandonment provision, inflation of 13.18% and discount rate of 16.06% were used (in 2021: the inflation rate of 5.76% and the discount rate of 5.09%).

12. LOANS AND BORROWINGS

<i>In thousands of tenge</i>	Interest rate	Maturity	31 December 2022	31 December 2021
Short-term loans				
Sino-Science Netherlands Petroleum B.V.	0%	On demand	20,738,492	20,738,492
Hong Kong Sino-Science International Oil & Gas, Ltd	8%	31 December 2023	12,709,059	–
Kozhan JSC	18%	16 June 2023	4,371,725	3,970,797
Sino-Science Netherlands Petroleum B.V.	8%	31 December 2023	2,823,833	–
Sino-Science Netherlands Energy Group B.V.	0%	On demand	570,663	570,663
Financial assistance from employees	0%	31 December 2023	21,856	41,856
Total short-term loans			41,235,628	25,321,808
Long-term loans				
Hong Kong Sino-Science International Oil & Gas, Ltd	8%	31 December 2024	1,112,286	526,053
Hong Kong Sino-Science International Oil & Gas, Ltd	8%	31 December 2023	–	11,132,828
Sino-Science Netherlands Petroleum B.V.	8%	31 December 2023	–	2,468,982
Total long-term loans			1,112,286	14,127,863
Total loans			42,347,914	39,449,671

The movement in loans given for the year ended 31 December 2022 and 2021 was as follows:

<i>In thousands of tenge</i>	1 January 2022	Loans received/paid during the year	Interest accrued for the year	Change in reclassification	Change in foreign currencies	31 December 2022
Short-term loans	25,321,808	(20,000)	1,349,831	13,601,810	982,179	41,235,628
Long-term loans	14,127,863	494,728	62,963	(13,601,810)	28,542	1,112,286
	39,449,671	474,728	1,412,794	–	1,010,721	42,347,914
<i>In thousands of tenge</i>	1 January 2021	Loans received during the year	Interest accrued for the year	Change in reclassification	Change in foreign currencies	31 December 2021
Short-term loans	36,454,952	(13,377)	400,929	(11,520,696)	–	25,321,808
Long-term loans	502,050	880,812	887,545	11,520,696	336,760	14,127,863
	36,957,002	867,435	1,288,474	–	336,760	39,449,671

NOTES TO THE FINANCIAL STATEMENTS (continued)**12. LONG-TERM LOANS (continued)****Sino-Science Netherlands Petroleum B.V.**

The loans were received from Sino-Science Netherlands Petroleum B.V. under the loan agreement dated 11 October 2011 and loan agreement dated 22 April 2013 with the fixed interest rate of 8% in the amount of 142,070 thousand US dollars (equivalent to 61,327,357 thousand tenge as at 31 December 2022) and 6,645 thousand US dollars, respectively (equivalent to 2,868,447 thousand tenge as at 31 December 2022). In October 2014, additional agreement was concluded to the Master Agreement with Sino-Science Netherlands Petroleum B.V. for increase of the loan amount of 85,000 thousand US dollars (equivalent to 36,691,950 thousand tenge as at 31 December 2022). Initial maturity date was 31 December 2017, which has been extended on 10 November 2017 until 31 December 2022.

On 31 December 2018, an assignment agreement was concluded for transfer of the rights to recover the principal amount of the loan from Sino Science Netherlands Petroleum B.V. to Hong Kong Sino-Science International Oil & Gas Investment Group Company in the amount of 19,000 thousand US dollars (equivalent to 8,790,350 thousand tenge as at 31 December 2022).

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

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

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

As at 31 December 2022, the loan amounted to 20,738,492 thousand tenge (2021: 20,738,492 thousand tenge), the fair value of the loan approximates the carrying value of the loan.

On 31 May 2019, the Company concluded non-revolving credit line agreement with Sino-Science Netherlands Petroleum B.V. in order to attract 4,800,000 thousand US dollars (equivalent to 2,220,720 thousand tenge as at 31 December 2022) with maturity on 31 December 2023.

According to the loan agreement with Sino-Science Netherlands Petroleum B.V., the Company has non-financial covenants. As at 31 December 2022 and 2021, the Company has no unfulfilled covenants.

Sino-Science Netherlands Energy Group B.V.

On 18 December 2015 the Company concluded non-revolving credit line agreement with Sino-Science Netherlands Energy Group B.V. in order to attract 50,000 thousand US dollars (equivalent to 23,132,500 thousand tenge as per exchange rate on 31 December 2022) with the fixed interest rate of 8% and maturity date on 31 December 2022. The borrowings are denominated in US dollars.

In 2018, the Company received an additional amount of 463 thousand US dollars (equivalent to 214,207 thousand tenge as per exchange rate as at 31 December 2022).

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. LONG-TERM LOANS (continued)**Sino-Science Netherlands Energy Group B.V. (continued)**

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

According to the loan agreement with Sino-Science Netherlands Energy Group B.V., the Company has non-financial covenants. As at 31 December 2022 and 2021, the Company has no outstanding covenants.

As at 31 December 2022, the loan amounted to 570,663 thousand tenge (2021: 570,663 thousand tenge), the fair value of the loan approximates its carrying value.

Kozhan JSC

On 9 March 2017, the Company concluded a short-term non-revolving credit line agreement with Kozhan JSC for the total amount of 5,000,000 thousand tenge with maturity date until 9 March 2018. The loan bears a fixed interest rate of 18% per annum. In 2018, the Company entered into an additional contract to extend the repayment period until 9 March 2019. In 2019, the Company entered into an additional agreement to extend the repayment period until 16 June 2020. In 2020, the Company entered into an additional agreement to extend the repayment period until 16 June 2021. In 2021, the Company entered into an additional agreement to extend the repayment period until 16 June 2022. In 2022, the Company entered into an additional agreement to extend the repayment period until 16 June 2023. As at 31 December 2022, the loan amounted to 4,371,725 thousand tenge (2021: 3,970,797 thousand tenge).

Hong Kong Sino-Science International Oil & Gas, Ltd

On 31 December 2018, an assignment agreement was concluded for transfer of the rights to recover the principal amount of the loan from Sino Science Netherlands Petroleum B.V. to Hong Kong Sino-Science International Oil & Gas Investment Group Company in the amount of 19,000 thousand US dollars (equivalent to 8,790,350 thousand tenge as at 31 December 2022).

On 10 January 2020, the Company entered into a loan agreement with Hong Kong Sino-Science International Oil & Gas, Ltd in order to obtain borrowed funds in the amount of 2,000 thousand US dollars. As at 31 December 2022, the Company received loans under a loan agreement in the amount of 2,000 thousand US dollars (equivalent to 925,300 thousand tenge as of 31 December 2022) with a fixed interest rate of 8% and maturity until 31 December 2023.

On 17 June 2021, the Company entered into a loan agreement with Hong Kong Sino-Science International Oil & Gas, Ltd in order to obtain borrowed funds in the amount of 700,000 thousand US dollars. As at 31 December 2022, the Company received loans under a loan agreement in the amount of 641 thousand US dollars (equivalent to 296,463 thousand tenge as at 31 December 2022) with a fixed interest rate of 8% and maturity until 31 December 2024.

On 31 August 2021, the Company entered into a loan agreement with Hong Kong Sino-Science International Oil & Gas, Ltd in order to obtain borrowed funds in the amount of 3,000 thousand US dollars. In 2022 and 2021, the Company received loans under a loan agreement in the amount of 1,049 and 547 thousand US dollars (equivalent to 738,482 thousand tenge as at 31 December 2022) with a fixed interest rate of 8% and maturity until 31 December 2024. The borrowings are denominated in US dollars.

13. ACCOUNTS PAYABLE AND OTHER DEBTS

Trade and other payables primarily represent drilling services. As at 31 December 2022 and 2021, payables and other debts were denominated in tenge.

NOTES TO THE FINANCIAL STATEMENTS (continued)**14. OTHER CURRENT LIABILITIES**

<i>In thousands of tenge</i>	31 December 2022	31 December 2021
Provision for fines and penalties	223,286	223,286
Contract performance bond paid by suppliers	153,990	153,936
Provision for unused vacations	9,215	9,293
Other	50,603	28,755
Total	437,094	415,270

The provision for fines and penalties is mainly a provision for non-fulfilment of contractual obligations to Anton Oilfield International Company Limited Branch in the amount of 223,286 thousand tenge (2021: 223,286 thousand tenge). Contract performance bond paid by suppliers represents prepayments in the amount of 3% of the contract amount made by participants during the service rendering period. Upon completion of the works, the contract performance bond is then returned.

15. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of tenge</i>	2022	2021
Accrual of provision for expected credit losses (Note 8)	530,475	424,184
Payroll and related taxes	79,551	57,719
Rent expenses	31,071	31,875
Transportation expenses	23,224	17,940
Consulting services	12,094	11,336
Business trip expenses	7,608	13,874
Tax payments and charges	5,044	147
Telecommunication services	1,824	1,786
Office expenses	1,661	-
Lodging of employees	934	3,128
Insurance	580	697
Depreciation and amortization	219	1,474
Bank charges	86	305
Accrual/(recovery) of unused vacation allowance	(79)	3,319
Other	6,312	8,802
Reversal of provision for fines and penalties	-	(8,126)
Total	700,604	568,460

16. FINANCE INCOME / COSTS

<i>In thousands of tenge</i>	2022	2021
Interest income on loans issued (Note 8)	93,584	93,584
Interest income on restricted cash	20,277	20,277
Finance income	113,861	113,861

<i>In thousands of tenge</i>	2022	2021
Unwinding of discount on abandonment and site restoration provision (Note 11)	(5,834)	(5,709)
Finance costs	(5,834)	(5,709)

NOTES TO THE FINANCIAL STATEMENTS (continued)**17. INCOME TAX EXPENSE**

The Company is subject to income tax of 20% on taxable profit as determined under the laws of the Republic of Kazakhstan. Income tax expense for the years ended 31 December 2022 and 2021 is as follows:

<i>In thousands of tenge</i>	2022	2021
Current income tax expense	40,586	22,773
Deferred income tax expense	-	-
Income tax expenses	40,586	22,773

A reconciliation of income tax expense applicable to profit/loss before tax at the statutory income tax rate to current income tax expense was as follows for the years ended 31 December 2022 and 2021:

<i>In thousands of tenge</i>	2022	2021
Loss before taxes	(1,505,850)	(795,515)
Statutory tax rate	20%	20%
Theoretical income tax benefit at the statutory tax rate	(301,170)	(159,103)
Change in unrecognised deferred tax assets	51,630	(1,501,630)
Deferred tax adjustment	245,602	1,653,772
Other non-deductible differences	44,524	29,734
	40,586	22,773

Deferred tax balances are calculated by applying the income tax rates in effect at the respective balance sheet dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. Tax losses carried forward as at 31 December 2022 per tax legislation of the Republic of Kazakhstan applied by the Company expire for tax purposes 10 (ten) years from the date they are incurred.

<i>In thousands of tenge</i>	31 December 2022	Charged to statement of comprehensive income	31 December 2021	Charged to statement of comprehensive income	31 December 2020
Deferred tax assets					
Tax loss carry forward	4,187,211	(60,352)	4,247,563	(2,917,215)	7,164,778
Long-term VAT recoverable	80,713	-	80,713	80,713	-
Accounts payable and other debts	1,247,714	-	1,247,714	1,247,714	-
Asset retirement obligations	27,138	5,903	21,235	1,988	19,247
Provision for unused vacations	1,843	(16)	1,859	333	1,526
Loans issued	239,473	106,095	133,378	84,837	48,541
Deferred tax assets	5,784,092	51,630	5,732,462	(1,501,630)	7,234,092
Deferred tax asset provisions	(5,784,092)	(51,630)	(5,732,462)	1,501,630	(7,234,092)
Deferred tax assets, net	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)**18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

The main categories of financial instruments

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

<i>In thousands of tenge</i>	31 December 2022	31 December 2021
Financial assets		
Loan issued (Note 8)	230,000	666,891
Restricted cash (Note 7)	193,109	193,109
Cash and cash equivalents (Note 9)	11,416	17,908
Total	434,525	877,908
Financial liabilities		
Loans (Note 12)	42,347,914	39,449,671
Accounts payable and other debts (Note 13)	4,724,066	4,450,829
Contract liabilities (Note 14)	2,672,250	2,672,250
Total	49,744,230	46,572,750

Fair value of financial instruments

The carrying amount of all financial assets and liabilities are estimated to be approximately equal to their fair value as at 31 December 2022 and 2021. As at 31 December 2022 and 2021, the Company did not have any financial instruments classified as financial instruments of 1 or 2 levels. For the years ended 31 December 2022 and 2021 there were no transfers between Levels 1, 2 and 3 of the fair value hierarchy.

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

<i>In thousands of tenge</i>	Carrying amount 2022	Fair value 2022	Carrying amount 2021	Fair value 2021
Assets				
Loan issued	230,000	230,000	666,891	666,891
Restricted cash	193,109	193,109	193,109	193,109
Cash and cash equivalents	11,416	11,416	17,908	17,908
Total	434,525	434,525	877,908	877,908
Liabilities				
Loans	42,347,914	42,347,914	39,449,671	39,449,671
Accounts payable and other debts	4,724,067	4,724,067	4,450,829	4,450,829
Contract liabilities	2,672,250	2,672,250	2,672,250	2,672,250
Total	49,744,231	49,744,231	46,572,750	46,572,750
Net	(49,309,706)	(49,309,706)	(45,694,842)	(45,694,842)

NOTES TO THE FINANCIAL STATEMENTS (continued)**18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Credit risk**

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

Interest rate risk

The interest rate on loans is fixed. Therefore, as at 31 December 2022, income and cash flows from the principal activities of the Company are not exposed to changes in market interest rate. The Company's policy is to capitalise all borrowing costs eligible for capitalisation.

Currency risk

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

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

<i>In thousands of tenge</i>	31 December 2022	31 December 2021
Assets		
Cash and cash equivalents (<i>Note 9</i>)	11,293	17,455
Total	11,293	17,455
Liabilities		
Loans (<i>Note 12</i>)	16,645,178	14,127,863
Total	16,645,178	14,127,863
Net	16,645,178	14,127,863

The sensitivity analysis with respect to foreign currency

The Company is exposed mainly to US dollar /tenge exchange rate risk. The following table details the sensitivity to a 21% (21%) increase or decrease in US dollar against tenge for 2022 (2021: 13% and (10%)). The sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes assets and liabilities expressed in foreign currency at the end of the reporting date.

	For the year ended 31 December 2022		For the year ended 31 December 2021	
	KZT/USD +21%	KZT/USD -21%	KZT/USD +13%	KZT/USD -10%
Effect on net (loss)/profit	(3,493,221)	3,493,221	(1,836,622)	1,412,786

Liquidity risk

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Operational risk**

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

As at 31 December 2022 the Company's management believes that the Company has sufficient number of insurance policies with respect to civil liability.

Maturity of financial liabilities

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

<i>In thousands of tenge</i>	Less than 3 months	3 to 12 months	1 to 5 years	Total
As at 31 December 2022				
Loans	21,309,155	19,926,474	1,200,339	2,435,968
Accounts payable and other debts	4,724,067	–	–	4,724,067
Total	26,033,222	19,926,474	1,200,339	47,160,035
As at 31 December 2021				
Loans	21,309,155	4,012,653	14,127,863	39,449,671
Accounts payable and other debts	4,450,829	–	–	4,450,829
Contract liabilities	2,672,250	–	–	2,672,250
Total	28,432,234	4,012,653	14,127,863	46,572,750

19. RELATED PARTY BALANCES AND TRANSACTIONS

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

The nature of the related party relationships for those related parties with whom the Company entered into significant transactions or had significant balances outstanding at 31 December 2022 and 2021 are detailed below:

As at 31 December 2022 balances of transactions with related parties are presented below:

<i>In thousands of tenge</i>	Notes	Entities under common control	Parent
Loans issued	8	230,000	–
Loans obtained	12	42,347,914	–

As at 31 December 2021 balances of transactions with related parties are presented below:

<i>In thousands of tenge</i>	Notes	Entities under common control	Parent
Loans issued	8	666,891	–
Loans obtained	12	39,449,671	–

NOTES TO THE FINANCIAL STATEMENTS (continued)**19. RELATED PARTY BALANCES AND TRANSACTIONS (continued)**

Transactions with related parties as at 31 December 2022:

<i>In thousands of tenge</i>	Notes	Entities under common control	Parent
Interest receivable accrued	8	93,584	–
Interest payable accrued	12	1,412,794	–

Transactions with related parties as at 31 December 2021:

<i>In thousands of tenge</i>	Notes	Entities under common control	Parent
Interest receivable accrued	8	93,584	–
Interest payable accrued	12	1,220,234	68,240

Compensation to the key management personnel

Salaries and related taxes of the key management in 2022 and 2021 amounted to 79,551 thousand tenge and 57,451 thousand tenge, respectively. As at 31 December 2022, key management personnel consists of one director (31 December 2021: two directors).

20. CONTINGENT AND CONTRACTUAL COMMITMENTS**Tax legislation**

Kazakhstan's tax legislation is subject to ongoing changes and varying interpretations. The management's interpretation of laws applicable to business operations of the Company may be challenged by respective regional official authorities, which are enabled by law to impose severe fines, penalties. Recent events in the Republic of Kazakhstan suggest that tax authorities are taking a more assertive position in interpretation of the legislation and taxation and as a result, it is possible that transactions that have not been challenged in the past may be challenged. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review.

Under certain circumstances, reviews may cover longer periods. Although the Company believes that adequately provided for all tax liabilities based on its understanding of the tax legislation, the above factors may create additional financial risks for the Company.

Legal actions and claim

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

Environmental matters

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

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

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

Contractual commitments

As at 31 December 2022, the Company had capital commitments in the amount of 8,074,654 thousand tenge, including VAT, under the contracts on acquisition of property, plant and equipment and construction services (2021: 750,304 thousand tenge, including VAT).

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. 20. CONTINGENT AND CONTRACTUAL COMMITMENTS (continued)**Work program**

In accordance with the subsurface use contract, the Company is required to carry out a minimum exploration work program specifying the scope of exploration works and their estimated cost that should be completed at minimum during the exploration stage. Exploration work program is included in the annual budget approved by the Company. The amount of the approved work program for exploration activities of the Company for the period from 1 January 2019 to 15 October 2023 is 10,249,000 thousand tenge, as at 31 December 2022, the Company has fulfilled its obligations under the work program in the amount of 2,277,826 thousand tenge.

Social project commitments and historical costs (continued)

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

The Company may be required to reimburse the Government for such costs in the amount of 3,558,878 US dollars if commercial production begins and at the end of the exploration period, presumably after 15 October 2023.

21. SUBSEQUENT EVENTS

The Law of the Republic of Kazakhstan "On State Regulation of the Production and Turnover of Certain Types of Petroleum Products" has been amended to exclude intermediaries from the supply of crude oil to oil refineries. The amendments are partly effective on 12 January and 3 March 2023. Based on the amendments, only subsurface users dealing with crude oil they have extracted, or legal entities associated with subsurface users supplying crude oil and (or) gas condensate will be operating.

According to the subsoil use contract, the Company is obliged to fulfil its contractual obligations by 15 October 2023. Thus, in January and February 2023, the Company entered into certain supplementary agreements for testing and drilling wells.